
GEM DIAMONDS
ANNUAL REPORT AND ACCOUNTS 2018

On the cover, the 910 carat Lesotho Legend recovered in January 2018, largest gem quality diamond ever recovered at Letšeng.

Welcome to the Gem Diamonds Annual Report and Accounts 2018

The Annual Report and Accounts have been prepared in accordance with:

- applicable English and British Virgin Islands law;
- regulations and best practice as advised by the Financial Reporting Council and the Department of Business, Innovation and Skills in the United Kingdom; and
- International Financial Reporting Standards.

Gem Diamonds is a leading producer of high-value diamonds

The Group, which has its head office in the United Kingdom, owns the Letšeng mine in Lesotho and the Ghaghoo mine in Botswana. The Letšeng mine is renowned for its regular production of large, 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 some of the world's most remarkable diamonds. Among these diamonds recovered are the 910 carat Lesotho Legend, the 603 carat Lesotho Promise, the 550 carat Letšeng Star and the 493 carat Letšeng Legacy.

Gem Diamonds' strategy is underpinned by three key priorities to deliver maximum value for all shareholders through its business cycle. Its current focus is on enhancing the efficiency of the Group's operations by improving day-to-day performance, driving stringent cost control and capital discipline; and selling non-core assets. The selling of diamonds is supported by the Group's sales, marketing and manufacturing capabilities. Financial, technical and administrative services are supported by its South African subsidiary.

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2018 IN REVIEW

Results at a glance

Year to 31 December	2018	2017	% change
Average price per carat achieved (US$)	**2 131**	1 930	10
Revenue (US$ million)	**267.3**	214.3	25
Underlying EBITDA[1] (before exceptional items) (US$ million)	**82.3**	48.6	69
Profit for the year (before exceptional items) (US$ million)	**46.6**	20.8	124
Basic earnings per share[2] (before exceptional items) (US cents)	**18.80**	6.56	187

[1] Refer to Note 4, Operating profit, for definition of non-GAAP measures.
[2] Refer to Group financial performance for GAAP measures.

At 31 December	2018	2017	% change
Cash and short-term deposits (US$ million)	**50.8**	47.7	7
Drawn down bank facilities (US$ million)	**33.3**	46.3	28
Net cash[3] (US$ million)	**17.5**	1.4	1 150
Available bank facilities (US$ million)	**57.8**	36.2	60

[3] Net cash is a non-GAAP measure and calculated as cash and short-term deposits less drawn down bank facilities (excluding asset-based finance facility).

Operational

WASTE TONNES MINED (millions)
25.8
(2017: 29.7)

ORE TONNES TREATED (millions)
6.5
(2017: 6.5)

CARATS RECOVERED (thousands)
126.9
(2017: 119.9)

CAPITAL EXPENDITURE (US$ million)
23.0
(2017: 17.8)

CARATS SOLD (thousands)
125.1
(2017: 120.2)

AVERAGE EMPLOYEES (including contractors)
2 189
(2017: 2 089)

Health, safety, social and environment (HSSE)

Fatality-free year

Four LTI resulting in an LTIFR of **0.15**

Letšeng retains **ISO 14001** and obtained **ISO 45001** certification

Zero major or significant **environmental** or **stakeholder incidents**

Sustainable Development

Information relating to Sustainable Development has been compiled in accordance with the Global Reporting Initiative (GRI) G4 Sustainability Reporting Guidelines and Gem Diamonds' internal reporting guidelines, with consideration of the UN Global Compact. Details regarding Sustainable Development can be found on www.gemdiamonds.com

This icon indicates additional information available on the Group's website at ***www.gemdiamonds.com***

This icon refers the reader to further information about the Group's sustainable development activities on the Group's website at ***www.gemdiamonds.com***

This icon indicates link to the Remuneration Report

This QR code refers the reader to further information about the Group's sustainable development activities on the Group's website at ***www.gemdiamonds.com***

ABOUT GEM DIAMONDS

Diamond analysis and manufacturing

Baobab Technologies[1]

The Group's high-tech diamond analysis and manufacturing operation is tasked with:

- Understanding the value of exceptional rough diamonds through mapping and analysis; and
- managing the manufacturing process of selected diamonds for final polished sale.

Sales and marketing

Gem Diamonds Marketing Services[1]

The Group's diamond sorting, sales and marketing operation in Belgium focuses on:

- maximising the revenue achieved on diamond sales;
- developing the Gem Diamonds brand in the market; and
- enhancing customer relationships.

Technology and Innovation

Gem Diamonds Innovation Services[1]

The Group established this company in Cyprus in 2017 to house the Group's innovation and technology research and development projects

Letšeng Diamonds[2]

Letšeng Diamond Mine

Open pit mining operation in Lesotho focuses on mining and processing ore efficiently and safely from its two kimberlite pipes (Main and Satellite).

TOTAL RESOURCE

5.0m carats

(as at 1 January 2015)[3]

IN-SITU VALUE

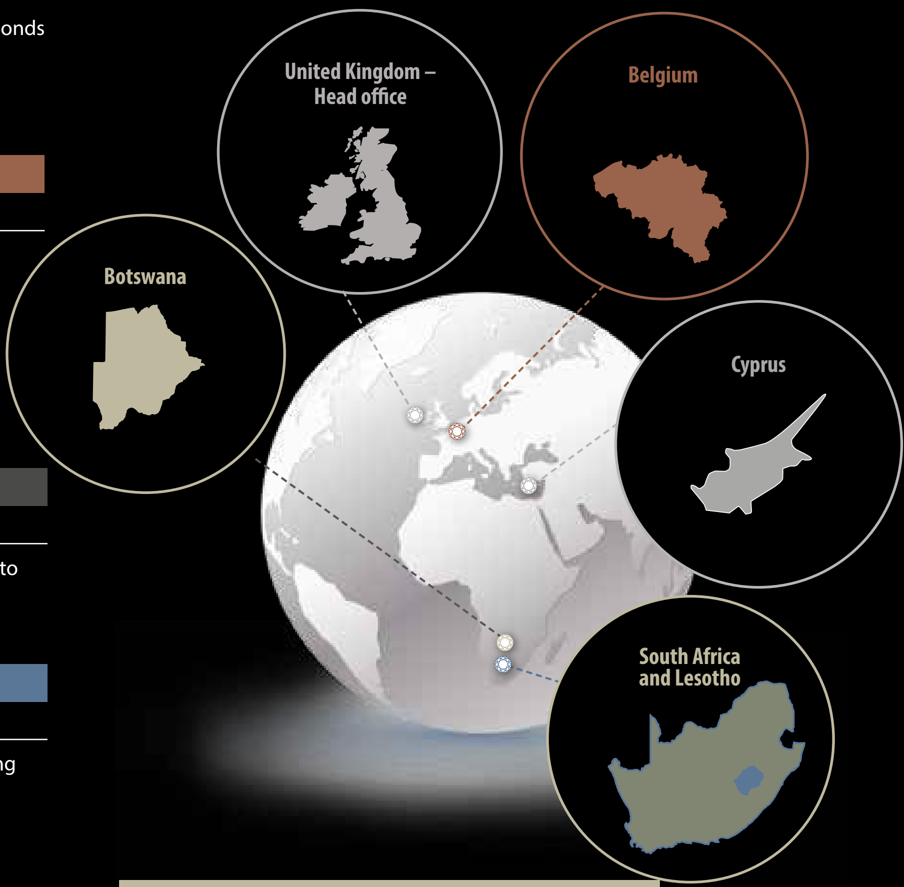
US$10.3 billion

(as at 1 January 2015)[3]

Technical and administrative services

Gem Diamond Technical Services[1]

Technical support function located in South Africa



Gem Diamonds Botswana

Ghaghoo Diamond Mine[1]

Ghaghoo, the Group's underground diamond mining development in Botswana, was placed on care and maintenance in 2017.

TOTAL RESOURCE

20.5m

(as at 1 January 2014)[3]

IN-SITU VALUE

US$4.9 billion

(as at 1 January 2014)[3]

[1] 100% ownership by Gem Diamonds Limited.
[2] 70% ownership by Gem Diamonds Limited and 30% ownership by the Government of the Kingdom of Lesotho.
[3] As per most recent published Resource and Reserve statements.

CHAIRMAN'S STATEMENT

A record number of recoveries of diamonds greater than 100 carats at Letšeng, including the 910 carat Lesotho Legend, combined with a focused drive to optimise business processes and enhance efficiencies, have generated a strong financial performance for 2018.

Dear shareholders,

On behalf of the Board, it is my pleasure to present the Gem Diamonds 2018 Annual Report. This report affords me the opportunity to reflect on the past financial year and to share the progress made against the Company's stated objectives.

Reflecting on 2018

During 2018, the Board and management have focused squarely on delivering the Company's strategic priorities of Extracting Maximum Value from Operations, Working Safely and Responsibly and Maintaining our Social Licence and Preparing for Our Future. These three overarching objectives, which have been communicated to all our stakeholders, underpin how we work and what we do.

I am pleased to advise that this past year was characterised by a record number of recoveries of large, high-quality diamonds, coupled with substantial progress on implementing the objectives of the Business Transformation programme, which are designed to ensure sustainable growth.

Given the pleasing results, it is tempting to overlook the context from which these successes have been wrought. The positive results achieved in 2018 should be viewed against the backdrop of a difficult year for the global diamond mining industry. While pricing for Letšeng's high value goods remained resilient, prices for smaller goods struggled due to a combination of ample new production over the last two years and the emergence of more competition from the man-made diamond sector.

In 2017, the Company launched a Business Transformation programme with the aim of improving our financial and operational performance in order to secure a more profitable and sustainable future for the benefit of all our stakeholders.

Much work has been done to improve the efficiency of our business processes and to optimise diamond recoveries in order to extract the maximum possible value from our asset. I am pleased to report that the Company has made impressive progress over the past year and remains on track to achieve the cumulative four-year target of US$100 million in incremental revenue, productivity improvements and cost savings by the end of 2021. While every aspect of our business has been placed under scrutiny, we have been careful to ensure that any cost reductions or changes to business processes do not compromise the safety of our staff, the sustainability of the operations or the welfare of the communities amongst which we operate.

The orebody at the Letšeng mine exhibits a particularly coarse distribution in the size of the diamonds it contains. This inevitably makes it challenging to avoid damaging diamonds during the crushing and extraction process and the Company is determined to find a solution to this problem. Steady progress was made during 2018 towards achieving the stated objectives of using technology to identify diamonds that are fully enclosed within kimberlite, and to liberate these diamonds using a non-mechanical process. The successful application of such technology would sharply lower diamond damage and thereby improve the size distribution of the products recovered while also lowering operating costs. (For more information, refer to Technology and Innovation on page 35).

Harry Kenyon-Slaney – Chairman

CHAIRMAN'S STATEMENT CONTINUED

The statutory process for the renewal of the Letšeng mining lease is underway, and during the year the Prime Minister of Lesotho announced his Government's intention to renew the lease – a clear demonstration of the positive partnership that exists between Gem Diamonds and the Government of Lesotho. Good progress has been made and it is anticipated that the renewed mining lease will be issued in the near future.

In early 2017 the Ghaghoo mine in Botswana was placed on care and maintenance as a consequence of the weak state of the diamond market for the category of diamonds produced by this operation. During the year, a formal sale process commenced, and further updates on this process will be provided in due course.

The Lesotho Legend – building a legacy

One of the highlights of the year was the discovery in January of a 910-carat Type IIa, D-colour rough diamond at the Letšeng mine. This find is of historical importance as it is the fifth largest gem-quality diamond ever recovered, and the largest diamond unearthed at Letšeng. Reflecting the iconic nature of the stone, as well as the splendour of its country of origin, the diamond was named the Lesotho Legend and was sold on tender in Antwerp for US$40 million in March 2018.

In line with our ongoing desire to build meaningful, long-term and mutually beneficial relationships with our surrounding communities, and to mark the recovery of the Lesotho Legend, the 910 Community Project was initiated. Following consultation with community leaders, and in line with the agricultural focus of many of our other social initiatives, the construction and development of a commercial poultry and egg farming co-operative was identified as the preferred community project. A feasibility study has been commissioned to better understand the potential socio-economic impact of this project and to determine the investment required.

The aim of all community projects is to create viable and sustainable community income streams that last beyond the life of the mine and, in this way, ensure the surrounding community derives a direct benefit from the mineral wealth of the area.

Ensuring a safe and responsible working environment

The health and safety of everyone working at Gem Diamonds is our highest priority, and we are committed to providing a safe, healthy and nurturing work environment for all our employees, contractors and visitors.

While we continually strive for zero harm, regrettably, four employees suffered LTIs during 2018, up from one in 2017. All four LTIs occurred in the first quarter of the year and in each case a detailed investigation was undertaken with corrective actions implemented to mitigate the risk of any recurrence. I am pleased to report that no further LTIs occurred during the remainder of the year. Furthermore, while the Group-wide LTIFR rose marginally from 0.04 in 2017 to 0.15, the Group-wide AIFR reached a historical low of 1.45, down from 2.02 in 2017.

Our commitment to zero harm means not only preventing injury, but also creating a safety culture that is underpinned by a deep sense of mutual care and collaboration across the workforce. In the year ahead, we will continue to invest in safety training and capability building in order to further embed a strong safety and health culture throughout the organisation.

It is pleasing to note that during 2018 there were no major or significant environmental or stakeholder incidents reported at any of our operations. Moreover the quality of the environmental, safety and community engagement initiatives of the Company have once again been recognised by the receipt of a FTSE4Good commendation award in December 2018.

Dam safety in focus

Waste rock, tailings and water containment and storage facilities are all an integral part of the mining process. We recognise that if not engineered and managed correctly they can constitute a serious hazard. Recent events involving tailings dam failures have highlighted that risk management at every stage of the lifecycle of our water and tailings storage facilities is critically important.

The Company takes a highly proactive approach in this matter to ensure that the safety of all water, rock and tailings facilities is continually managed according to international best practice. Dam safety remains a standing agenda item at operational and Group HSSE sub-committee meetings and at Group Board meetings where findings from our stringent structural stability monitoring processes, including internal and external inspections and audits, are regularly received and reviewed. The approach also includes interaction with local communities and stakeholders situated downstream from the mine. (For further detail on how the Group ensures the highest standards of dam safety management, refer to the Sustainable Development Reporting platform www.gemdiamonds.com.)

Building long-term, transparent and mutually beneficial relationships with stakeholders

To ensure the sustainability of our business, we remain focused on delivering returns for our investors while seeking to optimise the benefit that surrounding communities derive from our activities. We understand that it is our task to do everything possible to extract the maximum value possible from the unique resource for which we are responsible, for the benefit of all stakeholders.

Working with government

We endeavour at all times to work closely with local and national governments. In Lesotho, the Government is a 30% shareholder in our Letšeng mine and this ensures that the wider country benefits directly from our operation.

In 2018, Gem Diamonds contributed a total of US$52.5 million to the Lesotho fiscus in the form of taxes, royalties and dividends. We are fiercely proud of this large contribution to the economy which cements Letšeng as one of the largest single taxpayers in the country.

Supporting local communities
With a workforce of over 2 000 people, the Letšeng mine is a substantial employer in Lesotho. In addition to this direct local employment, the Company endeavours to procure as many goods and services as possible from the local economy. During 2018 the total in-country procurement amounted to US$152.3 million which equated to 92% of our total procurement spend, in turn generating significant benefits for the local economy and the broader population of Lesotho.

Gem Diamonds works closely with the communities surrounding the Letšeng mine to identify meaningful social projects to support. During the year, this collaboration continued with material investments made into a range of community and social programmes, including continued investment into our dairy farming project. Additionally, following a consultation process, we commenced construction of a footbridge that will allow year-round access for several communities to crucial services and infrastructure such as schools, local markets and transportation routes. This project will make a significant difference to people's daily lives and will support critical socio-economic development in the area. (For further detail on these and other community projects, refer to the Sustainable Development report on page 37).

A focus on sustainable returns for our shareholders
The Board is committed to delivering sustainable shareholder returns and it remains the policy of the Board to pay a dividend to shareholders when the financial position of the Company permits.

Notwithstanding the 2018 results, following a review of the current state of the global diamond market, the Board has decided that no dividend will be paid in respect of the 2018 financial year. We believe that the focus on strengthening our balance sheet and positioning ourselves for the future will be to the long-term benefit of shareholders.

Corporate governance

During 2018, the Financial Reporting Council released the 2018 UK Corporate Governance Code, which is applicable for reporting periods starting on or after 1 January 2019. This new code emphasises the importance of building trust by forging strong relationships with key stakeholders. It calls for companies to create a corporate culture that is aligned with the company purpose and business strategy, promotes integrity and values diversity.

The Directors welcome and support the objectives of the code, and to ensure that we are aligned to its goals, we have introduced a systematic review of our governance policies and their terms of reference. This process will ensure that practices throughout the Group remain consistent with our current high standard of governance. During 2019, the Board will report on the outcome of this review and any changes that are deemed necessary to meet the objectives of the new code.

Directorate changes

As announced in last year's Annual Report, Mike Brown joined the Board in January 2018 as an independent non-Executive Director and as Chairman of the HSSE Committee. Mike has had a long and successful career in the diamond industry and brings a wealth of operational and corporate experience to the Board.

Furthermore, Johnny Velloza joined the Board in July 2018 as an Executive Director. Following his resignation as Group COO during the year, we were pleased to announce that Johnny was prepared to remain on the Board as a non-Executive Director, ensuring the Group continues to benefit from his extensive industry and organisational experience.

Gavin Beevers, who served as a non-Executive Director of Gem Diamonds for over 10 years and was a former senior De Beers executive, agreed to return as Technical Advisor to operations until a suitable replacement for Johnny is found.

The Nominations Committee continues to review the skills and experience of the Board to ensure its composition enables the delivery of the Group's strategy.

Outlook and appreciation

Mining is a cyclical industry, but also one that involves taking decisions that have implications over long periods of time. We understand that it is our task to balance these periodically competing timelines and that our focus must remain on positioning the business to thrive throughout the cycle. Going forward, management will continue to drive the rigorous approach to efficiency embodied in the Business Transformation programme and will ensure that the improvements become embedded in our operational systems and culture for the long-term benefit of all stakeholders.

Gem Diamonds remains committed to creating a positive contribution to the communities surrounding its operations and in particular to the Basotho nation, ensuring that the country benefits from the sustainable and responsible development of its natural resources. Proactive and continuous engagement with relevant stakeholders to enable the achievement of this goal remains a priority.

I would like to thank my fellow Board members for their wisdom and contribution during the year. I want to express my appreciation to the Governments of Lesotho and Botswana for their ongoing support, which enables the responsible extraction of diamonds to the benefit of all our stakeholders.

On behalf of the Board, I would like to extend a special thanks to all of our employees and contractors for their dedication and hard work during the past year. The Company's achievements in 2018 would not have been possible without your support, your attention to detail and your tireless commitment to continuously improving every aspect of what we do.

Harry Kenyon-Slaney
Non-Executive Chairman

12 March 2019

OUR STRATEGY AND PERFORMANCE

Business cycle

Letšeng, our core diamond mine, is the highest achieving average US$ per carat kimberlite mine in the world. The operation is an open pit diamond mine with two kimberlite pipes, the Main pipe and the Satellite pipe which are 17.0 and 5.2 hectares respectively.

At Letšeng, ore is processed through three treatment plants with an annual throughput of 6.4 million to 6.6 million tonnes. Although Letšeng's grade recovery is low (averaging just under two carats per hundred tonnes) it is famous for producing large, high-value diamonds.

Our diamonds produced are predominantly sold through a tender process by our sales and marketing operation in Antwerp, Belgium. Through mapping and analysis, the value of the Letšeng high-quality diamonds is determined and used to achieve the highest rough value through multiple selling channels. A selection of high-value diamonds are manufactured to capture additional value through polished sales.

Our continuous evolution has enabled an enhanced focus on maximising value from our operations, enabling the delivery of sustainable returns for our investors while optimising the benefit of our communities and minimising the impact on our environment.

Our strategy is underpinned by three key priorities which we believe will deliver maximum value for all stakeholders through our business cycle.

Achieved In progress

Key priorities	Strategic focus area	2018 delivery	How we measure this	Link to risk
Extracting maximum value from operations	• **Driving business optimisation** • **Building balance sheet strength** • **Exploring new sales avenues to maximise value**	(Achieved) Record recovery of 15 diamonds > 100 carats including 910 ct Lesotho Legend (Achieved) Record number of carats recovered in a single calendar year (In progress) Business Transformation (BT) target of US$100 million by 2021 on track – implemented initiatives contributing US$64 million over the four year target (In progress) Commenced mining with the aim of reducing waste stripping to significantly increase Letšeng's net present value (NPV) (Achieved) Increased net cash position[1] of US$1.4 million in December 2017 to US$17.5 million in December 2018 (Achieved) Increased customer base by 10% through additional tender viewings in Tel Aviv	• Revenue • Underlying EBITDA • Return on average capital employed • Basic earnings per share • Cash generated from operating activities • Ore tonnes treated • Carats recovered • Delivery of BT target	1, 2, 3, 4, 5, 6, 7, 8, 10, 12
Working responsibly and maintaining social licence	• **Promoting a culture of zero harm and responsible care** • **Delivering sustainable returns for our investors while optimising the benefit for our communities and minimising our impact on the environment** • **Building long-term, transparent and mutually beneficial relationships with all stakeholders**	(Achieved) Fatality-free year (Achieved) Group-wide AIFR reached historical low of 1.45 (Achieved) Zero major or significant community or environmental incidents (Achieved) Zero major or significant incidents of health, safety and environmental legal non-compliance (Achieved) CSI expenditure of US$0.8 million (In progress) Follow up organisational health index (OHI) survey conducted in Q4 2018 and the Group successfully reached its improvement target	• LTIFR • AIFR • Fatalities	1, 3, 8, 9, 11
Preparing for our future	• **Advancement of innovative technologies focusing on reducing diamond damage** • **Renewal of the mining lease at Letšeng** • **Assessing external growth opportunities**	(In progress) Installation of prototype high-voltage pulse generator at Letšeng which allows non-mechanical means of breaking kimberlite rock to liberate diamonds using high-voltage pulse power (In progress) Proof of concept validated for detecting diamonds within kimberlite host rock. Commenced construction of a pilot plant at Letšeng incorporating proof of concept. (In progress) Progress made on the statutory renewal process after the Prime Minister announced his Government's intention to renew the lease in April. (In progress) Progressed construction of tailings storage facility extension at Letšeng	• Capital expenditure • Waste tonnes mined • Mining in accordance with life of mine plan	1, 2, 4, 5, 7, 8, 11

[1] *Net cash is calculated as cash and short-term deposits less drawn down bank facilities (excluding asset-based finance facility).*

KEY PERFORMANCE INDICATORS

	KPI	2018 results: 2014	2015	2016	2017	2018	Relevance to strategy
Extract maximum value from operations	**Revenue** (US$ million)	271	249	190	214	267	The Group remains **committed to maximising the value achieved** on rough and polished diamond sales.
Extract maximum value from operations	**Underlying EBITDA** (US$ million)	106	104	63	49	82	Underlying EBITDA gives insight to cost management, production, growth and performance efficiency on a like-for-like basis. We are focused on **reducing operating costs, increasing productivity and extracting maximum value** from our operations.
Extract maximum value from operations	**Return on average capital employed (ROACE)** (%)	19	20	15	12	21	ROACE is a pre-tax measure of the **efficiency** with which the Group **generates operating profits** from its capital.
Extract maximum value from operations	**Basic earnings per share (EPS)** (US cents)	26.0	30.0	13.0	6.6	18.8	The aim of our strategy is to **deliver maximum value for all shareholders** through our business cycle. Basic EPS represents profit attributable to equity shareholders and is a **measure** of the Group's **profitability** taking into account changes in the equity structure.
Extract maximum value from operations	**Cash generated from operating activities** (US$ million)	134	119	71	97	138	Cash generated from operating activities measures the **cash-generating capability** of the Group. It provides additional insight into how costs are managed thereby **increasing efficiency** and **productivity and building balance sheet strength** through **stringent cost control**.
Extract maximum value from operations	**Ore tonnes treated** (million)	6.5	7.0	6.9	6.5	6.5	The aim of our strategy is to **deliver maximum value for all stakeholders** through our business cycle. Ore tonnes treated measures the **level of operating activity** of the business to achieve this objective.
Extract maximum value from operations	**Carats recovered** (thousand)	119	200	149	120	127	The aim of our strategy is to **deliver maximum value for all stakeholders** through our business cycle. Carats recovered measures the **level of earnings activity** of the business to achieve this objective.
Preparing for our future	**Capital expenditure** (US$ million)	20	23	11	18	23	The Group is **committed** to a **disciplined investment process** where investment is only made in assets that offer attractive returns.
Preparing for our future	**Waste tonnes mined** (million)	19.9	24.0	29.8	29.7	25.8	The Group is **flexible** to respond to an **everchanging operating environment**. Life of mine plans are continually reviewed to ensure the Group is mining in the **most efficient manner to extract maximum returns**.
Working responsibly and maintaining social licence	**Lost time injury frequency rate (LTIFR)**[2]	0.20	0.00	0.18	0.04	0.15	The Group is **committed** to promoting a culture of **zero harm** and responsible care.
Working responsibly and maintaining social licence	**All injury frequency rate (AIFR)**[2]	3.01	2.87	1.93	2.02	1.45	The Group is **committed** to promoting a culture of **zero harm** and responsible care.

[1]Earnings before interest, tax, depreciation and amortisation. It excludes share-based payments, other income, foreign exchange differences and exceptional items. Refer to Note 4, Operating profit in the financial statements.

[2]Measures the safety performance of the Group and includes contractors and expressed as a frequency rate per 200 000 man hours.

2018 delivery	Commentary
Sales for the year US$267 million	**Group revenue increased by 25%** compared to 2017 due to a record number of large diamond recoveries >20 carats at Letšeng, including the Lesotho Legend which sold for US$40 million further aided by a 17% increase in total carats sold. This has resulted in an average price of US$2 131 per carat.
Underlying EBITDA of US$82 million	**Underlying EBITDA[1] is 69% higher** than 2017 mainly due to the increase in revenue generated, coupled with the successful implementation of various Business Transformation (BT) initiatives and by maintaining strict cost discipline.
Pre-tax ROACE achieved 21%	**Pre-tax ROACE achieved 21%**, increasing from 12% in 2017, mainly driven by higher EBITDA. Prior years' ROACE is as reported at that point in time and includes all operations in existence in those relevant years.
Basic earnings per share (EPS) US 18.8 cents	**Basic EPS is stated before exceptional items and non-controlling interests. Basic EPS per share of 18.80 US cents** in 2018 is indicative of the higher earnings achieved. There was no significant change in the capital structure of the Group.
Cash generated from operating activities US$138 million	The Group generated **higher cash from operating activities** through increased revenue generated, coupled with the successful implementation of various BT initiatives and by maintaining strict cost and capital discipline.
Ore tonnes treated 6.5 million	**Letšeng treated slightly higher ore tonnes** compared to 2017, mainly due to the planned major maintenance performed on the plants during the first half of the year, together with the implementation of various BT initiatives. Ghaghoo was placed on care and maintenance in March 2017, and hence no ore tonnes were treated in 2018 (2017: 43 991)
Carats recovered 126 875	**Letšeng recovered a record number of carats** during 2018, an increase of 13% from 2017, and includes carats recovered from tailings. Ghaghoo was placed on care and maintenance in March 2017, and hence no carats were recovered in 2018 (2017: 8 084).
Capital investment of US$23 million	The **Group's investment in capital expenditure** mainly comprised of investments at Letšeng of US$8.8 million for the treatment of the tailings storage facility, US$8.1 million for completion of the new mining complex, and US$1.8 million at Gem Diamonds Innovation Solutions for the construction of the pilot plant to be used for the detection of diamonds within kimberlite at Letšeng.
Waste tonnes mined 25.8 million	**Letšeng reduced its waste mining by 3.9 million tonnes** in line with the life of mine plan. This was largely due to the improvement in drilling and blasting practices enabling the incorporation of several BT initiatives, the most notable being the steeper inter-ramp slope angles.
LTIFR of 0.15	The Group recorded **four LTIs** all of which occurred in Q1 2018, an increase of three from 2017, resulting in a Group-wide LTIFR of 0.15 (2017: 0.04). There were **no fatalities** during 2018.
AIFR of 1.45	**The Group-wide AIFR reached a historical low of 1.45 during 2018**, down from 2.02 in 2017, due to increased management focus and effort in response to the LTIs in Q1 2018. There were **no fatalities** during 2018.

VIABILITY STATEMENT

In accordance with the revised UK Corporate Governance Code, the Board has assessed the viability of the Group over a period significantly longer than 12 months from the approval of the financial statements. The Board concluded that the most relevant time period for consideration for this assessment is a three-year period from the approval of the financial statements, considering the Group's current position and the potential impact of the principal risks documented on pages 11 to 15 that could impact the viability of the Group. This period also coincides with the Group's business and strategic planning period, which is reviewed annually, led by the CEO and involving all relevant functions including operations, sales and marketing, financial, treasury and risk. The Board participates fully in the annual review process by means of structured Board meetings and annual strategic sessions. A three-year period gives management and the Board sufficient and realistic visibility in the context of the industry and environment that the Group operates in.

The Business Transformation incremental revenue, productivity improvements and cost savings set to achieve the US$100 million target by the end of 2021 and sustainable US$30 million per annum savings thereafter is included in the assessment period. At Letšeng, the focus is on organic growth with particular emphasis on optimising mine planning, improving mining efficiencies and increasing plant uptime. At Ghaghoo, the key objective is to dispose of the mine in line with the Group's strategic objective to dispose of non-core assets.

For the purpose of assessing the Group's viability, the Board focused its attention on the more critical principal risks categorised within the strategic, external and operational risks together with the likely effectiveness of the potential mitigations that management reasonably believes would be available to the Company over this period. Although the business and strategic plan reflects the Directors' best estimate of the future prospects of the Group, they have also tested the potential impact on the Group of a number of scenarios over and above those included in the plan, by quantifying their financial impact and overlaying this on the detailed financial forecasts in the plan.

The scenarios tested considered the Group's revenue, EBITDA, cash flows and other key financial ratios over the three-year period. The scenarios tested included the compounding effect of:

- a decrease in forecast rough diamond prices from the historical prices achieved and anticipated planned reserve prices;
- a strengthening of local currencies to the US dollar from expected market forecasts; and
- a delay beyond the three-year period in the implementation and benefit of the Business Transformation initiatives not yet implemented.

With the current net cash position* of US$17.5 million as at 31 December 2018 and available standby facilities of US$57.8 million, the Group would be able to withstand the impact of these scenarios occurring over the three-year period, due to the cash-generating nature of the Group's core asset, Letšeng, and its flexibility in adjusting its operating plans within the normal course of business.

Based on the robust assessment of the principal risks, prospects and viability of the Group, the Board confirms that it has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period ending March 2022.

** Net cash is calculated as cash and short-term deposits less drawn down bank facilities (excluding asset-based finance facility).*

PRINCIPAL RISKS AND UNCERTAINTIES

How we approach risk

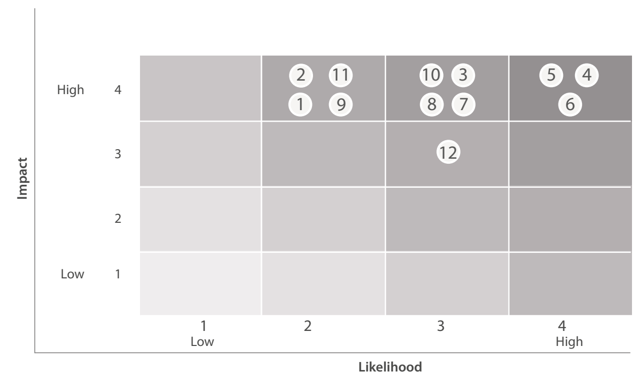
The Group is exposed to a variety of risks and uncertainties that could have a financial, operational and compliance impact on its performance, reputation and long-term growth. The effective identification, management and mitigation of these risks and uncertainties is a core focus of the Group as they are key to achieving the Company's strategic objectives.

The risk management framework shown below illustrates the Group's approach to risk management.

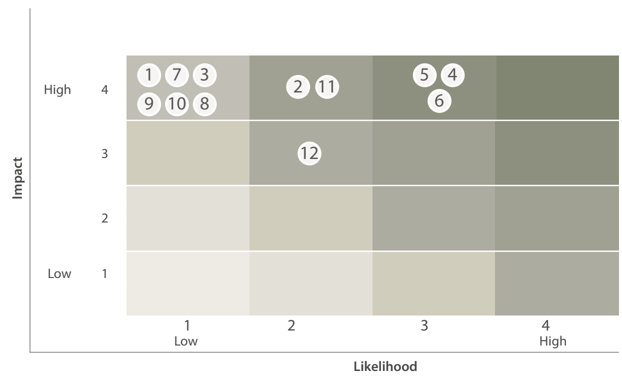
The Board and its Committees have identified the following key strategic, operational and external risks which have been set out in no order of priority. This is not an exhaustive list, but rather a list of the most material risks currently facing the Group. The impact of these risks, individually or collectively, could potentially affect the ability of the Group to operate profitably and generate positive cash flows in the medium to long term. The risks are actively monitored and managed as detailed below.

The Group's strategy which is based on three key priorities, Extracting Maximum Value from Operations, Working Responsibly and Maintaining Social Licence, and Preparing for Our Future is set out on pages 6 to 7, and, together with the KPIs identified to measure these objectives on pages 8 to 9 are linked to the risks below.

Inherent risk (pre-mitigating controls)



Residual risk (post-mitigating controls)



Oversight

Responsibility

Governance

Board of Directors

Accountable for risk management within the Group.
Provide stakeholders with assurance that key risks are properly identified, assessed, mitigated and monitored.
Maintains a formal risk management policy for the Group and formally evaluates the effectiveness of the Group's risk management process.
Confirms that the risk management process is accurately aligned to the strategy and performance objectives of the Group.

Audit Committee

Monitors the Group's risk management processes.
Responsible for addressing the corporate governance requirements of risk management and monitoring each operational site's performance with risk management.
Review the status of risk management and reports on a bi-annual basis.

HSSE Committee

Provides assurance to the Board that appropriate systems are in place to identify and manage health, safety and environmental risks.

Risk Officer

Enhancing the Group's enterprise risk management, the Risk Officer has the responsibility to develop, communicate, coordinate and monitor the enterprise-wide risk management activities within the Group.

Management

Accountable to the Board for designing, implementing and monitoring the process of risk management and integrating it into the day-to-day activities of the Group.
Identifies internal and external risks affecting the Group and implements appropriate risk responses consistent with the Group's risk appetite and tolerances.

Group internal audit

Use the outputs of risk assessments to compile the strategic three-year rolling and annual internal audit coverage plan and evaluates the effectiveness of controls.
Formally review the effectiveness of the Group's risk management processes.

Top-down approach – setting the risk appetite and tolerances, strategic objectives and accountability for the management of the risk management framework

Bottom-up approach – ensures a sound risk management process and establishes formal reporting structures

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Risk management framework

	1	2
Type of risk	**STRATEGIC**	
Description and impact	**Success of Business Transformation (BT)** The successful implementation and sustainability of the BT process is highly dependent on change management, skills and certain contract renegotiations. In turn, the Group's cash resources are impacted if the initiatives are not sustainably impacted.	**Growth and return to shareholders** The volatility of the Group's share price and lack of growth has a negative impact on the Group's market capitalisation. Constrained cash flows add pressure on returns to shareholders. Following the placing of Ghaghoo on care and maintenance, the Group is currently solely dependent upon the Letšeng mine for its revenues, profits and cash flows.
Mitigation	A dedicated team at the Corporate office and on site at Letšeng have been tasked to ensure the successful implementation and ongoing sustainability of the BT. Consultants have been employed to assist in the planning and implementation of the transformation process and initiatives. Areas within organisational health which are necessary to inform the success and sustainability of the transformation process are identified and monitored through an annual formal OHI survey and bi-annual health checks.	With limited expansionary opportunities, the Board has concentrated its focus on organic growth to extract the maximum value from current operations.
Strategy affected	**Extracting Maximum Value from Our Operations; Working Responsibly and Maintaining Social Licence; Preparing for Our Future.**	**Extracting Maximum Value from Our Operations; Preparing for Our Future.**
2018 actions and outcomes	• The BT cumulative four-year target of US$100 million to 2021 remains on track for delivery. • The second OHI survey conducted reflected a positive improvement. • Major contracts at Letšeng were successfully renegotiated. • Identified a contract management role to ensure improved contract management processes.	• Business improvement achieved across all operations. • A new LoM plan at Letšeng was approved. Mining in accordance with this plan will significantly increase the mine's net present value. • Progress made in development of innovative technologies to reduce diamond damage. • The Group's share price increased by 54% over the year • Progress was made in the statutory process for the renewal of Letšeng's mining lease during 2018. The Group anticipates a new mining lease to be issued during 2019 ahead of its expiry in 2024.

3	4	5
OPERATIONAL		
Production interruption The Group may experience material mine and/or plant shutdowns or periods of decreased production due to various events. Any such event could result in damage to facilities, personal injury or death, environmental damage, delays in mining and processing activities potentially resulting in monetary losses and possible legal liability. Letšeng relies on the use of external contractors to conduct its mining and its processing activities. If there is a dispute with any of the contractors, the Group's operations could be materially impacted.	**Underperforming mineral resource** The Group's mineral resource drives the mine plan. Uncertainty or underperformance of mineral resources could affect the Group's ability to operate profitably. Limited knowledge of the resource could lead to an inability to forecast or plan accurately or optimally, and lead to financial risk. With Letšeng being the world's lowest grade operating kimberlite mine, the risk of resource underperformance is elevated.	**Diamond damage** Letšeng's most valuable Type II diamonds are highly susceptible to damage during the mining and recovery process. To minimise such damage creates a potential upside for the Group.
The likelihood of possible process interruption events is continually reviewed, and the appropriate controls, processes and business continuity plans (BCPs) are in place to immediately mitigate these risks. The Group maintains insurance against certain risks that are associated with its business in amounts that it believes to be reasonable in the current environment and status of operations. In the event of climate conditions causing road closure, restricted access to the mining pits or power interruption, a two-week supply of ore stockpiles, diesel, power supply consumable stores and food rations are maintained to ensure production is not interrupted.	Various bulk sampling programmes, and geological mapping and modelling methods to significantly improve the Group's understanding of and confidence in the mineral resources. BCPs are tested for execution with findings implemented to address any weaknesses identified.	Diamond damage is regularly monitored and analysed through studies and variance analyses
Extracting Maximum Value from Our Operations; Working Responsibly and Maintaining Social Licence.	**Extracting Maximum Value from Our Operations; Preparing for Our Future.**	**Extracting Maximum Value from Our Operations; Preparing for Our Future.**
• Despite poor climate conditions and power outages, no production interruption occurred. • Major contracts at Letšeng were successfully renegotiated.	• The core drilling programme at Letšeng, to firm up on the existing resource, was concluded. • Independent mining specialists, SRK Consulting Canada have been appointed to assist with interpretation and analysis of the results of the drilling programme. • The resource performed in line with expectations by achieving an overall Mine Call Factor (MCF) of 99%; grade of 1.94; and overall US$ per carat of US$2 131.	• Blast designs, crusher settings and screen cut off sizes were continually reviewed to identify any improvements to limit diamond damage. • Inhouse breakage indices show some improvement and the estimated revenue loss through breakage reduced marginally over the previous year. • A record of 15 diamonds >100 carats were recovered at Letšeng during 2018, including the 910 carat Lesotho Legend. Production in 2018 also included the highest recovery of diamonds >20 carats in a single year. • Progress made in development of innovative technologies to reduce diamond damage.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

	6	7	8
Type of risk	**OPERATIONAL**		
Description and impact	**Security of product** Theft is an inherent risk factor in the diamond industry. Due to the low frequency of high-value diamonds at Letšeng, theft can have a material impact on the Group. This could result in significant losses and negatively affect revenue and cash flows.	**Cash generation** The lack of cash generation can negatively impact the Group's ability to effectively operate, fund capital projects and repay debt.	**Attracting and retaining appropriate skills** The success of the Group's objectives and sustainable growth depends on its ability to attract and retain key suitably qualified and experienced personnel, especially in an environment and industry where skills shortages are prevalent and in jurisdictions where localisation policies exist.
Mitigation	The Group demands a zero tolerance on breaches of product security. Security measures are constantly reviewed and implemented to minimise this risk. Security infrastructure and technologies are invested in and supported through both internal and external surveillance processes. A Diamond Recovery Protection Committee has been established at Letšeng to monitor security processes. The Group maintains diamond specie insurance.	The Group has the flexibility to reassess its capital projects and operational strategies. Treasury management procedures are in place to monitor cash and capital projects expenditure. The Group has appropriate standby facilities available. Cost controls and monitoring measures are a continual focus and short/mid-term mine plans are actively reviewed to optimise cash flows and profitability.	The Group has development programmes, performance-based bonus schemes and long-term reward and retention schemes. Remuneration Committees at subsidiary level review current remuneration policies, skills and succession planning together with a review of the training budgets. The Group's scholarship programme offers bursaries for tertiary education and internship programmes guaranteeing permanent employment. The technical services subsidiary provides assurance, oversight and technical assistance to the operations. Extensive engagements with the Labour and Mining Ministry to implement efficient work permit processing and to develop plans for local employee upskilling.
Strategy affected	**Extracting Maximum Value from Our Operations.**	**Extracting Maximum Value from Our Operations; Preparing for Our Future.**	**Extracting Maximum Value from Our Operations; Working Responsibly and Maintaining Social Licence; Preparing for Our Future.**
2018 actions and outcomes	• External and internal audits were conducted at Letšeng that improved product security processes. • Security reviews have been instituted to monitor security processes every two months.	• The Group generated US$138.3 million from operating activities, improving the overall net cash[1] position of US$1.4 million in December 2017 to US$17.5 million at the end of the year. • The Group has US$57.8 million of available facilities on hand at 31 December 2018. • Of the BT cumulative four-year US$100.0 million target, US$19.4 million flowed in 2018.	• The OHI survey showed improvement in areas of role clarity, knowledge sharing, talent development and career opportunities. • Successfully obtained work permits and exemptions during the year. • Rollover of retention plan implemented at Letšeng.

[1] *Net cash is calculated as cash and short-term deposits less drawn down back facilities (excluding asset-based finance facility).*

9	10	11	12
OPERATIONAL	**EXTERNAL**		
Health, Safety, Social and Environmental (HSSE) The risk that a major health, safety, social or environmental incident may occur is inherent in mining operations. These risks could impact the safety of employees, licence to operate, Company reputation and compliance with debt facility agreements. Recent dam failures in Brazil has turned the global spotlight on dam integrity.	**Rough diamond demand and prices** Numerous factors beyond the control of the Group may affect the price and demand for diamonds, including international economic and political trends; projected supply from existing mines; supply and timing of production from new mines; and consumer trends. These factors can significantly impact the ability to generate cash flows and to fund operations and growth plans.	**Country, political environment and compliance with legislation** The Group operates in various jurisdictions. The political environment of these various jurisdictions may adversely impact its ability to operate effectively and profitably. Emerging market economies are generally subject to greater risks, including regulatory and political risk, and can be exposed to a rapidly changing environment laws and regulations in each jurisdiction are different There is a risk that any one of these operations may fail to comply with its country's specific legal or regulatory requirement.	**Currency volatility** The Group receives its revenue in US dollar, while its cost base is incurred in the local currency of the various countries within which the Group operates. The volatility of these currencies trading against the US dollar impacts the Group's profitability and cash.
The Group has implemented appropriate HSSE policies which are subjected to a continuous improvement review. Dam safety and integrity assurance is a continuous and significant area of high focus. The Group has an ongoing rigorous monitoring programme with an early-warning system in place. This is regularly tested and used to ensure the emergency readiness of potentially affected communities.	Market conditions are continually monitored to identify trends that pose a threat or create opportunity for the Group. Based on existing market conditions, the Group has the ability to preserve cash and manage balance sheet strength through flexibility in its sales processes and the ability to reassess its capital projects and operational strategies. The quality of Letšeng's high-value production has been less susceptible to fluctuating market conditions.	Changes to the political environment and regulatory developments are closely monitored. Where necessary, the Group engages in dialogue with relevant government representatives to build relationships and to remain well informed of all legal and regulatory developments impacting its operations. The Group relies on each operation's local advisers in respect of legal, environmental compliance, banking, financing and tax matters to ensure compliance with material regulatory and governmental developments.	Exchange rates fluctuations are closely monitored. It is the Group's policy to hedge a portion of future diamond sales when weakness in the local currency reach levels where it would be appropriate. Such contracts are generally short term in nature.
Working Responsibly and Maintaining Social Licence.	**Extracting Maximum Value from Our Operations.**	**Working Responsibly and Maintaining Social Licence; Preparing for Our Future.**	**Extracting Maximum Value from Our Operations.**
• The Group achieved a fatality-free year. • Four LTI's were reported resulting in an LTIFR of 0.15 and AIFR of 1.45. • Letšeng retained its ISO 14001 certification for environmental management and was granted ISO 45001 certification for occupational health and safety management.	• The overall sentiment in the rough and polished diamond markets improved marginally in 2018 compared in 2017. • Diamond prices (in particular the smaller, commercial quality goods) remained under pressure. This was further compounded by the launch of De Beers' synthetic diamond fashion jewellery. • Letšeng's high-value diamonds remained in high demand and continued to achieve firm prices. • Tender viewings for Letšeng's diamonds solely took place in Antwerp until tender viewings were expanded to Tel Aviv in October 2017. These continued successfully during 2018.	• Positive engagement with the Government of Lesotho continues. • Progress on Letšeng mining lease renewal made. The Group anticipates a new mining lease to be issued during 2019. • Lesotho Chamber of mines was formally registered and chaired by Letšeng with regular meetings being held. • Formal engagements strategy plan implemented with regular feedback given to/by government and associated departments. • There were no strikes or lockouts during the year across the Group. • Ghaghoo remained on care and maintenance with no stakeholder issues. The Government in Botswana has been supportive of the disposal process under taken.	• Hedges were entered into during the year to mitigate the risk associated with the volatility of the LSL/ZAR against the US dollar.

MARKET REVIEW

Demand for large high value rough diamonds remained resilient against global diamond market pressures.

The global economic backdrop in 2018	
US-China trade tensions negatively impacted global economic growth	Fast paced growth of the US economy
Lowest growth of the Chinese economy in 30 years but still in excess of 6%	India has emerged as fastest growing major economy

The global diamond market in 2018

The overall sentiment in the rough and polished diamond markets improved marginally again in 2018 compared to 2017. The fast-paced growth of the US economy, increase in retail demand in China and economic growth in India had a positive influence on the diamond market during the year. Diamond prices of the smaller, commercial quality goods remained under pressure. The price disparity between smaller rough diamonds and other categories is the widest it has been in five years. The downward pressure on these goods was compounded by the launch of De Beers' synthetic diamond fashion jewellery retailer (Lightbox Jewelry), additional production of smaller diamonds during the past two years and the challenges faced by Indian manufacturers of these type of goods. Notwithstanding these factors, the prices achieved for the unique, large, high-value rough production from Letšeng remained resilient.

Significant drivers of the diamond market during 2018 included:

Increased demand in China for the first time since 2013

The large retail jewellery stores in China experienced growth from millennial buyers and an increase in self-purchasing. A positive outlook for 2019 remains with favourable adjustments to tax and customs policies which should support further economic growth.

Fast-paced growth of the US economy

The US economy expanded at a fast pace in 2018, mostly due to tax cuts and increased spending. This positive trend impacts linked to spending on luxury goods, which in turn diamond sales in the US during the year. The US remains the largest consumer of polished diamonds, with an estimated 48% of world consumption.

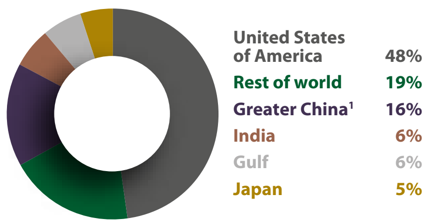
Global demand trends

Diamond demand is expected to continue to grow in real value terms due to:

- the expected continuing growth in the US;
- the expected continuing growth in emerging economies – especially in India and China;
- the growing acceptance of the use of diamonds in bridal jewellery – especially in India and China;
- the growing international trend to use diamonds across a wider range of luxury goods; and
- the continued growth in the number of high-net-worth individuals worldwide.

The potential impact of man-made diamonds on natural diamond demand and price is not yet fully understood and will depend on consumer preferences and perceptions.

Global polished diamond demand



[1] Greater China includes Mainland China, Hong Kong and Macau.
Sources: De Beers Group Diamond Insight Report 2018.

Global supply trends

The ageing and depletion of existing diamond mines will, in the medium term, result in a steady decrease of the global diamond supply. This will be marginally offset by limited additional supply from new mines in the short to medium term.

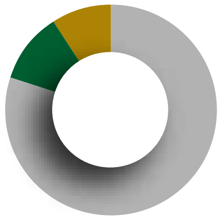
Rough diamond production has declined considerably since peaking in 2005 and is not expected to recover to the pre-global financial crisis levels of approximately 168 million carats per annum. Rough diamond production is believed to have peaked at 151 million carats in 2017 and annual global diamond production is expected to steadily decrease to around 110 million carats by 2030.

The projected supply from new mines is expected to add an additional 21 million carats a year until 2026 and thereafter output from these mines is expected to decrease to around 16 million carats by 2030. The additional supply from these new mines is not expected to compensate for the expected growth in demand during the same period.

Gem Diamonds' market position

Letšeng achieved an average price of US$2 131 per carat during the year, retaining its standing as the highest average dollar per carat kimberlite diamond producer in the world. The increase in average US$ per carat from last year's US$1 930 per carat, was driven by an improvement in the size and quality (fifteen +100 carat diamonds were recovered compared to seven in 2017) of Letšeng's production during the year. The Letšeng mine places the Group at the top end of the diamond market in terms of the size and quality of its large diamond production, with its greater than 10 carat diamonds accounting for 80% of its revenue in 2018.

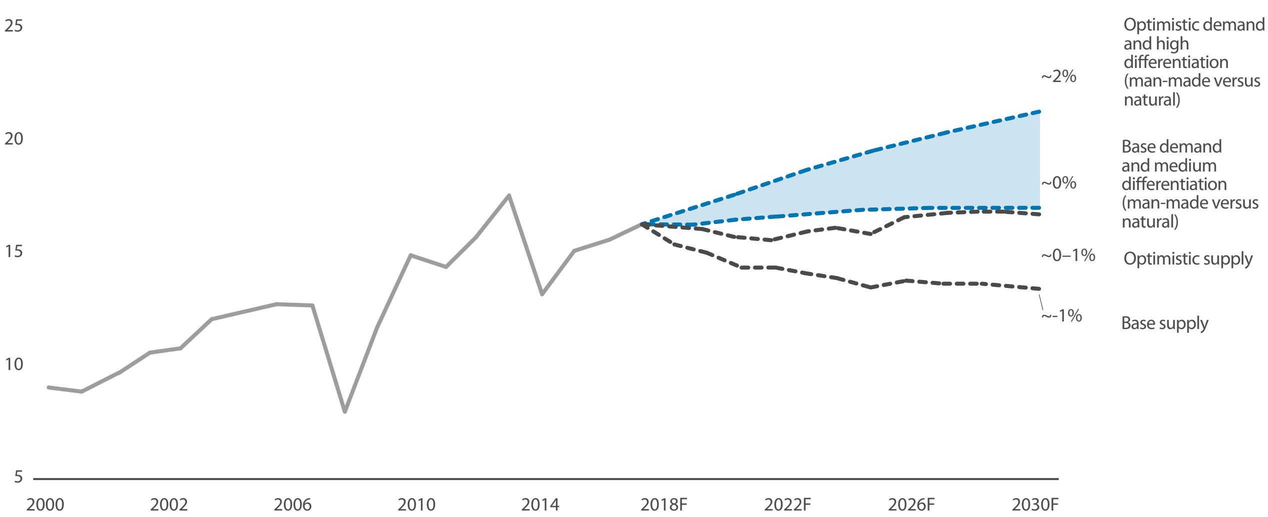
Revenue by size fraction



Looking ahead

In the short term, notwithstanding the uncertain impact of man-made diamonds on the smaller, more commercial polished diamonds, it is expected that demand for polished diamonds will remain stable and that the prices for Letšeng's unique, large, high-value rough diamond production will remain robust.

Rough diamond supply and demand, US$ billions (in real terms), 2000 – 2030, 2018 prices, constant exchange rates, optimistic and base scenarios



Note: Rough diamond demand has been converted from polished diamond demand using historical ratio of rough diamond and polished diamond values; change in 2030 demand outlook versus previous year's forecast is driven mostly by revised macro-economic forecast and potential substitution from man-made diamonds.
Sources: Kimberley Process; Euromonitor; Economist Intelligence Unit; company reports; expert interviews; Bain & Company.

CHIEF EXECUTIVE'S REVIEW

The focus on extracting maximum value from the Group's operations through enhancing operating efficiencies and investing in innovative technologies has delivered a strong operational performance, a record carat production and strong shareholder returns during 2018.

The Group's strategy is built on three pillars, namely: extracting maximum value from our operations; working responsibly and maintaining our social licence to operate; and preparing for our future. This integrated approach to enhance our business performance allows the Group to adapt to challenges and opportunities as they arise, enabling the achievement of the long-term goal of sustainable shareholder returns.

2018 performance

Against the backdrop of a challenging year for the diamond mining industry, Gem Diamonds achieved pleasing results characterised by the recovery of 15 diamonds greater than 100 carats, a record for a single calendar year. Production in 2018 also included the highest recovery of diamonds greater than 20 carats in weight.

The most notable recovery for the year was the 910 carat Lesotho Legend, which sold for US$40.0 million (US$43 956 per carat). This diamond is the largest recovered from Letšeng to date and is the fifth largest gem-quality diamond ever recovered. The recovery of a diamond of this quality and size affirms the world-class calibre of the Letšeng mine. While this diamond was an exceptional find, it was one of several notable recoveries[1] including a 4.06 carat pink diamond, which achieved the highest dollar per carat for the year of US$64 067 per carat and a 138.20 carat white diamond which sold for US$8.4 million (US$60 428 per carat), making it the highest dollar per carat achieved during the year for a Letšeng white rough diamond.

The market for the Letšeng mine's large, high-quality white rough diamonds remained resilient throughout the year. An average price of US$2 131[2] per carat was achieved, up 10% from US$1 930[2] per carat in 2017.

At Letšeng, planned major maintenance work conducted on the plants during May, together with enhanced efficiencies from

Clifford Elphick – Chief Executive Officer various Business Transformation initiatives, improved plant runtime resulting in a significant increase in the tonnages treated during the second half of 2018. Carats recovered during 2018 increased by 13% to 126 875 (2017: 111 811 carats). A total of 125 111 carats were sold, generating revenue of US$267.3 million, an underlying EBITDA of US$82.3 million and earnings per share of 18.80 US cents. The Group ended the year in a net cash[3] position of US$17.5 million compared to US$1.4 million in the previous year.

[1] Refer to the Gem Diamonds website for photographs of notable diamond recoveries (www.gemdiamonds.com).
[2] Includes carats extracted at rough valuation.
[3] Calculated as the sum of cash and cash equivalents less drawn down facilities (excluding asset-based finance facility).

Extracting maximum value from operations

The Business Transformation has progressed well and remains on-track to achieve the target of US$100 million in cost savings and efficiencies by 2021, with an anticipated sustainable annual net benefit of US$30 million from 2022 onwards.

The initiatives already implemented are expected to deliver US$63.7 million over the next four years. Of these initiatives, US$4.9 million relate to once-off savings through working capital management and the sale of non-core assets, and the balance of US$58.8 million represents cumulative recurring annualised benefits over the targeted period in mining, processing and corporate activities. The Group remains committed to identifying and implementing additional efficiencies and cost savings to augment these results.

The success of the Business Transformation process is underpinned by the organisational health of the Group. In 2017 an independent organisational health index (OHI) survey was conducted at the outset of the process in order to identify organisational health practice areas requiring improvement. A second survey was conducted during the latter part of 2018 and it is pleasing to report that the results from this survey demonstrated that the Group successfully reached an overall organisational health improvement.

The LoM plan for the Letšeng mine was revisited during 2018, with the aim of further reducing the waste stripping required to expose Kimberlite in both the Main and Satellite pipes through the steepening of inter-ramp slope angles. Mining in accordance with this plan has commenced and is expected to significantly increase the net present value of the mine.

As previously reported a formal process to dispose of the Ghaghoo asset is underway and satisfactory progress has been made.

Preparing for the future

In order to build towards ensuring a profitable and sustainable future for Gem Diamonds through focused investment, it is important to continually seek innovative ways of identifying, recovering and liberating Letšeng's high-value diamonds.

During the year, the Company, through its subsidiary Gem Diamonds Innovation Solutions, (GDIS) continued to make good progress in the development of its two key technologies to i) identify locked diamonds within kimberlite; and, ii) to liberate diamonds using a non-mechanical process. These technologies are aimed primarily at limiting diamond damage and reducing operating costs. The Company approved a US$3.0 million pilot plant to be constructed at Letšeng which employs innovative technology to identify diamonds within kimberlite ore. This project will also include the use of a prototype high-voltage pulse generating unit to liberate the diamonds. We anticipate the pilot plant to be commissioned during Q2 2019. The results and outcomes emanating from the pilot plant operation will determine the way forward in respect of these technologies.

Good progress has been made in the statutory process for the renewal of the Letšeng mining lease during 2018.

Working responsibly and maintaining our social licence

Gem Diamonds remains committed to delivering shareholder returns in a responsible and sustainable way. The Group believes that long-term profitability goes hand-in-hand with upholding and promoting the rights and welfare of its employees and project communities.

Health and safety remains a top priority for the Group, and I am pleased, once again, to report a fatality-free year. Four LTIs were recorded during the year. I wish to reaffirm Gem Diamonds' commitment to eliminating workplace injuries in line with its goal of achieving zero harm.

Recognising the potential risk that dams pose to host communities and the environment, dam safety has long been of the utmost importance to Gem Diamonds. The Group undertakes full lifecycle management of tailings storage facilities in accordance with the highest structural stability standards

CHIEF EXECUTIVE'S REVIEW CONTINUED

including international best practice. A rigorous monitoring programme is in place to ensure any risks to the operation or the surrounding communities and is timeously identified and mitigated.

Moreover, in order to safeguard downstream communities, an early-warning system, together with community training and awareness programmes, is used to support emergency response readiness in the unlikely event of a failure. (For further detail on how the Group ensures the highest standards of dam safety management, refer to the Sustainable Development Reporting Platform www.gemdiamonds.com.)

Project affected communities are vital stakeholders, and the Group continues to work closely with such communities. Throughout the year, investment continued to be made into several community programmes which are designed to support community needs through self-sustaining initiatives, such as the dairy farming project launched in 2017, the Vegetable Farming Project launched in 2015 and the Four Woolsheds Construction Project launched in 2013. Furthermore, in celebration of the recovery of the Lesotho Legend, the 910 Community Project was launched. Following consultation with community leaders, the construction and development of a commercial poultry and egg farming co-operative was identified as the preferred community project. A feasibility study has been commissioned to better understand the potential socio-economic impact of this project and to determine the investment required.

Investment in education is one of the most impactful and sustainable contributions that the Group can make and its Scholarship Programme, therefore, remains a priority. Through this initiative, bursaries are offered to students currently studying or interested in studying for tertiary qualifications relating to the development of the natural resources of Lesotho. To improve skills within the country, Gem Diamonds also offers an Internship Programme at the Letšeng mine, guaranteeing two years of work, with permanent employment offered to top candidates at the end of that period.

From an environmental perspective, I am pleased to report that during 2018, the Group maintained its exemplary record of zero reportable environmental incidents.

Outlook

The emphasis for 2019, and beyond, remains on positioning Gem Diamonds for continued sustainable growth by leveraging the Group's strengths and by focused investment. Through this disciplined focus on value creation, the Group aims to continue the positive momentum generated in 2018.

I would like to extend my appreciation to Johnny Velloza for the work he has carried out during his time as Chief Operating Officer (COO), and to thank him for electing to continue contributing to the Group's success through his role as a non-Executive Director of the Board. In addition, I would like to take this opportunity to thank Gavin Beevers, who had served as a non-Executive Director of Gem Diamonds for many years, for agreeing to return as Technical Advisor to operations while we seek a suitable candidate to fill the role of COO.

My sincere gratitude goes out to all our employees – your efforts at driving efficiencies and constant dedication to making every aspect of our business better have defined our success.

Finally, I would like to thank our shareholders for their continued support and assure them of our commitment to achieving excellence.

Clifford Elphick
Chief Executive Officer

12 March 2019

GROUP FINANCIAL PERFORMANCE

Building a solid platform for maximum wealth creation.

2018 marked a very positive year for Gem Diamonds with strong operational and financial performance driving an improved cash position. This was the result of the culmination of a number of Business Transformation initiatives, operational enhancements and business process optimisations providing the platform to extract maximum value from our operations.

Robust tender revenues achieved at Letšeng during 2018 were underpinned by strong operational results with a record 15 diamonds greater than 100 carats and an improved number of diamonds greater than 20 carats being recovered during the year. Included in these recoveries, is the remarkable 910 carat Lesotho Legend that sold for US$40 million and contributed significantly towards the Group's improved revenue, cash position and strengthened balance sheet.

Compared to 2017, underlying EBITDA increased to US$82.3 million from US$45.0 million and attributable profit increased to US$26.0 million from US$5.5 million. The Group's net cash* position improved to US$17.5 million by year end compared to US$1.4 million in 2017.

Cost containment remains a challenge as the Group operates in a high inflationary and difficult macro-economic environment. In addition, both plants were also stopped for major planned shutdowns during the first half of the year, increasing operating costs while treating lower volumes of ore tonnes. The benefit of these improvements was reflected in the notable improvement in plant uptime during the second half of the year. At Letšeng, increased load and hauling distances and fuel increases of 22% year on year further added to cost increases, which were partly contained by the successful implementation of various Business Transformation initiatives and strict cost management discipline. The successful implementation of several Business Transformation initiatives resulted in a contribution of US$19.4 million, net of fees and costs, to the Group's results during the year and the cumulative four-year target to 2021 of US$100 million in revenue, productivity improvements and cost savings remains on track.

The strong financial performance ensured debt repayments were fulfilled as they became due and the positive outlook aided in the renewal of the LSL250.0 million unsecured revolving credit facility at Letšeng for a further three years at an increased value of LSL500.0 million.

** Net cash is calculated as cash and short-term deposits less drawn down bank facilities (exluding asset-based finance facility).*

Revenue

Group revenue of US$267.3 million in 2018, primarily derived from its mining operations in Lesotho (Letšeng), was 25% higher than that achieved in 2017. Letšeng achieved an average of US$2 131** per carat (US$1 930** per carat in 2017) following an improvement in the frequency of the recovery of large, high-quality white diamonds, including the sale of the Lesotho Legend. The total carats sold increased by 17% to 125 111 carats, the highest number ever to be sold in a calendar year.

Initiatives within the Business Transformation which would have a direct revenue impact within the processing workstream, contributed US$16.9 million during the year, before associated operating and implementation costs. This mainly related to the implementation of a mobile XRT sorting machine to re-treat tailings material, which contributed 11 360 to carats sold during 2018.

*** Includes carats extracted at rough valuation.*

Michael Michael – Chief Financial Officer

GROUP FINANCIAL PERFORMANCE CONTINUED

Summary of financial performance

US$ million	2018	2017
Revenue	**267.3**	214.3
Royalty and selling costs	**(22.9)**	(18.8)
Cost of sales[1, 3]	**(152.1)**	(141.3)
Corporate expenses	**(10.0)**	(9.2)
Underlying EBITDA[2]	**82.3**	45.0
Depreciation and mining asset amortisation	**(8.6)**	(8.9)
Share-based payments	**(1.4)**	(1.5)
Other income	**0.4**	0.8
Foreign exchange gain/(loss)	**2.2**	(1.3)
Net finance costs	**(1.9)**	(3.8)
Profit before tax	**73.0**	30.3
Income tax expense	**(26.4)**	(13.1)
Profit for the year	**46.6**	17.2
Non-controlling interests	**(20.6)**	(11.7)
Attributable profit	**26.0**	5.5
Earnings per share (US cents)	**18.80**	3.96

[1] *Including waste stripping costs amortisation but excluding depreciation and mining asset amortisation.*
[2] *Underlying earnings before interest, tax, depreciation and mining asset amortisation (EBITDA) as defined in Note 4 of the notes to the consolidated financial statements.*
[3] *Including Ghaghoo's care and maintenance costs for 2018 which are included in other operating income and expense in the statutory statement of profit or loss.*

US$ million	2018	2017
Group revenue summary		
Letšeng sales – rough	**266.6**	206.8
Ghaghoo sales – rough	**–**	2.4
Sales – polished margin	**0.2**	0.6
Sales – other	**0.4**	0.6
Impact of movement in own manufactured inventory	**0.1**	3.9
Group revenue	**267.3**	214.3

Royalties consist of an 8% levy paid to the government of Lesotho on the value of diamonds sold by Letšeng. Selling costs relating to diamond selling and marketing-related expenses are incurred by the Group's sales and marketing operation in Belgium. During the year, royalties and selling costs increased by 22% to US$22.9 million, in line with revenue.

Operational expenses

While revenue is generated in US dollar, the majority of operational expenses are incurred in the relevant local currency in the operational jurisdictions. Although the local currency closing rates were weaker for the year, the average Lesotho loti (LSL) (pegged to the South African rand) and Botswana pula (BWP) were slightly stronger against the US dollar during the year, which negatively impacted underlying US dollar reported costs. Group cost of sales was US$152.1 million, compared to US$141.3 million in the prior year, the majority of which was incurred at Letšeng.

Exchange rates	**2018**	2017	% change
LSL per US$1.00			
Average exchange rate	**13.25**	13.31	–
Year-end exchange rate	**14.39**	12.38	16
BWP per US$1.00			
Average exchange rate	**10.20**	10.34	(1)
Year-end exchange rate	**10.73**	9.83	9
US$ per GBP1.00			
Average exchange rate	**1.34**	1.29	4
Year-end exchange rate	**1.27**	1.35	(6)

Letšeng mining operation

Cost of sales for the year was US$145.9 million, up 14% from US$127.6 million in 2017. Total waste stripping costs amortised of US$68.2 million were incurred compared to US$67.9 million in 2017.

In line with the mine plan, Letšeng mined 25.8 million tonnes of waste compared to 29.7 million in 2017. Notwithstanding the major shutdowns in H1 2018 to replace the scrubber shell, tonnes treated were 1% higher than 2017 due to improved run time of the Letšeng plants experienced in H2 2018. Ore tonnes treated were 6.5 million tonnes, of which 2.2 million tonnes were sourced from the Satellite pipe compared to 2.1 million tonnes in 2017. Carats recovered improved by 13% to 126 875 (2017: 111 811) of which the mobile XRT sorting machine contributed 11 905 carats, sourced from both 2018 re-treated tailings (5 672 carats) and pre-2018 re-treated tailings (6 233 carats). The cost of operating this machine was LSL1.61 per tonne treated.

Unit cost per tonne treated	**Operating costs**				**Business Transformation (BT) costs**			**Non-cash accounting charges[2]**	
	Direct cash costs[1]	3rd Plant operator costs	Once-off main-tenance costs	**Sub-total**	XRT sorting machine operating costs	Fees and employee reward scheme	**Total direct operating cash costs**	Charges	**Total operating cost**
2018 (LSL)	**141.54**	**24.18**	**2.82**	**168.54**	**1.61**	**12.36**	**182.51**	**112.63**	**295.14**
2017 (LSL)	134.20	15.34	–	**149.54**	–	–	**149.54**	116.03	**265.57**
% change	5%	58%	–	**13%**	–	–	**22%**	(3%)	**11%**
2018 (US$)	**10.68**	**1.83**	**0.21**	**12.72**	**0.12**	**0.93**	**13.77**	**8.50**	**22.27**
2017(US$)	10.09	1.15	–	**11.24**	–	–	**11.24**	8.72	**19.96**
% change	6%	59%	–	**13%**	–	–	**23%**	(3%)	**12%**

[1] Direct mine cash costs represent all operating costs, excluding royalty and selling costs.
[2] Non-cash accounting charges include waste stripping cost amortised, inventory and ore stockpile adjustments, and excludes depreciation and mining asset amortisation.

GROUP FINANCIAL PERFORMANCE CONTINUED

Direct cash cost per tonne treated increased by 5%. Stringent cost control and the impact of the cost savings derived from the Business Transformation initiatives implemented at Letšeng assisted in containing this increase in costs amid local country inflation, increased ore mining hauling distances of 6% and increased average fuel price of 22% year on year. The Business Transformation initiatives delivered US$5.2 million of cost savings, net of operating and implementation costs, during 2018.

The third plant operator contractor cash costs per tonne treated in local currency increased by 58%. This cost is a function of the revenue generated by the sales from diamonds recovered through the contractor plant and the increase in costs is due to the additional revenue generated during the year.

The scrubber shell in Plant 2 that cracked in the latter part of 2017 was replaced for a capital amount of LSL11.8 million, of which LSL8.6 million was spent in 2018. Associated once-off repairs and maintenance costs of LSL18.4 million are included in operating costs for the year, resulting in a LSL2.82 increase in unit costs.

Consultant fees and an employee incentive plan related to the successful delivery of the Business Transformation initiatives increased unit costs by LSL12.36 per tonne treated. Both these costs are self-funded through the gains of the Business Transformation.

The non-cash accounting charges per tonne treated decreased mainly due to ending the year with a higher value of diamond inventory. This was slightly offset by higher waste amortisation costs as a result of processing more Satellite pipe material during 2018. The amortisation charge attributable to the Satellite pipe ore accounted for 80% of the total waste stripping amortisation charge in 2018 (2017: 79%).

The total operating costs (post-non-cash accounting charges) per tonne treated were LSL295.14, which is 11% higher than 2017 of LSL265.57 per tonne treated.

The increase in the local currency waste cash cost per waste tonne mined increased by 8% to LSL35.78 (2017: LSL33.23). This was largely driven by increased waste mining hauling distances of 19% and increased fuel price of 22% year on year.

Ghaghoo care and maintenance operation

Costs incurred at Ghaghoo for the year amounted to US$5.7 million (including US$1.1 million costs associated with the potential sale of the mine) and have been recognised in the income statement. Costs continued to be incurred in 2018 relating to the dewatering of the underground and the re-sealing of the fissure, which was damaged following an earthquake in 2017.

Corporate expenses

Corporate expenses relate to central costs incurred by the Group through its technical and administrative offices in South Africa and head office in the United Kingdom and are incurred in South African rand and British pound. Corporate costs for the year were US$10.0 million (2017: US$9.2 million). Included in these costs are US$0.5 million relating to Business Transformation fees and employee reward scheme (2017: US$0.1 million) and US$0.2 million relating to project costs (2017: US$0.5 million), resulting in normalised corporate costs of US$9.3 million.

The share-based payment charge for the year was US$1.4 million. During the year, a new award was granted in terms of the long-term incentive plan (LTIP), whereby 1 450 000 nil-cost options were granted to certain key employees and Executive Directors. The vesting of the options to key employees is subject to the satisfaction of certain market and non-market performance conditions over a three-year period, in line with previous awards within the LTIP.

Underlying EBITDA and attributable profit

Based on the operating results, the Group generated an underlying EBITDA of US$82.3 million. The improved underlying EBITDA from US$45.0 million in 2017 was mainly driven by the higher revenue achieved. In total, Business Transformation initiatives contributed US$12.7 million to the Group's underlying EBITDA. Profit attributable to shareholders was US$26.0 million equating to 18.80 US cents per share, based on a weighted average number of shares in issue of 138.7 million.

The Group's effective tax rate was 36.1%. The tax rate reconciles to the statutory Lesotho corporate tax rate of 25.0% rather than the statutory UK corporate tax rate of 19.0% as this is now the jurisdiction in which the majority of the Group's taxes are incurred. Deferred tax assets were not recognised on losses incurred in non-trading operations.

Capital expenditure

The Group invested US$23.0 million into capital projects, of which US$20.7 million was incurred at Letšeng.

Two of the major ongoing capital projects at Letšeng are the extension of the tailings storage facility (estimated project cost of US$13.7 million) and the construction of the mining complex (estimated project cost of US$18.5 million). During 2018, US$8.8 million and US$8.1 million respectively was spent on these projects. The mining complex was completed during the year within the estimated total project cost and the tailings storage facility project which commenced in late 2017 is on track to be completed during H1 2020.

In line with the continuing strategy of reducing diamond damage through the early detection of large diamonds, the construction of a US$3.0 million pilot plant by GDIS at Letšeng was approved during the year. GDIS was established in Cyprus during 2017 to house all the Group's innovation and technology research and development projects. During 2018 US$1.8 million was invested into this project, which is on track to be commissioned in Q2 2019.

Financial position and funding overview

The Group ended the year with cash on hand of US$50.8 million (2017: US$47.7 million) of which US$43.3 million is attributable to Gem Diamonds and US$0.2 million is restricted. At year end, the Group had utilised facilities of US$33.3 million, resulting in a net cash position* of US$17.5 million (2017: US$1.4 million). Further standby undrawn facilities of US$57.8 million remain available, comprising US$23.0 million at Gem Diamonds and US$34.8 million at Letšeng.

The Group generated cash from operating activities of US$138.3 million (2017: US$97.4 million) before investment in waste stripping costs at Letšeng of US$79.3 million and capital expenditure of US$23.0 million.

Contributing to the Group's closing cash balance of US$50.8 million is US$6.7 million due to direct cash saving Business Transformation initiatives relating to the sale of non-core assets and reduced waste stripping rates. This is in addition to the US$12.7 million EBITDA improvement detailed above, totalling an overall contribution of US$19.4 million from Business Transformation during the year.

During 2018 Letšeng paid dividends of US$69.1 million to its two shareholders, resulting in a net cash inflow of US$43.6 million to Gem Diamonds (70% shareholding) and a cash outflow from the Group for withholding taxes of US$4.8 million and payment of the government of Lesotho's (30% shareholding) share of dividend of US$20.7 million.

During 2018, the Letšeng Diamonds LSL250.0 million three-year unsecured revolving working capital facility jointly held with Standard Lesotho Bank and Nedbank Capital was renewed for a further three years to July 2021 and increased to LSL500.0 million. A more favourable interest rate on this facility was negotiated of Lesotho prime rate less 1.5% with the remaining terms and conditions being in line with the previous facility. At year end, the full LSL500.0 million (US$34.8 million) was available for drawdown.

Repayments of US$5.0 million on the Gem Diamonds Limited facility, relating to the Ghaghoo US$25.0 million debt, were made during the year. The outstanding balance of US$20.0 million will be repaid in quarterly instalments, with the final repayment due on 31 December 2020. Similarly, repayments of LSL24.0 million (US$1.8 million) were made on the project debt facility for the construction of the relocated mining complex at Letšeng . The outstanding balance of LSL191.0 million (US$13.3 million) will be repaid by September 2022.

** Net cash is calculated as cash and short-term deposits less drawn down bank facilities (excluding asset-based finance facility).*

GROUP FINANCIAL PERFORMANCE CONTINUED

Summary of loan facilities as at 31 December 2018

Company	Term/ description	Lender	Expiry	Interest rate[1]	Amount (US$ million)	Drawn down (US$ million)	Available (US$ million)
Gem Diamonds Limited	Three-year RCF and term loan	Nedbank	December 2020	London US$ three-month LIBOR + 4.5%	**45.0**	**20.0**	**23.0**
Letšeng Diamonds	Three-year RCF	Standard Lesotho Bank and Nedbank Lesotho	July 2021	Lesotho prime rate minus 1.5%	**34.8**	**–**	**34.8**
Letšeng Diamonds	5.5-year project facility	Nedbank/ECIC	March 2022	Tranche 1 (R180 million) South African JIBAR + 3.15%	**12.5**	**10.9**	**–**
			September 2022	Tranche 2 (LSL35 million) South African JIBAR + 6.75%	**2.4**	**2.4**	**–**
Total					**94.7**	**33.3**	**57.8**

[1] *At 31 December 2018 LIBOR was 2.80% and JIBAR was 7.15%.*

Dividend

Based on the Group's continued focus on strengthening its balance sheet and positioning itself for the future, the Board resolved not to propose the payment of a dividend, notwithstanding the improved 2018 results.

Outlook

Focus in 2019 will be the implementation of the revised mine plan to drive down Letšeng's waste stripping costs and increase Satellite pipe contribution, together improving the net present value (NPV) of the operation. This together with furthering the optimisation of the operations and delivering the target of the Business Transformation will enable the Company to repay financial debts as they become due and complete its capital projects on time, thereby positioning the Company for the future which will be in the interests of long-term benefit improvement to its shareholders.

Michael Michael
Chief Financial Officer

12 March 2019

BUSINESS TRANSFORMATION

Significant progress made towards achieving US$100 million cumulative cash cost savings and productivity improvements to 2021

Delivering value

After its commencement in the second half of 2017, the Business Transformation continued its momentum in 2018. The cumulative four-year target to 2021 of US$100 million in revenue, productivity improvements and cost savings remains on track. This target is stated net of implementation costs, consultant fees and an employee incentive plan related to the successful delivery of initiatives contributing to the overall target.

The focus in 2018 remained on mine planning optimisation, mining efficiencies and improvements, increased plant uptime, asset and contract management, capital discipline and continued stringent cost controls.

There were 325 initiatives identified and pursued during 2018 and by year end, initiatives which are expected to contribute US$63.7 million to the cumulative US$100 million target had been implemented. Of these implemented initiatives, US$4.9 million relates to once-off savings and the balance of US$58.8 million relates to cumulative recurring annualised benefits over the four-year period. The majority of the implemented initiatives were within the mining and processing workstreams, totalling US$53.3 million. US$20.7 million of the implemented initiatives have been cash flowed to date, of which US$19.4 million flowed in 2018.

Business Transformation also aims to improve resource-use efficiencies, thereby reducing the financial cost of mining while at the same time containing the impact on our communities and the environment. The reduction of our carbon footprint benefits the natural environment and reduces the levels of air pollution exposure for our communities and employees. This aligns with our Group strategy of maximising benefit for our communities and minimising our impact on the environment.

During the year, mining and processing initiatives which improved fuel use and energy requirements respectively, contributed to the overall energy efficiency improvement reported by the Group in 2018. Examples of these initiatives include:

- employing a fleet management system to monitor and aid in the reduction of:
  - service and maintenance requirements;
  - idle and queue time through improved loading and hauling scheduling;
  - load spillage; and
  - fuel consumption due to driver error.
- improving road and tyre maintenance; and
- installing early weather warning systems preempting power failures for timely switch-over to generators avoiding power loss at the plants and subsequent high energy demands on startup.

At the outset, it was recognised that the success of the Business Transformation would be underpinned by the organisational health of the Group. An independent organisational health index (OHI) survey was conducted in Q3 2017 to identify organisational health practice areas requiring improvement through a 'quartile' rating score. This resulted in the identification of 48 organisational health initiatives to be implemented over a 18-month period with the aim of improving the OHI survey score by at least one quartile. During the year 39 organisational health initiatives were implemented addressing priority practices including accountability; direction; leadership; innovation; learning; and motivation. A follow up OHI survey was conducted in Q4 2018 and the Group successfully reached its overall quartile improvement target. Following this survey new initiatives continue to be identified in areas which require further improvement within organisational health.

In addition, the Business Transformation employee recognition and reward scheme, which is self-funded through the gains of the Business Transformation, was developed and implemented with the first payment made in July 2018 in respect of the first wave of implemented initiatives.

Subsequent to year end, implemented initiatives have reached approximately US$79 million mainly due to the finalisation of the steeper slopes pit design in January 2019.

2019 focus

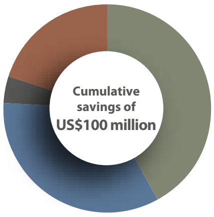
- To implement the remaining initiatives contributing to the US$100m cumulative four-year target.
- To ensure sustainability of the Business Transformation initiatives.
- To transition into a sustainable Continuous Improvement business environment.

The transition from Business Transformation into Continuous Improvement will focus primarily on behaviours that drive everyday improvements and a relentless pursuit of excellence. This will endeavour to embed a culture of continuous improvement, sustainably capturing additional value through the implementation of initiatives that drive efficiencies and improvements.

The table on the next page references the cumulative four-year target of US$100 million together with the status of implementation of the primary contributing initiatives.

BUSINESS TRANSFORMATION CONTINUED

Delivering US$100 million
(up to 2021)

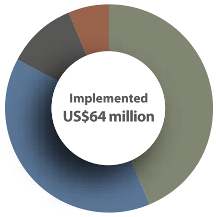


US$42 million | US$28 million
Mining

US$34 million | US$25 million
Processing

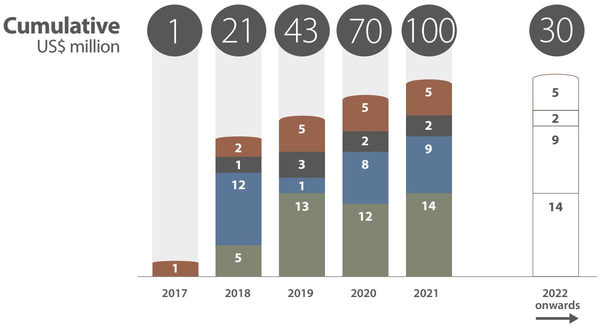
US$4 million | US$7 million
Working capital and overhead

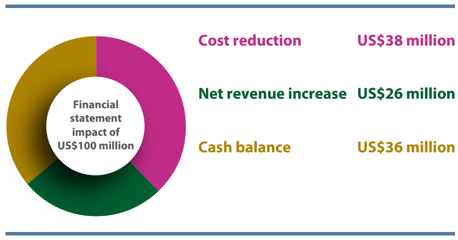
US$20 million | US$4 million
Corporate activities



Implemented US$64 million

Initiative and target	Activity and target	Objective	Impact	Status	Tracking against US$100m target
Mining					
US$42 million	**Drill, load and haul activities: US$31 million**	Reduce mining costs through: • improving efficiencies and rates; and reviewing tenure of mining contractor; • optimising support equipment requirements and associated cost; • improving haul roads to optimise truck speeds; • increasing truck capacity by 7% by installing greedy boards; and • improving drill rates by 30% by modernising the drilling fleet with a cost-efficient autonomous system	• Reduce waste unit costs and waste stripping capitalisation • Reduce ore unit costs	**Implemented[1] US$22.8 million** A reduction in mining rates implemented in Q2 2018 primarily based on the optimisation of the mining fleet and support equipment, increased truck capacity through installing greedy boards and improving haul road conditions. **Work in progress[2]** Further rate reductions targeted through continuous maintenance of haul roads, improving truck speeds, optimising shift changes and drill rates. Targeting further benefit through improved diesel consumption initiatives.	US$44 million
	Pit design: US$6 million	Opportunities to steepen current slope angles with the benefit of reducing waste tonnes over the LoM.	• Reduce waste tonnes and waste stripping capitalisation	**Work in progress[2] (Implemented[1] after year end)** Blasting trials to ensure reliable berm retention were undertaken during 2018 and completed in Q4 2018. Following positive results this initiative was formally implemented in January 2019 with the adoption of the new mine plan. This initiative is expected to contribute US$13.0 million to the four-year target. This initiative was implemented 12 months earlier than initially estimated.	
	Blasting practices: US$5 million	Changing blasting patterns and practices, accessories and explosive mix, leading to a reduction in blasting consumables by up to 30%.	• Reduce direct cash costs	**Implemented[1] US$5.2 million** Reduced the number of primers used per blast hole in both ore and waste. Introduced saver plugs in waste blasting to reduce the volume of explosives required. Secured early settlement discounts with explosive suppliers. **Work in progress[2]** Additional blasting initiatives being tested to further reduce explosive consumables and accessories.	
Processing					
US$34 million	**Plant uptime: US$16 million**	66 initiatives identified to improve plant uptime through: • improved maintenance scheduling (planned and unplanned); • improving ore feed management; • improving stability of power supply; and • reducing operational delays.	• Increase ore tonnes treated • Net revenue increase	**Implemented[1] US$3.1 million** Once-off implementation of a scrubber bypass which mitigated the loss of tonnes due to the Plant 2 extended shutdown in H1 2018 for planned maintenance and to replace the scrubber. Initiatives identified to improve ore feed to the Plants were implemented by Q4 2018. **Work in progress[2]** Further plant uptime initiatives are being implemented at different stages during the four-year period, and the benefits are expected to ramp up during 2019.	US$31 million
	Additional throughput: US$16 million	Deploy an XRT machine to re-treat tailings	• Increase carats recovered • Net revenue increase	**Implemented[1] US$18.7 million** The XRT sorting machine recovered 11 905 carats from re-treating tailings, being significantly higher than initially estimated.	
		Review and renegotiate the Alluvial Ventures contract for the operation of the third plant at Letšeng.	• Reduce direct cash costs	**Implemented[1] US$2.6 million** The Alluvial Ventures contract has been renegotiated to realign the profit margin share and to extend the tenure to mid-2020.	
	Plant consumables: US$2 million	Efficient usage and reduce consumption of plant consumables.	• Reduce direct cash costs	**Implemented[1] US$0.6 million** Improved flocculant and coagulant combination product introduced and a new flocculant recovery unit at Plant 1 commissioned to reduce consumption of consumables. **Work in progress[2]** Further initiatives to optimise the usage of plant consumables are being implemented.	





Initiative and target	Activity and target	Objective	Impact	Status	Tracking against US$100m target
Working capital and overheads					
US$4 million	**Working capital: US$1 million**	• Improve working capital management with specific focus on redundant and slow-moving plant inventory at Letšeng. • The working capital initiative is a once-off benefit which is expected to deliver over a 12 – 18 month period.	• Reduce working capital (once off cash benefit)	**Implemented[1] US$0.7 million** Draw down of slow moving stock and the rebasing of economic order quantities has been implemented. The sale of scrap material has commenced. **Work in progress[2]** Further redundant stock and scrap metal has been identified for sale.	US$8 million
	Overheads: US$3 million	• Reducing support service costs at Letšeng through contract reviews and focused contract management. • Implementing stricter spend control procedures on administrative and support costs at Letšeng. • Reducing the Letšeng corporate office footprint and other office costs	• Reduce direct cash costs	**Implemented[1] US$6.3 million** Initiatives implemented at Letšeng as follows: • The catering and housekeeping contract was reviewed and renegotiated. • Entered into new IT network provider contracts offering improved technological services and rates. • The corporate office footprint has been reduced through the sub-leasing of excess office space. • Reviewed insurance requirements and providers and implemented savings. • Improved on mine diesel issue procedures and eliminated diesel additives from equipment where not required. • Initiatives targeting office cost reductions were implemented. **Work in progress[2]** Additional initiatives to reduce overheads at Letšeng, including further energy saving opportunities have been identified and are in the process of being implemented.	
Corporate activities					
US$20 million	**Non-core assets: US$16 million**	• Selling non-core mining fleet and redundant stock at Ghaghoo.	• Reduce direct cash costs • Once-off cash benefit	**Implemented[1] US$1.4 million** Assets associated with Ghaghoo ie the aircraft servicing the mine, certain non-core mining fleet and inventory have been sold.	US$17 million
		• Reduce or eliminate the ongoing care and maintenance costs at Ghaghoo.	• Reduce direct cash costs	**Work in progress[2]** A formal sales process for the Ghaghoo mine with appointed corporate advisers was initiated during the year and remains ongoing.	
		• Selling other non-core assets across the Group.	• Once-off cash benefit	**Implemented[1] US$0.7 million** The sale of the investment property in Dubai was completed in November. **Work in progress[2]** Additional non-core assets across the Group have been identified for sale.	
	Corporate costs US$4 million	• Implementation of stricter spend control procedures on admin and support costs and focusing on fit-for-purpose operations. • Downsizing office footprint in the United Kingdom, South Africa and Botswana.	• Reduce direct cash costs	**Implemented[1] US$1.9 million** The following initiatives across the United Kingdom, South Africa, Belgium and Botswana operations were implemented: • Office footprints in the United Kingdom and Botswana reduced. • Strict spend control through one centralised cost approval office implemented. • Focused control of travel expenditure and associated costs. • Reduced Annual Report publishing and printing costs. • Reduced professional fees. **Work in progress[2]** Reduction of membership association fees, reduced office footprint in South Africa, reduced audit and audit-related fees and numerous other initiatives are being implemented to further reduce Corporate costs.	

[1] Implemented – means that all key activities to realise the value of an initiative have been completed and no further action is required for the benefit to begin to accrue and be realised over the four-year period (2018 to 2021).
[2] Work in progress – means an initiative has been planned and a business case has been approved for implementation. Associated implementation costs may have been incurred.

LETŠENG

2018 in review

- **Recovery** of the **910 carat** Lesotho Legend, largest Letšeng diamond ever recovered, sold for **US$40.0 million**
- **Recovered 15 diamonds larger** than **100 carats** at Letšeng, a record for the mine
- Life of mine plan **revised** with steeper inter-ramp slope angles **implemented**
- Average price of **US$2 131 per carat achieved**
- **Retained ISO 14001** certification and obtained **ISO 45001 certification** (previously OHSAS 18001)
- Recorded **four LTIs**

Operational performance

During 2018, Letšeng reduced its waste tonnes mined by 3.9 million to 25.8 million tonnes. This reduction was achieved through improved drilling and blasting techniques enabling the incorporation a number of Business Transformation initiatives, most notably the steeper inter-ramp slope angles. This steepening has resulted in significantly lower life of mine (LoM) stripping ratios while increasing and bringing forward the ore tonnage mined from the higher-value Satellite pipe, considerably increasing the mine's LoM net present value (NPV).

Tonnes treated during 2018 increased to 6.5 million tonnes, of which Letšeng's plants treated 5.4 million (2017: 5.3 million), with the remaining 1.1 million tonnes treated by Alluvial Ventures (AV) the third party contractor (2017: 1.1 million). The contract with AV has been extended to mid-2020. The contribution from the higher-value Satellite pipe material increased by 3% to 2.2 million tonnes. Of the total ore treated, 61% was sourced from the Main pipe, 33% from the Satellite pipe and 6% from the Main pipe stockpiles.

Both Letšeng plants were stopped during May for planned major maintenance work, adversely affecting the availability of the plants during H1 2018. The planned replacement of the scrubber shell in Plant 2 was completed on schedule. However,

Operational performance	2018	2017	% change
Waste tonnes mined	**25 809 076**	29 718 985	(13)
Ore tonnes mined	**6 139 077**	6 717 905	(9)
Ore tonnes treated	**6 532 596**	6 439 299	1
Carats recovered – all sources[1]	**126 875**	111 811	13
Grade[1] recovered (cpht)	**1.94**	1.74	11
Carats sold	**125 111**	107 152	17
Average price per carat (US$)	**2 131**	1 930	10

[1] *Based on carats produced from the Letšeng Plants, Alluvial Ventures (AV) plant and recovery tailings treatment.*

an unexpected and significant repair to its concrete foundation delayed the shutdown by 10 days. The impact of this additional downtime was mitigated by the temporary installation of a scrubber bypass conveyor. Following this extensive maintenance and the enhanced efficiencies resulting from various Business Transformation initiatives, the plant's runtime improved. This resulted in a significant increase in the tonnage treated during H2 2018. Furthermore, attention was given to ensuring that feed rates were well-controlled and consistent to enable process stability, with the objective being value over volume. Workstreams are in place to continue with plant improvements to enhance value.

Overall grade for 2018 was 1.94cpht, due in part to the Business Transformation initiative to re-treat tailings material through a mobile XRT sorting machine. This machine recovered 11 905 carats in 2018, of which 6 233 related to historical (pre-2018) tailings material. Carats recovered from all sources in 2018 totalled 126 875, representing an increase of 13% from 2017.

The safety and integrity of dams is an area of high focus for Letšeng management. There are three dams at Letšeng, namely the Patiseng tailings storage facility (TSF) which is in continual use, the old TSF which is only used as a standby facility, and the Mothusi Dam which is used as a fresh water facility only.

In addition to inhouse monitoring, involving stringent safety checks and inspections conducted on a daily, weekly and monthly basis, audits by external consultants are routinely performed every year, or more often as required. Any identified risks are mitigated and any required remedial steps immediately implemented. An early-warning system, involving communication and alarm systems together with community training and awareness programmes, is tested and used to ensure the emergency readiness of potentially affected communities.

Letšeng has reviewed the construction methods, operating procedures and inspections of old and recently constructed slimes and water dams both internally and with independent expert consultants. The Letšeng dams have each been constructed using the "downstream" method. The emergency procedures and actions in the event of a wall failure have also been reviewed and several drills involving the mine site and downstream communities are regularly held. (For further detail on how the Group ensures the highest standards of dam safety management, refer to the Sustainable Development Reporting Platform www.gemdiamonds.com.)

Large diamond recoveries

Letšeng recovered a record 15 diamonds greater than 100 carats during 2018, including the magnificent 910-carat Lesotho Legend, which was the largest diamond ever recovered at Letšeng and the fifth largest gem-quality diamond recovered globally. The trend for improved recoveries in 2018 was consistent across all size categories, with a 21% increase from 2017 for the total number of diamonds recovered greater than 20 carats.

Number of large diamond recoveries	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
>100 carats	**15**	7	5	11	9	6	3	6	7	6	7
60 – 100 carats	**22**	19	21	15	21	17	17	22	11	11	18
30 – 60 carats	**83**	74	70	65	74	60	77	66	66	79	96
20 – 30 carats	**137**	113	83	126	123	82	121	121	101	111	108
Total diamonds >20 carats	**257**	213	179	217	227	165	218	215	185	207	229

Capital projects

In line with the continuing strategy of early detection of large diamonds and diamond damage reduction, the construction of a c.US$3 million pilot plant, by Gem Diamonds Innovation Solutions, at Letšeng was approved during the year. Construction has commenced and is due to be commissioned in Q2 2019. For more detail, refer to the Technology and Innovation section on page 35.

To facilitate the expansion of the open pits, the construction of the Letšeng mining complex was completed on schedule and below budget. The c.US$13.7 million capital project for the extension of the tailings storage facility was approved in November 2017 and is on track to be completed during H1 2020. During 2018, US$8.8 million was spent on this project, bringing total spend to c.US$9.7 million by the end of 2018.

Details of overall costs and capital expenditure incurred at Letšeng during the year are included in the Group Financial Performance section on pages 21 to 26.

Mineral resources and reserves

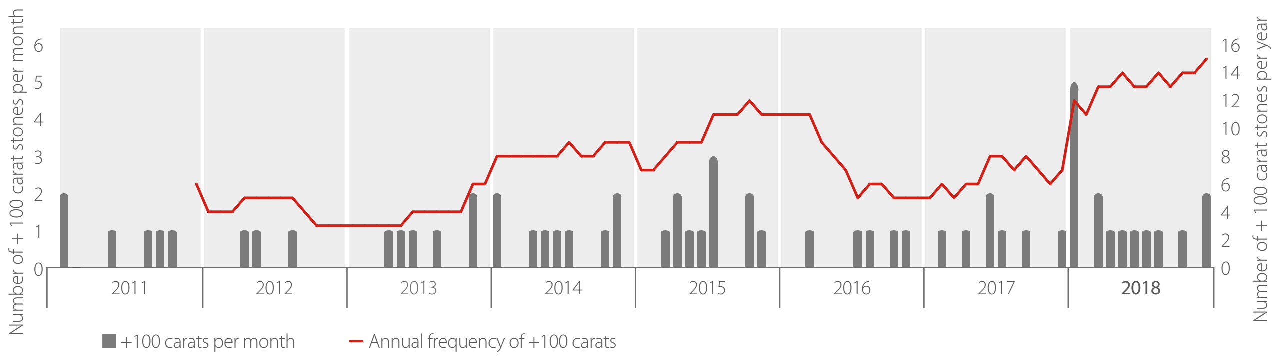
The core drilling programme that commenced in September 2017 was concluded in December 2018. It included 12 drill holes (3 151 metres) in the Main pipe and 16 drill holes (3 962 metres) in the Satellite pipe. The aim of the programme was to gather additional data on the distribution of the subdomains within each of the main historical domains and to improve confidence in the external pipe morphologies to a depth of 300 metres below the current pit floors in both pipes.

Independent resource and mining specialists, SRK Consulting Canada, were appointed to assist with the design, quality control, logging and interpretation of the drilling programme, as primary inputs to the broader project related to updating the Resource and Reserve Statement. Core logging and sampling for petrography and mineral chemistry analyses have been completed, and work has commenced on updating the 3D geological models. Once these elements have been completed and the distribution of the subdomains are defined, the investigation will proceed to sampling and processing of core, both historical and recent core, for microdiamond analysis in 2019 and 2020.

Preliminary models, based on the recent core drilling, suggest that both pipe shell morphologies and volumes to 300 metres below the pit floor are in line with expectations.

An additional three core holes were drilled for geotechnical purposes (1 252 metres), in support of the mine plan incorporating steeper inter-ramp slope angles. Recovered grades were in line with expected grades per domain, achieving an overall Mine Call Factor (MCF) of 99%.

Letšeng +100 carat stones



Health, safety, social and environment (HSSE)

Letšeng's occupational health, safety and environmental management systems underwent independent audits during 2018 to evaluate its performance against the standards published by the International Standards Organisation (ISO). Following these audits, the operation retained its ISO 14001 certification for environmental management for the fourth consecutive year and was awarded ISO 45001 certification for occupational health and safety management. The ISO 45001 standard has replaced the OHSAS 18001 standard.

The operation recorded four LTI's during Q1 2018 and subsequently re-affirmed its commitment to identifying and mitigating potential health and safety risks. The protection of the natural environment, within which Letšeng operates, is key to the sustainable success of the organisation, and the operation recorded no major or significant environmental incidents during 2018.

Letšeng is committed to working closely and in collaboration with its stakeholders, and no major or significant stakeholder incidents were recorded during 2018. The operation's project affected communities (PACs) play a vital role in the success of the operation and Letšeng is committed to ensuring that PACs benefit from the operation. In accordance with this commitment, Letšeng invested c.US$0.8 million towards community projects. Investments in projects are made following an inclusive stakeholder consultation process. The majority of this investment was allocated towards infrastructure, including a footbridge that allows year-round access for several communities to crucial services and local infrastructure, and to small and medium enterprise development associated with our flagship dairy project. To mark the recovery of the Lesotho Legend, the 910 Community Project was initiated. In line with the agricultural focus of many of our other social initiatives, it was determined that the project would entail the construction and development of a commercial poultry and egg farming co-operative. A feasibility study has been commissioned to better understand the potential socio-economic impact of this endeavour and the investment required.

2019 focus

- Continue to enhance efficiency and implement cost reduction initiatives, as identified on pages 27 to 29 (Business Transformation)
- Focus on value over volume by continuing with well-controlled and consistent feed rates to enable process stability
- Commission the pilot plant to validate the technology for the early detection of large diamonds
- Further review the mine plan to lower the stripping ratios and enhance the mine's NPV
- Continue to focus on enhancing the mining fleet and activities to reduce diesel consumption

SALES, MARKETING AND MANUFACTURING

2018 in review

- **Letšeng** achieved an average price of **US$2 131 per carat**
- The **910 carat** Lesotho Legend, the fifth largest gem quality diamond ever recovered, was sold for **US$40 million**
- **44 diamonds sold** for more than US$1.0 million for a total **value** of **US$137.2 million**
- **138.20 carat** achieved US$60 428 (highest dollar per carat achieved for a Letšeng white rough diamond since 2015)

Gem Diamonds continues to invest in its sales, marketing and manufacturing operations to pursue ways of maximising revenue through a combination of marketing channels, including tenders, strategic partnerships and extractions for manufacturing to capture additional margins further along the diamond pipeline.

Sales and marketing

The Group's rough diamond production is marketed and sold by Gem Diamonds Marketing Services in Belgium. Letšeng's rough diamonds are viewed and sold through an open tender in Antwerp and viewings for large diamond tenders are also held in Tel Aviv, Israel. All rough diamonds are sold on tender, unless extracted for either manufacturing or strategic partnerships.

Following viewings by clients in Antwerp and Tel Aviv, Gem Diamonds' electronic tender platform allows clients the flexibility to participate in each tender from anywhere in the world. The tender process is managed in a transparent manner and combined with professionalism and focused client care and management, it has led to a unique Gem Diamonds experience, securing client loyalty and supporting the objective to achieve highest prices for the Group's rough diamonds.

Select rough diamonds from Letšeng which have been manufactured into polished diamonds are sold by Gem Diamonds Marketing Services through direct selling channels to prominent high-end clients.

Operational performance

During the year, the Group continued to build its premium client base. Currently, the Group has 496 approved clients. Eight large, high-value rough diamond tenders and four small rough diamond tenders were held for Letšeng during the year, all of which were very well attended, with an average attendance of 139 clients per tender. The Group continually engages with its clients to understand their challenges and needs and, where possible, accommodates these in its marketing strategy. In this regard, viewings in Tel Aviv which were piloted in H2 2017, has now become a regular viewing destination for Letšeng's large diamond tenders.

Prices achieved for Letšeng's large, high-value diamonds remained firm during the year. The recovery and timely sale of the 910 carat Lesotho Legend and the flexible marketing

SALES, MARKETING AND MANUFACTURING CONTINUED

channels used in the sale of Letšeng's high-quality diamonds contributed to achieving an average price of US$2 131 per carat in 2018.

Rough diamond analysis and manufacturing

Baobab's advanced mapping and analysis of Letšeng's large exceptional rough diamonds supports the Group in analysing and assessing the value of Letšeng's rough diamonds that are presented for sale on tender, sold into strategic partnerships with select clients or extracted for manufacturing. This ensures that robust reserve prices are set for the Group's high-value diamonds at each tender and informs strategic selling, partnering or manufacturing decisions.

To attain highest value for Letšeng's top-quality diamonds, certain high-value rough diamonds are selected for manufacturing.

Operational performance

Baobab continued to provide specialised services to the Group and to third-party clients. Services to third-party clients contributed additional revenue of US$0.2 million to the Group.

To take advantage of the stronger rough diamond market experienced during the year, no diamonds were extracted for manufacturing during 2018. This illustrates the benefit of a flexible marketing strategy to capitalise on the fluctuation of the rough and polished diamond markets.

2019 focus

- Continue to build on the unique Gem Diamonds marketing experience.
- Development and implementation of an enhanced electronic tender platform.

TECHNOLOGY AND INNOVATION

2018 in review

- **Installation** of the **non-mechanical liberation unit** at Letšeng, as a non-mechanical means of liberating diamonds
- **Proof of concept validation** for detecting diamonds within kimberlite host rock
- Capital allocation for the **construction of a pilot plant,** incorporating the proof of concept technology

Gem Diamonds Innovation Solutions was established in Cyprus in 2017 to house all the Group's innovation and technology research and development projects.

Operational performance

Diamond damage is ubiquitous among producers of larger high-value gem diamonds. Furthermore, the Letšeng mine has a unique diamond distribution with a significant portion of its revenue held in the +5mm fraction (greater than two carats). The Group has been working to mitigate the impact of diamond damage on Letšeng's production for many years. While incremental improvements have been achieved through optimising operating practices and various technological enhancements, tweaking conventional technology will not realise the step changes required to significantly reduce diamond damage.

The potential changes for significantly improving revenue through reducing diamond damage are:

- the early identification of liberated diamonds;
- identification of diamonds within kimberlite; and
- a non-mechanical means of liberating these diamonds within kimberlite.

Gem Diamonds has made significant progress on the identification, validation and testing of technologies from various industries to complement its innovation drive of early detection and non-mechanical means of liberating diamonds.

Diamond detection

Gem Diamonds successfully validated the detection of diamonds within kimberlite using scanning technology in conjunction with proprietary imaging and sorting algorithms. Following the successful proof of concept, the Company approved US$3 million for the construction of a pilot plant at Letšeng. The design and construction of the plant remains on target to be commissioned during Q2 2019.

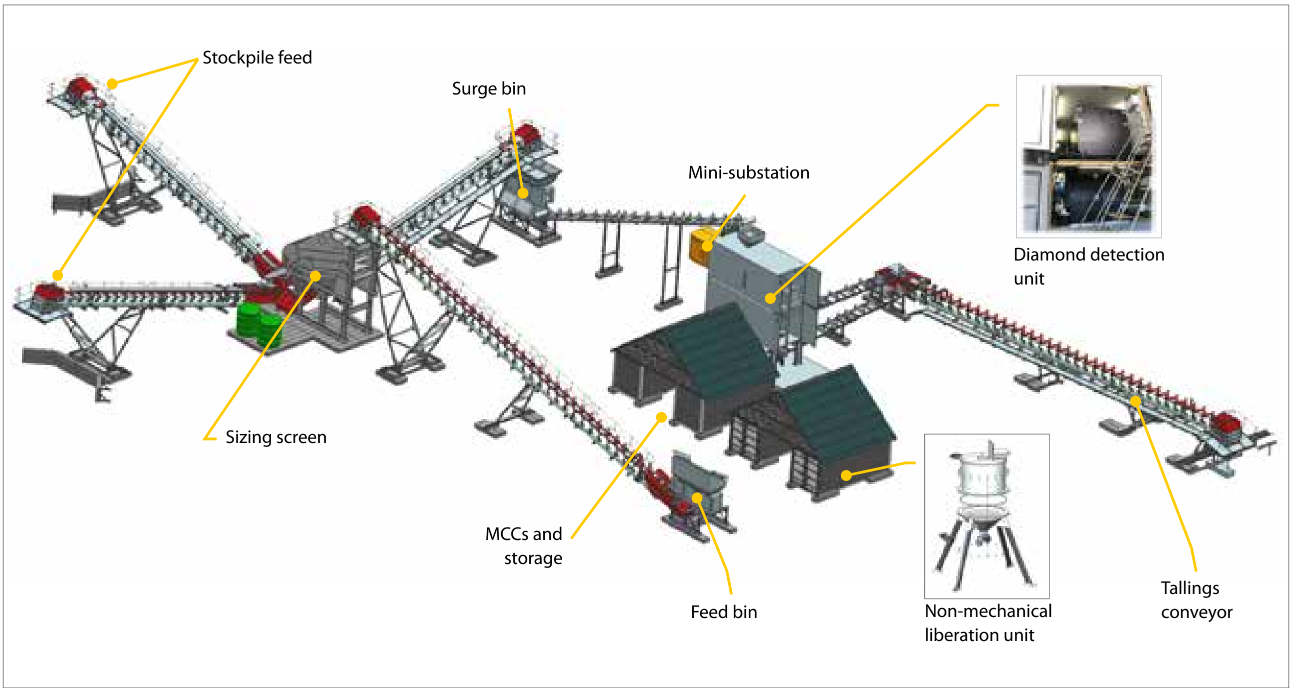
Diamond liberation

Once a diamond has been identified within the kimberlite, the next step is to liberate this diamond without causing any damage. A non-mechanical liberation unit was developed inhouse, that utilises high voltage pulse power for the selective fragmentation of composite materials, as a means of liberating the encapsulated diamonds. Testing of this unit at Letšeng mine commenced in the beginning of 2018, at altitude, with substantial progress made throughout the year. The pilot project will also include the use of the non-mechanical diamond liberation unit.

For more information around this process, please go to www.gemdiamonds.com.

TECHNOLOGY AND INNOVATION CONTINUED

The info-graphic below illustrates the draft design of the pilot plant to be constructed at Letšeng mine, incorporating the diamond detection unit and the non-mechanical liberation unit with its associated infrastructure.



2019 focus

- Construction and commission of pilot plant at Letšeng during Q2 of 2019
- Extended testing of the pilot plant and technology in a production environment
- Enhancement and upscaling of detection technology to process particles up to 150mm in size
- Non-mechanical means of fragmenting even larger particles to liberate detected diamonds

SUSTAINABLE DEVELOPMENT

2018 in review

- **Zero fatalities**
- **Four LTIs** recorded
- Group-wide **AIFR of 1.45**
- **Zero major** or **significant** stakeholder **incidents**
- **Zero major** or **significant** environmental **incidents**

This Sustainable Development Review provides a summary of the information contained on the 2018 Sustainable Development Reporting Platform, available on Gem Diamonds' website (www.gemdiamonds.com). In 2017 the Group migrated the sustainable development reporting from annual printed reports to an online reporting platform. Readers are encouraged to read the information below in conjunction with the content on the Sustainable Development Reporting Platform.

Managing the Group's material matters

Material matters are considered to have a direct or indirect impact on the Group's ability to create, preserve or erode economic, environmental and social value for the organisation, its stakeholders and society at large. The Gem Diamonds' material matters include risks that must be managed as well as opportunities that could be captured to enhance the viability of the business in the short, medium and long term.

Underpinning the way in which the Group mines diamonds are the following five sustainability pillars:

- financial and operational;
- governance and ethics;
- employees;
- social; and
- environmental.

The Group's material matters have been organised under these five sustainability pillars. It is by monitoring these matters and remaining flexible in its approach that the business drives sustainable results, and that its impact on the places and communities where it operates is positive and any environmental damage is appropriately mitigated.

SUSTAINABLE DEVELOPMENT CONTINUED

Financial and operational

The Group strives to take a holistic view of business performance and integrate sustainability into how it operates, and integrity is demanded and expected at all levels of the business.

Gem Diamonds continued driving Business Transformation during 2018 and remains on track to achieve its cumulative objective of US$100 million in incremental revenue, productivity improvements and cost savings by 2021. The BT process prioritises sustainability and no changes will be implemented that compromises the pursuit of zero harm. Organisational health is a vital driver of the BT process and a second organisational health survey was conducted in 2018 which demonstrated that a significant improvement to organisational health had been achieved.

The Group's sales and marketing operation is tasked with developing the Letšeng brand and expanding its customer base. Following the successful viewings in Tel Aviv, which were piloted in the second half of 2017, regular viewings at Tel Aviv have been introduced for Letšeng's large diamond tenders. Challenging conditions in the diamond market carried over into 2018 and the sales and marketing team in Antwerp has confirmed their expertise in achieving top prices for Letšeng's diamonds.

For more information refer to pages 21 to 29 and 33 to 36.

Governance and ethics

The value of diamonds is partially derived from the perception consumers hold of mining practices within the diamond industry. The Group is committed to mining in a manner that is ethically sound and ensures integrity and governance is demanded throughout the business cycle. The ethical and legal mining of diamonds not only reinforces the Group commitment to be a responsible diamond mining organisation, but also contributes to the perceived value of its product. For more information on Governance, refer to pages 46 to 93.

Protecting human rights

Gem Diamonds is committed to contribute to the socio-economic upliftment or development of the areas in which it operates, and therefore aims to mine and trade diamonds in a responsible and transparent manner thus eliminating the potential for human rights violations and conflict.

The Group condemns human rights violations, and training is provided to employees on human rights to eliminate gender, age and racial injustices in the workplace. During 2018 a total of 858 (2017: 38) employees received human rights training.

The Group is committed to the fair treatment of employees through policies relating to remuneration practices, health and safety, non-discrimination, procurement and supply chain management. These policies strengthen the Group's existing controls to prevent child or forced labour and to ensure the supply chain does not enable slavery or human trafficking. In 2018 the Group reaffirmed its adherence to the requirements of the United Kingdom Modern Slavery Act through its "Human Rights Statement". None of the Group's operations have engaged in the relocation or resettlement of any PACs during the reporting period.

Prioritising business integrity

Gem Diamonds recognises that its regulatory and social licence to operate is dependent on how its diamonds are mined and distributed. The Group aims to supply rough and polished diamonds whilst operating in a manner that meets its requirements as an ethical and accountable organisation.

The Group supports the Kimberley Process that aims to eliminate the Global trade of conflict diamonds. All Gem Diamonds' rough diamond exports comply with the provisions of the Kimberley process, and are certified in accordance with the certification scheme.

The Group commitment to upholding the highest ethical standards means complying with the relevant government regulations as well as voluntary best practice codes for labelling, product and service information. Gem Diamonds also works to ensure that the Group's diamonds reach the market through the correct channels and strict controls are applied with regards to potential clients and the marketing and sales process.

Participation in the sales and marketing process is by invitation only and potential clients are subject to a screening process which includes validating their good standing and compliance with anti-money laundering protocols. During the sales and marketing process the Group maintains the highest levels of transparency and integrity. Diamond viewing opportunities are made available to clients prior to the conclusion of a tender. No warranties in respect of the diamonds are issued. Client confidentiality is protected in all instances and tenders are governed by conditions agreed to by clients. A complete list of the winning bids is electronically circulated to all tender participants on the close of the tender, ensuring a transparent tender process.

Raising standards across the pipeline

The Gem Diamonds business processes are supported by multi-layered supply chains that comprise goods and service delivery throughout various business cycles.

A whistleblowing policy was established by the Group in order to identify and mitigate the risks of unethical activity taking place. In addition to the whistleblowing policy, strict procurement policies are in place. The procurement policies ensure rigid vetting processes are followed. Potential risk areas are scrutinised, and goods and services are only procured from reputable companies that adhere to the Group's ethical policies.

Gem Diamonds has adopted a zero-tolerance approach to bribery and corruption. The Group is committed to upholding and complying with the requirements of the UK Bribery Act. Reviews of the Group's anti-bribery and corruption policy are regularly carried out by the internal audit department, to ensure continued compliance with the UK Bribery Act requirements. All customers and third parties with whom business is transacted are required to adopt the same zero-tolerance approach to bribery and corruption as implemented by the Group.

Employees

The Group focuses on the well-being of employees and takes the duty of care seriously in providing a work environment that prioritises safety, health and well-being.

Providing a safe working environment

Gem Diamonds bases its approach to health and safety management on the principles of ISO 45001 and international best practice standards. To assist the Group in its pursuit of zero harm, the health and safety systems at Letšeng are independently audited on an annual basis. These independent audits ensure that the operation remains compliant and provides the operation with opportunities for improvement of the health and safety systems.

Gem Diamonds once again reported a fatality-free year, however it recorded four LTIs, an increase from one in 2017. The four LTIs resulted in a Group-wide lost time injury frequency rate (LTIFR) of 0.15 (2017: 0.04).

Proactive safety management forms a critical part of the strategy implemented to mitigate the risk to employee health and safety. During 2018, 64 952 (2017: 74 666) proactive safety management actions were implemented. The reduction in the number of proactive safety actions can be attributed to a decrease in activity at Ghaghoo and a shift at Letšeng from internal inspections to job hazards analysis, risk assessments and planned task observations.

The Group recorded an AIFR of 1.45 (2017: 2.02), the lowest AIFR ever recorded by the Group.

Attracting and retaining qualified people

The relationship between skilled employees and business performance is clear within the global natural resource sector. Gem Diamonds aims to attract and retain talented employees through market-related salaries, supportive working environments and meaningful developmental opportunities.

At the end of the year the Group employed 401 (2017: 412) own employees and 1 740 (2017: 1 581) contractor employees. The average number of own employees during 2018 was 412 (2017: 408), while the average number of contractor employees was 1 777 (2017: 1 682). The workforce size at Ghaghoo remained stable throughout 2018 while the operation remains on care and maintenance.

High staff turnover and absenteeism reduces productivity and can result in a loss of intellectual capital. The Group-wide absenteeism rate decreased to 1.6 (2017: 2.1) days per person in 2018. The Group-wide staff turnover remained stable at 8.7% (2017: 8.7%) during 2018. The turnover percentage takes into consideration voluntary turnover and does not include retrenchments. Voluntary turnover increased marginally during the year, the Group will monitor the turnover rates and other indicators of employee satisfaction to ensure, to the best of its ability, that quality people are retained.

The Tsoelopele organisational health campaign ran successfully during 2018, building on the momentum achieved during 2017. Organisational health and well-being are vital drivers of business efficiency and success. A second organisational health index survey was conducted during 2018 demonstrating that the initiatives implemented following the first organisational health survey in 2017 were successful in addressing the priority areas. The results from the 2018 survey inform the way the Group engages with employees to improve organisational health.

Group-wide hours per capita vocational training in 2018 decreased by one hour per employee when compared to 2017. Gem Diamonds has a policy of remunerating male and female employees in the same grade at the same level. Employees at all the Group's operations are remunerated in line with market-related salaries. The lowest graded employees continue to receive higher remuneration than the respective host country's' minimum wage standards.

In Lesotho, there is no prescribed minimum wage in the mining sector. Therefore, the construction industry minimum wage is used as a standard. In 2018, the lowest graded permanent employees at Letšeng were remunerated at 54% above this minimum wage. In total, 8.6% (2017: 0.2%) of the workforce at Letšeng were compensated at the operation's minimum wage. Labour rates are determined in line with market-related rates, with external factors such as availability of skills, qualification, seniority and work experience being taken into consideration. Minimum requirements regarding remuneration are contractually stipulated with principal labour contractors.

The Group's employees are offered benefits and incentives in addition to basic remuneration. During 2018, US$36.1 million (2017: US$36.3 million) was spent on employee wages, benefits and incentives. This figure includes contractor employees.

The shift configurations and rosters applied by the Group comply with local legislative requirements, as well as operational and market demands.

At Letšeng, 100% of Basotho nationals employed subscribe to the mandatory government retirement provision scheme. Letšeng contributes 7.5% of the annual salary per employee to this scheme, the employee also contributes 7.5%. Employees at the Belgian operations also form part of a mandatory government retirement scheme, where 32% of the annual salary per employee is contributed to this scheme. Employees at Ghaghoo receive a gratuity payment upon completion of their contract, which equates to 15% of their monthly basic salary for each month of employment.

All other operations and offices remunerate employees on a cost-to-company basis, and employees are free to elect their retirement schemes and contributions.

Group staff demographics (%)

Employee level	% male	% female	% local citizens	% age <30	% age 31 to 50	% age >50
2018						
Governance Committee Board*	**100**	**0**	**25**	**0**	**55**	**0**
Senior management	**89**	**11**	**83**	**6**	**50**	**44**
Middle management	**82**	**18**	**87**	**7**	**77**	**16**
Total workforce	**80**	**20**	**96**	**12**	**76**	**14**
2017						
Governance Committee Board*	100	0	26	0	41	59
Senior management	92	8	69	0	46	54
Middle management	78	22	84	1	81	18
Total workforce	81	19	97	14	74	12

** Includes subsidiaries.*

Providing skills development opportunities for employees

Investing in the development of employee' skills through the provision of training opportunities throughout the Group, enables employees to develop both personally and professionally.

During 2018, the total hours of training provided to employees were:

- senior management: 641 (2017: 379 hours);
- middle management: 2 474 (2017: 457 hours); and
- non-management: 15 145 (2016: 15 989 hours).

Performing annual career reviews at all its operations remains a goal across the Group. In 2018 the Group recorded an increase in career reviews performed from 26% in 2017 to 28% in 2018. Of the female workforce, 60% (2017: 72%) received career and performance reviews, and 20% (2017: 20%) of male employees received reviews.

Ensuring employees remain healthy

We are committed to providing an environment that actively promotes and supports our employees' health and well-being. Our on-site clinics and medical stations provide emergency, occupational and primary healthcare to treat employees at our remote locations.

In addition to reactive medical treatment, we believe in a proactive approach to employee health management. During the induction programme for new operational employees, we facilitate a complete medical examination to proactively promote their care and well-being. When an employee leaves our operations, we perform exit medical examinations.

In 2018, Letšeng achieved a 100% (2017: 100%) pre-employment medical and 100% (2017: 100%) exit medical rate.

A total of 8 241 (2017: 8 437) medical cases were recorded across the Group in 2018, 6.6% (2017: 7.9%) of these cases related to occupational or environmental diseases. The majority of cases treated at the mining operations were primary healthcare cases. A total of 8 611(2017: 6 464) serious disease prevention and management interventions were carried out during the year. The interventions consisted of educational interventions and counselling, as well as prevention and risk control measures.

Social
Our mines are in complex socio-economic environments that existed before and will continue to exist beyond the life of our operations. We partner with project affected communities (PACs) and our host governments to create a legacy that will last long after the resources we mine have been depleted.

Safeguarding our communities
Tailings storage facilities are an essential part of mining, that present a significant potential hazard to the communities and environments surrounding the Gem Diamonds operations. The Group conforms to established safety, management and monitoring practice for the construction and operation of its tailings storage facilities ensuring structural stability and integrity.

The Group recognises the risk that both tailings storage facilities and raw water dams pose and therefore the storage facilities are managed according to international best practice. Stringent safety checks are conducted through internally and externally conducted inspections and audits at regular intervals throughout the year. Risk assessments, resistivity surveys and flow model studies are also carried out to ensure the facilities are managed in a responsible manner. For more information on how the Group manages the potential risk posed by its tailings storage facilities and raw water dams, please see the online Sustainable Development Reporting Platform.

Emergency management plans have also been put in place to ensure PACs and operations are ready to respond in the case of compromised dam integrity. The emergency readiness planning consists of an alarm and communication system, community training and awareness campaigns.

Zero cases of compromised dam integrity were recorded during 2018.

Ensuring positive stakeholder engagement with our local communities
Along with excellent social, economic and environmental practice, engagement is the primary means of maintaining our social licence to operate. The Group strives to foster mutually beneficial partnerships with its stakeholders through meaningfully supporting and enhancing PACs and their economic and social potential.

The Group's operations have developed frameworks for stakeholder consultation that ensures all stakeholders are engaged regularly. Acknowledging the unique cultural and traditional context of our communities is essential to ensuring engagement takes place in a transparent and respectful manner.

No major or significant stakeholder incidents occurred at any of Gem Diamonds' operations during 2018 (2017: none). There were also no incidents (2017: none) involving any violation of the rights of the indigenous people on whose land the Group operates.

Minimising potential negative social impact
Gem Diamonds recognises the risk of its operations threatening the well-established cultures and social structures in the communities surrounding our mines.

Milk produced by Letšeng Dairy Project

SUSTAINABLE DEVELOPMENT CONTINUED

Our approach to community engagement is informed by our operation specific social and environmental impact assessments (SEIA) and community need analyses. The SEIAs and community needs analysis are informed by extensive public participation, host country legislation and international best practice guidelines such as the World Bank Equator Principles and the International Finance Corporation's Performance Standards on Environmental and Social Performance.

Our SEIAs involve biodiversity surveys, soil, water and air quality studies, and our communities are closely involved from inception to minimise negative impacts and identify opportunities for positive outcomes.

Working with communities to understand and meet their needs

Mutually beneficial relationships with our PACs is central to the long-term sustainability of the business, and the Group aims to leave a positive legacy while meeting our PAC needs.

During 2018 the Group invested US$0.8 million (2017: US$0.5 million) towards corporate social investment (CSI) initiatives. Infrastructure development was recorded as the category receiving the most investment as a result of the Letšeng Dairy Project, the construction of classrooms and a footbridge in Pae-La-Itlhastoa as well as the construction of a police station in Phutha-lichaba.

Supporting communities through localisation to create shared value

The remote locations of our PACs limit the employment opportunities available for these communities. Localisation is a priority for the Group, and a key driver of shared value. The operations' aim to match available skills in the PACs with the skills requirements on site in order to drive local recruitment.

Gem Diamonds utilises its localisation and procurement policies to assist with the socio-economic upliftment of the PACs. Local recruitment and procurement through local business drives the creation of shared value and positive contribution within the PACs while meeting the needs of our business. During 2018 98% (2017: 97%) of the workforce at Letšeng comprised Basotho nationals.

Total in-country procurement by the Group during 2018 amounted to US$159.3 million (2017: US$189.7 million). In-country procurement at Letšeng amounted to US$152.3 million in 2018 (2017: US$174.3 million). Letšeng also reports on PAC and regional procurement to show the extent of shared value created. During 2018 US$2.1 million (2017: US$2.0 million) was allocated to procurement from PACs. An additional US$32.3 million in goods and services was procured from regional communities around Letšeng and increase from US$27.9 million in 2017. Procurement at Ghaghoo is focused at national level, as the extreme remoteness of the operation does not allow for PAC or regional procurement. During 2018 US$4.3 million (2017: US$9.8 million) was spent on

Patiseng Valley

in-country procurement at Ghaghoo, this decrease reflects the reduction of operational expenditure during care and maintenance.

Gem Diamonds does not report on local procurement for the offices and facilities located in Johannesburg, Antwerp and London; a decision based on the size and complexity of city-based economies.

Environmental

2018 marked the ninth consecutive year that the Group recorded zero major environmental incidents. It was also the eighth consecutive year that no fines were incurred as a result of environmental transgressions or non-compliance with host country environmental legislation.

Gem Diamonds actively invests in various environmental protection and mitigation measures to safeguard the natural environment. A total of US$0.6 million (2017: US$4.7 million) was invested towards environmental training, specialist consultation, research and development, green purchases, and other environmental protection measures.

Whilst the Group recorded zero major or significant environmental incidents, it did record 981 (2017: 966) minor environmental incidents, of which the majority related to very small hydrocarbon spills.

Water supply and quality

Corporate water stewardship has allowed the Group to identify and manage its water-related business risks, find ways to mitigate its water impacts, and contribute to the sustainable management of the catchment areas in which it operates. Water footprint studies provide an integrated understanding of water abstraction and water use. A water footprint can be defined as a measure of freshwater appropriation underlying a certain product, including fresh surface water, groundwater incorporated into the product, or lost during the manufacturing of the product. The Group's 2018 total water footprint was 37.6m^3/carat (2017: 42.9m^3/carat), this decrease can be attributed to a 7% year on year decrease in water consumption and a year on year increase on carats recovered.

The Group continuously monitors the water quality at its operations and endeavours to address any usage inconsistencies in a timely manner. Nitrates management remained a key challenge at Letšeng during 2018. Letšeng commissioned a feasibility study to understand the implications of a full-scale bioremediation plant, a treatment method that has proven successful at the operation.

Managing carbon emissions and waste

The negative effects of carbon and other greenhouse gas (GHG) emissions present a long-term risk to global climate stability, and Gem Diamonds recognises the need to apply every effort towards their mitigation.

The Group makes it a point to monitor and measure its carbon footprint to develop and implement initiatives to mitigate its impact in this regard. The Group also tracks the tonnes of CO_2 emitted per employee and per carat recovered to consider its impact in isolation from the size of its operations.

In 2018, the total carbon footprint for the Group was 161 491tCO_2e (compared to 155 106tCO_2e in 2017), primarily driven by electricity consumption and mobile and stationary fuel combustion. This figure includes the direct greenhouse gas (GHG) emissions (Scope 1), energy indirect GHG (Scope 2) emissions, and material Scope 3 emissions, and was calculated with boundaries clearly defined by the GHG Protocol Corporate Accounting and Reporting Standard. The observed increase in the total carbon footprint can be attributed to an increase in mobile diesel combustion as a result of longer ore haul distances in 2018 as well as a greater reliance on grid electricity to power capital projects such as the mining complex.

Careful waste management remains a priority for the Group and can lower operational costs and reduce the risk of non-compliance with environmental regulation, as well as protect our social licence to operate. Gem Diamonds' operations produce various types of waste, including domestic and general waste, medical waste, mineral waste and small volumes of hazardous waste. The Group worked to implement innovative management strategies to minimise the production of waste and reduce the volume of waste that is ultimately disposed. Letšeng entered into partnerships to reuse and recycle waste tyres, air and oil filters and other identified waste products.

Dealing with extreme natural events at mining sites

Both Letšeng and Ghaghoo are in environments that are characterised by extreme weather conditions. In order to remain resilient to these extreme temperatures and precipitation, the operations plan in advance and implement systems and procedures to ensure that the effects of extreme weather do not pose unnecessary risk to employees. Gem Diamonds recognises that these extreme weather conditions may change or worsen in future due to climate change. Climate change-related impacts could include flooding or inadequate water supplies, changes in temperature and increased prevalence of disease, or climate change could affect stakeholder relationship due to competition for resources. The Group aims to assess on a regular basis the potential impacts climate change could have on the business and prepare appropriately to lessen the impact on the business.

SUSTAINABLE DEVELOPMENT CONTINUED

Both mining operations may also be exposed to extreme natural events such as earthquakes at Ghaghoo and blizzards at Letšeng. This necessitates that the Group plans and adapts its operations to remain safely operational while facing these extreme natural events.

Letšeng ensures that the operation maintains a two-week supply of food for employees and diesel for the generators. This allows for the operation to keep operating in cases of extreme weather or natural events that could cut off access to roads. Medical teams have been trained in high-altitude rescues and are equipped to deal with extreme weather and provide medical treatment under extreme conditions.

Water management systems at both mines also cater for excess or too little water due to extreme weather conditions.

Ensuring consistent electricity supply and minimising energy usage

The current global reliance on environmentally inefficient fossil fuels for energy supply is not sustainable. Gem Diamonds prioritises the monitoring of energy usage to better understand consumption patterns within the Group. Understanding the consumption patterns allows the Group to identify opportunities to implement energy-efficient initiatives.

The Group believes that by continually searching for opportunities to reduce this consumption in new and innovative ways, it is protecting its long-term viability.

The Group consumed 1 172 244 gigajoules (GJ) of energy (2017: 1 140 784GJ). Letšeng saw a 2.5% increase in total energy consumption and reported a 4% increase in grid supplied electricity consumption. The increased carats recovered and energy efficiency initiatives implemented in 2018 resulted in a Group energy intensity improvement. The minor increase in energy consumption can be attributed to a 6% increase at Letšeng in ore haul distance which resulted in higher diesel consumption, as well as several capital projects requiring grid electricity.

Planning for mine closure

The Group is committed to rehabilitating the natural environment, within which is operates, at the end of the lifespan of its mines. Rehabilitation requirements are included in the decision-making processes to ensure that current mining activities do not hinder future rehabilitation efforts. The Group, on an annual basis, undertakes a review of its rehabilitation plans to ensure its rehabilitation liability is a true reflection of the investment needed for the eventual restoration of land. The 2018 Group rehabilitation provision amounted to US$17.9 million (2017: US$17.3 million).

The Group leased 6 174ha (2017: 6 174ha) of land during 2018, approximately 159ha was disturbed during 2018 (2017: 12.45ha) as a result of mining activities. This brings the total disturbed land leased by Gem Diamonds to 7 36ha (2017: 577 ha).

SIGN OFF OF STRATEGIC REPORT

Our strategic report, as set out on pages 1 to 44, has been reviewed and approved by the Board of Directors on 12 March 2019.

Harry Kenyon-Slaney
Non-Executive Chairman

12 March 2019

DIRECTORATE AND EXECUTIVE MANAGEMENT

Non-Executive Directors

1. HARRY KENYON-SLANEY (57)

Non-Executive Chairman

Qualifications
BSc Geology (Southampton University) International Executive Programme (INSEAD France)

Appointment date
June 2017

Key skills and experience
Commercial and capital markets, public company board governance and government stakeholder engagement

Relevant past experience
Harry Kenyon-Slaney is currently a senior adviser to McKinsey & Co and has over 33 years' experience in the mining industry, principally with Rio Tinto. He is a Geologist by training and his experience spans operations, marketing, projects, finance and business development. He has worked in South Africa, Australia and the UK. Harry is also a member of the Boards of Directors of Petropavlovsk plc and Schenck Process AG, an independent non-Executive Director of Sibanye Gold Limited and a non-Executive Director of several private companies. Until 2015, Harry was a member of the Group Executive Committee of Rio Tinto where he held the roles of CEO of Energy, and before that CEO of Diamonds and Minerals. Prior to this he variously led Rio Tinto's global titanium dioxide business, was CEO of Rio Tinto's listed subsidiary, Energy Resources of Australia Limited, was GM operations at Palabora Mining Company in South Africa and held senior marketing roles in copper, uranium and industrial minerals. He began his career as an underground Geologist with Anglo American on the gold mines in South Africa.

Board committee membership

Attendance at Board meetings
5/5

2. MICHAEL LYNCH-BELL (65)

Senior Independent Director

Qualifications
BA Hons (Economics and Accountancy) (University of Sheffield); FCA of the ICAEW

Appointment date
Non-Executive Director in December 2015; Senior Independent Director in November 2017

Key skills and experience
Finance and capital markets, oil and gas and mining and metals

Relevant past experience
Michael spent a 38-year career with Ernst & Young (EY) having led its Global Oil and Gas, UK IPO and Global Oil and Gas and Mining transaction advisory practices. He was a member of the assurance practice from 1974 to 1996 when he transferred to the transaction advisory practice. He was also UK Alumni sponsor and a member of the firm's EMEIA and Global Advisory Councils. He retired from EY as a partner in 2012 and continued as a consultant to the firm until November 2013. Michael is currently Deputy Chair and Senior Independent non-Executive Director at Kaz Minerals Plc, Chair of Seven Energy International, Chair of the Audit Committee of Lenta Limited and non-Executive Director of Barloworld Limited. Michael is also a Director of Habi Pharma Pty Ltd a private company.

Board committee membership

Attendance at Board meetings
5/5

3. MIKE BROWN (58)

Non-Executive Director

Qualifications
BSc Eng, Mining PR Eng (ECSA) (University of Witwatersrand), Strategic Executive Programme (London Business School)

Appointment date
January 2018

Key skills and experience
Operational, resource performance, project growth and finance

Relevant past experience
Mike has over 35 years' experience in the resources industry in operational, senior management, and director roles. He spent six years in Switzerland as the Managing Director Technical at Pala where he oversaw all technical aspects of the investments, including the risks associated with resource performance, project management, ramp up, operations, and the associated working capital and financial controls. Prior to joining Pala, Mike spent 21 years with De Beers in Southern Africa in various roles culminating in the post of Chief Operating Officer where he was accountable for five operating mines, including greenfield and brownfield growth projects. He also managed the restructuring at De Beers Consolidated Mines (DBCM) in 2005/2006 and again in 2009. Mike has overseen growth projects and building of mines in Namibia, South Africa, Sierra Leone, Vietnam and USA. Mike is currently a non-Executive director of Nevada Copper.

Board committee membership

Attendance at Board meetings
5/5

Non-Executive Directors *(continued)*

4. JOHNNY VELLOZA (48)

Non-Executive Director

Qualifications
BSc Mining & Mineral Engineering (University of Johannesburg); BSc Business/Commerce General (University of South Africa)

Appointment date
Chief Operating Officer in June 2016; Deputy Chief Executive Officer in May 2018; Executive Director in July 2018; Non-Executive Director from September 2018

Key skills and experience
Mining industry; Operations; Commercial

Relevant past experience
Johnny is a mining engineer with broad mining experience in both open pit and underground operations across Southern and East Africa, Chile and Australia. Johnny has worked in a number of different commodities including iron ore, copper, gold and diamonds. Johnny has held senior operational management roles in large mining companies, including De Beers, AngloGold Ashanti and BHP Billiton. Since starting his career twenty-five years ago Johnny has gained experience in exploration, feasibility studies, opening new mines and running mines. Johnny left his executive role with Gem Diamonds in September 2018 to take up the role of CEO in a copper/cobalt company in the DRC.

Board committee membership

Attendance at Board meetings
2/5

Executive Directors

5. CLIFFORD ELPHICK (58)

Chief Executive Officer

Qualifications
BCom (University of Cape Town); BCompt Hons (University of South Africa)

Appointment date
Founded Gem Diamonds in July 2005

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

Relevant past experience
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.

Board committee membership

Attendance at Board meetings
5/5

6. MICHAEL MICHAEL (48)

Chief Financial Officer

Qualifications
BCom Hons (Rand Afrikaans University); CA(SA)

Appointment date
Joined Gem Diamonds in March 2008; appointed to the Board in April 2013

Key skills and experience
Finance and capital markets and diamond industry

Relevant past experience
Michael has over 20 years' experience in financial management. He joined RSM Betty & Dickson, an audit firm in Johannesburg, South Africa in January 1993 and became Audit Partner at the firm in March 2000. From August 2006 to February 2008 Michael was seconded to Gem Diamonds to assist with the financial aspects of the Main London Listing including the financial reporting, management accounting and tax relating to the IPO. In March 2008 Michael joined Gem Diamonds on a full-time basis.

Board committee membership
none

Attendance at Board meetings
5/5

Audit Committee Remuneration Committee Nominations Committee HSSE Committee

Executive Management

7. GLENN TURNER (58)

Chief Legal and Commercial Officer and Company Secretary

Qualifications
BA LLB (University of Cape Town); LLM (Cambridge)

Appointment date
Joined Gem Diamonds in May 2006; served on the Board from April 2008 to November 2017, appointed Company Secretary in January 2015

Key skills and experience
Diamond industry and legal

Relevant past experience
Glenn was called to the Johannesburg Bar in 1987 where he spent 14 years practising 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.

Board committee membership

8. BRANDON DE BRUIN (48)

Group Business Transformation Officer

Qualifications
BCom LLB (University of the Witwatersrand)

Qualified attorney in South Africa and solicitor in England and Wales

Appointment date
Joined Gem Diamonds in August 2007 – New Business; appointed as Sales and Marketing Executive in July 2013 – 2017; appointed as Group Business Transformation Officer in 2017.

Key skills and experience
Diamond industry, sales and marketing, commercial and legal, debt and equity capital market.

Relevant past experience
Brandon joined Gem Diamonds from Clifford Chance LLP, he specialised in Debt and Equity Capital Markets and Corporate Finance. Brandon gained extensive commercial and legal experience in international corporate and finance transactions working for clients such as Citigroup, UBS, JPMorgan, ABN Amro, Bank of America, Lehman Brothers and Morgan Stanley. He also gained valuable experience in stock exchange listings, rules and regulations in London, Luxembourg and New York.

Board committee membership
none

CHAIRMAN'S INTRODUCTION TO CORPORATE GOVERNANCE

The Board remains committed to maintaining high standards of corporate governance.

The membership and work of the Board has continued to evolve during 2018. In July we welcomed Johnny Velloza to the Board. Johnny served as Chief Operating Officer for two years prior to joining the Board, and following his resignation as COO, Johnny has become a non-Executive Director. As a Board we recognised the wealth of knowledge and experience that Johnny has of the business and of the wider diamond mining industry and we were therefore pleased that he was willing to remain a Board member. Gavin Beevers, who served as a non-Executive Director of Gem Diamonds for 11 years and was a former senior De Beers executive, agreed to return as Technical Adviser until a suitable replacement for Johnny is found. We wish Johnny well in his new role and look forward to continuing to work with him on the Board.

In November 2018 the Board conducted a site visit to the Letšeng Mine. The visit afforded the Board members the opportunity to meet with a wide range of employees across the business to review the major operational improvements that had taken place during the year, to assess the robustness of the corporate, financial and safety systems and to discuss emerging ideas for further improvement. Specifically, we visited the open pit to assess the impact of the improved drilling and blasting which have enabled the steeper slopes of the revised life of mine plan, to see the newly constructed workshop facility, the progress made in expanding future deposition capacity of the tailings dams and held discussions with management on health and safety programmes, community engagement and implementation of Business Transformation action plans.

The Board believes that corporate governance is a priority and remains committed to maintaining high standards of corporate governance. I, along with my fellow directors, recognise that it is our responsibility to ensure that a robust governance framework is in place to support the long-term sustainability of the Company and ultimately its ongoing success. Following the publication of the new UK Corporate Governance Code in July 2018, the Board has commenced work on identifying the necessary adjustments to be made to its governance systems. Full compliance with the new Code is a priority and next year the Board will report on what modifications have been made to our existing systems in order to meet the requirements of the Code. During 2018 the terms of reference for each Board sub-committee were reviewed and updated to ensure we are well positioned to efficiently implement any changes required.

Corporate governance is embedded in the way we organise our business, with local boards and sub-committees taking responsibility for our operations in local jurisdictions. The new Code specifically emphasises the need for boards to focus on their relationship with the Company's stakeholders. The Board and management are committed to maintaining regular, open and transparent dialogue with all our shareholders, customers, employees, suppliers and local communities and in doing so, we are mindful of taking into account different stakeholder considerations during our decision-making. Furthermore, the Board seeks to actively engage on any issue identified to ensure that a satisfactory conclusion is reached.

Succession planning is integral to the success of the Board. The Board currently consists of two Executive Directors and four non-Executive Directors representing different nationalities and disciplines (the details of which you will find in the biography for each individual on the directorate pages 46 and 47).

During the year our Nominations Committee has continued to focus on both long-term and short-term succession. We believe we are currently well placed for the future with an appropriate mix of skills and experience but remain focused on continually improving diversity at all levels throughout our business recognising the value that diversity in all its aspects brings to business decision-making. More information about our Board diversity policy can be found under the UK Corporate Governance Code Compliance Report on page 50.

Our governance framework, together with the Company's policies and procedures, supports effective decision-making at all levels of the Group. Delegations of authority are in place across the business and we are committed to encouraging integrity and transparency in all aspects of decision-making. In addition, we seek to ensure that the Board and its committees function effectively and that they provide valuable contributions to our deliberations and that no individual or group dominates the Board's decision-making process.

This section, together with the reports from the Audit, Nomination, HSSE and Remuneration Committees beginning on page 58, provides a description of how the Group has complied with and applied the main principles of the UK Corporate Governance Code.

All the current Directors will be offering themselves for re-election and Johnny Velloza will be standing for election by the shareholders at the 2019 AGM.

As individuals and as a group, all board members are conscious of ensuring that we undertake our duties as Directors for the long-term benefit of the Company. In doing so we are mindful of taking into account different stakeholder considerations during our decision-making. The Board regularly receives briefings and training to ensure we are informed of the relevant legislative and regulatory updates that affect how we operate. The Board has been briefed on the reporting requirements regarding directors' duties and we will look to enhance our disclosures on this over the coming year.

The Board appointed Prism Boardroom, an external adviser to undertake a comprehensive Board evaluation process to assess the performance and effectiveness of the Board and the sub-committees. A summary of the evaluation approach can be found on page 54. A report on the outcome of this review will be provided in the 2019 Annual Report and Accounts and on our website. We will use the evaluations of the Board and the Committees to ensure that we continue to improve the way the Company is governed and managed.

The Audit Committee has continued to regularly monitor our framework of risk management and internal controls, ensuring risks are identified, evaluated and managed. In turn this supports the Board in determining the nature and extent of the principal risks it is willing to take to achieve its strategic objectives as well as to ensure that any emerging risks have been communicated to the Board.

Our internal audit function continues to monitor and review our processes and controls in order to ensure we are alerted to any emerging potential issues of bribery, fraud or corruption. All staff have access to a whistleblowing hotline to report any suspected wrongdoing and the Audit Committee receives reports on all irregularities and the actions taken. Following investigation, I am pleased to report that none of the cases reported during 2018 were significant and were all resolved without serious consequences.

The Remuneration Committee continued to focus on implementing the Directors' Remuneration Policy approved by shareholders in 2017. The Committee continually monitors trends and developments in remuneration to ensure that the Company's Remuneration Policy and practices are in line with best market practice and that they are appropriately linked to corporate and individual performance and to delivering the Group's strategy on behalf of our investors.

The HSSE Committee continues to ensure health, safety, social and environmental policies and practices are assessed and reviewed periodically to maintain a high level of relevance and appropriateness throughout the Group. The Committee receives regular updates from management on any material incidents and tracks the implementation of agreed actions on a routine basis.

To ensure we remain in touch with our shareholders, I regularly engage with our investors and I am pleased to report that all resolutions at the 2018 AGM received significant votes in favour.

I am grateful to Clifford, Michael and to all our executive colleagues, as well as my fellow Directors for all the work they have done during the year. I would also like to take this opportunity to thank you, our shareholders, for your continued support.

My fellow Board members and I will be available at the 2019 AGM to respond to any questions you may have on this report or any of the Committees' activities and I look forward to welcoming those of you who are able to attend.

Gem Diamonds has an exciting future. We are building the right team and we are ensuring we have the right processes and safeguards in place to take advantage of the opportunities that it will bring.

Harry Kenyon-Slaney
Non-Executive Chairman

12 March 2019

UK CORPORATE GOVERNANCE CODE COMPLIANCE

The Board has commenced work in readiness for the implementation of the new Code effective from 1 January 2019.

This report combines the Directors' Report, the Strategic Report and the Group's compliance with the principles and provisions of the 2016 UK Corporate Governance Code (the Code). It includes details of the key policies, processes and structures that apply to the Company. It incorporates sections on the role and work of the Audit, Nominations, HSSE and Remuneration Committees in line with the Disclosure Guidance and Transparency Rules (DTR).

The Board continues to review and assess all policies and practices throughout the organisation considering changes to the Code and best practice principles. It also looks at forthcoming legislative and regulatory changes that may affect the governance and compliance of the structure and functions of the Board and its Committees. The Board has commenced work in readiness for the implementation of the new Code from 1 January 2019. Any actions required to ensure the Company is fully compliant with the Code have been identified with some of these already being initiated such as starting to review the matters reserved and committees' terms of reference and undertaking a thorough external board evaluation. The 2019 Annual Report and Accounts will contain details of the steps taken to ensure the governance arrangements fully meet the requirements of the Code.

The Board ensures it is kept apprised of all revisions and market practice recommendations issued by institutional investor bodies such as the Institutional Shareholder Services, the Institutional Voting Information Service and the Pension and Investment Research Consultant.

The Company considers that it is compliant with all provisions of the 2016 Code, unless highlighted otherwise in this report.

Board of directors

The role of the Board

The Board is responsible for the overall conduct of the Group's business as follows:

- 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 structure of corporate governance.

The Board has an agenda 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 incorporating viability assessment;
- operational reviews;
- major capital projects;
- annual business plans and operating plans;
- the Group's financial structure, including tax and treasury;
- governance, compliance and regulatory issues;
- annual and half-year financial results;
- system of internal control and risk management; and
- shareholder communications and administrative matters.

The Board sets standards of conduct, which provide an ethical framework for 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. 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 and approved by the Board regularly. The matters reserved were last reviewed in March 2018.

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 established by the Board and to produce clear, accurate and timely reports to enable the Board to monitor and assess the Group's performance. The executive management draws on the expertise and experience of the non-Executive Directors.

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

Board composition during 2018

Name	Title	Held appointment during 2018	Committee chairmen and number of members
Executive Board members			
CT Elphick	Chief Executive Officer	√	
M Michael	Chief Financial Officer	√	
Non-Executive Board members			
H Kenyon-Slaney	Chairman	√	Nominations (4)
MD Lynch-Bell	Senior Independent Director	√	Audit (3), Remuneration (3)
M Brown[1]		Appointed 1 January 2018	HSSE (5)*
J Velloza[2]		Appointed 1 July 2018	

[1] M Brown was appointed to the Board and as Chair of the HSSE from 1 January 2018.
[2] J Velloza was appointed to the Board on 1 July 2018 as an Executive Director and became a non-Executive Director on 15 September 2018.
** G Turner, Chief Legal and Commercial Officer and Company Secretary resigned from the Board in November 2017, but remained a member of the HSSE Committee.*

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

The current non-Executive Directors, including the Chairman, with the exception of J Velloza, are regarded as independent by the Board as defined in the Code.

Board and Committee meetings

Four scheduled Board meetings and one special meeting of the Board were held during 2018. 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, Nominations, HSSE and Remuneration Committees can be viewed on the Group's website together with the matters reserved for the Board. 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, Board members are emailed the details, including supporting information in order to make a decision. The decision of each Board member is communicated and recorded at the following Board meeting.

Attendance at Board and Committee meetings during 2018

Director	Board 5 held	Audit 4 held	Remuneration 4 held	Nominations 4 held	HSSE 4 held
Executive Board members					
CT Elphick	5	–	–	4	–
M Michael	5	–	–	–	–
Non-Executive Board members					
H Kenyon-Slaney	5	4	4	4	4
M Brown	5	4	2*	2*	4
MD Lynch-Bell	5	4	4	4	4
J Velloza **	2	-	-	-	1**

** M Brown was appointed to the Remuneration and Nomination Committees from 5 June 2018.*
*** J Velloza was appointed to the Board on 1 July 2018 and became a non-Executive Director from 15 September 2018 and joined the HSSE Committee.*

UK CORPORATE GOVERNANCE CODE COMPLIANCE CONTINUED

Non-Executive Directors' meetings

Before each scheduled Board meeting, the non-Executive Directors meet independently of the Executive Directors, in accordance with the 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. The Board has operated on this basis for over 10 years thereby ensuring there is a clear division of responsibilities between the leadership of the Board and the executive leadership of the company's business.

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

Roles of the Chairman and Chief Executive Officer

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

Roles of the Senior Independent Director and non-Executive Directors

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

Board skills, balance and independence

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

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.

Knowledge of the diamond industry is crucial to foster new business opportunities and to enhance the Group's operations in cutting and polishing and sales and marketing strategies.

Knowledge of financial markets is also necessary to ensure fulfilment of the Group's strategy. The biographies, which can be found on pages 46 and 47, provide more information on each Director's competencies. All Directors allocate sufficient time to the Group to fulfil their responsibilities effectively.

Non-Executive Directors should be independent in character and judgement. With the exception of Johnny Velloza, who was appointed to the Board on 1 July 2018 and became a non-Executive Director from 15 September 2018, all other non-Executive Directors on the Board are considered to be independent of management and the Group. In applying the independence test, the Board considers relationships with executive management, major shareholders, subsidiary and associated companies and other parties with whom the Company transacts business against predetermined materiality thresholds. The Board values the skills and experience that Johnny Velloza brings to the Board, however, as he cannot be considered independent, he has not been appointed to either the Audit or Remuneration Committees, but has become a member of the HSSE Committee.

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.

Appointments and re-elections to the board (see also Board diversity on page 55)
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. Since 2007, recruitment to the Board has been based on recommendation; therefore, no outside consultants have been engaged. The Board currently comprises a broad and highly relevant skill set, and the Nominations Committee will continue to make appointments based on merit while considering diversity and the specialist skill set which is required by the business.

The Nominations Committee's section of this report is set out on pages 64 to 66.

It is required that all Directors retire at the AGM and, if appropriate, offer themselves for re-election in accordance with 2016 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.

UK CORPORATE GOVERNANCE CODE COMPLIANCE CONTINUED

Continuing board development, independent professional advice and the company secretary

Board evaluation

Aim

Annual Board evaluations are conducted to assess the Board's approach to strategy, the ongoing effectiveness of the committees and risk management. Following internally conducted evaluations in 2016 and 2017, a more extensive externally facilitated exercise was agreed for 2018 to ensure that the structure of the new Board and the composition of the Committees are effective and that we have the correct size, skills, experience and attributes required to continue to effectively govern and manage risk within the Group.

Approach

In December 2018, Prism Boardroom was appointed to undertake an externally facilitated performance evaluation of the Board. Prism Boardroom has no other connection with the Company. The scope of the 2018 evaluation was determined following a review of Board and Committee papers, minutes and previous evaluations of the Board. One-to-one interviews will be held with each of the Directors during March 2019. A report setting out the findings, conclusions and recommendations for further discussion and action will be prepared and circulated to members of the Board. The recommendations are expected to be discussed at the June 2019 Board meeting.

Independent advice

All Directors either independently or collectively 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 executive management and the advice and services of the Company Secretary. The Company Secretary is accountable to the Board for ensuring that all governance matters are complied with and assisting with professional development as required.

Training and induction

All new Directors receive a full, formal and tailored induction upon joining the Board. This includes meetings with management, external auditors and also covers the Board committees that they join. 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 measures:

- providing regular updates on changes (actual and proposed) in laws and regulations affecting the Company or its business;
- making arrangements, including site visits, to ensure Directors are familiar with Group operations, including its commitment to and application of the Group's corporate and social responsibility policies; and
- creating opportunities for professional and skills training, such as committee chairmanship and through appropriate Board presentations and formal professional seminars.

Company Secretary

An independent firm of Chartered Secretaries in Public Practice advises the Company Secretary. Bruce Wallace Associates is engaged to ensure that all company secretarial and governance issues are attended to and the Board is kept apprised of all compliance and best practice matters throughout the year.

Conflicts of interest

The UK Companies Act requires Directors to avoid any situation where they may have a direct or indirect interest that conflicts, or may conflict, with the Group's interests, unless approved by the non-interested Directors. In accordance with this Act, the Company operates a procedure to ensure the disclosure of conflicts and, if appropriate, for the consideration and authorisation of them by non-conflicted Directors. The Board maintains a register of 'conflicts of interest' that it reviews annually (most recently in March 2019). The Company voluntarily complies with this requirement.

In late 2018 and early 2019, the Chairman, Harry Kenyon-Slaney, was appointed as a non-Executive Director of two other public limited companies. This appointment will not detract him from carrying out his current roles and responsibilities as Chairman of the Company.

Dealings in shares and the EU market abuse regime

The Company's Share Dealing Policy and reporting procedures are in line with the EU Market Abuse Regulations implemented in July 2016 (Regulations).

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 Directors' Remuneration Policy was updated in 2017 and approved by shareholders at the 2017 AGM. The details of the Directors' Remuneration Policy and all Directors' remuneration are detailed on pages 72 to 78 and in the Annual Report on Remuneration on pages 79 to 89.

Bribery Act

The Group applies a zero-tolerance approach to acts of bribery and corruption involving any of its staff and third-party representatives or associates and is committed to upholding and complying with the requirements of the UK Bribery Act.

The Group's amended Anti-Bribery and Corruption Policy approved by the Board in June 2016 has been adopted by all operations within the Group. A formal review of this policy is carried out on a bi-annual basis thereby ensuring the policy remains robust regarding compliance and diligence procedures. The Group internal audit will carry out its next formal review of the Group's Anti-Bribery and Corruption Policy in 2019 to ensure continued compliance with the UK Bribery Act requirements.

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

Board diversity

The Board is mindful of the continuing Hampton-Alexander Reviews and its objective to improve diversity in Executive leadership and those reporting to the Executive Committee as well as to the Board. Similarly the Board is conscious of the trends evidenced in the new Corporate Governance Code equally to increase diversity in boardrooms. The Company recognises the importance of diversity, including gender, at all levels across the Group. In this regard it is significant that 96% of the total Group workforce are Lesotho citizens and 20% of the total workforce is female. Throughout the Group, succession planning is considered a key priority with a focus on the development of women into leading roles, which drives a diverse pipeline of talent.

More information on gender-based employment is contained in the Sustainable Development Review on pages 37 and 44.

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 in the investors section, where all published information and shareholder communication is available. This includes trading updates; year-end and half-year results; resource and reserve statements; and all other announcements.

Accountability and audit

Information and financial reporting systems

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 the Strategic Report on pages 1 to 44 has met this obligation. The Responsibility Statement of the Directors in respect of the Annual Report and Accounts is set out on page 90.

The Board is responsible for ensuring that the necessary resources are in place for the Company to meet its objectives and measures performance against them. The Board receives information in a timely manner in the form and of a quality appropriate to enable it to discharge its duties. Financial reporting to the Board is continuously modified and enhanced to cater for changing circumstances. The Group's comprehensive planning and financial reporting procedures include detailed operational business plans for the year ahead and a three-year rolling plan. The Board reviews and approves the Group's annual business plan. These are prepared in co-operation with all Group functions based on specified economic assumptions. Performance is monitored, and relevant action taken throughout the year through monthly reporting of KPIs 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 results, cash flow and progress on strategic issues are circulated to Board members and Senior Executives.

Internal control

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

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 enhance 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 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 findings or weaknesses. A full report of the work carried out by the Audit Committee on behalf of the Board is set out in the Audit Committee Report on pages 58 to 63.

Internal audit

The Group internal audit function, as an independent assurance provider, is an important element of the overall process by which the Audit Committee and the Board obtain the assurance it requires that risks are being effectively managed and controlled and the adequacy and effectiveness of the Group's control environment.

The Group internal audit function is provided through an in-house audit department supplemented by external industry experts when required. Group internal audit, reporting directly to the Audit Committee, is responsible for co-ordinating the Group's risk-based audit approach and to evaluate the

UK CORPORATE GOVERNANCE CODE COMPLIANCE CONTINUED

effectiveness and contribute to the improvement of the risk management process, control environment and governance systems. Various ad hoc assignments are also performed during the year at the request of management.

The risk-based audit plan, approved by the Audit Committee, covers all operating units, focusing in particular on the principal risks. It involves discussions with management on the risks identified in the local and Group risk registers, emerging risks, operational changes and capital projects. Findings and agreed actions are reported to management and the Audit Committee.

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 discharged by the Audit Committee, whose role is defined on pages 58 to 63.

Risk assessment and management

The Board, through the Audit Committee, considers effective risk management as an essential element of professional management and has implemented robust risk assessment and internal control systems across the Group.

In accordance with the Risk Guidance, a process has been established for continually identifying, evaluating and managing the Group's principal risks. The Group's Risk Management Policy aims to cover and review all important 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. In accordance with the new Corporate Governance Code, the Audit Committee will over the year ensure that its risk management process covers both principal and emerging risks to the Company.

Risks are monitored continually and formally reviewed annually. A more comprehensive report of the Group's principal risks and how these are managed and/or mitigated can be found on pages 11 to 15 of the Strategic Report.

The Group's operations perform regular risk assessment reviews and maintain risk registers. 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 tabled and approved by the Audit Committee. The Committee at times delegates its authority to the Board for completeness. The Audit Committee and the Board, where appropriate, are kept informed on progress against the plans and any significant changes to review the risk profile. This enables the suitable management and non-Executive Directors to holistically review the risk, mitigate and implement controls as necessary.

Investment appraisal

Capital expenditure is managed through 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, which includes a detailed calculation of return based on current assumptions that are consistent with those included in management reports.

Post-investment reviews are carried out after the project is completed and, for material projects, steering committees are established to monitor the progress against the approved plan.

Commercial, legal and financial due diligence are carried out, using external consultants as appropriate, in respect of acquisitions and disposals.

Whistleblowing programme

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

All whistleblowing incidences reported are distributed by the Group internal auditor or Company Secretary for investigation by the relevant operations.

All incidents reported are fully investigated and the results are reported to the boards of local operations and the Group's Audit Committee. Group internal audit periodically reviews the design and effectiveness of the hotline and reports the results to the Audit Committee.

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

Shareholder and stakeholder engagement

Communication with industry analysts, institutional investors and shareholders and wider groups of stakeholders is of great importance to the Board. Understanding the views of stakeholders and shareholders has proven to be highly beneficial to the Group.

Investor seminars and analyst presentations, including those following the Group's announcement of the year end and half-year results, are available as webcasts and other presentations made to institutional investors and at external events are available on the Company's website.

Shareholders have direct access to the Chairman to address their views and concerns. The Chairman has continued to engage with a number of significant shareholders over the year. Shareholder views are communicated to the Board and are tabled at each Board meeting. The Company's Senior Independent Director is available to shareholders if contact through normal channels fails to resolve their concerns, or if such contact would be inappropriate.

The Executive Directors conduct regular roadshows to engage with several of the Group's larger investors creating a suitable platform for them to express any concerns. The responsibility of investor relations is that of the Chief Legal and Commercial Officer.

The shareholder base comprises 138.9 million issued ordinary shares of US$0.01 each. There are institutional shareholders that hold 128.9 million shares (93%) and private shareholders who hold 10.1 million shares (7%).

The Company has regularly engaged with employees throughout the Business Transformation process. The Sustainable Development Review gives further details on this. The Board will review whether any further mechanism is required for ongoing employee engagement. Details of the Board's engagement with other stakeholder groups, such as local communities and employees are set out on pages 39 and 42.

Annual General Meeting (AGM)

The AGM is an opportunity for investors to engage with the Directors. All Directors attend the AGM, and shareholders are invited to ask questions during the meeting and to meet Directors after the formal proceedings have closed. 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 Services and on the Company's website.

In accordance with the updated Code, if any resolution put to our members receives over 20% votes against, we will seek to actively engage with investors to understand their concerns and publish a report on the actions taken and any next steps within six months of the meeting. At the AGM held in 2018 no resolutions received 20% votes against.

All shareholders can access the Group's annual and half-year reports, trading updates and other published information about the Group through the Company's website.

The 2019 AGM will be held on Tuesday, 4 June 2019. Details of the resolutions to be proposed at the AGM can be found in the Notice of AGM which will be published on the Company's website (www.gemdiamonds.com), or sent to shareholders who requested to continue to receive paper copies, a minimum of 20 business days before the meeting. Therefore shareholders who receive electronic communications can access the Annual Report and the AGM documentation through the Company's website.

Shareholders

Majority interest in shares

On 15 February 2019, the Company was notified of the following major interests (at or above 3%) in the issued ordinary shares of the Company in accordance with the DTR 5:

Majority interests in shares

Shareholders	Number of ordinary shares	% shareholding
Graff Diamonds International	20 861 931	15.0
Lansdowne Partners	20 721 413	14.9
Sustainable Capital	16 879 773	12.2
Aberforth Partners	11 328 096	8.2
Gem Diamonds Holdings	9 325 000	6.7
Majedie Asset Management	7 466 037	5.4
Hosking Partners	6 234 762	4.5
Dimensional Fund Advisors	4 623 660	3.3

AUDIT COMMITTEE

The skill set of the Audit Committee guarantees that all accounting, risk and internal control issues are addressed in such a manner to ensure high standards of corporate governance and to continue to uphold shareholders' interests. **Michael Lynch-Bell** – Chairman

Composition, experience, and skill set

In accordance with provision C.3.1 of the Code, at least two members of the Audit Committee are 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 skill set of the Audit Committee guarantees that all accounting, risk and internal control issues are addressed in such a manner to ensure high standards of corporate governance and to continue to uphold shareholders' interests.

Michael Lynch-Bell has recent and relevant financial experience for the purpose of the Code, having spent 27 years as a partner at Ernst & Young (EY) of which six years were spent leading its Global Oil and Gas and Mining transaction advisory practices. For more information about Michael's experience, refer to the directorate on pages 46 and 47.

In January 2018, Mike Brown was appointed as a member of the Committee. Mike possesses a wealth of financial and operating experience in the mining industry and meets the requirements of the updated FRC Guidance. For more information about Mike's experience, refer to the directorate on pages 46 and 47.

New members to the Committee receive the required induction to ensure they are properly equipped to discharge their duties; this includes the standard Board induction process, including site visits to operations, as well as information specific to the Committee such as its Terms of Reference, internal and external auditor reports and Committee meeting minutes.

Terms of Reference

The Audit Committee's Terms of Reference are reviewed annually and are then subsequently considered and approved by the Board to ensure they continue to be fit for purpose and in line with best practice and governance principles. The last review was performed in March 2019. They can be viewed on the Company's corporate website.

The Audit Committee comprises:

- **M Lynch-Bell – Chairman**
- **H Kenyon-Slaney**
- **M Brown (appointed 1 January 2018)**

Meetings

Four meetings of the Audit Committee were held in 2018. The Chief Executive Officer, the Chief Financial Officer, the Group's internal auditor, and a representative of the Group's external auditors attend each meeting by invitation. Other Directors of the Company and Senior Executives may also attend by invitation. Only members of the Committee vote on resolutions. The full Committee also met with the Audit Partner and the Group's internal auditor at each meeting without the Executive Directors being present.

The Chairman of the Committee allocates a significant amount of time to this role. In addition to chairing formal meetings of the Committee and attending sessions with the external auditors, he travelled to the Group's mining operation in Lesotho and the Company's offices in Johannesburg in November 2018 where he was able to meet with the Group's internal auditor, Chief Financial Officer and the financial team. Harry Kenyon-Slaney and Mike Brown accompanied Michael Lynch-Bell on the site visit to the Group's mining operation in Lesotho and the Company's offices in Johannesburg in November 2018. Such meetings and site visits enable the Chairman and the Committee members to uphold a comprehensive understanding of corporate and finance developments and activities, any associated risks, as well as the controls in place at the operations.

Mike Brown was appointed to the Board in January 2018 and shortly after, he carried out site visits to the Group's operations in Lesotho and to Johannesburg where he met with the Chief Financial Officer and the financial team. Mike Brown also carried out site visits to the Group's operation in Lesotho in May and August.

Following each meeting, the Committee communicates its main discussion points and findings to the Board.

Role and activities

The principal functions, in line with the Committee's Terms of Reference, are listed below, along with the corresponding activity and performance during 2018.

Role	Activities in 2018
To provide advice to the Board on whether the Half-year Report and Annual Report and Accounts are fair, balanced and understandable and to monitor the integrity of the published financial information of the Company and review and report to the Board on the significant financial reporting issues and judgements made in connection with the preparation of the published financial information of the Company	The Committee formally reviewed the Group's Annual Report and Accounts and Half-year Report and considered that they present a fair, balanced and understandable assessment of the Group's performance and prospects and provide information necessary for shareholders to assess the Company's performance, business model and strategy. The Committee reviewed the key auditing and financial reporting matters which typically focused on areas of significant judgement, estimation or accounting policy selection. These areas of focus were assessed through discussions with the Group's Audit Partner and Group Chief Financial Officer, ahead of and/or during Committee meetings, in which the Committee, where appropriate, challenged the basis for such judgements and estimates. Details of the significant matters considered by the Committee in respect of the 2018 Half-year and the 2017 and 2018 Annual Report and Accounts are set out on page 61. The Committee reviewed and assessed the systems and processes in place required to formulate the viability statement and support its conclusions and recommended the statement to be issued in the Annual Report and Accounts to the Board for approval. The Committee considered amendments to be incorporated in the 2018 Annual Report and Accounts arising from institutional comments received on prior years' annual reports. Further published information which was reviewed by members of the Committee included the following: • quarterly trading announcements; and • report on payments to governments for the year ended 31 December 2017, satisfying the requirements of the Disclosure and Transparency Rules of the Financial Conduct Authority in the United Kingdom.
To review the effectiveness of the internal control and risk management processes and provide input to the Board's consideration of risk and risk appetite	The Committee assesses the Company's risk management systems and internal controls on an ongoing basis. The Committee received reports from the external auditors and the Group's internal auditor on their assessment of the control environment. The Committee was provided with updates on the Group's risk management activities and the members considered the risk and control implications on an ongoing basis. Additionally, the Board received quarterly presentations and reports by management on operational and financial performance that allowed for assessment of risk and internal controls. Presentations by EY regarding planning and outcomes of the annual audits and interim review were included in the Committee meetings during the year.

AUDIT COMMITTEE CONTINUED

Role	Activities in 2018
To review the adequacy of the Company's whistleblowing system, controls for ethical behaviour and prevention of bribery, and procedures to detect fraud	The Committee reviewed matters and reports on the findings of the investigations reported through the whistleblowing programme. There were no matters reported which were considered significant. There were no incidences of bribery or fraud and irregularities during the year. In the event there are instances of bribery or fraud and irregularities, the Committee reviews the reports on investigations undertaken and monitors the implementation of corrective controls where appropriate.
To give consideration to relevant laws and regulations, the provisions of the Code and the requirements of the UK Listing Rules	The Committee received timely information from EY relating to significant audit, accounting and governance developments during the year. The Company Secretary provided assurance with regard to compliance with the Financial Reporting Council, the UK Listing Authority and other regulatory and governance obligations including the new reporting requirements introduced by the 2018 UK Corporate Governance Code, in the preparation of the Annual Report and Accounts and Regulatory News Services announcements.
To monitor and review the effectiveness and independence of the internal audit function	At the end of the previous year the Committee considered and approved the internal audit plan that included audits of an operational, financial and governance compliance nature across the Group. During the year the Committee reviewed findings from these internal audits, the actions taken to implement the recommendations made in the reports and the status of progress against previously agreed actions. In November 2018, the Committee reviewed and approved the 2019 internal audit plan.
To consider the appointment and reappointment of the external auditors, to recommend the remuneration and terms of engagement of the external auditors and to assess the external auditors' independence and objectivity	During the year the Committee considered the performance and audit fees of the external auditors, and the level of non-audit work undertaken. With the aim of improving efficiencies and reducing costs, without compromising the scope of quality of the audit process, the Committee considered and recommended to the Board that the audit be completed through EY in South Africa (EY SA) as opposed to EY in the United Kingdom (EY UK). In advance of the 2018 audit, the Committee reviewed and approved the external auditors' audit plan and assessed the appropriateness of the audit strategy, scoping, materiality and audit risks. The key focus remained broadly consistent with previous years. As part of audit planning process, the Committee considered and approved the audit fees. The effectiveness of the external auditors was assessed and the details thereof are provided on page 63.
To review the engagement of the external auditors to ensure the provision of non-audit services by the external audit firm does not impair their independence and objectivity	The Committee regularly monitors non-audit services performed by the external auditor in line with the Group's policy and the details thereof are provided on page 63. As part of the cost efficiencies and business optimisation through the Business Transformation process, the Committee concluded that a review by EY on the Half-Year Report would not be required.

Significant issues considered by the Committee relating to the 2017 and 2018 financial years

The Committee considers the following to be the significant issues in respect of the Group's 2018 Annual Report and Accounts, based on its interaction with management. These areas also represent areas of audit emphasis for EY and, accordingly, the Committee was provided with detailed reports and conclusions on these areas to ensure there are no inconsistencies or misstatements of the financial statements.

Role	Activities in 2018
Revenue recognition	The judgement applied to revenue recognition is based on the timing of the satisfaction of the Group's performance obligations, at the time the buyer obtains control of the diamonds and in particular on the uplift element of rough diamonds sold into partnership arrangements, if any. The Committee received detailed verbal and written reports from EY regarding management's appropriate application of its revenue recognition policy as disclosed in Note 1.2.1, Basis of preparation and Note 2, Revenue of the financial statements.
Annual property, plant, equipment and goodwill impairment assessment	The judgements in relation to asset impairment largely relate to the assessment of whether indicators of impairment exist and the key assumptions used in the impairment review. 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 addressed these matters through receiving reports from management outlining the basis for the assumptions used, of which the business plan is the most significant, which is approved by the Board. In addition, this area is a key audit focus and accordingly EY provides detailed reporting to the Committee.
Going concern and viability statement	The Committee considered the appropriateness to continue to adopt the going concern basis of accounting in preparing the financial statements for the year ended 31 December 2018. In addition, the Committee considered and approved the underlying assumptions used in the preparation of the viability statement. In reaching these conclusions, the Committee considered the financial position of the Group, its cash flows and liquidity position and the assumptions and judgements made by management. Refer Note 1.2.2, Going concern and Note 25, Financial risk management of the financial statements. The Committee considered the viability statement and going concern statement and approved management's disclosures. The 2018 Annual Report and Accounts includes the viability statement in compliance with the UK Corporate Governance Code as set out on page 50.

AUDIT COMMITTEE CONTINUED

Annual review

The Committee's performance is reviewed through the broader Board evaluation process and, at least annually, the Committee reviews its own Terms of Reference to ensure it is operating at maximum effectiveness and recommends any changes it considers necessary to the Board for approval.

Overall, the Board evaluation performed during the year concluded that the Committee is responding appropriately to its Terms of Reference. Priorities for the forthcoming year will include continuing to monitor the effectiveness of risk management processes and internal controls and to continue to assess the quality and effectiveness of the external audit and the procedures and controls to ensure auditor independence.

Risk management and internal controls

Risk management

The Committee continued to consider the process for managing risk within the business and assisted the Board in relation to compliance with the Code and development of the risk appetite framework.

The Committee considered management's response to risk, including the level of assurance provided around the risk and how the risk is tracked using key risk indicators.

The Committee also receives management reports satisfying the adequacy of asset and liability and Director and Officer's insurance cover across the Group.

Further information on the strategic risks and uncertainties and risk management process is included within the Strategic Report on pages 11 to 15.

Internal controls

The Board has overall responsibility for the Group's systems of internal control and for regularly reviewing the effectiveness of those systems. The Committee assists the Board in reviewing the systems of internal control. The primary responsibility for the operation of these systems is delegated to management. Such systems can only provide reasonable and not absolute assurance against material misstatement or loss. Key control procedures are designed to manage rather than eliminate risk.

The Committee regularly reviews the adequacy and effectiveness of the Group's internal control procedures through regular reports from the Group's internal auditor and Chief Financial Officer, and through consideration of the external auditors' audit reports and face to face discussion between the Audit Partner, the Committee Chairman and Committee members.

For 2018, the Committee remained satisfied that no material weaknesses in internal control systems were identified. While being satisfied that controls and risk management remain appropriate for the Group's activities, the Committee continues to undertake a thorough review and to challenge internal controls, risk management procedures and internal audit strategy to ensure that its practices develop and remain appropriate. When internal control reviews identified necessary or beneficial improvements, appropriate steps have been taken to ensure the control environment is effective. This includes systems to track management's responses to the areas for improvement and follow-up internal audits to test their implementation.

Whistleblowing

The Group has a whistleblowing programme in place that enables employees to raise concerns in confidence about any possible risks to employees or the Company. The Committee considers the process and procedures each year and is of the view that they are operating appropriately and that colleagues are aware of and trust the process. All whistleblowing incidents are reported to the Committee.

Our auditors

Internal audit

The Group's established internal audit function is staffed by a Group internal auditor who reports directly to the Committee. The Group's internal auditor meets with the Chairman before each Audit Committee meeting held and attends all meetings. At the end of every Committee meeting, the Committee meets with the internal auditor independently to obtain assurance that management is adequately addressing the internal audit report findings. The Committee approves the annual internal audit plan, reviews findings from internal audit reports, actions taken to implement the recommendations made and the status of progress against previously agreed actions. All internal audit reports are available to the Committee.

External auditor

Appointment of EY SA

The Committee considers the performance and audit fees of the external auditors, and the level of non-audit work undertaken. The Committee reviews the external auditors' audit plan and assessed the appropriateness of the audit strategy, scoping, materiality and audit risks.

In preparing the 2018 year end audit, the Committee approved the proposal to move the audit to EY SA from EY UK, with the aim of improving efficiencies and reducing costs. The Committee recommended to the Board that a resolution for the appointment of EY SA as the Company's auditor be proposed to shareholders at the AGM in June 2019.

As part of the transition, EY SA will consult EY UK on various matters where appropriate to ensure there is a sufficient transfer of knowledge of UK reporting matters, ensuring full compliance with all laws and regulations applicable to the Group's financial reporting. Additional time to cater for the transition has been factored into the 2018 audit fees.

Engagement

The Committee is responsible for agreeing the terms of the engagement letter. Throughout the year, the Committee received reports from EY on its plans, progress and results of its review and audit. The Committee considers carefully the scope of planned work and the assessment of risk and materiality on which it is based. The Committee reviews the negotiated audit fee arrangements to ensure that there is an appropriate balance between the scope of work and the cost of assurance. The Committee's aim is to support a robust and effective audit and strong reporting lines to the Committee.

Effectiveness and quality

Although the primary audit function has moved from EY UK to EY SA, audit quality with regards to effectiveness, objectivity, skills, capacity and independence was considered for EY as a global firm. As part of its reappointment as a global firm, the Committee was satisfied that all these criteria were met.

Prior to the audit, the Committee received formal planning documentation from EY regarding the proposed audit strategy and the Chairman met separately with the Audit Partner to discuss the audit strategy in detail. These forums enabled the Committee to assess the extent to which the audit strategy was appropriate for the Group's activities and addressed the risks the business faces. In addition, the following factors were discussed:

- independence;
- materiality;
- the auditors' risk assessment;
- the extent of the Group auditors' participation in the subsidiary component audits;
- the planned audit procedures to mitigate risks; and
- regulatory updates affecting the Company.

Following the audit, EY presented its findings to the Committee and met separately with the Committee Chairman to discuss key audit judgements and estimates and its report. This provided an opportunity to assess the audit work performed, understand how management's assessments had been challenged and assess the quality of conclusions drawn. The Committee also made enquiries of senior management to obtain their feedback on the audit process and considered this feedback in its assessment.

Each of the key attributes for audit effectiveness was considered to be appropriately met by the Group's auditors and the Committee considers the external audit to be robust and effective.

Independence, objectivity and fees

The Committee seeks to ensure the objectivity and independence of the auditor through:

- focus on the assignment and rotation of key personnel;
- the adequacy of audit resource; and
- policies in relation to non-audit work.

The Lead Engagement Partner, Wickus Botha was appointed in 2018 and will serve no more than five years continuously. The Engagement Quality Review Partner serves no more than seven years continuously. Other key partners serve for no longer than seven consecutive years. The Committee monitors the tenure of partners and senior staff.

The Committee, together with management, regularly monitors the non-audit services being provided to the Group by its external auditor in line with its policy on the provision of non-audit services by the external auditor, updated and approved in 2016, to ensure this does not impair their independence or objectivity.

Other than in exceptional circumstances, management and the Committee do not expect non-audit fees to be in excess of fees for audit and audit-related services. The fees for such work amounted to US$22 260 in total. This was against external audit fees of US$560 769 representing 4% of external audit fees. The significant non-audit engagements relate mainly to corporate tax services. Full details are set out in Note 4 of the financial statements. A report on the level of non-audit work provided by the auditor is given to the Committee half-yearly.

The Committee has formally reviewed the work undertaken by EY throughout the Group and is satisfied that the advice it has received has been objective and independent and that the independence of the external audit was not impacted.

NOMINATIONS COMMITTEE

Succession planning remained a key agenda item for the Committee in 2018.

Harry Kenyon-Slaney – Chairman

The Committee comprises:

- **H Kenyon-Slaney – Chairman**
- **M Brown (appointed 5 June 2018)**
- **M Lynch-Bell**
- **CT Elphick**

Composition and meetings

The Nominations Committee comprises three 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 executing its responsibilities. The Terms of Reference of the Nominations Committee are reviewed annually and subsequently reviewed and approved by the Board to ensure they continue to be fit for purpose and in line with best practice and governance principles. The last review was performed in March 2019 in order to ensure they were compliant with the new Code.

Four meetings were held in 2018 with succession planning being the key focus for the Committee.

Mike Brown joined the Board on 1 January 2018. He was appointed Chairman of the HSSE Committee in March 2018 and was appointed to both the Nomination and Remuneration Committees from 5 June 2018. Johnny Velloza was appointed to the Board on 1 July 2018 in an executive capacity and following his resignation as Chief Operating Officer on 15 September 2018 was appointed as a non-Executive Director. In recognition of his skills and experience, the Nominations Committee recommended that Johnny Velloza remain on the Board. Gavin Beevers a former non-Executive Director, joined the Company as Technical Adviser until a successor to Johnny has been employed. The search for a successor to Johnny has been a central piece of the Committee's work.

The Committee continued to assess the Board's composition, evaluate the composition of the various Committees and monitor developments in corporate governance to ensure the Group remains at the forefront of good governance practices.

The Nominations Committee has reviewed the provisions of the new Code and over the course of the coming year will address any relevant matters to ensure compliance with the Code. In addition to continuing its work on succession planning, the Committee will also consider how to enhance diversity and inclusion across the Group as well as consider the appointment process to the Board. The Committee has also agreed to engage Prism Boardroom, an independent party, to conduct a formal evaluation of the Board in early 2019 the results of which will be reviewed in June 2019. This Board evaluation exercise aims to provide a good opportunity to consider how the Company's governance processes are working and how they could be taken to the next level, particularly taking into account the expectations set by the new Code. A summary of the evaluation approach can be found on page 54.

Role and activities

The principal functions, in line with the Committee's Terms of Reference, are listed below, along with the corresponding activity and performance during 2018.

Role	Activities in 2018
To review the structure, size and composition of the Board (including appropriate skills, knowledge, experience and diversity), and to make recommendations to the Board with regard to any changes that are deemed necessary	Mike Brown was appointed a non-Executive Director from 1 January 2018 replacing Gavin Beevers following his retirement. Johnny Velloza was appointed to the Board from 1 July in an executive capacity and from 15 September 2018 as a non-Executive Director. The Committee remains committed to ensuring there is a balance of skills and independence on the Board and there remains three independent non-Executive Directors and a fourth non-Executive director, who all bring a wealth of external industry experience, and two Executive Directors. For more detail on each member's experience, refer to the directorate on pages 46 and 47.
To satisfy itself, with regard to succession planning, that plans are in place for Board and Senior Management positions	Succession planning remained a key agenda item for the Committee over the year. Focusing on short and long-term succession planning was a key topic for the Committee during the year. For the short term, an emergency succession plan is in place to ensure that suitably qualified and experienced executives and senior members of the management team would step in to fill vacancies arising from unforeseen circumstances and thereby provide business continuity. The Company appointed Gavin Beevers, a former non-Executive Director, as Technical Adviser to the Group while the Committee continues to consider suitable replacements for Johnny Velloza and for an additional non-Executive Director should this be deemed desirable.
To identify, nominate and recommend, for the approval of the Board, appropriate candidates to fill Board and Committee vacancies as and when they arise	The Board evaluation process reviews the current skills and experience of the members of the Board, as well as its composition and structure. This process enables the Nominations Committee to identify what knowledge and competencies are needed for the business in the future and it therefore supports the search process for future Board members. In appointing Mike Brown, the Committee carried out an extensive search and interviewed a range of potential candidates with the appropriate skills, knowledge and experience to ensure a suitable replacement for the outgoing non-Executive Director is found, ensuring that he had the requisite skills, experience and attributes which complemented the current Board composition and structure.
To recommend to the Board the re-election by shareholders at the AGM of any Director under the retirement and re-election provisions of the Company's by-laws	Johnny Velloza was appointed during the year and therefore will be standing for election at the 2019 AGM. The Committee recommended all other Directors for re-election to the Board at the 2019 AGM.
To ensure all new Directors undertake appropriate training and induction to ensure that they are fully informed about strategic and commercial issues affecting the Company and the markets in which it operates as well as their duties and responsibilities as a Director	Following his appointment in January 2018, Mike Brown visited the Letšeng mining operation in Lesotho, and the Company's offices in Johannesburg and London to meet staff and build an understanding of the Company's operations as part of his induction process. Mike Brown was also supplied with copies of Company governance and disclosure policy documents and was encouraged to speak directly to the Company Secretary for any further assistance that he may require to perform his role and duties as a non-Executive Director. Johnny Velloza was Chief Operating Officer prior to being appointed to the Board and therefore was familiar with all commercial and strategic decisions affecting the Company. He was given all Company literature relating to his duties and responsibilities as a Director and the Company Secretary was available to answer any questions and provide additional information. Site visits to the Letšeng mining operation and the Company's offices in Johannesburg were undertaken by Harry Kenyon-Slaney, Mike Brown and Michael Lynch-Bell in November 2018. The Executive and non-Executive Directors also undertook their biennial training on UK Anti-Bribery and Corruption in November 2018. The Company Secretary provides regular updates and information to the Board concerning new legislation and governance related issues that have come into effect or are coming into effect in the future. This includes information concerning the new Code and the Directors' statutory reporting requirements duties under s172 of the Companies Act 2006, both of which come into effect for financial periods starting on 1 January 2019.

NOMINATIONS COMMITTEE CONTINUED

Role	Activities in 2018
To keep under review potential conflicts of interests of Directors disclosed to the Company and develop appropriate processes for managing such conflicts if considered necessary	The Committee was satisfied with the process of disclosure of any conflicts of interest. There were no instances of any conflicts during the year.
To assist the Chairman of the Board with the implementation of an annual evaluation process to assess the overall and individual performance and effectiveness of the Board and its Committees	The Board evaluation for the 2017 year was conducted in March 2018 by an external adviser, Bruce Wallace Associates. It was acknowledged that further work was to be done on succession planning both to improve diversity and to continuously refine the composition of the Board to ensure it includes the appropriate skills set, experience and competencies needed to discharge its duties and responsibilities effectively. The Board appointed Prism Boardroom, an external adviser to undertake a comprehensive board evaluation to assess the performance and effectiveness of the Board and the Committees for the 2018 year.

Experience and skills of the directors

The Committee is satisfied that the Directors add the relevant skills to the Board that is required for the Company to succeed in achieving its strategy of growth, value creation and sustainability through diamond mining. All the Directors worked in the mining and/or financial and capital market sector prior to joining the Group and their key skills and experience can be found in the directorate section, pages 46 and 47.

Diversity

The Board continues to work on ensuring that the Company builds a diverse and highly qualified workforce beyond the boardroom and supports management in its efforts to build diversity throughout the Group. Diversity brings different perspectives, which in turn aids thorough decision-making. The Board endorses the Group's policy, to ensure that all appointments are based on merit and recruitment activities are fair, non-discriminatory and that due diligence is performed. The Committee recognises that to further enhance the effectiveness of the Board there must be a combination of available qualities, capabilities and skill sets gained from different geographical and cultural backgrounds. It is important to note that 96% of total Group workforce are Lesotho citizens and 20% of the total workforce is female. The Nominations Committee continues to encourage and support diversity of business skills and experience. Details including the proportion of women in Senior Management, can be found in the Sustainable Development Review on pages 37 and 44.

HSSE COMMITTEE

The Group continues to pursue its goal of zero harm.

Mike Brown – Chairman

The Committee comprises:

- **M Brown – Chairman (appointed 1 January 2018)**
- **GE Turner**
- **H Kenyon-Slaney (appointed 20 February 2018)**
- **M Lynch-Bell (appointed 20 February 2018)**
- **JA Velloza (appointed 15 September 2018)**

Composition, experience and skill set

The wealth of knowledge and experience held by the HSSE Committee members supports the Committee in fulfilling its role and ensuring that HSSE risks are mitigated through the application of best practice.

Mike Brown, the Chairman of the Committee, brings with him more than 35 years' experience and in-depth knowledge of operating in the resources industry. Glenn Turner has in-depth knowledge and understanding of local and international law, thus enabling the Company to have relevant HSSE policies and agreements in place. Harry Kenyon-Slaney has over 33 years of experience in the mining and energy industries and brings in-depth knowledge of governance and stakeholder engagement. Michael Lynch-Bell brings a wealth of operating and financial knowledge following 38 years of experience in the oil, gas, mining and metals industries. Johnny Velloza has over 25 years of experience across various commodities and brings in-depth mining and operating knowledge. For more information about each member's experience, refer to the directorate on pages 46 and 47.

Terms of reference

The Terms of Reference for the HSSE Committee are reviewed annually and subsequently considered and approved by the Board. During 2018, the Board considered the Terms of Reference to be fit for purpose and in line with best practice and no amendments to these were necessary. The next review will be performed in June 2019. They are available on the Company's corporate website.

Meetings

Four meetings of the HSSE Committee were held in 2018. The Chief Operating Officer or the Group Technical Adviser and the Group's HSSE Superintendent attend by invitation.

Mike Brown visited Letšeng in January, August and November 2018 to obtain first-hand knowledge of current HSSE challenges and practices. The HSSE management team ensures policies and procedures remain current, effective and in line with industry best practice.

HSSE COMMITTEE CONTINUED

Role and activities

The principal functions, in line with the Committee's Terms of Reference, are listed below, along with the corresponding activity and performance during 2018.

Role	Activities in 2018
To evaluate the effectiveness of the Group's policies and systems in identifying and managing HSSE risks as well as ensuring compliance with applicable legal and regulatory requirements	To evaluate the effectiveness of the Group's policies and systems in identifying and managing HSSE risks as well as ensuring compliance with applicable legal and regulatory requirements. The Committee considered HSSE performance reports on the findings of internal and external audits, as well as legal and regulatory compliance, on a quarterly basis. The Chairman and Committee members received quarterly updates on the management of critical HSSE matters. The Committee identified critical HSSE matters following discussions ahead of and/or during Committee meetings and took into consideration activities within the Group as well as the global mining environment. Some of the critical matters monitored by the Committee during 2018 included: • community engagement and grievance management; • injury reporting, classification and investigation; • corrective action implementation and management; and • tailings and water storage facility management.
To assess the impact of HSSE decisions and actions on the Group's employees, project affected communities (PACs) and other stakeholders as well as the reputation of the Group	The Committee identifies, assesses and monitors the potential impact of HSSE decisions on the Group's reputation and social licence to operate. The Committee considered reports on eight significant safety incidents. No significant or major environmental or social incidents were recorded. Corporate social investment projects are closely monitored by the Committee to ensure stakeholder relationships are safeguarded and projects are managed in a fair and transparent manner.
To review reports from management concerning all fatalities and serious accidents within the Group and actions taken by management because of such serious accidents	No fatalities occurred during 2018, however the Committee reviewed incident investigation reports relating to eight significant safety incidents and found the reports to adequately identify the root causes of these incidents. The Committee received reports on, and monitored, the implementation of appropriate corrective actions recommended by the incident investigations to mitigate against the reoccurrence of such incidents.
To evaluate and oversee the quality and integrity of any reporting to external stakeholders concerning HSSE issues and review the Group's HSSE performance indicators	The Committee reviewed the Group HSSE performance indicators following an assessment of performance trends to ensure that the indicators remain relevant and appropriate. The performance indicators are heavily influenced by the Group's past performance, the United Nations Sustainability Goals as well as the Global Reporting Initiative's Sustainability Guidelines. HSSE data is reported to and evaluated by the Committee on a quarterly basis. The Committee reviews HSSE reports and annual sustainable development reports.

Role	Activities in 2018
To review the results of independent audits of the Group's performance in respect of HSSE matters	The Committee considered external audit reports regarding the performance of operational HSSE systems, management and legal compliance during 2018. The Committee monitored the close out of HSSE-related findings and corrective actions resulting from the below independent audits through quarterly status reports. Feedback on the following independent audits was received by the Committee: • tailings storage facilities management; • HSSE systems and management; • HSSE legal compliance; • social and environmental management plan (SEMP) compliance; • carbon and water footprints; • ISO 14001 environmental management system; and • ISO 45001 occupational health and safety management.
To review any strategies and action plans developed by management in response to issues raised in terms of HSSE and where appropriate, make recommendations to the Board	The Committee assessed the appropriateness and effectiveness of HSSE action plans and strategies, developed by operational management, to address HSSE matters and recommended further actions to the Board where appropriate. During 2018 the Committee monitored, among others, the following action plans and strategies: • nitrate management action plan; • surface water management strategy; • community engagement strategy; • waste management strategy; • consequence management strategy; • tailings and water storage facility management; and • incident management strategy.

ANNUAL STATEMENT ON DIRECTORS' REMUNERATION

Our remuneration policy is designed to drive a high-performance culture and support our strategy to deliver maximum value for all shareholders.

Michael Lynch-Bell – Chairman

The Committee comprises:

- **M Lynch-Bell – Chairman**
- **H Kenyon-Slaney**
- **M Brown (appointed 5 June 2018)**

Dear shareholders

On behalf of the Board I am pleased to present the Remuneration Committee's Directors' Remuneration Report for 2018.

In line with last year, this report is split into three sections: the Annual Statement, the Directors' Remuneration Policy and the Annual Report on Remuneration.

During 2018, the Remuneration Committee reviewed the appropriateness and effectiveness of the existing Remuneration Policy, which was approved by the shareholders at the 2017 Annual General Meeting (AGM) and took effect from that date. The Committee believes that on the whole, the policy has served the Company well to motivate and reward Senior Executives and align their interests with those of the Company and the shareholders.

Remuneration decisions for 2018

At Letšeng, a review of a number of practices has enabled a revised mine plan which will lead to a reduced waste profile and reduced capex. The Group's net cash[1] position improved US$16.1 million during the year from US$1.4 million at 1 January 2018 to US$17.5 million at 31 December 2018. The share price showed a positive movement of 54% for 2018 with the earnings per share exceeding target by 270%. Underlying EBITDA is 69% higher than 2017 mainly due to the increase in revenue generated, coupled with the successful implementation of various Business Transformation initiatives and by maintaining strict cost discipline.

[1] *Net cash calculated as cash and short-term deposits less drawn down bank facilities (excluding asset-based finance facility).*

In this context, the Committee's key decisions during the year related to the following areas:

Annual bonus

For 2018, achievement against annual bonus targets was strong, both in terms of performance against the business scorecard and personal objectives. The Committee felt that the annual bonus outcome reflected the Company's overall performance and therefore did not apply any discretion, save for its discretion exercised on the subjective elements of the scorecard. The Chief Executive Officer and Chief Financial Officer will respectively receive 83% and 85% of the maximum bonus. Further detail on annual bonuses can be found on pages 72 to 75 of this report.

ESOP

Based on performance to 31 December 2018, 21.43% of the share awards made under the 2016 Employee Share Option Plan (ESOP) will vest in March 2019. In respect of the relative Total Shareholder Return (TSR) element measured over a three-year period (25% of the award), the Company's performance over the period was below that of the FTSE 350 Mining Index, and as such, 0% of the element will vest. In respect of the profit and production element (75% of the award), 28.58% will vest. The Committee felt there was no need to apply any discretion as the formulaic outcome reflected the company's performance over the three-year period to 31 December 2018.

In March 2018, Executive Directors were granted awards under the ESOP which will vest based on performance over the three financial years to 31 December 2020. In line with the prior year, these awards will vest to the extent that challenging relative TSR, production and profit targets are achieved and further has an added element which measures achievement against Business Transformation targets over the performance period.

Implementation of the Remuneration Policy in 2019

The Executive Directors' salaries were reviewed in February 2019 and all received an inflationary increase of 3% effective 1 April, in line with the general practice of applying inflation as a base for salary increases across the Group. Consideration was also given to current market conditions, relevant benchmarks and that Executive Directors' salaries were last increased in 2016.

For 2019, the annual bonus opportunity will remain 100% of salary in line with the current Remuneration Policy. Group performance will continue to be measured with reference to a business scorecard linked to three key priorities: Preparing for Our Future; Extracting Maximum Value from Our Operations; and Working Responsibly and Maintaining Our Social Licence. Group performance will be weighted 80% of maximum and personal performance will be weighted 20% of maximum. Malus and clawback provisions will apply during the performance period and for a period of two years following payment.

In terms of the long-term incentive, the CEO and CFO will be granted awards under the ESOP in 2019 of respectively 55% and 61% of salary. Awards will vest on performance over the three financial years to 31 December 2020. The performance conditions will remain 25% on relative TSR with the remainder of 75% based on business efficiencies and operational performance. The Committee reconsidered the appropriate TSR benchmark and found that a specific comparator peer group would be more fitting than the previous TSR benchmark against the FTSE 350 Mining Index. This measurement will be applied to 2018 awards onwards. Business efficiencies carries a weighting of 25% for Business Transformation and 50% for operational performance (profit and production). Malus and clawback provisions will apply during the vesting period and for a period of two years following vesting.

Chairman and non- Executive Directors' fees were reviewed in February 2019 and an increase of 9.1% was awarded to the Chairman's fees following consideration of fees in similar size companies. No change was made to non-Executive Directors' fees.

The new UK Corporate Governance code was released in July 2018 and will apply to financial years starting from 1 January 2019. The main new provisions affecting remuneration policy relate to pensions and post-employment shareholding requirements. The Remuneration Committee will be reviewing the evolving market practice following the changes to the code, as well as changes in investor sentiment, and will make the applicable amendments to the Directors' Remuneration Policy which will be put to a shareholder vote as scheduled In 2020.

Further details on the implementation of the Policy for 2019 are included on pages 72 to 78.

A resolution to approve the Annual Report on Remuneration (subject to an advisory vote) will be put to our shareholders at the forthcoming AGM. As always, I am available to meet and discuss our remuneration arrangements with shareholders. We continue to value feedback from our shareholders and hope to receive your support at the AGM.

Michael Lynch-Bell
Chairman of the Remuneration Committee

12 March 2019

DIRECTORS' REMUNERATION POLICY

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

The report has been prepared in accordance with the principles of the Companies Act 2006 and Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The Regulations require our auditors to report to shareholders on the audited information within this report and to state whether, in their opinion, the relevant sections have been prepared in accordance with the Act. The auditors' opinion is set out on pages 95 to 97 and we have clearly marked the audited sections of the report.

The Company's Remuneration Policy was approved by the shareholders at the AGM on 6 June 2017 and became effective from this date. The report is as originally disclosed in the 2017 Directors' Remuneration Report save for some non-significant changes as follows:

- References to financial years have been updated where appropriate;
- New non-Executive Directors' appointment and expiry dates have been updated;
- References to performance measures have been updated for the latest business strategy, as appropriate; and
- Pay-for-performance charts have been updated to reflect 2019 salaries.

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

The Committee's policy is to weight remuneration towards variable pay. The aim is to provide base salaries and benefits that are fair, and variable pay incentives linked to the achievement of realistic performance targets relative to the Company's strategy and corporate objectives.

Policy table for 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

Element	Purpose and link to strategy	Operation	Opportunity	Performance measures
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 to reflect market practice. It is not anticipated that the current cost of benefits (as set out in the Annual Report on Remuneration) will increase materially 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
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 equal to 14.5% and 13.0% of base salary for the CEO 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. Malus and clawback provisions may be applied for a period of two years following payment in exceptional circumstances, including but not limited to misstatement, misconduct or error.	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 key performance indicators (KPIs), as well as a discretionary assessment of personal performance. Group scorecard targets may include one or more of the three key priority areas of Preparing for Our Future, Extracting Maximum Value from Our Operations, and Working Responsibly and Maintaining Our Social Licence. The Group scorecard 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 POLICY CONTINUED

Element	Purpose and link to strategy	Operation	Opportunity	Performance measures
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. Malus and clawback provisions may be applied for a period of two years post-vesting in exceptional circumstances, including but not limited to misstatement, misconduct or error. For future awards, the Committee may introduce a holding period of up to two years (or such other period the Committee may determine) for vested awards, during which time Executive Directors may not sell shares save to cover tax.	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 measured over a minimum of three years. 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 payments in respect of any award granted or payment agreed prior to the approval and implementation of the 2017 Policy, or prior to the individual becoming a Director. Details of any such awards or payments are disclosed in the Annual Report on Remuneration.

Selection of performance measures (annual bonus and ESOP)

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. The Committee considers that the financial and operational measures used in the annual bonus support the strategic priorities of Preparing for Our Future, Extracting Maximum Value from Operations, and Working Responsibly and Maintaining Our Social Licence, and are well accepted measures for the mining sector. In the ESOP, the use of profit and production targets as well as the delivery of the Business Transformation targets are consistent with the Company's KPIs, and the use of relative TSR is strongly aligned with shareholders and ensures that executives are rewarded only if they exceed the returns which a shareholder could achieve elsewhere in the sector.

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

Remuneration Policy for other employees

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

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

Shareholding guidelines

The guideline for Executive Directors is that they hold 100% of salary in beneficially owned shares. Until the guideline has been met, Executive Directors will be required to retain 50% of vested awards under the ESOP or any other share-based incentive.

Pay for performance: scenario analysis

The graph on the following page provides 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 incentive opportunities as set out in the 2017 Policy, applied to the salaries effective 1 April 2019. For the annual bonus, the maximum is 100% of salary. ESOP values are based on the proposed number of shares to be awarded in 2019 and the three-month average share price to 31 December 2018 of 111 pence (equivalent to 53% and 59% of 2019 salary). Note that the projected values exclude 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 target pay-out of annual bonus, and threshold vesting for the ESOP.

The 'maximum' scenario includes fixed remuneration, plus full pay-out and vesting of all incentives.

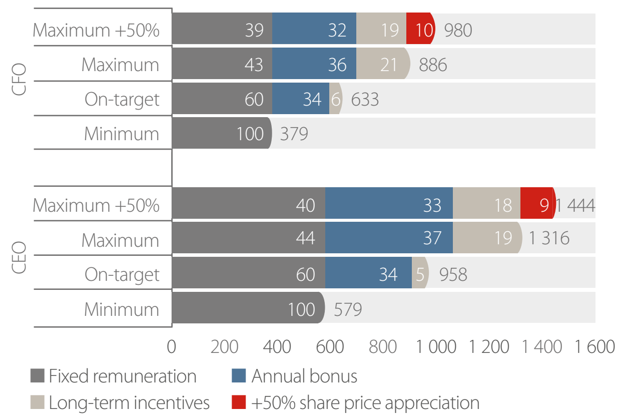
The 'maximum + 50% share price appreciation' scenario includes fixed remuneration, plus full pay-out and vesting of all incentives, plus 50% share price appreciation on the ESOP.

The assumptions are summarised in the table below.

Component	Fixed	At target	Maximum	Maximum + 50% share price appreciation
Salary	Base salary for 2019			
Benefits	Taxable value of annual benefits provided			
Pension	14.5% and 13% of salary for the CEO and other Executive Directors, respectively			
Annual bonus	0% of maximum	68% of maximum	100% of maximum	
ESOP	0% of maximum	20% of maximum	100% of maximum	100% of maximum + 50% share price appreciation

DIRECTORS' REMUNERATION POLICY CONTINUED

Performance



Approach to remuneration on executive recruitment
In recruiting new Executive Directors, the Committee will follow the Remuneration Policy as set out in the Policy Table. On appointment of an external Executive Director, any arrangement specifically established to recruit an individual would be capped at the limits described in the Policy Table. The Committee does not envisage a payment such as a 'golden hello' would be offered, although the Committee may consider it appropriate to compensate for incentive arrangements the Director forfeits on leaving their 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 normally 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.

In the case of internal promotions, any commitments made prior to promotion and the approval of the Remuneration Policy will be honoured. Where the new appointee has an initial salary set below market, any shortfall will be managed with phased increases over a period of several years, subject to the individual's performance and development in the role.

Service contracts

The Company's policy is to limit termination payments 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.

Director	Contract date	Unexpired	Notice period	Contractual termination payment[1]
CT Elphick M Michael	13 February 2007 22 April 2013	Rolling contract	12 months	Pay basic salary on summary termination. Benefits are payable only at the Committee's discretion.

[1] *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.

If employment is terminated by the Company, the departing Executive Director may have a legal entitlement (under statute or otherwise) to additional amounts, which would need to be met. Where the Company wishes to enter into a settlement agreement and the individual must seek independent legal advice, the Committee retains discretion to settle any claims by or on behalf of the Executive Director in return for making an appropriate payment and contributing to the legal fees incurred by the Executive Director in connection with the termination of employment.

In exceptional circumstances, the Committee may approve new contractual arrangements with departing Executive Directors including (but not limited to) settlement, confidentiality, outplacement services, restrictive covenants and/or consultancy arrangements. These will be used only in circumstances where the Committee believes that it is in the best interests of the Company and its shareholders to do so.

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 normally be assessed by the Committee at the end of the year and any resulting bonus is normally pro-rated for proportion of the year worked.
	Change of control (whether or not employment is terminated as a result).	Immediately, on change of control.	Performance against targets will normally be assessed by the Committee up to the date of change of control and any resulting bonus is normally pro-rated for time.
	All other reasons.	Not applicable.	No bonus is paid.
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 normally 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).	Immediately, on change of control.	Unvested awards will normally 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.	Not applicable.	Awards lapse.

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.

Element	Purpose and link to strategy	Operation	Opportunity
Directors' fees	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. The maximum aggregate annual fee for all non-Executive Directors, including the Chairman, allowed by the Company's Articles of Association is £750 000.

Director	Contract date	Unexpired term	Notice period	Contractual termination payment
H Kenyon-Slaney	6 June 2017	Rolling appointment	Three months	No provision for payment of compensation
M Brown	1 January 2018			
MD Lynch-Bell	15 December 2015			
J Velloza	15 September 2018			

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 across the Group and takes these into account when determining Executive Director remuneration.

Considerations of shareholder views

When determining remuneration, the Committee considers shareholder views and the guidelines of investor bodies. 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. Details on the votes received on the Directors' Remuneration Report at the prior AGM is provided in the Annual Report on Remuneration.

External directorships

Executive Directors are permitted to accept external directorships with prior approval of the Chairman. Approval will only be given where the appointment does not present a conflict of interest with the Group's activities and the experience gained will be beneficial to the development of the individual. Where fees are payable in respect of such appointments, these would be retained by the Executive Director. Refer to page 89 for further details.

THE ANNUAL REPORT ON REMUNERATION

The following section provides details of how the Company's 2018 Remuneration Policy was implemented during the financial year ended 31 December 2018, and how the Remuneration Committee intends to implement the proposed Policy in 2019.

Composition and role of the Remuneration Committee

Committee member	Member throughout 2018	Number of meetings
MD Lynch-Bell[1]	Yes	4/4
H Kenyon-Slaney	Yes	4/4
M Brown[2]	No	2/4

[1] *Chairman.*
[2] *Appointed 5 June 2018*

Mike Brown was appointed to the Board as a non-Executive Director on 1 January 2018 and subsequently took up a role as a member of the Remuneration Committee on 5 June 2018.

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

The Committee is a formal Committee of the Board. Its Terms of Reference are available on the Company's website and comply with the UK Corporate Governance Code.

The Committee's main responsibilities for 2018 were to:
- determine individual remuneration packages for the Chairman, the Executive Directors and the Company Secretary;
- 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;
- review workforce remuneration; and
- select and appoint consultants to advise the Committee.

The Committee's main responsibilities will be updated for 2019 to, in addition to the above, include the following:
- ensure remuneration policies are aligned with strategy, purpose and values;
- develop a formal policy for post-employment shareholding requirements encompassing both unvested and vested shares;
- review workforce remuneration and related policies and the alignment of incentives and rewards with culture and take these into account when setting the executive directors remuneration policy; and
- set senior management remuneration along with those of Executive Directors.

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 2018

During the year, activities undertaken by the Committee included:
- review and approval of the Directors' Remuneration Report for 2017, and preparation of the Directors' Remuneration Report for 2018;
- review and approval of incentive outcomes for Executive Directors for 2017;
- determination of the Executive Directors' annual bonus and ESOP opportunities and performance targets for 2018;
- review of recent developments in remuneration market trends and best practice;
- review of the Chairman's fee;
- review and approval of base salaries and total remuneration for the Executive Directors and the Company Secretary; and
- review of the remuneration for employees across the Group.

Advisers to the Remuneration Committee

Mercer Kepler was appointed by the Committee in February 2010 and provided independent remuneration advice to the Committee and attended Committee meetings during 2018. Mercer Kepler provides remuneration advice to a large portfolio of clients including many in the FTSE 350 and FTSE Small Cap; this gives the Committee comfort that the advice provided is appropriate and relevant. Mercer Kepler is a signatory to, and abides by, the Remuneration Consultants Group Code of Conduct. Further details can be found at www.remunerationconsultantsgroup.com.

Neither Mercer Kepler nor Mercer Kepler's parent company, the MMC Group, provides non-remuneration services to the Group or is in any other way connected to the Group, and Mercer Kepler is therefore considered to be independent. The fees payable in relation to work for the Committee in 2018 were £50 500 (US$67 340) excluding VAT.

Summary of shareholder voting at the 2018 AGM

The table below shows the results of the advisory vote on the 2017 Annual Report on Remuneration at the 5 June 2018 AGM.

		For	Against	Total votes cast	Withheld
2017 Annual Report on Remuneration	Total number of votes	104 469 202	1 598 639	106 067 841	12 194 523
	Percentage of votes cast	98.5	1.5	–	–

Audited.

Total single figure of remuneration for Directors

The table below sets out the total single figure remuneration received by each Director for 2018 and the prior year. Although the Group's reporting currency is US dollar, these figures are stated in sterling as the Directors' emoluments are paid in sterling.

	Salary and fees[1]		Cash payments in lieu of other non-cash benefits[2]		Cash payments in lieu of pension[2]		Bonuses[3]		Long-term incentives[4]		Total	
	2018 £	2017 £	2018 £	2017 £	2018 £	2017 £	2018 £	2017 £	2018 £	2017 £	2018 £	2017 £
Executive Directors as at 31 December 2018												
CT Elphick	**468 211**	468 211	**25 752**	25 752	**67 891**	67 891	**389 430**	93 642	**54 719**	30 083	**1 006 003**	685 579
M Michael	**309 000**	309 000	**18 540**	18 540	**40 170**	40 170	**263 188**	61 800	**40 444**	22 236	**671 342**	451 746
Total	**777 211**	777 211	**44 292**	44 292	**108 061**	108 061	**652 618**	155 442	**95 163**	52 319	**1 677 345**	1 137 325
Non-Executive Directors as at 31 December 2018												
H Kenyon-Slaney	**110 000**	63 037	**–**	–	**–**	–	**–**	–	**–**	–	**110 000**	63 037
MD Lynch-Bell	**55 000**	55 000	**–**	–	**–**	–	**–**	–	**–**	–	**55 000**	55 000
M Brown	**55 000**	–	**–**	–	**–**	–	**–**	–	**–**	–	**55 000**	–
J Velloza[5]	**15 865**	–	**–**	–	**–**	–	**–**	–	**–**	–	**15 865**	–
Total	**235 865**	118 037	**–**	–	**–**	–	**–**	–	**–**	–	**235 865**	118 037
Executive and non-Executive Directors retired/ resigned												
J Velloza[6]	**65 048**	–	**3 902**	–	**8 456**	–	**37 105**	–	**30 878**	–	**145 389**	–
GE Turner[7]	**–**	273 443	**–**	16 407	**–**	35 548	**–**	54 689	**40 444**	22 236	**40 444**	402 323
RW Davis[8]	**–**	47 525	**–**	–	**–**	–	**–**	–	**–**	–	**–**	47 525
M Salamon[9]	**–**	45 833	**–**	–	**–**	–	**–**	–	**–**	–	**–**	45 833
GA Beevers[10]	**–**	55 000	**–**	–	**–**	–	**–**	–	**–**	–	**–**	55 000
A Ashworth[11]	**–**	–	**–**	–	**–**	–	**–**	–	**–**	9 252	**–**	9 252
Total	**65 048**	421 801	**3 902**	16 407	**8 456**	35 548	**37 105**	54 689	**71 322**	31 488	**185 833**	559 933
Total of all Directors	**1 078 124**	1 317 049	**48 194**	60 699	**116 517**	143 609	**689 723**	210 131	**166 485**	83 807	**2 099 043**	1 815 295

Audited

1 Salary and fees: amount earned for the year.
2 Benefits and pension: cash payments in lieu.
3 Annual bonus: payments in relation to performance for the year.
4 ESOP: the 2018 figures relate to the values at vesting of awards vesting on performance over the three-year period ended 31 December 2018. The share price on the vesting date is currently unknown, therefore the awards are valued using the three-month average share price to 31 December 2018 of 111 pence. The 2017 figures have been trued up for the share price on the vesting date of 90 pence.
5 J Velloza was appointed as non-Executive Director on 15 September 2018. The 2018 remuneration reported in the table relates to the period 15 September 2018 to 31 December 2018.
6 J Velloza was appointed to the Board on 1 July 2018 and subsequently resigned from the Board as an Executive Director on 15 September 2018. The 2018 remuneration reported in the table relates to the period 1 July 2018 to 15 September 2018.
7 GE Turner resigned from the Board on 14 November 2017. The 2017 remuneration reported in the table relates to the period 1 January 2017 to 14 November 2017.
8 RW Davis stepped down from the Board on 6 June 2017. The 2017 remuneration reported in the table relates to the period 1 January 2017 to 6 June 2017.
9 M Salamon passed away in November 2017. The 2017 remuneration reported in the table relates to the period 1 January 2017 to 30 November 2017.
10 G Beevers retired form the Board on 31 December 2017. The 2017 remuneration reported in the table relates to the period 1 January 2017 to 31 December 2017.
11 AR Ashworth retired from the Board on 30 June 2016. The 2017 remuneration reported in the table relates to the vesting of the pro-rated ESOP award.

Pension and other benefits

No formal pension provision is made by the Company. Instead, Executive Directors receive a cash allowance in lieu of pension which was equivalent to 14.5% and 13% 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 2018.

Incentive outcomes for the financial year ended 31 December 2018

Annual bonus in respect of 2018 performance

Executive Directors participate in a discretionary annual bonus arrangement designed to focus participants on the following business critical factors: (i) growth strategy implementation, (ii) funding, (iii) financial and operational performance, (iv) health, safety, social, environment, sustainability, image and relationships, and (v) sales, marketing and manufacturing, all of which are underpinned by specific KPIs and included in the business plan approved by the Board.

In 2018, the maximum bonus opportunity for Executive Directors was 100% of base salary, with 80% linked to a business scorecard and 20% linked to a discretionary assessment of personal performance.

The performance measures, targets and actual outturn in respect of 2018 are disclosed in full in the table below.

Performance measure		Weighting (% of max)	Threshold target	Stretch targets	Actual performance	Payout (% of max)
Preparing For our Future		20.0	Judged by Committee on a discretionary basis			10.0
Extracting Maximum Value from Operations		60.0				
BT	BT target (US$) (millions)[1]	15.0	20.5	30.7	28.6	13.4
	Organisational Health	5.0	Judged by Committee on a discretionary basis			5.0
Operating performance	Underlying EBITDA (US$) (millions)	6.7	43.5	65.2	82.3	6.7
	Earnings per share (US$ cents)	6.7	5.44	8.16	18.80	6.7
	Cash flows from operating activities (US$) (millions)	6.7	78.8	118.2	138.3	6.7
	Waste tonnes mined (tonnes) (millions)	6.7	23.7	25.0	25.8	6.7
	Ore tonnes treated (tonnes) (millions)	6.7	6.4	7.1	6.5	3.7
	Carats recovered (carats)	6.7	106 104	143 552	126 875	5.1
Working Responsibly and Maintaining Our Social Licence		20.0				
HSSE	Fatalities	5.0	0	0	0	5.0
	All injury frequency rate	5.0	4.20	3.50	1.45	5.0
	Major environmental or community incidents	5.0	0	0	0	5.0
	HSSE legal compliance	5.0	Judged by Committee on a discretionary basis			5.0
Total score achieved		100.0				84.0

[1] The BT targets and actual performance is based on cumulative gross values. The equivalent net values will be 14.0 for threshold, 21.1 for stretch and 20.7 for actual performance resulting in 97% achievement and a payout of 14 out of 15.

THE ANNUAL REPORT ON REMUNERATION CONTINUED

Preparing For our Future
Various organic growth projects form part of the strategy to extract maximum value from Letšeng. A review of blasting practices and techniques has enabled pit designs to be based on steeper slopes and has been independently verified from a safety and geotechnical perspective. The impact of this has resulted in a revised mine plan (incorporated into the 2019 BP) which will lead to a resequencing of the waste depletion profile, reducing waste and capital costs. The new mine plan (although part of the Business Transformation initiatives) resulted in a decrease of 95 million tonnes of waste for similar ore extraction and allowed Satellite tonnes to the brought forward over time, enhancing the overall NPV of the mine. The advancement of innovative technologies to detect diamonds within kimberlite and liberate diamonds using non-mechanical means has progressed and its success would be a significant value driver. As part of increasing maximum value, the early negotiations for the Letšeng lease extension commenced and was well progressed by year end.

During the year, a formal sale process for the sale of the Ghaghoo mine in Botswana commenced and was at an advanced stage at year end.

The Group moved from a net cash position[1] of US$1.4 million at the end of 2017 to a net cash position of US$17.5 million in 2018, signifying an improvement of US$16.1 million.

[1] Net cash calculated as cash and short-term deposits less drawn down bank facilities (excluding asset-based finance facility).

HSSE legal compliance
This was well managed during the year with no major compliance matters identified or raised. This was further evidenced and confirmed by independent reviews performed during the year during which Letšeng obtained ISO 45001 certification (replacing the OHSAS 18001 certification) and retained its ISO 14001 certification. The independent reviews once again highlighted Letšeng's notable achievements in environmental management.

Organisational health
The results of the scheduled follow up OHI survey during 2018, saw an overall improvement across the Group (Corporate moved into the top quartile/Letšeng moved up into the 3rd quartile), which exceeded expectations when benchmarked against the market.

Personal performance
Objectives under the personal element of the bonus were linked to each Executive Director's individual areas of responsibility and designed to collectively support the achievement of the Group's strategic targets for the year. Individual targets comprised contributions to the Group's overall performance and the delivery of strategic projects and initiatives as set out by the Board, including but not limited to: operational performance, strengthening of key stakeholder relationships, bank financing and treasury management and HSSE objectives.

Clifford Elphick

Measures	Performance
Strengthening key stakeholder relationships	Strengthening of key relationships with stakeholders in order to mitigate political in-country instability
Operational performance	Increased focus on operational efficiencies resulted in EBITDA increase of 69%
Business Transformation	Continuous focus on Business Transformation and removed obstacles to successful implementation of initiatives
Organisational health	Championed the drive to increase organisational health, to realise achievement that exceeded benchmarked expectations
HSSE	Demonstrated strong leadership and commitment to the safety agenda
Innovation	Increased strides into innovative measures to reduce diamond breakage

Michael Michael

Measures	Performance
Bank financing and treasury management	On-time risk avoidance through the successful review and mitigation of any tax and legal exposures
	Robust cash position with the timeous refinancing of facilities
Operational performance	Increased cash position with an improvement of US$16.1 million
Business Transformation	Ensured continuous focus on Business Transformation and removed obstacles to successful implementation of initiatives
Organisational health	Sponsored this workstream to ensure achievement that exceeded benchmarked expectations
Risk management and governance	Successfully monitored appropriate risk and governance processes and responses consistent with the Group's risk appetite.

The Committee agreed that each Executive Director successfully carried out their duties and collectively achieved the Group's objectives.

Discretion applied

The committee discussed whether the formulaic outcome of the annual bonus was reflective of the holistic performance of the company and determined that no discretion needed to be applied to the annual bonus for 2018.

Actual bonuses awarded for 2018

Based on the business scorecard, the formulaic outcome for Group performance was 84%; the mechanical application of the Group score triggers a payment of 67% out of 80%, with the assessment of personal performance ranging from a possible 0% to 20%. Based on business and personal performance, actual bonuses for 2018 were as follows:

	% of salary	Bonus £
CT Elphick	83	389 430
M Michael	85	263 188
J Velloza[1]	83	37 105

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[1] J Velloza was appointed to the Board as an Executive Director on 1 July 2018 and resigned on 15 September 2018. The bonus has been pro-rated to reflect the period as an Executive Director.

ESOP: 2016 awards vesting in 2019

The Executive Directors were granted awards of performance shares in March 2016, which are set out in the table below.

Directors as at 31 December 2018

Executive Director	Date of grant	Awards made during 2016	Share price on date of award (£)	Face value on date of award (£)	Face value as % of salary	Vesting date
CT Elphick	15 March 2016	230 000	1.10	253 000	56	15 March 2019
M Michael		170 000		187 000	62	

Directors retired or resigned from Board

Executive Director	Date of grant	Awards made during 2016	Share price on date of award (£)	Face value on date of award (£)	Face value as % of salary	Vesting date
GE Turner[1]	15 March 2016	170 000	1.10	187 000	61	15 March 2019

[1] Resigned from Board 14 November 2017, award pro-rated to date of cessation.

Vesting of the awards was dependent on relative TSR versus the constituents of the FTSE 350 Mining Index (25% of the award), profit (37.5%) and production (37.5%), measured over the three-year performance period ended 31 December 2018. Relative TSR was measured over the period 1 January 2016 to 31 December 2018. Profit and production were measured on an annual basis with respect to the business plan for the year, with final vesting based on the average achievement of targets over the three years. The performance conditions that applied to these awards are summarised in the table on the following page.

ESOP scorecard

	Profit		Production		
Annual performance	Underlying EBITDA 25%	Earnings per share 25%	Ore tonnes treated 25%	Carats recovered 25%	Total vesting 100%
2016	0.00%	0.00%	0.00%	0.00%	0.00%
2017	0.00%	5.95%	0.00%	9.87%	15.82%
2018	25.00%	25.00%	6.60%	13.32%	69.92%
Average vesting outcome					**28.58%**

Performance measure		Weighting (% of max)	Performance period	Threshold (20% vesting)	Stretch (80% vesting)	Super-stretch (100% vesting)	Actual performance	Vesting outcome (% of max)
TSR versus FTSE 350 Miners		25%		Median	75th percentile	85th percentile	9th percentile	0.00%
Profit	Underlying EBITDA (US million)	18.75%		**80% of business plan**	**120% of business plan**	**132% of business plan**		
			2016	84.2	126.3	139	62.8	0.00%
			2017	55.1	82.7	91	48.6	0.00%
			2018	43.5	65.2	71.8	82.3	18.75%
			Average					6.25%
	EPS (US cents)	18.75%		**80% of business plan**	**120% of business plan**	**132% of business plan**		
			2016	14.65	21.97	24.17	12.8	0.00%
			2017	6.23	9.35	10.28	6.50	4.46%
			2018	5.44	8.16	8.98	18.80	18.75%
			Average					7.74%
Production	Ore tonnes treated (millions)	18.75%		**95% of business plan**	**105% of business plan**	**115.5% of business plan**		
			2016	6.9	7.6	9.6	6.9	0.00%
			2017	6.7	7.4	8.1	6.4	0.00%
			2018	6.4	7.1	7.8	6.5	4.95%
			Average					1.65%
	Carats recovered	18.75%		**85% of business plan**	**115% of business plan**	**126.5% of business plan**		
			2016	164 937	223 149	248 036	149 182	0.00%
			2017	100 320	135 728	149 300	111 811	7.40%
			2018	106 104	143 552	157 907	126 875	9.99%
			Average					5.80%
Total award		100%						21.43%

For each measure, for achievement between threshold and stretch, and stretch and super-stretch, the award vested on a straight-line basis. For achievement of less than threshold, vesting was nil.

Based on performance to 31 December 2018, 21.43% of the maximum award will vest for CT Elphick and M Michael in March 2019, subject to continued employment. J Velloza resigned as an Executive Director on 15 September 2018 and therefore his 2016 ESOP award was reduced on a pro-rata basis to reflect the period of employment. As a result 16.36% of his maximum award will vest.

ESOP awards granted in 2018

On 20 March 2018, performance shares with a face value of between 47% and 53% of salary were awarded to the Executive Directors, as summarised in the table below.

Executive Directors as at 31 December 2018

Executive Director	Date of grant	Awards made during 2018	Share price on date of award (£)	Face value on date of award (£)[1]	Face value as % of salary
CT Elphick	20 March 2018	230 000	0.96	221 720	47
M Michael	20 March 2018	170 000	0.96	163 880	53

[1] The face values of awards as a percentage of salary are based on the actual share price on the date of award.

Executive Director resigned during 2018

Executive Director	Date of grant	Awards made during 2018	Share price on date of award (£)	Face value on date of award (£)[1]	Face value as % of salary
J Velloza[2]	20 March 2018	170 000	0.96	163 880	53

[1] The face values of awards as a percentage of salary are based on the actual share price on the date of award.
[2] J Velloza resigned as an Executive Director on 15 September 2018. The award will be time pro-rated to 16% of the maximum award.

The performance conditions that apply to these awards are summarised in the table below.

Performance measure		Weighting (% of award)	Threshold (20% vesting)	Stretch (80% vesting)	Super-stretch (100% vesting)
TSR	Measured over three-year performance period	25%	Median	75th percentile	85th percentile
BT (three-year target)	BT target	25%	90%	100%	110%
Operating performance (measured annually)	Underlying EBITDA	10%	80%	120%	132.0%
	Earnings per share	10%	80%	120%	132.0%
	US$ p/ct	10%	85%	115%	126.5%
	Ore tonnes treated	10%	95%	105%	115.5%
	Carats recovered	10%	85%	115%	126.5%

For each measure, for achievement in between threshold and stretch, and stretch and super-stretch, the award will vest on a straight-line basis. For achievement of less than threshold, vesting will be nil. As before, TSR will be measured over three years, from 1 January 2018 to 31 December 2020. Business Transformation was introduced as a new element and will be measured over the same period as TSR. Operating performance will be measured on an annual basis with respect to the business plan for the year, with final vesting based on the average achievement of targets over the three years. The operating performance targets are considered commercially sensitive as they relate to the Company's business plan and strategy and will therefore be disclosed in full after the performance period has ended.

Implementation of Remuneration Policy for 2019

The Committee approved the following salary increases from 1 April 2019:

Executive Director	2018 salary (£)	2019 salary (£)	% increase
CT Elphick	**468 211**	482 257	3
M Michael	**309 000**	318 270	3

Audited

Pension and benefits

The Executive Directors will continue to receive cash supplements in lieu of pension and benefits in 2019. The values will remain unchanged from 2018.

THE ANNUAL REPORT ON REMUNERATION CONTINUED

Annual bonus
For 2019, the maximum annual bonus opportunity will remain 100% of salary. Performance measures will continue to include a range of financial, operational and personal objectives that support the delivery of the Group's key strategic priorities as set out on page 6 of the Annual Report, with 80% linked to business performance and 20% to personal performance. For the business performance element, performance will be linked to the Group's three key priorities of Preparing for Our Future, Extracting Maximum Value from Our Operations, and Working Responsibly and Maintaining Our Social Licence. Performance measures and targets will be disclosed in full on a retrospective basis in next year's report.

ESOP
In advance of each ESOP cycle, the Committee reviews the performance measures and corresponding targets to ensure they are appropriately stretching over the performance period. For 2019 the ESOP will continue to operate on the same basis as in 2018. The Chief Executive Officer will receive an award of 230 000 performance shares (equivalent to 55% of salary at the time of award) and the Chief Financial Officer will receive an award of 170 000 performance shares (equivalent to 61% of salary at the time of award).

The performance conditions remain 25% on relative TSR, measured against a tailored diamond mining peer group. There will be consideration for the achievement of the Business Transformation target with 25% of the award weighted against this element. The balance of 50% will be weighted towards operational performance which includes profit and production elements. Achievement against target will be measured over the three-year performance period ending on 31 December 2021. The relative TSR targets remain unchanged from 2018 and further detail on the Business Transformation target can be found in page 27 to page 29. The operating performance targets will be disclosed after the performance period has ended as these targets relate to the Company's business plan and are therefore considered commercially sensitive. Malus and clawback provisions will apply during the vesting period and for a period of two years following vesting, respectively.

Shareholding guidelines
In order to further align Executive Directors' interests with those of the Company's other shareholders, the Company introduced a shareholding guideline of 100% of salary from 1 January 2017. Until the guideline has been met, Executive Directors will be required to retain at least 50% of vested awards under the ESOP or any other share-based incentive.

Chairman and non-Executive Director fees
Chairman and non-Executive Director fees were reviewed in March 2015 when it was agreed that the Chairman's fee would be increased by 10% from £100 000 to £110 000 and the non-Executive Directors' fees by 4.8% from £52 500 to £55 000 to bring the fees more in line with market fee levels for companies of similar size and sector. The fees remained unchanged in 2017 and were reviewed again in March 2018, where it was decided that no changes will be made at that time. Chairman and non-Executive Director fees were again reviewed in February 2019 and in light of the freezing of the fees over the last three years agreed that the Chairman's fee would be increased by 9.1% from £110 000 to £120 000 to bring the fees more in line with market fee levels for companies of similar size and sector. No change will be made to non-Executive Director fees at this time.

The percentage increase in Chief Executive Officer remuneration compared with other employee pay
The table below shows the percentage change in the Chief Executive Officer's remuneration from 2017 compared with the average percentage change in remuneration for all other 'own employees' (ie excluding contractors). It is important to note that due to a change in operational requirements throughout various companies in the Group, remuneration in 2017 included retrenchment packages which are not visible in 2018. The employees' remuneration reflects the average number of own employees in the Group for 2018 totalling 412. Employees throughout the Group are remunerated in different denominations but reported in GBP. Lower exchange rates influence remuneration in 2018 as reflected in this table.

	CT Elphick			Other employees		
	2018 £	2017 £	% change	2018 £	2017 £	% change
Base salaries	**468 211**	468 211	0	**11 951 578**	14 406 585	(17)
Benefits	**93 642**	93 642	0	**840 850**	1 544 784	(46)
Annual bonuses	**389 430**	93 642	316	**1 582 235**	660 892	139
Total	**951 283**	655 495	45	**14 374 663**	16 612 261	(13)

Audited

Relative importance of spend on pay

The table below shows the percentage change in total employee pay expenditure and shareholder distributions (ie dividends, share buy-backs and return of capital) from the financial year ended 31 December 2017 to the financial year ended 31 December 2018.

	2018 US$	2017 US$	% change
Distribution to shareholders	–	–	–
Employee remuneration[1]	**22 158 284**	24 017 414	(8)
Return of capital	**n/a**	n/a	n/a

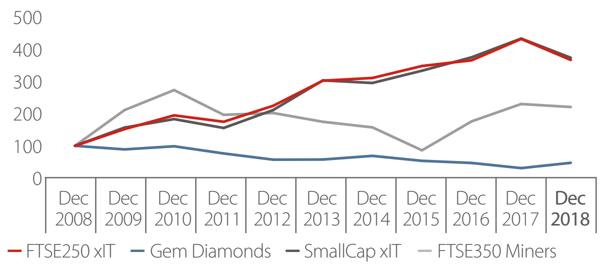
Audited

[1] Includes salary, pension and benefits, bonus, accounting charge for the ESOP, and employer national insurance contribution.

Pay for performance

The graph shows the Company's TSR performance compared with the performance of the FTSE 250 (excluding investment trusts) and the FTSE 350 Mining Index over the nine-year period to 31 December 2018. The FTSE 250 has been selected to provide a broad market comparator group, and the FTSE 350 Mining Index has been selected because the Group and the constituents of the index are affected by similar commercial and economic factors. The table below the graph details the Chief Executive Officer's single figure of remuneration and actual variable pay outcomes over the same period.

Value of £100 invested on 1 January 2009
(Gem Diamonds versus FTSE350 Mining Index, FTSE250 xIT and FTSE SmallCap xIT Index) (£)



	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Chief Executive Officer single figure of remuneration (£)	640 150	726 050	797 755	564 419	776 406	892 935	879 719	611 314	681 191	**1 006 003**
Annual bonus outcome (% of maximum)	54	67	75	13	61	83	74	0	20	**83**
ESOP vesting outcome (% of maximum)	Nil	Nil	Nil	Nil	Nil	Nil	Nil	28.26	14.54	**21.43**

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 2018, a total of 13 889 622 shares (10% of issued share capital) may be issued pursuant to all current awards outstanding over the last 10 years.

Details of outstanding awards of performance shares to Directors

Directors	Date of grant	Performance shares[1] as at 1 January 2018	Granted in the year	Vested in the year	Lapsed in the year	Exercised in the year	Exercise price USD	Market value at date of grant (USD)	Earliest normal exercise date	Expiry date	Performance shares outstanding as at 31 December 2018
CT Elphick	10 June 2014	58 209	–	–	–	–	0.01	556 200	10 June 2017	10 June 2024	**58 209**
	1 April 2015	230 000	–	33 425	196 575	–	0.01	453 100	1 April 2018	1 April 2025	**33 425**
	15 March 2016	230 000	–	–	–	–	0.01	322 000	15 March 2019	15 March 2026	**230 000**
	04 July 2017	230 000	–	–	–	–	0.01	253 000	4 July 2020	04 July 2027	**230 000**
	20 March 2018		230 000	–	–	–	0.01	308 200	20 March 2021	20 March 2028	**230 000**
Total		**748 209**	**230 000**	**33 425**	**196 575**	**–**					**781 634**
M Michael	11 September 2012	18 544	–	–	–	–	0.01	68 400	1 January 2016	31 December 2023	**18 544**
	10 June 2014	31 648	–	–	–	–	0.01	302 400	10 June 2017	10 June 2024	**31 648**
	1 April 2015	170 000	–	24 706	145 294	–	0.01	334 900	1 April 2018	1 April 2025	**24 706**
	15 March 2016	170 000	–	–	–	–	0.01	238 000	15 March 2019	15 March 2026	**170 000**
	4 July 2017	170 000	–	–	–	–	0.01	187 000	4 July 2020	4 July 2027	**170 000**
	20 March 2018		170 000	–	–	–	0.01	227 800	20 March 2021	20 March 2028	**170 000**
Total		**560 192**	**170 000**	**24 706**	**145 294**	**–**					**584 898**

[1] *Conditional right to acquire shares.*

Director resigned during 2018

Director	Date of grant	Performance shares[1] as at 1 January 2018	Granted in the year	Vested in the year	Lapsed in the year	Exercised in the year	Exercise price USD	Market value at date of grant (USD)	Earliest normal exercise date	Expiry date	Performance shares outstanding as at 31 December 2018
J Velloza[1]	1 June 2016	170 000	–	–	40 210	–	0.01	238 000[2]	1 June 2019	1 June 2026	**129 790**
	4 July 2017	170 000	–	–	102 000	–	0.01	187 000	4 July 2020	4 July 2027	**68 000**
	20 March 2018		170 000	–	142 210	–	0.01	227 800	20 March 2021	20 March 2028	**27 790**
Total		**340 000**	**170 000**	**–**	**284 420**	**–**					**225 580**

Audited

[1] *J Velloza resigned as an Executive Director on 15 September 2018. Awards have been pro-rated to date of cessation.*

[2] *Issued under March 2016 performance conditions.*

Details of outstanding awards of performance options to Director

Director	Performance options as at 1 January 2018[1]	Granted in the year	Vested in the year	Vested in the year	Lapsed in the year	Exercise price GB pence	Date of grant	Earliest normal exercise date	Expiry date	Performance options outstanding at 31 December 2018
M Michael	**37 088**[2]	–	–	–	–	177.60	11 September 2012	1 January 2016	31 December 2023	**37 088**

Audited
[1] *Option is a right to acquire shares granted under the plan including, unless indicated otherwise, a nil-cost option. The three-month average share price to December 2018 was 111 pence. The highest and lowest closing prices in the year were 125 pence and 71.4 pence respectively. Details of the vesting conditions, which are subject to audit, for awards made under the ESOP are included in Note 26 of the financial statements and a full set of the rules will be available for inspection at the AGM.*
[2] *These awards were granted to M Michael before he became a Director.*

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 2018 are given below. It is confirmed that there were no changes to the Directors' holdings between 31 December 2018 and up to the date of this report. No Director held an interest in the shares of any subsidiary company.

		Performance shares held			Performance options held			
Executive Directors	**Shares owned outright as at 31 December 2018**	**Subject to performance conditions**	**Unvested and subject to continued employment only**	**Vested but not exercised**	**Subject to performance conditions**	**Vested but not exercised**	**Total shareholding as a % of salary**	**Shareholding guideline met**
CT Elphick	**9 325 000**	**690 000**	**49 300**	**91 634**	**0**	**0**	**2232**	√
M Michael	**10 000**	**510 000**	**36 439**	**74 898**	**0**	**37 088**	**44**	**2**

Audited
[1] *CT Elphick is interested in these ordinary shares by virtue of his interest as a potential beneficiary in a discretionary trust which has an indirect interest in those ordinary shares.*
[2] *In terms of the shareholding guidelines, M Michael is required to retain at least 50% of his vested awards until the guideline has been met. Year-on-year shareholding has increased with 20%.*

Currently the only non-Executive Director with a shareholding is Johnny Velloza, by virtue of his employment before taking up a non-Executive position on 15 September 2018. His shareholding is set out on page 88.

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 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 are £83 000. Any fees paid to Clifford Elphick in fulfilling these external roles are retained by him.

By order of the Board

Michael Lynch-Bell
Chairman of the Remuneration Committee

12 March 2019

DIRECTORS' REPORT

The Directors are pleased to submit the financial statements of the Group for the year ended 31 December 2018.

As a British Virgin Islands (BVI) registered company, Gem Diamonds Limited is not obliged to conform 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 fiduciary duty. The 2019 Annual Report and Accounts will include disclosure on how the Directors have performed their duty to promote the success of the Company, in line with the incoming changes to the Companies Act, 2006.

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 which are incorporated by reference.

The Strategic Report can be found on pages 1 to 44 and 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 several 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 based on 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. The forward-looking statements should be read in context with actual historic information provided. 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 Auditor's Report does include a statement that the Strategic Report is consistent with the financial statements herein.

Corporate governance

The UK Financial Conduct Authority's Disclosure Guidance 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 Guidance and Transparency Rules and the UK Financial Conduct Authority's Listing Rules (LR 9.8.6) is located on pages 50 to 57.

Directors

The Directors, as at the date of this report, are listed on pages 46 and 47 together with their biographical details. Details of the Directors' interests in shares and share options of the Company can be found on page 89.

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

	Appointment	Resignation
Executive Directors		
CT Elphick	20 January 2006	n/a
M Michael	22 April 2013	n/a
Non-Executive Directors		
H Kenyon-Slaney	6 June 2017	n/a
M Brown	1 January 2018	n/a
MD Lynch-Bell	15 December 2015	n/a
J Velloza	1 July 2018	n/a

Mike Brown was appointed as an independent non-Executive Director on 1 January 2018. Johnny Velloza joined the Board on 1 July 2018 initially in an executive capacity and then from 15 September 2018 as a non-Executive Director.

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.

Protection available to Directors

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

The Group therefore 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.

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 UK Listing Authority.

Neither the insurance nor the indemnity provides cover where the Director or Group personnel member has acted fraudulently or dishonestly.

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 on page 89.

Related-party transactions

Other than those disclosed in Note 24 of the financial statements, the Company did not have any transactions with, nor made loans to, related parties during the period in which any Director is or was interested.

Results and dividends

The Group's attributable profit after taxation amounted to US$26.0 million (2017: profit of US$5.5 million).

The Group's detailed financial results are set out in the financial statements section on pages 98 to 143.

The Board has adopted a dividend policy that determines the appropriate dividend each year, based on consideration of the Company's cash resources; the level of free cash flow and earnings generated during the year; and expected funding commitments for capital projects relating to the Group's operational requirements. The Board has decided that no dividend will be paid in respect of the 2018 financial year. We believe that the focus on strengthening our balance sheet and positioning ourselves for the future will be to the benefit of our shareholders going forward.

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 1 to 44. The financial position of the Company, its cash flows and liquidity position are described in the Strategic Report on pages 21 to 26. In addition, Note 25 and Note 27 to the financial statements include 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 review forecasts and budgets, timing of cash flows, borrowing facilities and sensitivity analyses and considering the uncertainties described in this report either directly or by cross-reference, the Directors have a reasonable expectation that the Group has adequate financial resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Annual Report and Accounts of the Company.

Viability statement

In accordance with provision C.2.2 of the 2016 UK Corporate Governance Code, the Directors have assessed the prospect of the Company over a longer period of 12 months as required by the 'going concern' provision. The viability statement can be found in the Strategic Report on page 10.

Business development

The Group continued its Business Transformation process over the year and remains on track to deliver on its cumulative four-year target to 2021 of US$100 million in revenue, productivity improvements and cost savings. Further detail relating to the Business Transformation is set out on pages 27 to 29.

The Group continues to explore and evaluate new technologies to enhance diamond recovery and extract maximum value. During 2018 progress was made on the development of innovative technologies designed to identify diamonds within kimberlite prior to the crushing process and liberating these diamonds through electric pulse technologies. Following the successful proof of concept of detecting diamonds within kimberlite using X-ray transmission scanning technology, the Company approved US$3.0 million for the construction of a pilot plant at Letšeng, to be commissioned during Q2 2019. The pilot project will also include the use of an inhouse developed high-pulse generator as a non-mechanical means of liberating diamonds. Further detail on these innovative technologies is set out on pages 35 and 36.

Subsequent events

Refer to Note 30 of the financial statements for details of events subsequent to the reporting date.

Annual General Meeting

Details of the resolutions which will be put to the AGM are given in the Notice of AGM, which is a separate document from the Annual Report. For those shareholders who elected to receive company documentation electronically, an announcement will be released when the AGM documents are available to download from the Company's website (www.gemdiamonds.com).

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 16 to the financial statements.

As at 11 March 2019, there were 138.9 million fully paid ordinary shares of US$0.01 each in issue and listed on the official list maintained by the FCA in its capacity as the UK Listing Authority.

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

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

There are no restrictions on the transfer of ordinary shares other than:
- as set out in the Company's Articles of Association;
- certain restrictions may from time to time be imposed by laws and regulations; and
- pursuant to the Company's share dealing code whereby the Directors and employees of the Company require approval to deal in the Company's ordinary shares.

At the AGM held in 2018, shareholders authorised the Company to make on-market purchases of up to 13 868 554 of its ordinary shares, representing approximately 10% of the Company issued share capital at that time. During 2018, 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 2019 AGM to renew this authority. The Directors have no present intention to exercise this authority, if granted. Details of deadlines for exercising voting rights and proxy appointments will be set out in the 2019 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 50.

Resource development
The core drilling project started in 2017 was concluded in December 2018. Further detail on this project can be found in the Letšeng Operating Review on page 30. Resource development activities were concentrated on improving the understanding of existing resources at Letšeng, and no additional resources and reserves were added. For more information on the Resources and Reserves statement refer to the Company's website (www.gemdiamonds.com).

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 37 to 44.

Corporate social investment (CSI) expenditure
During 2018 the Group invested US$0.8 million towards social initiatives, exceeding the contribution of US$0.5 million made in 2017. The Group supports initiatives that benefit its PACs in the areas of health, education, infrastructure development, development of small to medium enterprises and also makes donations to relevant causes. Infrastructure development was recorded as the category receiving the most investment, followed by small and medium enterprise development and education.

Political donations
The Group made no political donations during 2018.

Greenhouse gas (GHG) emissions
Carbon Footprint Assessment (CFA) summary
In 2018, the total carbon footprint for the Group was 161 491tCO2e (2017: 155 106tCO_2e), primarily driven by electricity consumption and mobile and stationary fuel combustion. This figure includes the direct Greenhouse Gas (GHG) emissions (Scope 1), indirect GHG (Scope 2) emissions, and material Scope 3 emissions, and was calculated with boundaries clearly defined by the GHG Protocol Corporate Accounting and Reporting Standard. The total carbon footprint for Scope 1 and Scope 2 emissions was 135 385tCO_2e (2017: 131 752tCO_2e).

The 4% increase in the total carbon footprint, across all three scopes, can be attributed to longer truck haul distances at Letšeng which resulted in an increase in mobile diesel combustion as well as increased grid electricity consumption. Intensity reporting is required to report on the Group's carbon efficiency performance, therefore the Group tracks tonnes of CO_2e emitted per employee and per carat recovered. The tonnes of CO_2e per employee improved from 74.2 tonnes of CO_2e per employee in 2017 to 73.7 tonnes of CO_2e per employee in 2018. The ratio for tonnes of CO_2e per carat also improved during 2018 to 1.27 tonnes of CO_2e per carat (2017: 1.29). The observed carbon intensity improvements can be attributed to an increase in carats recovered as well as an increase in Group employees which offsets the increase in carbon emissions.

Water footprint
Gem Diamonds understands the risks related to water scarcity and pollution. Fresh water is one of the most important commodities on earth and the Group undertakes to ensure that water is managed sustainably. Caring for water sources and monitoring water usage are crucial practices in both a commercial and moral respect and helps the Group maintain its social licence to operate. The mining sector has long been associated with the perception of negative impacts on land and water resources. The sustainable management of the Group's water reduces the risks associated with water use and the impacts within the catchments in which the Group operates.

A water footprint can be defined as a measure of freshwater appropriation underlying a certain product, including fresh surface water, groundwater incorporated in the product or lost during the manufacturing of the product. The Group's total water footprint during 2018 technical year was 8 383 339m^3, slightly down from the reported 2017 footprint of 8 496 384m^3. Total water footprint, in relation to carats mined and tonnes of ore treated, was 37.6m^3 (2017: 42.9m^3) per carat and 1.28m^3 per tonne treated ore (2017: 1.31m^3 per tonne treated ore).

Employee policies and involvement

To gain a fuller understanding of matters related to employee policies and involvement, this segment should be read in conjunction with the information on employment matters contained in the Sustainable Development Review in this report on pages 37 to 44 together with the information contained on the Sustainable Development Platform, available on the Company's website.

The Group prioritises the health, safety and effective performance of employees, in conjunction with maintaining positive employee relations. The Group encourages a direct relationship with open communication between employees and management. Employees are informed about the Group's performance and objectives through direct and continuous communication with management as well as the Company's website, published information, the circulation of press cuttings and Group announcements. Equal opportunity forms the foundation of employment within the Group and the Gem Diamonds is committed to achieving equality 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 abilities and aptitude. Where existing employees become disabled, it is the Group's policy, where practical, to provide continuing employment under normal terms and conditions and to provide training, career development and promotion to disabled employees wherever possible.

Employment practices within the Group are aimed at attracting and retaining top calibre management and staff by creating a work environment that incentivises enhanced performance. Guidelines and frameworks in respect of remuneration benefit, performance management, career development, succession planning, recruitment, expatriate employment and the alignment of human resources management and policy have been implemented by the Group and are in line with international best practice. Each operating unit manages its human resources requirements locally, within the Group's guidelines and framework.

Disclosure of information and auditor re-election

The Lead Audit Partner is based in Johannesburg, RSA. Further information regarding the appointment of EY SA are detailed in the Audit Committee Report on pages 58 and 63.

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 Auditor's Report of which the Company's auditors are unaware of 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 appoint EY SA as the Company's auditors and to authorise the Board to determine the auditors' remuneration will be proposed at the 2019 AGM.

The Strategic Report, the Directors' Report and the Directors' Remuneration Report were approved by the Board on 12 March 2019.

By order of the Board

Glenn Turner
Company Secretary

12 March 2019

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, are fair, balanced and understandable and that they provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

The Strategic Report and Directors' Report include 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 of their profit or loss for that period. In preparing the Group financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS;
- state whether applicable IFRS have been followed, subject to any material departures disclosed and explained in the Group 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 or loss of the Group 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.

The Directors of the Company have elected to comply with the Companies Act, 2006, in particular the requirements of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2013 of the United Kingdom pertaining to Directors' remuneration which would otherwise only apply to companies incorporated in the UK.

Michael Michael
Chief Financial Officer

12 March 2019

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Gem Diamonds Limited

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Gem Diamonds Limited and its subsidiaries (the Group) set out on pages 98 to 143, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the Independent Regulatory Board for Auditors *Code of Professional Conduct for Registered Auditors (IRBA Code)*, the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants (IESBA Code)* and other independence requirements applicable to performing audits of the Group. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code, IESBA Code, and in accordance with other ethical requirements applicable to performing the audit of the Group. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How the matter was addressed in the audit
Revenue recognition In the current year, the Group recognised revenue amounting to US$267.3 million (2017: US$214.3 million). IFRS 15 *Revenue from Contracts with Customers* became applicable to the Group from 1 January 2018. Management elected the modified retrospective approach for adoption. The Group has several different sales arrangements, consisting of selling rough diamonds through tenders, partnerships arrangements or joint operation arrangements, and also includes a proportionate share of the cutting and polishing margin uplift generated from the selling of polished diamonds from the partnership and joint operation arrangements. In the current year, revenue from the sale of rough diamonds amounted to US$266.8 million (2017: US$213.5 million), which comprise 99.8% (2017: 99.6%) of Group revenue. Revenue is driven by the nature of each sales type and the characteristics of each diamond being sold such as the colour, clarity, carat size, shape of the stone and delivery date of diamonds to the customer. The diversity of the sales arrangements increases the complexity and extent of audit effort required to assess and validate the occurrence, measurement and completeness of revenue recognised. Refer to the accounting policies (page 106) and Note 2 of the Annual Financial Statements (page 118).	**Our audit procedures included among others:** • We evaluated management's impact analysis of adopting IFRS 15 in the current year. • We evaluated the accounting treatment of each of the various revenue stream arrangements. • We assessed a sample of rough diamond sales in the current year to: – Underlying invoices – Payments from customers – Delivery notes or receipt confirmations from counterparties. • We evaluated the elimination of intercompany sales transactions upon consolidation. • We evaluated the completeness of current year revenues by analysing management's reconciliation of rough and polished diamonds that were produced and sold during the year as well as diamonds on hand at year end. We assessed the opening and closing inventory (carats), diamonds produced and purchased, boiling and tender losses and current year sales to supporting audit evidence. • We furthermore also considered the reasonableness of the Group's related disclosures in the financial statements by comparing that to the requirements of IFRS 15.

INDEPENDENT AUDITOR'S REPORT CONTINUED

Key audit matter	How the matter was addressed in the audit
Impairment of goodwill In accordance with IAS 36 *Impairment of Assets*, management performs an annual impairment assessment for goodwill allocated to the Letšeng cash generating unit (CGU) by comparing the carrying amount of the CGU, including goodwill, to its value in use. Management used a discounted cash flow model to determine the value in use of the CGU. The key area of judgement relates to the Group's assessment of future cash flows. The future cash flows use forward looking estimates, which are inherently difficult to determine with precision and judgement is applied to determine key inputs. This determination is dependent on several assumptions, which include: • Inflation forecasts • Future diamond prices • Exchange rates • Operating costs • Capital expenditure • Production • Discount rates Due to the significant judgements involved in estimating the key inputs to calculate the value in use, additional audit effort, emphasis and executive involvement was required. During the year management recorded US$nil (2017: US$nil) impairment of PPE or goodwill. Refer to the accounting policies (page 106) and Note 11 of the Annual Financial Statements (page 125).	Our audit procedures included among others: • We considered and assessed management's approach to identifying indicators of impairment for completeness, focusing on changes in diamond prices and market capitalisation. • We tested the methodology applied in the value in use calculation relative to the requirements of IAS 36 *Impairment of Assets* and tested the mathematical accuracy of management's cash flow forecasts. • We involved EY internal valuations specialists to assist in evaluating management's key estimates and judgements, which included management's price, inflation rates, exchange rates and discount rates assumptions. • We evaluated the reasonability of management's estimate of the value in use and forecast cash flows by considering evidence available to support assumptions and the reliability of past forecasts. This included agreeing key cash flow inputs such as operating expenditure, future capital expenditure and reserve and resource-life data to the Group's latest approved plans and budgets. • We evaluated management sensitivity analysis for the impact that diamond prices and operating expenditure may have on the value in use. • We assessed the period over which the impairment test is performed, including the assumptions in the mine plan, and the current stage of the mining licence renewal process. • We considered the disclosures in relation to impairment review and estimates made in the financial statements to the requirements of IFRS.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report set out on pages 1 to 94, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information, except to the extent otherwise explicitly stated in this report, and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the Directors for the consolidated financial statements

The Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISA, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements
In terms of the IRBA Rule published in *Government Gazette Number 39475* dated 4 December 2015, we report that Ernst & Young LLP, incorporated in the UK, served as auditor of Gem Diamonds Limited from 2007 until 2017, which was 11 years. Ernst & Young Incorporated has been appointed as the auditor of Gem Diamonds Limited for the first time in respect of the year ended 31 December 2018, and accordingly has been the auditors of Gem Diamonds Limited for one year.

Ernst & Young Inc.
Ernest Adriaan Lodewyk Botha – Director
Chartered Accountant (CA)
Registered Auditor
Johannesburg, South Africa

12 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2018

	Notes	2018 US$'000 Total	2017 US$'000 Before exceptional items	2017 US$'000 Exceptional items[1]	2017 US$'000 Total
Revenue	2	**267 290**	214 296	–	214 296
Cost of sales		**(154 953)**	(146 177)	(3 605)	(149 782)
Gross profit		**112 337**	68 119	(3 605)	64 514
Other operating income and expenses	3	**(5 045)**	793	–	793
Royalties and selling costs		**(22 905)**	(18 828)	–	(18 828)
Corporate expenses		**(10 319)**	(9 496)	–	(9 496)
Share-based payments	26	**(1 437)**	(1 526)	–	(1 526)
Foreign exchange gain/(loss)	4	**2 205**	(1 347)	–	(1 347)
Operating profit/(loss)	4	**74 836**	37 715	(3 605)	34 110
Net finance costs	6	**(1 847)**	(3 801)	–	(3 801)
Finance income		**2 033**	630	–	630
Finance costs		**(3 880)**	(4 431)	–	(4 431)
Profit/(loss) before tax for the year		**72 989**	33 914	(3 605)	30 309
Income tax expense	7	**(26 348)**	(13 075)	–	(13 075)
Profit/(loss) for the year		**46 641**	20 839	(3 605)	17 234
Attributable to:					
Equity holders of parent		**26 017**	9 083	(3 605)	5 478
Non-controlling interests		**20 624**	11 756	–	11 756
Earnings per share (cents)	8				
– Basic earnings for the year attributable to ordinary equity holders of the parent		**18.8**	6.6	–	4.0
– Diluted earnings for the year attributable to ordinary equity holders of the parent		**18.3**	6.4	–	3.9

[1] *Refer to Note 5, Exceptional items.*

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2018

	2018 US$'000	2017 US$'000
Profit for the year	**46 641**	17 234
Other comprehensive income that could be reclassified to the statement of profit or loss in subsequent periods		
Exchange differences on translation of foreign operations	**(43 217)**	21 565
Other comprehensive (expense)/income for the year, net of tax	**(43 217)**	21 565
Total comprehensive income for the year, net of tax	**3 424**	38 799
Attributable to:		
Equity holders of the parent	**(3 638)**	23 640
Non-controlling interests	**7 062**	15 159

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2018

	Notes	2018 US$'000	2017 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	9	**289 640**	305 542
Intangible assets	10	**13 272**	15 422
Receivables and other assets	12	**347**	22
		303 259	320 986
Current assets			
Inventories	13	**33 084**	34 065
Receivables and other assets	12	**5 433**	7 777
Cash and short-term deposits	14	**50 812**	47 704
		89 329	89 546
Assets held for sale	15	**859**	2 097
Total assets		**393 447**	412 629
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	16	**1 390**	1 387
Share premium		**885 648**	885 648
Other reserves	16	**(152 029)**	(123 811)
Accumulated losses[1]		**(578 834)**	(604 851)
		156 175	158 373
Non-controlling interests		**72 103**	85 783
Total equity		**228 278**	244 156
Non-current liabilities			
Interest-bearing loans and borrowings	17	**19 954**	33 279
Trade and other payables	18	**1 555**	1 609
Provisions	20	**17 876**	17 306
Deferred tax liabilities	21	**74 054**	78 579
		113 439	130 773
Current liabilities			
Interest-bearing loans and borrowings	17	**14 212**	13 064
Trade and other payables	18	**28 554**	23 360
Income tax payable	19	**8 964**	1 276
		51 730	37 700
Total liabilities		**165 169**	168 473
Total equity and liabilities		**393 447**	412 629

[1] *Included in profit or loss for the year and accumulated in equity are amounts relating to assets held for sale. Refer to Note 15, Assets held for sale.*

Approved by the Board of Directors on 12 March 2019 and signed on its behalf by:

CT Elphick
Director

M Michael
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

	Issued capital[1] US$'000	Share premium[1] US$'000	Own shares US$'000	Attributable to the equity holders of the parent			Non-controlling interests US$'000	Total equity US$'000
				Other reserves[1] US$'000	Accumulated (losses)/ retained earnings US$'000	Total US$'000		
Balance at 1 January 2018	**1 387**	**885 648**	**–**	**(123 811)**	**(604 851)**	**158 373**	**85 783**	**244 156**
Total comprehensive income	**–**	**–**	**–**	**(29 655)**	**26 017**	**(3 638)**	**7 062**	**3 424**
Profit for the year	**–**	**–**	**–**	**–**	**26 017**	**26 017**	**20 624**	**46 641**
Other comprehensive income	**–**	**–**	**–**	**(29 655)**	**–**	**(29 655)**	**(13 562)**	**(43 217)**
Share capital issued	**3**	**–**	**–**	**–**	**–**	**3**	**–**	**3**
Treasury shares	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Share-based payments (Note 26)	**–**	**–**	**–**	**1 437**	**–**	**1 437**	**–**	**1 437**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**–**	**(20 742)**	**(20 742)**
Balance at 31 December 2018	**1 390**	**885 648**	**–**	**(152 029)**	**(578 834)**	**156 175**	**72 103**	**228 278**
Balance at 1 January 2017	1 384	885 648	(1)	(143 498)	(610 329)	133 204	70 623	203 827
Total comprehensive income	–	–	–	18 161	5 478	23 639	15 160	38 799
Profit for the year	–	–	–	–	5 478	5 478	11 756	17 234
Other comprehensive income	–	–	–	18 161	–	18 161	3 404	21 565
Share capital issued	3	–	–	–	–	3	–	3
Treasury shares	–	–	1	–	–	1	–	1
Share-based payments (Note 26)	–	–	–	1 526	–	1 526	–	1 526
Balance at 31 December 2017	1 387	885 648	–	(123 811)	(604 851)	158 373	85 783	244 156

[1] *Refer to Note 16, Issued capital and reserves, for further detail.*

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2018

	Notes	2018 US$'000	2017 US$'000
Cash flows from operating activities		**138 339**	97 395
Cash generated by operations	22.1	**149 755**	110 795
Working capital adjustments	22.2	**1 916**	(9 892)
		151 671	100 903
Interest received		**2 033**	630
Interest paid		**(2 742)**	(3 210)
Income tax paid		**(12 623)**	(928)
Cash flows used in investing activities		**(99 449)**	(101 158)
Purchase of property, plant and equipment		**(22 963)**	(17 787)
Waste stripping costs capitalised		**(79 294)**	(84 009)
Proceeds from sale of property, plant and equipment		**2 808**	638
Cash flows (used in)/generated by financing activities		**(30 766)**	17 469
Interest-bearing loans and borrowings (repaid)/raised	22.3	**(10 024)**	17 469
– Interest-bearing loans and borrowings repaid		**(12 937)**	(46 601)
– Interest-bearing loans and borrowings raised		**2 913**	64 070
Dividends paid to non-controlling interests		**(20 742)**	–
Net increase in cash and cash equivalents		**8 124**	13 706
Cash and cash equivalents at beginning of year		**47 704**	30 787
Foreign exchange differences		**(5 016)**	3 211
Cash and cash equivalents at end of year held at banks		**50 659**	47 531
Restricted cash at end of year		**153**	172
Cash and cash equivalents at end of year	14	**50 812**	47 704

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2018

1. NOTES TO THE FINANCIAL STATEMENTS

1.1 Corporate information

1.1.1 Incorporation

The holding company, Gem Diamonds Limited (the Company), was incorporated on 29 July 2005 in the British Virgin Islands (BVI). The Company's registration number is 669758.

These financial statements were authorised for issue by the Board on 12 March 2019.

The Group is principally engaged in the exploration and development of diamond mines.

1.1.2 Operational information

The Company has the following investments directly and indirectly in subsidiaries at 31 December 2018:

Name and registered address of company	Share-holding	Cost of investment[1]	Country of incorporation	Nature of business
Subsidiaries				
Gem Diamond Technical Services (Proprietary) Limited[2] Illovo Corner 24 Fricker Road Illovo Boulevard Illovo 2196	100%	US$17	RSA	Technical, financial and management consulting services.
Gem Equity Group Limited[2] Ground Floor, Coastal Building Wickhams Cay II Roadtown Tortola VG 1130 British Virgin Islands	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 Gem Diamonds Marketing Botswana (Proprietary) Limited.
Letšeng Diamonds (Proprietary) Limited[2] Letšeng Diamonds House Corner Kingway and Old School Roads Maseru Lesotho	70%	US$126 000 303	Lesotho	Diamond mining and holder of mining rights. Letšeng Diamonds (Proprietary) Limited holds 100% of the A class shares and 70% of the B class shares in Letšeng Diamonds Manufacturing (Proprietary) Limited, which is a company established in Lesotho to operate the in-country diamond cutting and polishing. The company is currently dormant.
Gem Diamonds Botswana (Proprietary) Limited[2] Suite 103, GIA Centre Diamond Technology Park Plot 67782, Block 8 Gaborone Botswana	100%	US$5 844 579	Botswana	Diamond mining; evaluation and development; and holder of mining licences and concessions.
Gem Diamonds Investments Limited[2] 20 – 22 Bedford Row London WC1R 4JS United Kingdom	100%	US$17 531 316	UK	Investment holding company holding 100% in each of Gem Diamonds Technology DMCC, Calibrated Diamonds Investment Holdings (Proprietary) Limited and Gem Diamonds Innovation Solutions CY Limited[3]; 99.9% in Gem Diamonds Marketing 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.*
[3] *Gem Diamonds Innovation Solutions CY Limited was incorporated during the prior year as an intellectual property holding company.*

1. NOTES TO THE FINANCIAL STATEMENTS (continued)

1.1 Corporate information (continued)

1.1.3 Segment information

For management purposes, the Group is organised into geographical units as its risks and required rates of return are affected predominantly by differences in the geographical regions of the mines and areas in which the Group operates or areas in which operations are managed. The main geographical regions and the type of products and services from which each reporting segment derives its revenue from are:

- Lesotho (diamond mining activities);
- Botswana (diamond mining activities through Ghaghoo) and sales and marketing of diamonds through Gem Diamonds Marketing Botswana (Proprietary) Limited. Ghaghoo was placed on care and maintenance in February 2017;
- Belgium (sales, marketing and manufacturing of diamonds); and
- BVI, RSA, UK and Cyprus (technical and administrative services).

Management monitors the operating results of the geographical units separately for the purpose of making decisions about resource allocation and performance assessment.

Segment performance is evaluated based on operating profit or loss. Intersegment 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.

During the prior year, the Ghaghoo mine, forming part of the Botswana segment, was placed on care and maintenance. .

The following table presents revenue and profit/(loss), and asset and liability information from operations regarding the Group's geographical segments:

Year ended 31 December 2018	Lesotho US$'000	Botswana US$'000	Belgium US$'000	BVI, RSA,[1] UK and Cyprus US$'000	Total US$'000
Revenue					
Total revenue	262 636	–	267 370	9 440	539 446
Intersegment	(262 636)	–	(432)	(9 088)	(272 156)
External customers	–	–	266 938	352	267 290
Depreciation and amortisation	76 537	43	204	120	76 904
– Depreciation and mining asset amortisation	8 332	43	204	120	8 699
– Waste stripping cost amortisation	68 205	–	–	–	68 205
Share-based equity transactions	317	15	6	1 099	1 437
Segment operating profit/(loss)	88 815	(5 529)	2 025	(10 475)	74 836
Net finance costs	743	(190)	–	(2 400)	(1 847)
Profit/(loss) before tax	89 558	(5 719)	2 025	(12 875)	72 989
Income tax expense					(26 348)
Profit for the year					46 641
Segment assets	358 646	4 000	3 249	27 552	393 447
Segment liabilities	62 753	4 036	689	23 637	91 115
Other segment information					
Capital expenditure					
– Property, plant and equipment[2]	22 628	–	1 880	899	25 407
– Waste cost capitalised	79 294	–	–	–	79 294
Total capital expenditure	101 922	–	1 880	899	104 701

[1] *No revenue was generated in BVI.*

[2] *Capital expenditure includes non-cash movements in rehabilitation assets relating to changes in rehabilitation estimates for the Lesotho segment.*

1. NOTES TO THE FINANCIAL STATEMENTS (continued)

1.1 Corporate information (continued)

1.1.3 Segment information (continued)

Included in annual revenue for the current year is revenue from two customers which amounted to US$88.3 million arising from sales reported in the Belgium segments.

Segment liabilities do not include net deferred tax liabilities of US$74.1 million.

Total revenue for the current year are higher than that of the prior year mainly as a result of the higher volume of exceptional large diamonds recovered at the Lesotho segment, specifically bolstered by the recovery and sale of the 910 carat Lesotho Legend.

Year ended 31 December 2017	Lesotho US$'000	Botswana US$'000	Belgium US$'000	BVI, RSA,[1] UK and Cyprus US$'000	Total US$'000
Revenue					
Total revenue	201 532	2 427	214 045	8 835	426 839
Intersegment	(201 177)	(2 427)	(592)	(8 347)	(212 543)
External customers	355	–	213 453	488	214 296
Depreciation and amortisation	75 439	38	701	279	76 457
– Depreciation and mining asset amortisation	7 538	38	701	279	8 556
– Waste stripping cost amortisation	67 901	–	–	–	67 901
Share-based equity transactions	375	62	3	1 086	1 526
Exceptional costs	–	(3 605)	–	–	(3 605)
Segment operating profit/(loss)	53 301	(7 944)	873	(12 120)	34 110
Net finance costs	(1 486)	(369)	–	(1 946)	(3 801)
Profit/(loss) before tax	51 815	(8 313)	873	(14 066)	30 309
Income tax expense					(13 075)
Profit for the year					17 234
Segment assets	394 886	5 635	2 843	9 265	412 629
Segment liabilities	51 658	4 530	303	33 403	89 894
Other segment information					
Capital expenditure					
– Property, plant and equipment[2]	15 499	227	25	533	16 284
– Waste cost capitalised	84 009	–	–	–	84 009
Total capital expenditure	99 508	227	25	533	100 293

[1] *No revenue was generated in BVI.*

[2] *Capital expenditure includes non-cash movements in rehabilitation assets relating to changes in rehabilitation estimates for the Lesotho segment.*

Included in annual revenue for the 2017 year is revenue from a single customer which amounted to US$29.0 million arising from sales reported in the Lesotho and Belgium segments.

Segment liabilities do not include net deferred tax liabilities of US$78.6 million.

1. NOTES TO THE FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies

1.2.1 Basis of preparation

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS). These financial statements have been prepared under the historical cost basis. The accounting policies have been consistently applied except for the adoption of the new standards and interpretations detailed on the following pages.

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 1.2.28, Critical accounting estimates and judgement.

Changes in accounting policies and disclosures
New and amended standards and interpretations
The Group applied IFRS 15 for the first time from 1 January 2018. The nature and effect of the changes as a result of the adoption of this new standard is described below. Other than the changes described below, the accounting policies adopted are consistent with those of the previous financial year.

Several other amendments and interpretations applied for the first time in 2018, but did not have an impact on the consolidated financial statements of the Group and, hence, have not been disclosed. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 15 *Revenue from Contracts with Customers*
The Group is required to apply IFRS 15 for annual reporting periods beginning on or after 1 January 2018. Management has assessed the core principle of IFRS 15, that the Group will recognise revenue to depict the transfer of promised diamond sales to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for the diamond sales. The standard requires entities to apportion revenue earned from contracts to individual promises, or performance obligations, on a relative standalone selling price basis, based on a five-step model.

The impacts of implementing IFRS 15 on the Group results are as follows:
- Under IFRS 15 the revenue recognition model changed from one based on the transfer of risk and reward of ownership to the transfer of control of ownership. The Group's revenue is predominantly derived from the sale of rough diamonds. Diamond sales are made through a competitive tender process and are recognised when the performance obligations have been satisfied, at the time the buyer obtains control of the diamond(s), costs can be reliably measured, and receipt of proceeds are probable. The Group has reviewed the terms and conditions of the current tender contracts entered into with each of the buyers and as the transfer of risks and rewards generally coincides with the transfer of control at a point in time, is satisfied that, based on the terms of the current contracts, there is no change to the timing of revenue recognition on tender sales under IFRS 15.
- IFRS 15 introduces the concept of performance obligations that are defined as a 'distinct' promised good or service. This will have an impact on the timing of revenue recognised where the Group enters into partnership arrangements, whereby there is rough diamond revenue and an additional uplift revenue recognised on polished margin received. Revenue from the sale of the rough diamond will be recorded when all performance obligations are met, being at the time of the sale of the rough diamond to the partner. Revenue from additional uplift is considered to be variable consideration. This variable consideration will generally be significantly constrained. This is on the basis that the ultimate additional uplift received will depend on a range of factors that are highly susceptible to factors outside the Group's influence. The Group has reviewed the terms and conditions of its current contracts pertaining to such scenarios and are satisfied that there is no change to the timing of the additional uplift recognised on such sales under IFRS 15.

The modified retrospective approach was applied which had no impact on the Group results, had IAS 18 Revenue been applied, revenue of US$267.3 million would have been recognised in 2018. No expedients were utilised.

IFRS 9 *Financial Instruments*

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments*: Recognition and measurement for annual periods beginning on or after 1 January 2018; bringing together all three aspects of the accounting for financial instruments: Classification and measurement impairment and hedge accounting.

The Group has assessed the impact of IFRS 9 and based on the nature of the financial instruments held, determined that IFRS 9 does not have an impact on the Group results.

1. NOTES TO THE FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

1.2.1 Basis of preparation (continued)

Standards issues but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's Financial Statements, that the Group reasonably expects will have an impact on its disclosures, financial position or performance when applied at a future date, are disclosed below. The Group intends to adopt these standards when they become effective.

The other standards and interpretations that are issued, but not yet effective, are not expected to impact the Group, and have therefore not been listed.

Standard, amendment or interpretation			Effective period commencing on or after
IFRS 16	*Leases*	The new standard requires lessees to recognise assets and liabilities on their balance sheets for most leases, many of which may have been off balance sheet in the past. The Group is currently in the process of quantifying the impact of the change as detailed below.	1 January 2019

IFRS 16 *Leases*

The standard is effective for years commencing on or after 1 January 2019. The standard will be adopted by the Group for the financial reporting period commencing 1 January 2019.

IFRS 16 requires a lessee to recognise a right of use asset and lease obligations for all leases except for short-term leases, or leases of low value assets. Leases where the exceptions are applicable may be treated similarly to operating leases under the current standard IAS 17 *Leases*.

A lessee measures its lease obligation at the present value of future lease payments, and recognises a right of use asset initially measured at the same amount as the lease obligation, adjusted for lease prepayments, lease incentives received, the lessee's initial direct costs and an estimate of restoration, removal and dismantling costs. Right of use assets are subsequently treated in a similar way to other assets such as property, plant and equipment or intangible assets dependent on the nature of the underlying item. The lease obligation is subsequently measured at amortised cost using the effective interest rate, giving rise to interest expense.

An assessment has been performed, on the Group's agreements, to determine whether the agreements are within the scope of IFRS 16 and whether they will be classified as a finance or operating lease in terms of the classification requirements.

The Group is currently in the process of determining the impact of the application of IFRS 16, however it is expected to have a significant impact on the Group's financial statements, particularly in relation to the recognition of right of use assets, lease liabilities, depreciation, operating expenses, finance expenses and EBITDA. It is expected that the most significant impact will be the change in accounting for the moveable equipment leases, with remaining lease terms of between one and seven years. The lease payments made during 2018 amounted to US$68.2 million (2017: US$60.0 million).

The Group will apply the modified retrospective approach and is currently considering the application of exceptions related to short-term and low-value asset leases.

Information on the undiscounted amount of the Group's operating lease commitments under IAS 17, the current leasing standard, is disclosed in Note 23, Commitments and contingencies.

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. NOTES TO THE FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

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 (1 to 44). The financial position of the Company, its cash flows and liquidity position are described in the Strategic Review on pages (21 to 26) in the Annual Report and Accounts. In addition, Note 25, 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.

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 of the following criteria must be met:
(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 intragroup balances and transactions, including unrealised profits arising from them, are eliminated in full.

Non-controlling interests

Non-controlling interests represent the equity in a subsidiary not attributable, directly or 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. NOTES TO THE FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

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 asset, 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 are 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 policies.

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.

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 or period of lease
Decommissioning assets	Straight line	Lesser of life of mine or period of lease
Leasehold improvements	Straight line	Lesser of three years or period of lease
Plant and equipment	Straight line	Three to 10 years
Other assets	Straight line	Two to five years

Pre-production and in production stripping costs

Costs associated with removal of waste overburden are classified as stripping costs.

Stripping activities that are undertaken during the production phase of a surface mine may create two benefits, being either the production of inventory or improved access to the ore to be mined in the future. Where the benefits are realised in the form of inventory produced in the period, the production stripping costs are accounted for as part of the cost of producing those inventories. Where production stripping costs are incurred and where the benefit is the creation of mining flexibility and improved access to ore to be mined in the future, the costs are recognised as a non-current asset, referred to as a 'stripping activity asset', if:
(a) future economic benefits (being improved access to the orebody) are probable;
(b) the component of the orebody for which access will be improved can be accurately identified; and
(c) the costs associated with the improved access can be reliably measured.

The stripping activity asset is separately disclosed in Note 9, Property, plant and equipment. If all the criteria are not met, the production stripping costs are charged to the statement of profit or loss 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.

1. NOTES TO THE FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

1.2.7 Non-current assets held for sale

The Group classifies non-current assets and disposal groups as held for sale to equity holders of the parent if their carrying amounts will be recovered principally through a distribution rather than through continuing use. Such non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the sale, excluding the finance costs and income tax expense.

The criteria for held-for-sale classification is regarded as met only when the sale is highly probable, and the asset or disposal group is available for immediate distribution in its present condition. Actions required to complete the distribution should indicate that it is unlikely that significant changes to the distribution will be made or that the distribution will be withdrawn. Management must be committed to the sale expected within one year from the date of the classification.

Property, plant, equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

1.2.8 Goodwill and other intangible assets

Goodwill

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 CGUs (or groups of CGUs) 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 shall not be larger than an operating segment before aggregation.

Where goodwill forms part of a CGU 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 CGU retained.

1.2.9 Financial assets

Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date. Currently the Group only has financial assets at amortised cost.

When financial assets are recognised initially, they are measured at fair value plus (in the case of investments not at fair value through profit or loss) directly attributable costs.

Financial assets at amortised cost

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 statement of profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at an appropriate interest rate. The amount of the provision is recognised in the income statement.

1. NOTES TO THE FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

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 1.2.26, Finance costs, over the period of the borrowings, using the effective interest rate method.

Bank overdrafts are recognised at amortised cost.

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 is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

1.2.12 Impairments

Non-financial assets

Assets that are subject to amortisation or depreciation are reviewed for impairment if it is determined that there is an indication of impairment in accordance with IAS 36. 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. 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 is impaired.

1. NOTES TO THE FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

Assets carried at amortised cost

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (ie the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is 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 the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

1.2.13 Inventories

Inventories, which include rough diamonds, ore stockpiles and consumables, are measured at the lower of cost and net realisable value. The amount of any write-down of inventories to net realisable value and all losses, is recognised in the period the write-down or loss occurs. Cost is determined as the average cost of production, using the weighted average method. Cost includes directly attributable mining overheads, but excludes borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs to be incurred in marketing, selling and distribution.

1.2.14 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at amortised cost. Cash and cash equivalents comprise cash on hand, deposits held at call with banks, and other short-term, highly liquid investments with original maturities of three months or less.

For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

1.2.15 Issued share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

1.2.16 Foreign currency translations

Presentation currency

The results and financial position of the Group's subsidiaries which have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Statement of financial position items are translated at the closing rate at the reporting date;
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- Resulting exchange differences are recognised as a separate component of equity.

Details of the rates applied at the respective reporting dates and for the income statement transactions are detailed in Note 16, 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 or losses resulting from the settlement of such transactions and from the translation at the period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Non-monetary items that are measured in terms of cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Monetary items for each statement of financial position presented are translated at the closing rate at the reporting date.

1. NOTES TO THE FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

1.2.17 Share-based payments

Employees (including Senior Executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions). In situations where some or all of the goods or services received by the entity as consideration for equity instruments cannot be specifically identified, they are measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received at the grant date. For cash-settled transactions, the liability is remeasured at each reporting date until settlement, with the changes in fair value recognised in the income statement.

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions).

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each reporting date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions and of the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous reporting date is recognised in the income statement, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified, or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately.

Where an equity-settled award is forfeited, it is treated as if vesting conditions had not been met and all costs previously recognised in the income statement for the award are reversed and recognised in income immediately.

Management applies judgement when determining whether share options relating to employees who resigned before the end of the service condition period are cancelled or forfeited as referred under policy 1.2.28, Critical accounting estimates and judgements.

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 a finance cost.

1. NOTES TO THE FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

1.2.19 Restoration and rehabilitation

The mining, extraction and processing activities of the Group normally give rise to obligations for site restoration and rehabilitation. Rehabilitation works can include facility decommissioning and dismantling, removal and treatment of waste materials, land rehabilitation, and site restoration. The extent of the work required and the estimated cost of final rehabilitation, comprising liabilities for decommissioning and restoration, are based on current legal requirements, existing technology and the Group's environmental policies, and is reassessed annually. Cost estimates are not reduced by the potential proceeds from the sale of property, plant and equipment.

Provisions for the cost of each restoration and rehabilitation programme are recognised at the time the environmental disturbance occurs. When the extent of the disturbance increases over the life of the operation, the provision and associated asset is increased accordingly. Costs included in the provision encompass all restoration and rehabilitation activity expected to occur. The restoration and rehabilitation provisions are measured at the expected value of future cash flows, discounted to their present value. Discount rates used are specific to the country in which the operation is located. The value of the provision is progressively increased over time as the effect of the discounting unwinds, which is recognised in finance charges. Restoration and rehabilitation provisions are also adjusted for changes in estimates.

When provisions for restoration and rehabilitation are initially recognised, the corresponding cost is capitalised as an asset where it gives rise to a future benefit and depreciated over future production from the operation to which it relates.

1.2.20 Taxation

Income tax for the period comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items charged or credited directly to equity, in which case it is recognised in equity. Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on the tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

In respect of taxable temporary differences associated with investments in subsidiaries, associates and jointly controlled entities, deferred tax is provided except where the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

In respect of deductible temporary differences associated with investments in subsidiaries, associates and jointly controlled entities, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Withholding tax is recognised in the income statement when dividends or other services which give rise to that withholding tax are declared or accrued respectively. Withholding tax is disclosed as part of current tax.

Royalties

Royalties incurred by the Group comprise mineral extraction costs based on a percentage of sales paid to the local revenue authorities. These obligations arising from royalty arrangements are recognised as current payables and disclosed as part of royalty and selling costs in the income statement.

Royalties and revenue-based taxes are accounted for under IAS 12 when they have the characteristics of an income tax. This is considered to be the case when they are imposed under government authority and the amount payable is based on taxable income – rather than based on quantity produced or as a percentage of revenue. For such arrangements, current and deferred tax is provided on the same basis as described above for other forms of taxation. The royalties incurred by the Group are considered not to meet the criteria to be treated as part of income tax.

1. NOTES TO THE FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

1.2.21 Employee benefits

Provision is made in the financial statements for all short-term employee benefits. Liabilities for wages and salaries, including non-monetary benefits, benefits required by legislation, annual leave, retirement benefits and accumulating sick leave obliged to be settled within 12 months of the reporting date, are recognised in trade and other payables and are measured at the amounts expected to be paid when the liabilities are settled. Benefits falling due more than 12 months after the reporting date are discounted to present value. The Group recognises an expense for contributions to the defined contribution pension fund in the period in which the employees render the related service.

Bonus plans

The Group recognises a liability and an expense for bonuses. The Group recognises a liability where contractually obliged or where there is a past practice that has created a constructive obligation. These liabilities are recognised in trade and other payables and are measured at the amounts expected to be paid when the liabilities are settled.

1.2.22 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

(a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
(b) A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
(c) There is a change in the determination of whether fulfilment is dependent on a specific asset; or
(d) There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) and at the date of renewal or extension period for scenario (b).

Group as a lessee

Leases 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.

1.2.23 Revenue from contracts with customers

Revenue comprises net invoiced diamond sales to customers excluding VAT. Diamond sales are made through a competitive tender process and recognised when the Group's performance obligations have been satisfied at the time the buyer obtains control of the diamond(s), at an amount that the Group expects to be entitled in exchange for the diamond(s). Where the Group makes rough diamonds sales to customers and retains a right to an interest in their future sale as polished diamonds, the Group records the sale of the rough diamonds but such contingent revenue on the onward sale is only recognised at the date when the polished diamonds are sold.

The following revenue streams are recognised:

- Rough diamonds which are sold through a competitive tender process, partnership agreements and joint operation arrangements;
- Polished diamonds and other products which are sold through direct sales channels;
- Additional uplift on partnership arrangements; and
- Additional uplift on joint operation arrangements.

The sale of rough diamonds is the core business of the Group, with other revenue streams contributing marginally to total revenue.

1. NOTES TO THE FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

1.2.23 Revenue from contracts with customers (continued)

Revenue through joint operation arrangements is recognised for the sale of the rough diamond according to each party's percentage entitlement as per the joint operation arrangement. Contractual agreements are entered into between the Group and the joint operation partner whereby both parties control jointly the cutting and polishing activities relating to the diamond. All decisions pertaining to the cutting and polishing of the diamonds require unanimous consent from both parties. Once these activities are complete, the polished diamond is sold, after which the revenue on the remaining percentage of the rough diamond is recognised, together with additional uplift on the joint operation arrangement. For more detail on how these arrangements have been included in the financial statements refer to Note 3, Revenue. The Group portion of inventories related to these transactions is included in the total inventories balance, refer to Note 13, Inventories.

Revenue through partnership arrangements is recognised for the sale of the rough diamond, with an additional uplift based on the polished margin achieved. Management recognises the revenue on the sale of the rough diamond when it is sold to a third party, as there is no continuing involvement by management in the cutting and polishing process and control has passed to the third party. Revenue from additional uplift is considered to be variable consideration. This variable consideration will generally be significantly constrained. This is on the basis that the ultimate additional uplift received will depend on a range of factors that are highly susceptible to factors outside the Group's influence.

Rendering of service

Revenue from services relating to third-party diamond manufacturing is recognised in the accounting period in which the services are rendered, when the Group's performance obligations have been satisfied, at an amount that the Group expects to be entitled to in exchange for the services.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. The Group does not have any contract assets as performance and a right to consideration occurs within a short period of time and all rights to consideration are unconditional.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract. The Group does not have any contract liabilities as the transfer of goods or services performance occurs within a short period of time of receiving the consideration.

1.2.24 Interest income

Interest income is recognised on a time proportion basis using the effective interest rate method.

1.2.25 Dividends

Dividends are recognised when the amount of the dividend can be reliably measured and the Group's right to receive payment is established.

1.2.26 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.

1.2.27 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.

1.2.28 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.

1. NOTES TO THE FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

1.2.28 Critical accounting estimates and judgements (continued)

Estimates

Ore reserves and associated life of mine (LoM)

There are numerous uncertainties inherent in estimating ore reserves and the associated LoM. 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 LoM estimates, the associated depreciation rates, residual values, waste stripping and amortisation ratios, and environmental provisions are reassessed to take into account the revised LoM estimate. Refer to Note 9, Property, plant and equipment.

Impairment reviews

The Group determines if goodwill is impaired at least on an annual basis, while all other significant operations are tested for impairment when there are potential indicators which may require impairment review. This requires an estimation of the recoverable amount of the relevant cash-generating unit under review. Recoverable amount is the higher of fair value less costs to sell and value in use. While conducting an impairment review of its assets using value-in-use impairment models, the Group exercises judgement in making assumptions about future rough diamond prices, exchange rates, volumes of production, ore reserves and resources included in the current LoM plans, production costs and macro-economic factors such as inflation and discount rates. Changes in estimates used can result in significant changes to the consolidated income statement and consolidated statement of financial position. The results of the impairment testing performed did not indicate any impairments.

The key assumptions used in the recoverable amount calculations, determined on a value-in-use basis, are listed below:

Valuation basis

Discounted present value of future cash flows.

LoM and recoverable value of reserves and resources

Economically recoverable reserves and resources, carats recoverable and grades achievable are based on management's expectations of the availability of reserves and resources at mine sites and technical studies undertaken by in-house and third-party specialists. Reserves remaining after the current LoM plan have not been included in determining the value in use of the operations.

Cost and inflation rate

These costs for Letšeng are determined based on management's experience and the use of contractors over a period of time whose costs are fairly reasonably determinable. Mining costs have been based on the mining contract. Costs of extracting and processing which are reasonably determinable are based on management's experience. Long-term local inflation rates of 4% to 6% were used for operating costs and capital cost escalators.

Exchange rates

Exchange rates are estimated based on an assessment at current market fundamentals and long-term expectations. The US dollar/Lesotho loti (LSL) exchange rate used was determined with reference to the closing rate at 31 December 2018 of LSL14.39.

Diamond prices

The diamond prices used in the impairment test have been set with reference to recent prices achieved, the Group's medium-term forecast and market trends. Long-term diamond price escalation reflects the Group's assessment of market supply/demand fundamentals.

Discount rate

The discount rate of 12.2% for revenue (2017: 11.9%) and 15.8% for costs (2017: 16.0%) used for Letšeng represents the before-tax risk-free rate adjusted for market risk, volatility and risks specific to the asset and its operating jurisdiction.

Market capitalisation

In the instance where the Group's asset carrying values exceed market capitalisation, this results in an indicator of impairment. The Group believes that this position does not represent an impairment as all significant operations were assessed for impairment during the year and no impairments were recognised.

Sensitivity

The value in use for Letšeng indicated sufficient headroom, and no reasonable change in the key assumptions will result in an impairment.

Refer to Note 11, Impairment testing, for further detail.

1. NOTES TO THE FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

1.2.28 Critical accounting estimates and judgements (continued)

Judgements

Capitalised stripping costs (deferred waste)

Waste removal costs (stripping costs) are incurred during the development and production phases at surface mining operations. Furthermore, during the production phase, stripping costs are incurred in the production of inventory as well as in the creation of future benefits by improving access and mining flexibility in respect of the ore to be mined, the latter being referred to as a 'stripping activity asset'. Judgement is required to distinguish between these two activities at Letšeng. The orebody needs to be identified in its various separately identifiable components. An identifiable component is a specific volume of the orebody that is made more accessible by the stripping activity. Judgement is required to identify and define these components (referred to as 'cuts'), and also to determine the expected volumes (tonnes) of waste to be stripped and ore to be mined in each of these components. These assessments are based on a combination of information available in the mine plans, specific characteristics of the orebody and the milestones relating to major capital investment decisions.

Judgement is also required to identify a suitable production measure that can be applied in the calculation and allocation of production stripping costs between inventory and the stripping activity asset. The ratio of expected volume (tonnes) of waste to be stripped for an expected volume (tonnes) of ore to be mined for a specific component of the orebody, compared to the current period ratio of actual volume (tonnes) of waste to the volume (tonnes) of ore is considered to determine the most suitable production measure.

These judgements and estimates are used to calculate and allocate the production stripping costs to inventory and/or the stripping activity asset(s). Furthermore, judgements and estimates are also used to apply the stripping ratio calculation in determining the amortisation of the stripping activity asset. Refer to Note 9, Property, plant and equipment, for further detail.

1.2.29 Exceptional items

The Group presents, as exceptional items on the face of the statement of profit or loss, 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 better understand the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better trends in financial performance. Refer to Note 5, Exceptional items, for further detail.

2. REVENUE

	2018 US$'000	2017 US$'000
Sale of goods	**266 822**	213 517
Rendering of services	**468**	779
	267 290	214 296

No revenue was generated through joint operation arrangements in the year (2017: US$0.4 million).

3. OTHER INCOME AND EXPENSES BEFORE EXCEPTIONAL ITEMS

	2018 US$'000	2017 US$'000
Sundry income	**602**	155
Sundry expenses[1]	**(6 342)**	–
Profit on disposal of property, plant and equipment	**695**	638
	(5 045)	793

[1] *Included in the 2018 sundry expenses are care and maintenance costs incurred at the Ghaghoo mine. In 2017 these costs were reflected in cost of sales.*

4. OPERATING PROFIT/(LOSS) BEFORE EXCEPTIONAL ITEMS

Operating profit includes the following:

	2018 US$'000	2017 US$'000
Depreciation and amortisation		
Depreciation and mining asset amortisation	**(8 648)**	(8 813)
Waste stripping costs amortised	**(68 205)**	(67 901)
	(76 853)	(76 714)
(Less)/add: Depreciation and mining asset amortisation capitalised to inventory	**(51)**	307
	(76 904)	(76 407)
Amortisation of intangible assets	**–**	(52)
	(76 904)	(76 459)
Inventories		
Cost of inventories recognised as an expense	**(146 396)**	(136 847)
	(146 396)	(136 847)
Foreign exchange gain/(loss)		
Foreign exchange gain/(loss)	**2 205**	(1 347)
	2 205	(1 347)
Operating lease expenses as a lessee		
Mine site property	**(131)**	(137)
Equipment and service leases	**(68 174)**	(59 932)
Contingent rental – Alluvial Ventures	**(11 924)**	(7 421)
Leased premises	**(1 807)**	(2 168)
	(82 036)	(69 658)
Auditor's remuneration – EY		
Group financial statements	**(279)**	(386)
Statutory	**(175)**	(161)
Other audit-related services[1]	**(106)**	(107)
	(560)	(654)
Auditor's remuneration – other audit firms		
Statutory	**(20)**	(15)
	(20)	(15)

	2018 US$'000	2017 US$'000
4. OPERATING PROFIT/(LOSS) BEFORE EXCEPTIONAL ITEMS (continued)		
Other non-audit fees – EY		
Tax services advisory and consultancy	**(20)**	(31)
Other services	**(3)**	–
	(23)	(31)
Other non-audit fees – other audit firms		
Internal audit	**(1)**	(1)
Tax services advisory and consultancy	**–**	(9)
	(1)	(10)
Employee benefits expense		
Salaries and wages[2]	**(20 123)**	(17 732)
Underlying earnings before interest, tax, depreciation and mining asset amortisation (underlying EBITDA) before exceptional items		
Underlying EBITDA is shown, as the Directors consider this measure to be a relevant guide to the operational performance of the Group and excludes such non-operating costs as listed below. The reconciliation from operating profit to underlying EBITDA is as follows:		
Operating profit before exceptional items	**74 836**	37 715
Other operating income/(expense)[3]	**(421)**	(793)
Foreign exchange (gain)/loss	**(2 205)**	1 347
Share-based payments	**1 437**	1 526
Depreciation and mining asset amortisation (excluding waste stripping cost amortised)	**8 611**	8 783
Underlying EBITDA before exceptional items	**82 258**	48 578

[1] *Other audit-related services by EY relate to the interim review on the half-year results for the six months ended 30 June.*

[2] *Includes contributions to defined contribution plan of US$0.5 million (31 December 2017: US$0.4 million). An average of 401 employees excluding contractors were employed during the period (2017: 412).*

[3] *Other operating income/(expenses) in the statement of profit or loss has been adjusted for costs associated with Ghaghoo. These costs are considered to be operating costs for the Group and therefore are included in underlying EBITDA.*

	2018 US$'000	2017 US$'000
5. EXCEPTIONAL ITEMS		
Ghaghoo	**–**	(3 605)
	–	(3 605)

The Ghaghoo mine was placed on care and maintenance on 31 March 2017. Cost incurred during the prior year which were not costs under normal care and maintenance status or were once-off in nature, were classified as exceptional items. These included development costs, retrenchment costs and once-off costs to renegotiate contracts on a care and maintenance basis and once-off costs associated with the additional dewatering and sealing of the fissure as a result of an earthquake during the year.

	2018 US$'000	2017 US$'000
6. NET FINANCE COSTS		
Finance income		
Bank deposits	**2 032**	630
Other	**1**	–
Total finance income	**2 033**	630
Finance costs		
Bank overdraft	**(1 886)**	(1 247)
Finance costs on borrowings	**(916)**	(1 963)
Finance costs on unwinding of rehabilitation and decommissioning provision	**(1 078)**	(1 221)
Total finance costs	**(3 880)**	(4 431)
	(1 847)	(3 801)
7. INCOME TAX		
Income tax expense		
Income statement		
Current		
– Overseas	**(16 147)**	(6 032)
Withholding tax		
– Overseas	**(4 984)**	(140)
Deferred		
– Overseas	**(5 217)**	(6 903)
	(26 348)	(13 075)
Profit before taxation	**72 989**	30 309

	2018 %	2017 %
Reconciliation of tax rate		
Applicable income tax rate	**25.0**	25.0
Permanent differences	**1.1**	10.9
Unrecognised deferred tax assets	**1.9**	10.5
Effect of overseas tax at different rates	**1.3**	(3.8)
Withholding tax	**6.8**	0.5
Effective income tax rate	**36.1**	43.1

The tax rate reconciles to the statutory Lesotho corporation tax rate of 25.0% rather than the statutory UK corporation tax rate of 19.0% as this is the jurisdiction in which the majority of the Group's taxes are incurred, following the Ghaghoo mine being placed on care and maintenance.

	2018 US$'000	2017 US$'000
8. EARNINGS PER SHARE		
The following reflects the income and share data used in the basic and diluted earnings per share computations:		
Profit for the year after exceptional items	**46 641**	17 234
Less: Non-controlling interests	**(20 624)**	(11 756)
Net profit attributable to equity holders of the parent for basic and diluted earnings	**26 017**	5 478
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)	**138 731**	138 482

Earnings per share are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year after taking into account future potential conversion and issue rights associated with the ordinary shares.

	2018 Number of shares	2017 Number of shares
Weighted average number of ordinary shares outstanding during the year	**138 731**	138 482
Effect of dilution:		
– Future share awards under the Employee Share Option Plan	**3 265**	2 860
Weighted average number of ordinary shares outstanding during the year adjusted for the effect of dilution	**141 996**	141 342

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.

9. PROPERTY, PLANT AND EQUIPMENT

	Stripping activity asset US$'000	Mining asset US$'000	Exploration and development assets US$'000	Decommissioning assets US$'000	Leasehold improvement[1] US$'000	Plant and equipment US$'000	Other assets[2] US$'000	Total US$'000
As at 31 December 2018								
Cost								
Balance at 1 January 2018	465 206	124 013	161 733	4 347	42 307	108 165	24 373	930 144
Additions	79 294	220	–	–	23	22 530	171	102 238
Net movement in rehabilitation provision	–	–	–	1 944	–	–	–	1 944
Disposals	–	–	(44)	–	(3)	–	(411)	(458)
Reclassifications	–	–	–	–	19 846	(20 282)	436	–
Assets held for sale (Note 15)	–	–	–	–	–	–	(2 124)	(2 124)
Foreign exchange differences	(71 105)	(6 320)	(12 799)	(797)	(6 976)	(15 048)	(2 546)	(115 591)
Balance at 31 December 2018	473 395	117 913	148 890	5 494	55 197	95 365	19 899	916 153
Accumulated depreciation/ amortisation								
Balance at 1 January 2018	291 536	51 084	160 107	4 302	24 928	71 293	21 352	624 602
Charge for the year	68 205	2 056	–	4	2 937	2 674	977	76 853
Disposals	–	–	–	–	(1)	–	(370)	(371)
Assets held for sale (Note 15)	–	–	–	–	–	–	(1 267)	(1 267)
Foreign exchange differences	(43 329)	(1 488)	(12 666)	(637)	(3 225)	(9 734)	(2 225)	(73 304)
Balance at 31 December 2018	316 412	51 652	147 441	3 669	24 639	64 233	18 467	626 513
Net book value at 31 December 2018	156 983	66 261	1 449	1 825	30 558	31 132	1 432	289 640

[1] Borrowing costs of US$1.6 million incurred in respect of the LSL215.0 million facility at Letšeng (refer to Note 17, Interest-bearing loans and borrowings) were capitalised to the leasehold improvements. The weighted average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 10.49%.

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

9. PROPERTY, PLANT AND EQUIPMENT (continued)

	Stripping activity asset US$'000	Mining asset US$'000	Exploration and development assets US$'000	Decommissioning assets US$'000	Leasehold[1] improvement US$'000	Plant and equipment US$'000	Other assets[2] US$'000	Total US$'000
As at 31 December 2017								
Cost								
Balance at 1 January 2017	339 404	119 146	148 034	6 009	35 404	86 149	23 133	757 279
Additions	84 009	–	1 547	–	51	15 499	690	101 796
Net movement in rehabilitation provision	–	–	–	(2 157)	–	–	–	(2 157)
Disposals	–	–	–	–	–	–	(2)	(2)
Reclassifications	–	226	–	–	3 104	(3 593)	263	–
Assets held for sale (Note 15)	–	–	–	–	–	–	(1 962)	(1 962)
Foreign exchange differences	41 793	4 641	12 152	495	3 748	10 110	2 251	75 190
Balance at 31 December 2017	465 206	124 013	161 733	4 347	42 307	108 165	24 373	930 144
Accumulated depreciation/ amortisation								
Balance at 1 January 2017	199 389	48 089	148 034	3 573	19 614	62 517	18 864	500 080
Charge for the year	67 901	2 080	–	305	3 192	2 102	1 134	76 714
Disposals	–	–	–	–	–	–	(2)	(2)
Assets held for sale (Note 15)	–	–	–	–	–	–	(480)	(480)
Foreign exchange differences	24 246	915	12 073	424	2 122	6 674	1 836	48 290
Balance at 31 December 2017	291 536	51 084	160 107	4 302	24 928	71 293	21 352	624 602
Net book value at 31 December 2017	173 670	72 929	1 626	45	17 379	36 872	3 021	305 542

[1] *Borrowing costs of US$1.3 million incurred in respect of the LSL215.0 million facility at Letšeng (refer to Note 17, Interest-bearing loans and borrowings) were capitalised to the leasehold improvements. The weighted average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 12.11%.*

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

10. INTANGIBLE ASSETS

	Intangibles US$'000	Goodwill US$'000	Total US$'000
As at 31 December 2018			
Cost			
Balance at 1 January 2018	**791**	**15 422**	**16 213**
Foreign exchange difference	**–**	**(2 150)**	**(2 150)**
Balance at 31 December 2018	**791**	**13 272**	**14 063**
Accumulated amortisation			
Balance at 1 January 2018	**791**	**–**	**791**
Amortisation	**–**	**–**	**–**
Balance at 31 December 2018	**791**	**–**	**791**
Net book value at 31 December 2018	**–**	**13 272**	**13 272**
As at 31 December 2017			
Cost			
Cost			
Balance at 1 January 2017	783	13 970	14 753
Foreign exchange difference	8	1 452	1 460
Balance at 31 December 2017	791	15 422	16 213
Accumulated amortisation			
Balance at 1 January 2017	739	–	739
Amortisation	52	–	52
Balance at 31 December 2017	791	–	791
Net book value at 31 December 2017	–	15 422	15 422

11. IMPAIRMENT TESTING

Goodwill impairment testing is undertaken on Letšeng Diamonds annually and when there are indications of impairment. The most recent test was undertaken at 31 December 2018. In assessing whether goodwill has been impaired, the carrying amount of Letšeng Diamonds is compared with its recoverable amount. For the purpose of goodwill impairment testing in 2018, the recoverable amount for Letšeng Diamonds has been determined based on a value-in-use model, similar to that adopted in the past.

	2018 US$'000	2017 US$'000
Goodwill		
Letšeng Diamonds	**13 272**	15 422
Balance at end of year	**13 272**	15 422

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

The discount rate is outlined below and represents the nominal pre-tax rate. This rate is based on the weighted average cost of capital (WACC) of the Group and adjusted accordingly at a risk premium for Letšeng Diamonds, taking into account risks associated therein.

	2018 %	2017 %
Discount rate – applied to revenue		
Letšeng Diamonds	**12.2**	11.9
Discount rate – applied to costs		
Letšeng Diamonds	**15.8**	16.0

11. IMPAIRMENT TESTING (continued)

Value in use

Cash flows are projected for a period up to the date that the open pit mining is expected to cease, based on the optimised life of mine plan implemented during the year. This mine plan takes into account the available reserves based on relevant inputs such as diamond pricing, costs and geotechnical parameters.

Sensitivity to changes in assumptions

It was assessed that no reasonable possible change in any of the key assumptions would cause Letšeng's carrying amount to exceed its recoverable amount.

The Group will continue to test its assets for impairment where indications are identified and may, in future, record additional impairment charges or reverse any impairment charges to the extent that market conditions improve and to the extent permitted by accounting standards.

Refer to Note 1.2.28, Critical accounting estimates and judgements, for further details on impairment testing policies.

12. RECEIVABLES AND OTHER ASSETS

	2018 US$'000	2017 US$'000
Non-current		
Other receivables	–	22
Prepayments[1]	347	–
	347	22
Current		
Trade receivables	184	91
Prepayments[1]	1 038	2 537
Deposits	97	151
Other receivables	329	973
VAT receivable	3 785	4 025
	5 433	7 777

The carrying amounts above approximate their fair value.

Terms and conditions of the receivables:

	2018 US$'000	2017 US$'000
Analysis of trade receivables		
Neither past due nor impaired	135	57
Past due but not impaired:		
Less than 30 days	49	34
30 to 60 days	–	–
60 to 90 days	–	–
90 to 120 days	–	–
	184	91

[1] *Following the restructuring of the Company's US$35.0 million facility to an increased facility of US$45.0 million during 2017, the facility was reassessed as required by IFRS 9 Financial Instruments. The costs incurred to restructure the facility were reclassified to prepayments and amortised over the term of the facility. Refer to Note 17, interest-bearing loan and borrowings. Included in prepayments are facility restructuring costs of US$0.7 million (2017: US$1.0 million).*

	2018 US$'000	2017 US$'000
13. INVENTORIES		
Diamonds on hand	**18 531**	16 190
Ore stockpiles	**2 585**	5 149
Consumable stores	**11 968**	12 726
	33 084	34 065
Inventory is carried at the lower of cost and net realisable value. No net realisable value adjustments were recorded.		
14. CASH AND SHORT-TERM DEPOSITS		
Cash on hand	**1**	2
Bank balances	**16 093**	24 423
Short-term bank deposits	**34 718**	23 279
	50 812	47 704

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 2018, the Group had restricted cash of US$0.2 million (31 December 2017: US$0.2 million).

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

At 31 December 2018, the Group had US$57.8 million (31 December 2017: US$36.2 million) of undrawn facilities, representing the LSL500.0 million (US$34.8 million) three-year unsecured revolving working capital facility at Letšeng and US$23.0 million from Tranche 2 of the Company's US$45.0 million three-year unsecured revolving credit facility.

For further details on these facilities, refer to Note 17, Interest-bearing loans and borrowings.

	2018 US$'000	2017 US$'000
15. ASSETS HELD FOR SALE		
Investment property[1]	**–**	615
Property, plant and equipment[2]	**859**	1 482
	859	2 097

[1] In the prior year, the directors of the Company resolved to dispose of the investment property in Dubai. The property was sold on 4 November 2018 for US$0.7 million resulting in a profit on disposal of US$0.1 million.

[2] In the prior year, the Directors of the Company resolved to dispose of the aircraft which serviced the Ghaghoo mine. The aircraft was sold on 10 January 2018 for US$1.7 million resulting in a profit on disposal of US$0.2 million.

On 20 December 2018, the Directors of the Company resolved to dispose of the aircraft which serviced the Letšeng mine. An agreement of sale was entered into with an interested party on 20 December 2018 and the aircraft was sold on 30 January 2019. Included in profit for the year and accumulated in equity is revenue from external charters of US$0.3 million and cost of sales of US$0.3 million relating to the aircraft.

16. ISSUED CAPITAL AND RESERVES

Issued capital

	31 December 2018 Number of shares '000	31 December 2018 US$'000	31 December 2017 Number of shares '000	31 December 2017 US$'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	138 620	1 387	138 361	1 384
Allotments during the year	276	3	259	3
Balance at end of year	138 896	1 390	138 620	1 387

Share premium

Share premium comprises the excess value recognised from the issue of ordinary shares at par value.

	Foreign currency translation reserve US$'000	Share-based equity reserve US$'000	Total US$'000
Other reserves			
Balance at 1 January 2018	(177 984)	54 173	(123 811)
Other comprehensive expense	(29 655)	–	(29 655)
Total comprehensive expense	(29 655)	–	(29 655)
Share-based payments	–	1 437	1 437
Balance at 31 December 2018	(207 639)	55 610	(152 029)
Balance at 1 January 2017	(196 145)	52 647	(143 498)
Other comprehensive expense	18 161	–	18 161
Total comprehensive expense	18 161	–	18 161
Share-based payments	–	1 526	1 526
Balance at 31 December 2017	(177 984)	54 173	(123 811)

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of foreign entities. The South African, Lesotho, Botswana and United Arab Emirate subsidiaries' functional currencies are 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	2018	2017
Average rate	ZAR/LSL to US$1	13.25	13.31
Year end	ZAR/LSL to US$1	14.39	12.38
Average rate	Pula to US$1	10.20	10.34
Year end	Pula to US$1	10.73	9.83
Average rate	Dirham to US$1	3.67	3.67
Year end	Dirham to US$1	3.67	3.67

16. ISSUED CAPITAL AND RESERVES (continued)

Share-based equity reserves

For details on the share-based equity reserve, refer to Note 26, Share-based payments.

Capital management

For details on capital management, refer to Note 25, Financial risk management.

17. INTEREST-BEARING LOANS AND BORROWINGS

	Effective interest rate (%)	Maturity	2018 US$'000	2017 US$'000
Non-current				
LSL215.0 million bank loan facility[1]				
Tranche 1	South African JIBAR + 3.15%	31 March 2022	**7 508**	12 391
Tranche 2	South African JIBAR + 6.75%	30 September 2022	**1 784**	888
US$45.0 million bank loan facility[2]				
Tranche 1	London US$ three-month LIBOR + 4.5%	31 December 2020	**10 000**	20 000
Asset based finance facility[3]	South African Prime Lending Rate	1 January 2024	**662**	–
			19 954	33 279
Current				
LSL215.0 million bank loan facility[1]				
Tranche 1	South African JIBAR + 3.15%	31 March 2022	**3 337**	1 939
Tranche 2	South African JIBAR + 6.75%	30 September 2022	**649**	–
US$45.0 million bank loan facility[2]				
Tranche 1	London US$ three-month LIBOR + 4.5%	31 December 2020	**10 000**	5 000
Tranche 2	London US$ three-month LIBOR + 4.5%	31 December 2020	**–**	6 125
Asset based finance facility[3]	South African Prime Lending Rate	1 January 2024	**226**	–
			14 212	13 064

[1] LSL215.0 million (US$15.0 million) bank loan facility at Letšeng Diamonds

This loan comprises two tranches of debt as follows:

- *Tranche 1: South African rand denominated ZAR180.0 million (US$12.5 million) debt facility supported by the Export Credit Insurance Corporation (ECIC) (five years tenure); and*
- *Tranche 2: Lesotho loti denominated LSL35.0 million (US$2.4 million) term loan facility without ECIC support (five years and six months tenure).*

The loan is an unsecured project debt facility which was signed jointly with Nedbank and the ECIC on 22 March 2017 for the total funding of the construction of the Letšeng mining support services complex. The loan is repayable in equal quarterly payments commencing in September 2018. At year end LSL191.0 million (US$13.3 million) remains outstanding, with LSLnil (US$nil) available to be drawn down under this facility.
The South African rand-based interest rates for the facility at 31 December 2018 are:

- *Tranche 1: 10.30%; and*
- *Tranche 2: 13.90%.*

Total interest for the year on this interest-bearing loan was US$1.6 million and has been capitalised to leasehold improvements. Refer to Note 9, property, plant and equipment.

[2] US$45.0 million bank loan facility at Gem Diamonds Limited

This facility is a three-year revolving credit facility (RCF) with Nedbank Capital and consists of two tranches:

- *Tranche 1: relates to the Ghaghoo US$25.0 million debt whereby capital repayments were rescheduled and commenced in September 2018 with a final repayment due on 31 December 2020; and*
- *Tranche 2: this tranche of US$20.0 million relates to an RCF and includes an upsize mechanism whereby this tranche will increase by a ratio of 0.6:1 for every repayment made under Tranche 1. This will result in the available facility increasing to US$35.0 million once Tranche 1 is fully repaid.*

At year end US$20.0 million had been drawn down relating to Tranche 1 and US$nil million relating to Tranche 2. This resulted in US$23.0 million remaining undrawn under Tranche 2. The US$-based interest rate for this facility at 31 December 2018 is 7.30%.

[3] Asset Based Finance Facility

The Group, through its subsidiary, Gem Diamond Technical Services, entered into a US$0.9 million Asset Based Finance Facility with Nedbank Limited for the purchase of a mobile X-Ray transmission machine to be leased to Letšeng Diamonds . The facility is for five years and bears interest at the South African Prime Lending rate which was 10.25% at 31 December 2018. The facility is repayable in equal monthly payments, commencing in February 2019.

Other facilities

In addition, at 31 December 2018, the Group through its subsidiary Letšeng Diamonds, has a LSL500.0 million (US$34.8 million) three-year unsecured revolving working capital facility jointly with Standard Lesotho Bank and Nedbank Capital, which was renewed in July 2018. There was no draw down of this facility at year end.

	2018 US$'000	2017 US$'000
18. TRADE AND OTHER PAYABLES		
Non-current		
Severance pay benefits[1]	**1 555**	1 609
	1 555	1 609
Current		
Trade payables[2]	**12 672**	14 764
Accrued expenses[2]	**11 019**	5 580
Leave benefits	**499**	672
Royalties and withholding taxes[2]	**2 572**	376
Operating lease	**1 538**	1 668
Other	**254**	300
	28 554	23 360
Total trade and other payables	**30 109**	24 969

Terms and conditions of the trade and other payables:

[1] The severance pay benefits arise due to legislation within the Lesotho jurisdiction, requiring that two weeks of severance pay be provided for every completed year of service, payable on retirement.

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

The carrying amounts above approximate fair value.

	2018 US$'000	2017 US$'000
19. INCOME TAX PAYABLE		
Reconciliation of movement in income tax payable		
Balance at 1 January 2018	**1 276**	(3 932)
Payments made during the year	**(12 623)**	(928)
Tax charge per income statement	**21 131**	6 162
Foreign exchange differences	**(820)**	(26)
Balance at 31 December 2018	**8 964**	1 276
20. PROVISIONS		
Rehabilitation provisions	**17 876**	17 306
Reconciliation of movement in rehabilitation provisions		
Balance at beginning of year	**17 306**	16 630
Increase/(decrease) during the year	**1 944**	(2 157)
Unwinding of discount rate	**1 078**	1 221
Foreign exchange differences	**(2 452)**	1 612
Balance at end of year	**17 876**	17 306

Rehabilitation provisions

The provisions have been recognised as the Group has an obligation for rehabilitation of the mining areas. The provisions have been calculated based on total estimated rehabilitation costs, discounted back to their present values over the life of mine at the mining operations. The pre-tax discount rates are adjusted annually and reflect current market assessments.

In determining the amounts attributable to the rehabilitation provision at the Lesotho mining area, management used a discount rate of 6.6% (31 December 2017: 6.9%), estimated rehabilitation timing of seven years (31 December 2017: eight years) and an inflation rate of 5.3% (31 December 2017: 5.2%). At the Botswana mining area, management used the latest estimated costs to rehabilitate, considering its care and maintenance state. In addition to the changes in the discount rates, inflation and rehabilitation timing, the increase in the provision is attributable to the annual reassessment of the estimated closure costs performed at the operations together with the ongoing rehabilitation spend during the year at Letšeng.

21. DEFERRED TAXATION

	2018 US$'000	2017 US$'000
Deferred tax assets		
Accrued leave	**253**	581
Operating lease liability	**2**	382
Provisions	**5 491**	4 188
	5 746	5 151
Deferred tax liabilities		
Property, plant and equipment	**(75 470)**	(79 323)
Prepayments	**(292)**	(369)
Unremitted earnings	**(4 038)**	(4 038)
	(79 800)	(83 730)
Net deferred tax liability	**(74 054)**	(78 579)
Reconciliation of deferred tax liability		
Balance at beginning of year	**(78 579)**	(65 676)
Movement in current period:		
– Accelerated depreciation for tax purposes	**(6 667)**	(6 348)
– Accrued leave	**(1)**	(181)
– Operating lease liability	**26**	61
– Prepayments	**44**	35
– Provisions	**1 381**	(170)
– Tax losses utilised in the year	**–**	(35)
– Foreign exchange differences	**9 742**	(6 265)
Balance at end of year	**(74 054)**	(78 579)

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$43.2 million (31 December 2017: US$87.9 million).

The Group has estimated tax losses of US$211.1 million (31 December 2017: US$207.6 million). All tax losses are generated in jurisdictions where tax losses do not expire. No deferred tax asset was recognised.

	Notes	2018 US$'000	2017 US$'000
22. CASH FLOW NOTES			
22.1 Cash generated by operations			
Profit before tax for the year		**72 989**	30 309
Adjustments for:			
Depreciation and amortisation on property, plant and equipment		**8 699**	8 558
Waste stripping cost amortised	4	**68 205**	67 901
Finance income	6	**(2 033)**	(630)
Finance costs	6	**3 880**	4 431
Unrealised foreign exchange differences		**(8 201)**	(1 773)
Profit on disposal of property, plant and equipment		**(695)**	(638)
Movement in prepayment		**426**	(116)
Other non-cash movements		**5 048**	1 227
Share-based equity transaction		**1 437**	1 526
		149 755	110 795
22.2 Working capital adjustment			
(Increase)/decrease in inventory		**(3 660)**	97
(Increase) in receivables		**(261)**	(369)
Increase/(decrease) in trade and other payables		**5 837**	(9 620)
		1 916	(9 892)
22.3 Cash flows from financing activities			
Balance at beginning of year		**46 343**	27 757
Net cash (used in)/generated by financing activities		**(10 024)**	17 469
– financial liabilities repaid		**(12 937)**	(46 601)
– financial liabilities raised		**2 913**	64 070
Non-cash movement – FCTR		**(2 212)**	1 117
Interest accrued		**59**	–
Balance at year end	17	**34 166**	46 343

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 remaining periods of between one and seven 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.

	2018 US$'000	2017 US$'000
Future minimum rentals payable under non-cancellable operating leases:		
– Within one year	**1 150**	1 548
– After one year but not more than five years	**4 980**	5 667
– More than five years	**2 631**	4 680
	8 761	11 895

23. COMMITMENTS AND CONTINGENCIES (continued)

	2018 US$'000	2017 US$'000
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:		
– Within one year	**139**	163
– After one year but not more than five years	**652**	788
– More than five years	**825**	940
	1 616	1 891
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 terms will be negotiated during the extension option periods catered for in the agreements or at any time sooner if agreed by both parties.		
– Within one year	**45 234**	47 475
– After one year but not more than five years	**80 813**	146 460
– More than five years	**–**	–
	126 047	193 935
Capital expenditure		
Approved but not contracted for	**3 618**	14 760
Approved and contracted for	**6 228**	6 438

The main capital expenditure approved but not contracted for relates to the extension of the footprint of the Patiseng tailings storage facility of US$3.2 million (2017: US$13.7 million) which will provide deposition space until 2024 as well as the construction of a pilot diamond detection plant at Letšeng of US$2.8 million . The expenditure will be incurred over the next two years.

Contingent rentals – Alluvial Ventures

The contingent rentals represent the Group's obligation to a third party (Alluvial Ventures) for operating a third plant on the Group's mining property at Letšeng Diamonds. The rental is determined when the actual diamonds mined by Alluvial Ventures are sold. The rental agreement is based on 40% to 60% of the value (after costs) of the diamonds recovered by Alluvial Ventures and is limited to US$1.5 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 2017: 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$0.1 million (December 2017: US$0.5 million) and tax claims within the various jurisdictions in which the Group operates approximating US$1.3 million (December 2017: US$0.7 million). There are no possible disputes relating to Ghaghoo's care and maintenance status included in these contingencies.

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
Gem Diamond Holdings Limited	Common director
Government of Lesotho	Non-controlling interest

Refer to Note 1.1.2, Operational information, for information regarding shareholding in subsidiaries.

Refer to the Directors' Report for information regarding the Directors.

	2018 US$'000	2017 US$'000
Compensation to key management personnel (including Directors)		
Share-based equity transactions	**872**	1 099
Short-term employee benefits	**2 652**	3 066
	3 524	4 165
Fees paid to related parties		
Jemax Management (Proprietary) Limited	**(111)**	(102)
Royalties paid to related parties		
Government of Lesotho	**(20 850)**	(16 200)
Lease and licence payments to related parties		
Government of Lesotho	**(131)**	(137)
Sales to/(purchases from) related parties		
Jemax Management (Proprietary) Limited	**–**	(8)
Amount included in trade payables owing to related parties		
Jemax Management (Proprietary) Limited	**(8)**	(10)
Amounts owing to related party		
Government of Lesotho	**(275)**	(325)
Dividends paid		
Government of Lesotho	**(20 742)**	–

Jemax Management (Proprietary) Limited provided administrative services with regard to the mining activities undertaken by the Group. 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 RISK MANAGEMENT

Financial risk factors

The Group's activities expose it to a variety of financial risks:

- market risk (including commodity price risk and foreign exchange risk);
- credit risk; and
- 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 to the financial risk management policy since the prior year.

25. FINANCIAL RISK MANAGEMENT (continued)

Capital management

For the purpose of the Group's capital management, capital includes the issued share capital, share premium and liabilities 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 or restructure its debt facilities. The management of the Group's capital is performed by the Board.

The Group's capital management, among other things, aims to ensure that it meets financial covenants attached to its interest-bearing loans and borrowings. Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. There have been no breaches of the financial covenants in the current year.

At 31 December 2018, the Group had US$57.8 million (31 December 2017: US$36.2 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 and Nedbank Capital (a division of Nedbank Limited) – three-year unsecured revolving credit facility – LSL500.0 million (US$34.8 million)

The Group, through its subsidiary, Letšeng Diamonds, has an LSL500.0 million (US$34.8 million), three-year unsecured revolving working capital facility which was renewed in July 2018. The facility bears interest at the Lesotho prime rate minus 1.5%.

At year end, there is no drawdown on this facility.

Unsecured – Nedbank Limited and Export Credit Insurance Corporation (ECIC) – five years and six months project debt facility – LSL215.0 million (US$15.0 million)

The Group, through its subsidiary, Letšeng Diamonds, has an unsecured project debt loan facility consisting of two tranches as follows:

- Tranche 1: South African rand denominated ZAR180.0 million (US$12.5 million) debt facility supported ECIC (five years' tenure); and
- Tranche 2: Lesotho loti denominated LSL35.0 million (US$2.4 million) term loan facility without ECIC support (five years and six months' tenure).

The facility is repayable in equal quarterly payments, which commenced in September 2018 and bears interest as follows:

- Tranche 1: Johannesburg ZAR interbank three-month JIBAR + 3.15%; and
- Tranche 2: Johannesburg ZAR interbank three-month JIBAR + 6.75%.

At year end LSL191.0 million (US$13.3 million) remains outstanding, with no available balance to be drawn down under this facility.

Secured – Nedbank Capital (a division of Nedbank Limited) – three years and six months' secured debt facility – US$45.0 million

This facility is a three-year revolving credit facility (RCF) with Nedbank Capital and consists of two tranches:

- Tranche 1: relates to the Ghaghoo US$25.0 million debt whereby capital repayments commenced in September 2018 with a final repayment due on 31 December 2020; and
- Tranche 2: this tranche of US$20.0 million is a RCF and includes an upsize mechanism whereby it will increase by a ratio of 0.6:1 for every repayment made under Tranche 1. This will result in the available facility increasing to US$35.0 million once Tranche 1 is fully repaid.

This RCF bears interest at London USD Interbank three-month LIBOR + 4.5%.

At year end US$20.0 million had been drawn down relating to Tranche 1 and US$nil million relating to Tranche 2. This resulted in US$23.0 million remaining undrawn under Tranche 2.

Asset Based Finance Facility

The Group, through its subsidiary, Gem Diamond Technical Services, entered into an Asset Based Finance Facility with Nedbank Limited for the purchase of an X-Ray transmission machine. The facility is for five years and bears interest at the South African Prime Lending rate which was 10.25% at 31 December 2018. The facility is repayable in equal monthly payments, commencing in February 2019.

At year end US$0.9 million had been drawn down on this facility.

25. FINANCIAL RISK MANAGEMENT (continued)

Capital management (continued)

(a) Market risk

(i) Commodity price risk

The Group is subject to diamond price risk. Diamonds are not homogeneous products and the price of rough diamonds is not monitored on a public index system. The fluctuation of prices is related to certain features of diamonds such as quality and size. Diamond prices are marketed in US dollar and long-term US dollar per carat prices are based on external market consensus forecasts and contracted sales arrangements adjusted for the Group's specific operations. The Group does not have any financial instruments that may fluctuate as a result of commodity price movements.

(ii) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Lesotho loti, South African rand and Botswana pula. Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group's sales are denominated in US dollar which is the functional currency of the Company, but not the functional currency of the operations.

The currency sensitivity analysis below is based on the following assumptions:

Differences resulting from the translation of the financial statements of the subsidiaries into the Group's presentation currency of US dollar, are not taken into consideration.

The major currency exposures for the Group relate to the US dollar and local currencies of subsidiaries. Foreign currency exposures between two currencies where one is not the US dollar are deemed insignificant to the Group and have therefore been excluded from the sensitivity analysis.

The analysis of the currency risk arises because of financial instruments denominated in a currency that is not the functional currency of the relevant Group entity. The sensitivity has been based on financial assets and liabilities at 31 December 2018. There has been no change in the assumptions or method applied from the prior year.

Sensitivity analysis

There were no material financial assets or financial liabilities denominated in a currency that is not the functional currency of the relevant Group entity, and therefore if the US dollar had appreciated/(depreciated) by 10% against currencies significant to the Group at 31 December 2018, income before taxation would not have been materially impacted. 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 2018, the Group had no forward exchange contracts outstanding (31 December 2017: US$nil).

(iv) 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.

Sensitivity analysis

If the interest rates on the interest-bearing loans and borrowings (increased)/decreased by 60 basis points during the year, profit before tax would have been US$0.2 million (lower)/higher (31 December 2017: US$0.3 million). The assumed movement in basis points is based on the currently observable market environment, which remained consistent with the prior year.

25. FINANCIAL RISK MANAGEMENT (continued)

Capital management (continued)

(b) Credit risk

The Group's potential concentration of credit risk consists mainly of cash deposits with banks, trade receivables and other receivables. The Group's short-term cash surpluses are placed with the banks that have investment grade ratings. The maximum credit risk exposure relating to financial assets is represented by the carrying value as at the reporting dates. The Group considers the credit standing of counterparties when making deposits to manage the credit risk.

Considering the nature of the Group's ultimate customers and the relevant terms and conditions entered into with such customers, the Group believes that credit risk is limited as customers pay on receipt of goods.

No other financial assets are impaired or past due and accordingly, no additional analysis has been provided.

No collateral is held in respect of any impaired receivables or receivables that are past due but not impaired.

(c) Liquidity risk

Liquidity risk arises from the Group's inability to obtain the funds it requires to comply with its commitments including the inability to sell a financial asset quickly at a price close to its fair value. Management manages the risk by maintaining sufficient cash, marketable securities and ensuring access to financial institutions and shareholding funding. This ensures flexibility in maintaining business operations and maximises opportunities. The Group has available debt facilities of US$57.8 million at year end.

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

	2018 US$'000	2017 US$'000
Floating interest rates		
Interest-bearing loans and borrowings		
– Within one year	**16 626**	16 835
– After one year but not more than five years	**22 008**	40 374
Total	**38 634**	57 209
Trade and other payables		
– Within one year	**28 554**	23 360
– After one year but not more than five years	**1 555**	1 609
Total	**30 109**	24 969

26. SHARE-BASED PAYMENTS

	2018 US$'000	2017 US$'000
The expense recognised for employee services received during the year is shown in the following table:		
Equity-settled share-based payment transactions charged to the income statement	**1 437**	1 526
	1 437	1 526

The long-term incentive plans are described below:

Long-term incentive plan (LTIP)

Certain key employees are entitled to a grant of options, under the LTIP 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 an appropriate 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. 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.

26. SHARE-BASED PAYMENTS (continued)

LTIP 2007 Award – September 2012

In September 2012, 936 000 nil-cost 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. The awards which vest over a three-year period in tranches of a third of the award each year, dependent on the performance targets for the 2013, 2014 and 2015 financial years being met, are exercisable between 1 January 2016 and 31 December 2023. This award became exercisable on 1 January 2016. Of the 936 000 options originally granted, 18 544 are still outstanding following the resignation of a number of employees and the exercising of these options.

LTIP 2007 Award – March 2014

In March 2014, 625 000 nil-cost options were granted to certain key employees under the LTIP of the Company. The vesting of the options will be subject to the satisfaction of certain performance as well as service conditions classified as non-market conditions. The options which vest over a three-year period in tranches of a third of the award each year are exercisable between 19 March 2017 and 18 March 2024. If the performance or service conditions are not met, the options lapse. As the performance conditions are non-market-based they are not reflected in the fair value of the award at grant date, and therefore the Company will assess the likelihood of these conditions being met with a relevant adjustment to the cumulative charge as required at each financial year end. The fair value of the nil-cost options is £1.74 (US$2.87). This award became exercisable on 19 March 2017. Of the 625 000 options originally granted, 30 000 are still outstanding following the resignation of a number of employees and the exercising of these options.

LTIP 2007 Award – June 2014

In June 2014, 609 000 nil-cost options were granted to the Executive Directors under the LTIP of the Company. The vesting of the options will be subject to the satisfaction of certain market and non-market performance conditions over a three-year period. Of the 609 000 nil-cost options, 152 250 relates to market conditions with the remaining 456 750 relating to non-market conditions. The options which vest are exercisable between 10 June 2017 and 9 June 2024. If the performance or service conditions are not met, the options lapse. The performance conditions relating to the non-market conditions are not reflected in the fair value of the award at grant date. At each financial year end, the Company will assess the likelihood of these conditions being met with a relevant adjustment to the cumulative charge as required. The fair value of the nil-cost options relating to non-market conditions is £1.61 (US$2.70). The fair value of the options granted, relating to the market conditions, is estimated at the date of the grant using a Monte Carlo simulation model, taking into account the terms and conditions upon which the options were granted, projected dividends, share price fluctuations, the expected volatility, the risk-free interest rate, expected life of the options in years and the weighted average share price of the Company. This award became exercisable on 10 June 2017. Of the 609 000 options originally granted, 89 857 are still outstanding following the resignation of an Executive Director during the previous year and the exercising of these options.

LTIP 2007 Award – April 2015

In April 2015, 660 000 nil-cost options were granted to certain key employees under the LTIP of the Company. The vesting of the options will be subject to the satisfaction of certain performance as well as service conditions classified as non-market conditions. The options which vest after a three-year period are exercisable between 1 April 2018 and 31 March 2025. If the performance or service conditions are not met, the options lapse. As the performance conditions are non-market-based they are not reflected in the fair value of the award at grant date, and therefore the Company will assess the likelihood of these conditions being met with a relevant adjustment to the cumulative charge as required at each financial year end. The fair value of the nil-cost options is £1.33 (US$1.97). Of the 660 000 options originally granted, 69 379 are still outstanding following the resignation of a number of employees and the lapsing of awards due to certain performance conditions not having been met.

In addition, 740 000 nil-cost options were granted to the Executive Directors under the LTIP of the Company. The vesting of the options will be subject to the satisfaction of certain market and non-market performance conditions over a three-year period. Of the 740 000 nil-cost options, 185 000 relate to market conditions with the remaining 555 000 relating to non-market conditions. The options which vest are exercisable between 1 April 2018 and 31 March 2025. If the performance or service conditions are not met, the options lapse. The performance conditions relating to the non-market conditions are not reflected in the fair value of the award at grant date. At each financial year end, the Company will assess the likelihood of these conditions being met with a relevant adjustment to the cumulative charge as required. The fair value of the nil cost options relating to the market conditions is £1.33 (US$1.97). The fair value of these options is estimated in a similar manner as the June 2014 LTIP. Of the 740 000 options originally granted, 58 128 are still outstanding following the resignation of an Executive Director during the previous year and the lapsing of awards due to certain conditions not having been met..

26. SHARE-BASED PAYMENTS (continued)

LTIP 2007 Award – March 2016

In March 2016, 1 400 000 nil-cost options were approved to be granted to certain key employees and Executive Directors under the LTIP of the Company. The vesting of the options will be subject to the satisfaction of certain market and non-market performance conditions over a three-year period. The satisfaction of certain performance as well as service conditions are classified as non-market conditions. A total of 185 000 of the options granted relate to market conditions. The options vest after a three-year period and are exercisable between 15 March 2019 and 14 March 2026. If the performance or service conditions are not met, the options lapse. The performance conditions relating to the non-market conditions are not reflected in the fair value of the award at grant date, and therefore the Company will assess the likelihood of these conditions being met with a relevant adjustment to the cumulative charge as required at each financial year end. The fair value of the nil-cost options is £0.99 (US$1.40). The fair value of the options relating to market conditions is estimated in a similar manner as the June 2014 and April 2015 LTIP. Of the total options originally granted, 937 938 are still outstanding following the resignation of a number of employees and the lapsing of awards due to certain performance conditions not having been met.

LTIP 2017 Award – July 2017

In July 2017, 595 000 nil-cost options were granted to certain key employees under the renewed LTIP 2017 rules of the Company. The vesting of the options will be subject to the satisfaction of certain performance as well as service conditions classified as non-market conditions. The options which vest after a three-year period are exercisable between 4 July 2020 and 3 July 2027. If the performance or service conditions are not met, the options lapse. As the performance conditions are non-market-based they are not reflected in the fair value of the award at grant date, and therefore the Company will assess the likelihood of these conditions being met with a relevant adjustment to the cumulative charge as required at each financial year end. The fair value of the nil-cost options is £0.86 (US$1.11). Of the 595 000 options originally granted, 437 418 are still outstanding following the resignation of a number of employees and the lapsing of awards due to certain performance conditions not having been met.

In addition, 740 000 nil-cost options were granted to the Executive Directors under the LTIP of the Company. The vesting of the options will be subject to the satisfaction of certain market and non-market performance conditions over a three-year period. Of the 740 000 nil-cost options, 185 000 relate to market conditions with the remaining 555 000 relating to non-market conditions. The options which vest are exercisable between 4 July 2020 and 3 July 2027. If the performance or service conditions are not met, the options lapse. The performance conditions relating to the non-market conditions are not reflected in the fair value of the award at grant date. At each financial year end, the Company will assess the likelihood of these conditions being met with a relevant adjustment to the cumulative charge as required. The fair value of the nil-cost options relating to the market conditions is £0.86 (US$1.11). The fair value of these options is estimated in a similar manner as the June 2014, April 2015 and March 2016 LTIP. Of the 740 000 options originally granted, 638 000 are still outstanding following the resignation of an Executive Director.

LTIP 2017 Award – March 2018

In March, 1 450 000 nil-cost options were granted to certain key employees and Executive Directors under the LTIP 2017 of the Company. The vesting of the options will be subject to the satisfaction of certain market and non-market performance conditions over a three-year period. The satisfaction of certain performance as well as service conditions are classified as non-market conditions. 185 000 of the options granted relate to market conditions. The options vest after a three-year period and are exercisable between 20 March 2021 and 19 March 2028. If the performance or service conditions are not met, the options lapse. The performance conditions relating to the non-market conditions are not reflected in the fair value of the award at grant date, and therefore the Company will assess the likelihood of these conditions being met with a relevant adjustment to the cumulative charge as required at each financial year end. The fair value of the nil-cost options is £0.96 (US$1.34) and the option grants are settled by issuing shares. Of the 1 450 000 options originally granted, 1 258 352 are still outstanding following the resignation of a number of employees.

for the year ended 31 December 2018

26. SHARE-BASED PAYMENTS (continued)

ESOP

In September 2017, 47 200 shares which were previously held in the Company Employee Share Trust were granted to certain key employees involved in the Business Transformation of the Group. The fair value of the award was valued at the share price of the Company at the date of the award of £0.71 (US$0.96). All shares remain outstanding at the end of the year

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

	2018 '000	2017 '000
Outstanding at beginning of year	**47**	6
Granted during the year	**–**	47
Exercised during the year	**–**	(6)
Balance at end of year	**47**	47
Exercisable at end of year	**–**	–

ESOP for March 2018, July 2017, March 2016, April 2015, June 2014, March 2014 and September 2012 (LTIP)

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

	2018 '000	2017 '000
Outstanding at beginning of year	**3 612**	3 529
Granted during the year	**1 450**	1 335
Exercised during the year[1]	**(241)**	(246)
Forfeited	**(1 283)**	(1 006)
Balance at end of year	**3 538**	3 612
Exercisable at end of year	**266**	311

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

	LTIP March 2018	LTIP July 2017	LTIP March 2016	LTIP April 2015	LTIP June 2014	LTIP September 2012
Dividend yield (%)	**–**	2.00	2.00	2.00	–	–
Expected volatility (%)	**40.00**	40.21	39.71	37.18	37.25	42.10
Risk-free interest rate (%)	**1.2**	0.67	0.97	1.16	1.94	0.33
Expected life of option (years)	**3.00**	3.00	3.00	3.00	3.00	3.00
Weighted average share price (US$)	**1.35**	1.24	1.56	2.10	2.70	2.85
Fair value of nil value options (US$)	**1.34**	1.11	1.40	1.97	1.83	2.85
Fair value of market value options (US$)	**0.74**	–	–	–	–	1.66
Model used	**Monte Carlo**	Monte Carlo	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. The expected volatility was based on the annual historic volatility over the past three years.

[1] *Options were exercised regularly throughout the year. The weighted average share price during the year was £0.92 (US$1.23).*

27. FINANCIAL INSTRUMENTS

Set out below is an overview of financial instruments, other than the non-current and current portions of the prepayment disclosed in Note 12, Receivables and other assets, which do not meet the criteria of a financial asset. These prepayments are carried at amortised cost.

	Notes	2018 US$'000	2017 US$'000
Financial assets at amortised cost			
Cash (net of overdraft)	14	**50 812**	47 704
Receivables and other assets		**4 395**	5 889
Total		**55 207**	53 593
Total non-current		**–**	22
Total current		**55 207**	53 571
Financial liabilities at amortised cost			
Interest-bearing loans and borrowings	17	**34 166**	46 343
Trade and other payables	18	**30 109**	24 969
Total		**64 275**	71 312
Total non-current		**21 509**	34 888
Total current		**42 766**	36 424

The carrying amounts of the Group's financial instruments held approximate their fair value.

There were no open hedges at year end.

Fair value hierarchy

All financial instruments for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

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.

There were no transfers between Level 1 and Level 2 fair value measurements or any transfers into or out of Level 3 fair value measurements during the period.

Other risk management activities

The Group is exposed to foreign currency risk on future sales of diamonds at Letšeng Diamonds. In order to reduce this risk, the Group enters into forward exchange contracts to hedge this exposure. The Group performs no hedge accounting.

28. DIVIDENDS PAID AND PROPOSED

There were no dividends proposed for the 2018 or 2017 financial years.

29. MATERIAL PARTLY OWNED SUBSIDIARY

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	2018 US$'000	2017 US$'000
Letšeng Diamonds (Proprietary) Limited	Lesotho		
Accumulated balances of material non-controlling interest		**67 692**	80 842
Profit allocated to material non-controlling interest		**20 985**	11 599
The summarised financial information of this subsidiary is provided below. This information is based on amounts before intercompany eliminations.			
Summarised statement of profit or loss for the year ended 31 December			
Revenue		**262 636**	203 924
Cost of sales		**(152 360)**	(133 608)
Gross profit		**110 276**	70 316
Royalties and selling costs		**(21 159)**	(16 374)
Other income/(costs)		**1 262**	(1 438)
Operating profit		**90 379**	52 504
Net finance income		**743**	(1 486)
Profit before tax		**91 122**	51 018
Income tax expense		**(21 172)**	(12 354)
Profit for the year		**69 950**	38 664
Total comprehensive income		**69 950**	38 664
Attributable to non-controlling interest		**20 985**	11 599
Dividends paid to non-controlling interest		**20 742**	–
Summarised statement of financial position as at 31 December			
Assets			
Non-current assets			
Property, plant and equipment and intangible assets		**298 565**	317 002
Current assets			
Inventories, receivables and other assets, and cash and short-term deposits		**60 092**	78 408
Total assets		**358 657**	395 410
Non-current liabilities			
Trade and other payables, provisions and deferred tax liabilities		**95 371**	102 850
Current liabilities			
Interest-bearing loans and borrowings and trade and other payables		**37 649**	23 088
Total liabilities		**133 020**	125 938
Total equity		**225 638**	269 472
Attributable to:			
Equity holders of parent		**157 946**	188 630
Non-controlling interest		**67 692**	80 842
Summarised cash flow information for the year ended 31 December			
Operating		**82 718**	121 334
Investing		**(99 931)**	(99 508)
Financing		**195**	12 054
Net (decrease)/increase in cash and cash equivalents		**(17 018)**	33 880

30. EVENTS AFTER THE REPORTING PERIOD

On 30 January 2019, the aircraft which has been disclosed as an asset held for sale, was sold for US$2.1 million. Refer to Note 15, Assets held for sale. No other fact or circumstance has taken place between the end of the reporting period and the approval of the financial statements which, in our opinion, is of significance in assessing the state of the Group's affairs.

ABBREVIATIONS AND DEFINITIONS

AGM	Annual general meeting
AIFR	All injury frequency rate
Basotho	Lesotho nationals
BCP	Business continuity plan
BT	Business Transformation
BVI	British Virgin Islands
BWP	Botswana pula
CAGR	Compound annual growth rate
CEO	Chief Executive Officer
CGU	Cash-generating unit
CO_2e	Carbon dioxide equivalent
cpht	Carats per hundred tonnes
CSI	Corporate social investment
DTR	Disclosure Guidance and Transparency Rules
EBITDA	Earnings before interest, tax, depreciation and amortisation
ECIC	Export Credit Insurance Corporation
EPS	Earnings per share
ESOP	Employee Share Option Plan
EU	European Union
EY	Ernst & Young
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
FTSE	Financial Times Stock Exchange
GDP	Gross domestic product
GHG	Greenhouse gas
GIA	Gemological Institute of America
GJ	Gigajoules
GRI	Global Reporting Initiative
ha	Hectare
HSSE	Health, safety, social and environment
IAS	International Accounting Standards
ICAEW	Institute of Chartered Accountants in England and Wales
IFRS	International Financial Reporting Standards
ISA	International Standards on Auditing
ISO	International Organisation for Standardisation
JIBAR	Johannesburg Interbank Agreed Rate
KPI	Key performance indicator

LIBOR	London Interbank Offered Rate
LoM	Life of mine
LSL	Lesotho loti
LTI	Lost time injury
LTIFR	Lost time injury frequency rate
LTIP	Long-term incentive plan
MCF	Mine call factor
Net cash/ (debt)	The sum of cash and cash equivalents less drawn down bank facilities (excluding asset-based finance facility)
OHI	Organisational health index
OHSAS	Organisational Health and Safety Assessment Series
PAC	Project affected community
PBT	Profit before tax
PET	Positron emission tomography
RCF	Revolving credit facility
ROACE	Return on average capital employed
RSA	Republic of South Africa
SAMREC	South African Mineral Resource Committee
Scope 1 emissions	Direct greenhouse gas emissions
Scope 2 emissions	Energy-indirect greenhouse gas emissions from the generation of purchased energy
Scope 3 emissions	Energy-indirect greenhouse gas emissions (not included in Scope 2)
SEIAs	Social and environmental impact assessments
SID	Senior Independent Director
STIBS	Short-term incentive bonus scheme
The Board	The Gem Diamonds Board of Directors
The Group	The Gem Diamonds Company and its subsidiaries
TSR	Total shareholder return
UK	United Kingdom
US$	United States dollar
USA/US	United Stated of America
VAT	Value added tax
WACC	Weighted average cost of capital
WF	Water footprint

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