Annual Report 2015

From rough to resplendent

With a warm, molten glow, the **Golden Empress** diamond has travelled a long way from the Group's **Letšeng** mine in Lesotho. The journey from its recovery in December 2014 to its final resplendent state in 2015 as a **magnificent 132.55 carat** fancy intense yellow cushion cut diamond (together with eight satellite diamonds) is as unique as the gem itself.

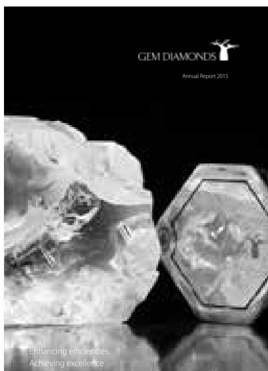
Achieving the maximum revenue for our diamonds is a strategic imperative, and therefore, after careful analysis, using the Group's **advanced mapping and analysis technology**, a partnership arrangement was undertaken with Safdico, a subsidiary of Graff Diamonds, the world-renowned **luxury jeweller**.

The Golden Empress received a colour grading of **fancy intense yellow** by the Gemological Institute of America (GIA) – further adding to its rarity – as only one in 10 000 diamonds are classified as fancy coloured. Colour diamonds refract and reflect light differently to white diamonds, and Safdico's skilled artisans undertook to meticulously study and understand this remarkable and **rare diamond** and ensure the jewel's individual saturation, tone and hue were optimised.

The result was the masterpiece that is the Golden Empress; a 132.55 carat fancy intense yellow cushion cut diamond. In addition, eight more polished yellow diamonds – the largest being a 21.34 carat fancy yellow pear-shaped diamond – stemmed from the rough diamond. The Golden Empress, adorned by 30 other cushion-cut yellow diamonds, now forms the centrepiece of a scintillating Graff signature necklace, taking its place as one of the **world's most breathtaking and unique polished diamonds**.

GEM DIAMONDS

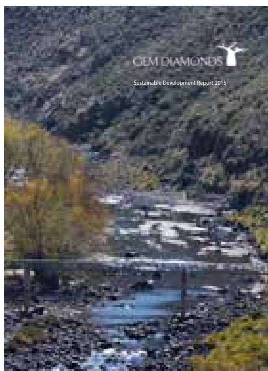
Gem Diamonds is a leading producer of high-value diamonds with diamond mining operations in Lesotho and Botswana, head offices and technical offices in the United Kingdom and South Africa; and sales, marketing and manufacturing capabilities in Belgium.



Annual Report 2015

The Annual Report has been prepared in accordance with:

- applicable English company law;
- the regulations and best practice as advised by the Financial Reporting Council and the Department of Business, Innovation & Skills; and
- International Financial Reporting Standards.

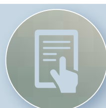


Sustainable Development Report 2015

This document has been compiled in accordance with G4 Core Compliance and Global Reporting Initiative (GRI) , and Gem Diamonds internal reporting guidelines, with consideration of the UN Global Compact. Refer to legal compliance in the document.

Indicates additional information available on the Group's website www.gemdiamonds.com.

Refers the reader to further information available in the Group's 2015 Sustainable Development Report which can be viewed on the Group's website.



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

The Strategic Report is set out on pages 2 to 55.
The Directors' Report is set out on pages 96 to 99.

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About Gem Diamonds

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

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

MINES

Letšeng Diamonds

OWNERSHIP	ACQUIRED
70% Gem Diamonds Limited 30% Government of the Kingdom of Lesotho	July 2006

DESCRIPTION OF OPERATION

The Group's open pit mining operation in Lesotho focuses on:

- Mining and processing ore efficiently and safely from its two kimberlite pipes (Main and Satellite pipe)
- Optimising expansion projects to reduce diamond damage, diamond theft and to improve diamond liberation
- Implementing life of mine (LoM) extensions

TOTAL RESOURCE	IN-SITU VALUE
5.0 million carats (as at 1 January 2015)	US$10.3 billion (as at 1 January 2015)

Gem Diamonds Botswana

OWNERSHIP	ACQUIRED
100% Gem Diamonds Limited	May 2007

DESCRIPTION OF OPERATION

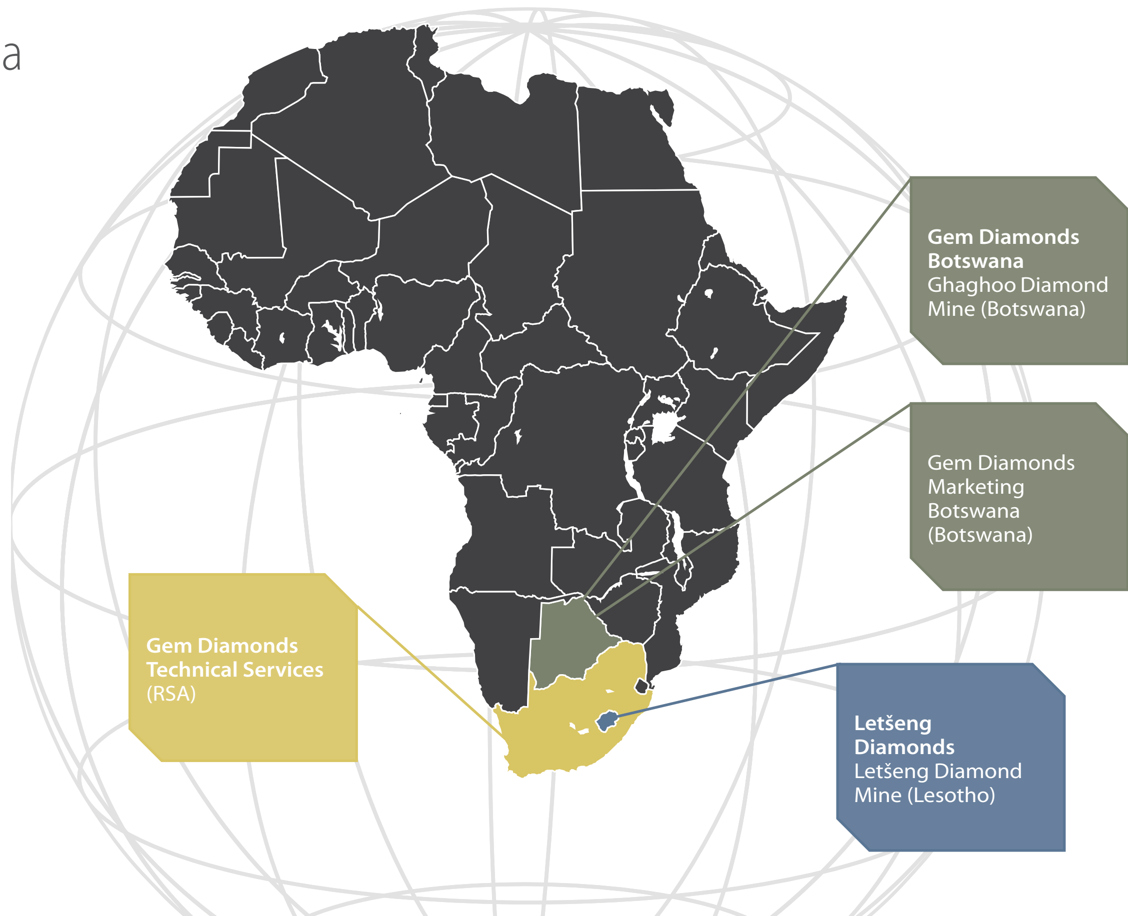
Ghaghoo, the Group's underground development in Botswana is focused on:

- Developing the mine safely
- Managing future production in line with the commodity cycle

TOTAL RESOURCE	IN-SITU VALUE
20.5 million carats (as at 1 January 2014)	US$4.9 billion (as at 1 January 2014)

TECHNICAL AND ADMINISTRATIVE SERVICES

Africa



Gem Diamonds has an organic growth strategy based on enhancing the operating efficiencies of the Letšeng mine and bringing the Ghaghoo mine into full production. Our primary focus is to achieve operational excellence and enhance current production through continued cost reduction initiatives. Additional value is generated through the Group's expanded sales, marketing and manufacturing capabilities.

SALES AND MARKETING

Gem Diamonds Marketing Services

OWNERSHIP	ESTABLISHED
100% Gem Diamonds Limited	October 2010

Gem Diamonds Marketing Botswana

OWNERSHIP	ESTABLISHED
100% Gem Diamonds Limited	August 2015

DESCRIPTION OF OPERATIONS

The Group's diamond sorting, sales and marketing operations in Belgium and Botswana focus on:

- Maximising the revenue achieved on diamond sales
- Developing the Gem Diamonds brand in the market
- Enhancing customer relationships

MANUFACTURING

Baobab Technologies

OWNERSHIP	ESTABLISHED
100% Gem Diamonds Limited	April 2012

DESCRIPTION OF OPERATION

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

- Investing in state of the art diamond analysis technology
- Understanding the value of exceptional rough diamonds through mapping and analysis
- Manufacturing selected diamonds for final polished sale

Europe

Famous Letšeng diamonds

The Letšeng Mine in Lesotho is renowned for its recovery of some of the world's most valuable diamonds, achieving the highest US dollar per carat of any kimberlite diamond mine in the world. Letšeng regularly produces diamonds of exceptional size and colour.

The 357 carat "Letšeng Dynasty"

The Letšeng Dynasty was recovered in July 2015 and sold for US$19.3 million in September 2015, achieving the highest value ever for a single Letšeng diamond. The name given was to symbolise the succession of diamonds from the same family. This diamond is in the process of being manufactured.

The 314 carat "Letšeng Destiny"

The Letšeng Destiny was recovered in May 2015 and sold into a partnership arrangement in June 2015. The name was given to signify a hidden power believed to control future events. The Letšeng Destiny has yielded a main polished fancy shape diamond of over 100 carats D colour flawless and 12 smaller diamonds of D colour, totalling a polished weight of 164 carats.

The 12 carat blue diamond (unnamed)

This rare 12.47 carat blue diamond was recovered at Letšeng in September 2013. It was sold a month later on tender in Antwerp for a record price of US$603 047 per carat (US$7.5 million), the highest US$ per carat for any Letšeng rough diamond sold to date.

The 299 carat yellow diamond (unnamed)

This diamond was recovered in December 2014. In line with the Group's strategic goal to maximise the revenue achieved from remarkable diamonds, a partnership arrangement was undertaken with Safdico, a subsidiary of Graff Diamonds in January 2015. Unmasking its true radiance, the gem was cut and polished by expert artisans with coloured diamond expertise, which resulted in a magnificant 132.55 carat fancy intense yellow cushion shaped polished diamond, along with eight other yellow diamonds, the largest being a 21.34 carat fancy yellow pear shape. The 132.55 carat gem, aptly named The Golden Empress, was set into a breathtaking Graff signature necklace, adorned with 30 other cushion cut yellow diamonds.

In 2015, a further two remarkably large white diamonds (314 carat and 357 carat) were recovered, adding to the list of Letšeng's very special diamonds.

The 550 carat "Letšeng Star"

The 550 carat Letšeng Star was recovered in August 2011 and was so named to signify the growing number of "stars" in Letšeng's constellation of large diamonds recovered. The Letšeng Star is also ranked in the top 20 largest white rough diamonds on record and the second largest white diamond to be recovered at Letšeng. This diamond yielded 12 pairs of pear shaped diamonds, as well as a main polished stone of 33.11 carats, also a pear shape, to form a unique collection of over 165 carats of D flawless and internally flawless polished gems stemming from this single rough diamond.

The 478 carat "Leseli La Letšeng"

The "*Leseli La Letšeng*", which translates to "Light of Letšeng", reflecting the diamond's remarkable colour and clarity, was recovered in September 2008 and is also ranked in the top 20 largest rough white diamonds recorded. This diamond was the third significant recovery from the Letšeng mine in as many years and was sold in November 2008 for US$18.4 million (during the height of the global financial crisis).

The fame of this diamond extends further in that it revealed a 102.79 carat round shaped, D colour internally flawless diamond, making it the largest round shaped polished diamond ever to be graded D colour internally flawless by the GIA. A further 10 exquisite polished diamonds were also revealed.

The 493 carat "Letšeng Legacy"

The Letšeng Legacy is also ranked in the top 20 largest rough white diamonds recorded and its name highlighted the growing legacy that the Letšeng mine in Lesotho was creating as a producer of significant large white diamonds. This diamond was recovered in September 2007 and was sold for US$10.4 million in November 2007.

The 603 carat "Lesotho Promise"

The 603 carat Lesotho Promise was recovered in August 2006 and together with being ranked in the top 20 of the world's largest white diamonds on record, is also the largest diamond to emerge from the Letšeng mine to date. The Lesotho Promise was sold for US$12.4 million in October 2006 and was subsequently polished into 26 D flawless and internally flawless diamonds, the largest of which was a 76.4 carat pear shaped diamond.

All 26 polished diamonds were fashioned into a single necklace by Graff.

2015 highlights

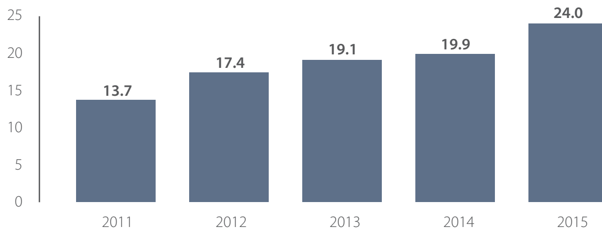
Financial highlights

US$ million	FY 2015	FY 2014	% change
Revenue	**249.5**	270.8	↓ 8
Corporate expenses	**11.7**	12.4	↓ 6
Underlying EBITDA	**103.5**	106.0	↓ 2
Profit for the year (before exceptional items)	**67.4**	60.4	↑ 12
Profit for the year (after exceptional items)	**77.6**	57.9	↑ 34
Basic earnings per share (EPS) (before exceptional items) (cents)	**30.2**	25.8	↑ 17
Basic EPS (after exceptional items) (cents)	**37.6**	24.0	↑ 57
Cash and short-term deposits	**85.7**	110.7	↓ 23
Bank loans owing	**30.4**	37.1	↓ 18

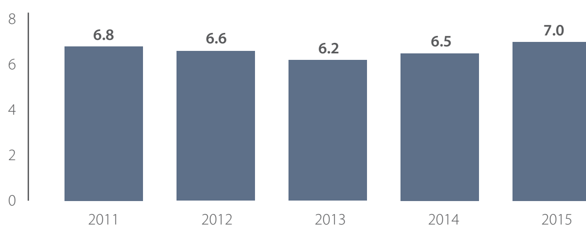
Refer to note 3, Operating profit, for definition of non-GAAP measures.

Operational highlights

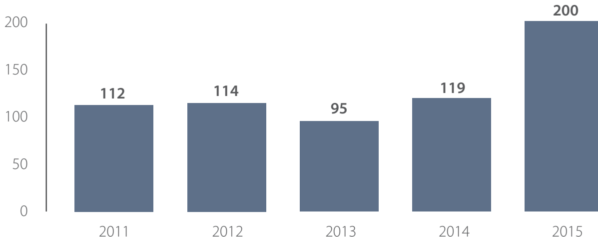
Waste tonnes mined (millions)



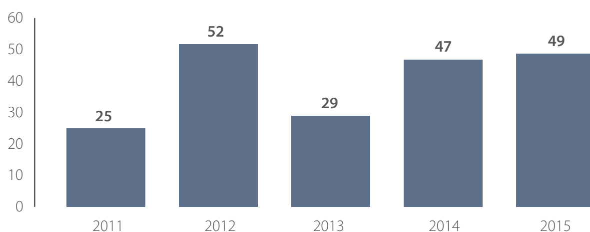
Production tonnes treated (millions)



Carats produced (thousands)



Capital expenditure (US$ million)



HSSE highlights

5 star rating for Letšeng management of HSSE

4 star rating for Ghaghoo management of HSSE

Zero
Lost time injury-free and fatality-free year

Letšeng achieves full
ISO 14001 and OHSAS 18001
certification

Letšeng

- **Eleven +100 carats recovered** during the year, making this a new **record** for the mine
- The **largest diamond recovered** during the year, a **357 carat** Type II diamond, sold for US$19.3 million, obtaining the **highest US$ value ever achieved for a single Letšeng diamond**
- **Plant 2 Phase 1 upgrade completed in March**, on schedule and within budget increasing capacity by **250 000** tonnes per annum
- **Optimised life of mine plan** approved and implemented in May significantly enhancing the mine's net present value through optimised waste stripping and **higher-grade, higher-value Satellite pipe ore being mined**
- **Coarse Recovery Plant** construction completed on schedule and within budget. The unit **recovered a high quality 52 carat Type II diamond on its first day of operation**
- **US$65 226 per carat** was the highest US$ per carat achieved during the year from a 108 carat Type II diamond
- Achieved **430 consecutive lost time injury (LTI) and fatality-free days**
- Gem Diamonds shares platform with **Lesotho Prime Minister** at Commonwealth Conference in Malta to promote investment in Lesotho

Ghaghoo

- **89 107 carats sold** during the year achieving US$14.4 million and US$162 average US$ per carat
- Largest diamond recovered during the year was **48 carats**
- Recovered **two blue diamonds of 2.19 and 1.49 carats**, being the largest blue diamonds recovered to date
- Achieved **418 consecutive LTI and fatality-free days**
- The **water fissure** was successfully sealed
- **Recovered grade exceeded** reserve grade

Group

- Michael Lynch-Bell, an experienced mining and metals non-Executive Director, **appointed as non-Executive Director and Audit Committee Chairman**
- **Maiden dividend of US 5 cents per share** paid to shareholders, amounting to US$6.9 million
- Refinanced **US$41 million worth of facilities** for extended periods
- The **Diamond Producers Association was formed**, with Gem Diamonds as a founding member along with industry peers – De Beers, Alrosa and Rio Tinto
- Corporate costs reduced by **24%** since 2011

Chairman's statement

A strong set of results

Strategic clarity

Investing in low-cost, high-return innovative projects

Robust corporate governance

Dividend paying policy

Roger Davis

Dear shareholder,
It is my pleasure to present the Gem Diamonds' 2015 Annual Report. I believe this report offers a fair and balanced account of the business, its performance over the last year and its prospects going forward.

Strategic focus

Although 2015 was a challenging year for the diamond mining industry, it is pleasing to report that the Group has delivered a strong set of results, both operationally and financially. Despite continued downward pressure on both rough and polished diamond prices during the period, particularly in the commercial diamonds, robust prices were achieved for the Group's high-end Letšeng diamonds. These strong results are the outcome of the strategic plan adopted by the Board two years ago whereby the focus was placed on maximising revenue from core assets through enhancing operational efficiencies and investing in low-cost and high-return innovative projects.

This strategic focus has positioned Gem Diamonds well for sustainable growth and, following another strong set of results during 2015, notwithstanding challenging market conditions, the Group ended the year with net cash of US$55.3 million. Moreover, the Group achieved a remarkable milestone with no lost time injuries recorded at any Gem Diamonds' operations during 2015. This achievement is a hallmark of strong operational management.

The Group continued to demonstrate capital discipline and, at Letšeng, we have successfully completed various low capital incremental growth projects on time and on budget. The addition of the Plant 2 upgrade to the treatment plant and the new Coarse Recovery Plant has resulted in a rise in the recoveries of the important +100 carat diamonds from an average of six per year to 11 in 2015. In addition, the revised optimised life of mine plan for Letšeng which was implemented during the year has significantly enhanced the value of the mine.

At Ghaghoo, it is pleasing that the initial key objectives set out for the development of Phase 1 of this asset were achieved and are all the more noteworthy due to the challenging underground conditions encountered.

The depressed market has impacted the prices achieved for our Ghaghoo production. Consequently, in the current climate, and after reviewing various options, it was considered prudent to downsize the operation for 2016 to reduce cash consumed during its final development. It is important to note that Ghaghoo remains a key future option for the Group and its expansion opportunities, when diamond prices improve, will further deliver on the Board's strategic plan.

Gem Diamonds continues to seek opportunities to maximise revenue from the sale of its rough diamonds through a combination of channels, including tenders, auctions, off-take arrangements and partnerships. The Group's multi-channel marketing strategy is effectively managed by the Gem Diamonds sales and marketing team in Antwerp and continues to develop relationships with new and existing clients.

Dividend

A maiden dividend of US$6.9 million (5 US cents per share) was paid to shareholders in June 2015 in respect of the 2014 year. This was a significant milestone for the Company. Following the positive results achieved in 2015 and in applying the dividend policy implemented in the prior year, the Board is pleased to recommend the payment of an ordinary cash dividend of 5 US cents per share (US$6.9 million) which will be proposed at the 2016 Annual General Meeting. In addition, a special dividend of 3.5 US cents per share (US$4.8 million) will also be proposed representing the cash saving arising from the settlement of a previous tax assessment. The Group will continue to adopt a prudent capital management strategy and stringent cost controls at the operations in order to remain in a position to recommend dividend payments to shareholders.

Striving for zero harm and positive contributions

Gem Diamonds strives to mine its diamonds in such a way that promotes socially and environmentally desirable outcomes. It is therefore pleasing to report that in addition to having an LTI-free year during 2015, no major or significant environmental or stakeholder incidents were recorded.

The Group is dedicated to creating and maintaining stakeholder relationships that forge shared value and leave a positive legacy in its project affected communities. Focused engagement at all levels of the business ensures that community projects are relevant and feedback is incorporated into strategies going forward. In addition, robust international best practice guidelines are implemented across the Group to ensure optimal governance.

Ensuring high levels of corporate governance

The Board is committed to the highest standards of corporate governance and believes that strong corporate governance is key to the Group's ability to create sustainable returns for all stakeholders. The Board therefore continues to support the principles encompassed in the revised UK Corporate Governance Code.

During the year, the Board welcomed Michael Lynch-Bell as an independent non-Executive Director and the Audit Committee Chairman. Mr Lynch-Bell was previously a senior resources partner at Ernst & Young (EY) for over 27 years. His wealth of experience through his non-Executive directorships at three other mining and mineral companies will complement the skill set of the Board.

After eight years of service as Chief Operating Officer and Executive Director, Alan Ashworth has announced his intention to retire in June 2016. The Board would like to express its appreciation to Alan for his significant contribution to the Group over the years.

Outlook

Although 2016 has seen a positive start with improved rough diamond prices being reported across the industry, significant global economic uncertainty remains. Nevertheless, through disciplined execution of its core strategy, I believe that the Group is well positioned to further maximise shareholder returns.

I would like to take this opportunity to acknowledge the hard work of the people who have made the successes of the 2015 year possible. I would like to give my heartfelt thanks to my fellow Board members for their insightful leadership and express my appreciation to the Gem Diamonds management team. I would also like to thank our host governments of Lesotho and Botswana and, of course, our shareholders for their continued confidence and support. Finally, I would like to thank all Gem Diamonds employees for their dedication and hard work throughout the year.

Roger Davis
Non-Executive Chairman

14 March 2016

Our strategy

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

We believe this offers us the flexibility to generate maximum returns for our shareholders in a sustainable manner. Our focus is primarily on extracting diamonds through mining. To complement our main focus of mining, we have expanded our attention further along the diamond value chain through our strategic sales, marketing and manufacturing activities. Our overarching objective is to deliver sustainable returns for our investors while optimising the benefit for our communities and minimising our impact on the environment.

Strategy

Growth	Value creation	Sustainability
Organic growth Optimising the Letšeng mine and developing the Ghaghoo mine using available capital to deliver increased returns to shareholders. **External growth** Assessing external opportunities against strict investment criteria. **Value accretive opportunities** Generating additional value through sales and marketing capabilities, incorporating manufacturing and downstream initiatives.	**Operational excellence** Focusing on cost reductions and enhancing current production efficiency. **Optimising returns** Improving the quality of our assets through life of mine extensions. Strengthening the capital structure. Optimising revenue achieved for diamond production through reductions in diamond damage and theft.	**Stakeholders and communities** Building long term, transparent and mutually beneficial relationships with all stakeholder groups. **Health, safety and environment** Promoting a culture of zero harm and responsible care as our workforce is our most valued asset. Delivering sustainable returns for our investors while optimising the benefit for our communities and minimising our impact on the environment.

Value created

KPI	KPI	KPI
Revenue: US$249 million **Underlying EBITDA: US$104 million** **Return on average capital employed: 20%** **Basic EPS (before exceptional item): 30.2 US cents** **Free cash generated: US$14 million**	**Capital expenditure: US$49 million** **Production tonnes treated: 7.0 million** **Carats produced: 200 078** **Waste tonnes mined: 24.0 million**	**Lost time injury frequency rate: 0.00** **All injury frequency rate: 2.87** **Zero fatalities** **Zero major or significant community and environmental incidents** **Zero major or significant incidents of HSSE legal non-compliance** **Corporate social investment (CSI) spend: US$0.6 million**

How we differentiate ourselves

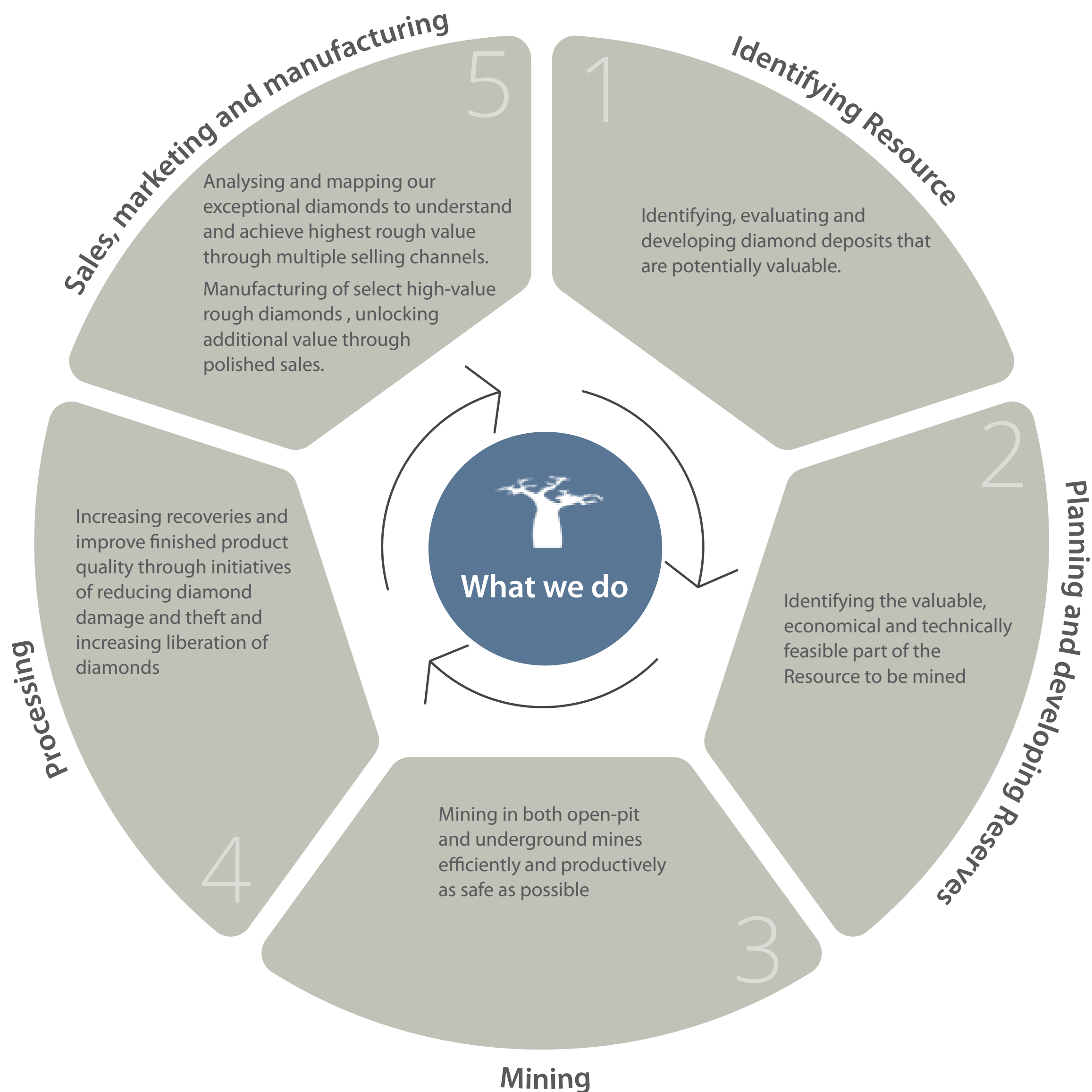
Our assets
Letšeng, our core asset, produces the highest US$ per carat diamonds in the world. We implement innovative solutions to further enhance this value. The full development of Ghaghoo offers an opportunity to further enhance the Gem Diamonds investment proposition.

Shareholder return
We are committed to sustaining shareholder value through the implementation of appropriate dividend policies and we aim to pay dividends annually.

Strong balance sheet management
We focus on maximising revenue from our core assets through enhancing operational efficiencies and investing in low capital, quick payback projects. This cash generation and capital discipline has positioned us well for sustainable growth into the long term.

Corporate responsibility
Maintaining safe operations and minimising social and environmental impact safeguards our social licence to operate and further promotes our corporate brand.

Robust corporate governance
We are committed to the pursuit of best practice in governance principles. We hold to the fact that effective corporate governance is essential to securing the Group's long-term success and viability. Focused risk management is a core element of our business. Our Board has overall accountability for ensuring that risk is effectively managed, reviewed and continually assessed across the Group.

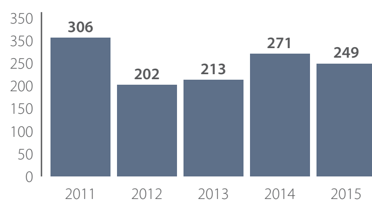


Key performance indicators

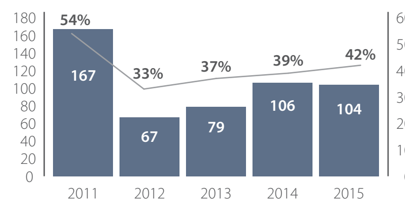
Key performance indicators are used to assess the performance of the Group against its strategy. These indicators are monitored continuously to effectively evaluate the performance of the Group over the short, medium and long term.

Growth

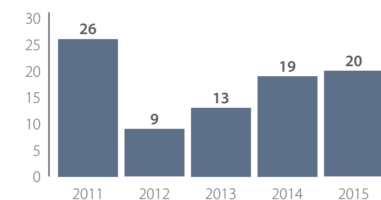
Revenue (US$ million)



Underlying EBITDA (US$ million)/
Underlying EBITDA margin (%)



Return on average capital employed (ROACE) (%)



Definition

Revenue represents the value of goods sold during the year (both rough and polished) and measures the level of operating activity and growth of the business. Revenue for the year is as reported in the Consolidated Income Statement and excludes revenue achieved by Ghaghoo on the basis that the mine had not reached full commercial production by the end of the year.

Definition

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

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

Definition

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

Commentary

The Group is committed to maximising the value achieved on rough and polished diamond sales. In a year of adverse global market conditions, Group revenue decreased by 8% compared to 2014 driven by a lower volume of rough carat sales of 6% and a lower overall US$ per carat achieved of 9% from Letšeng's production. Ghaghoo held its first sale during February 2015, and in total completed three sales during the year, generating US$14.4 million which is not included in Group revenue. Total sales for the year was US$263.9 million including these sales.

Commentary

Underlying EBITDA has remained in line with that achieved in the prior year, with underlying EBITDA margin at 42% outperforming the prior year's margin. This reflects the continued cost management and the focus on operational efficiency during the year, notwithstanding the lower revenue achieved. Underlying EBITDA does not include any results from Ghaghoo due to the mine not having reached full commercial production.

The weakening of the Lesotho loti (pegged to the South African rand) and the British pound has had a positive impact on the translation of the local costs into US dollars.

Commentary

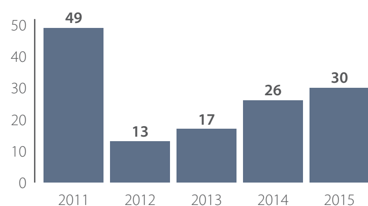
Pre-tax ROACE achieved 20%, in line with prior year, based on similar levels of underlying EBITDA. Prior years' ROACE is as reported at that point in time and includes all operations in existence in those relevant years.

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

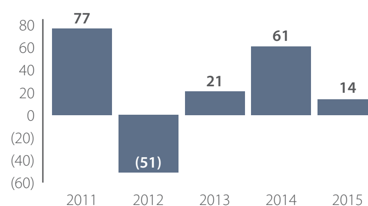
KPIs that are used as a measure in the incentive arrangements for the remuneration of executives are identified with this symbol:

Value creation

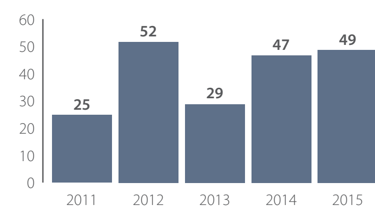
Basic earnings per share (EPS) (US cents)



Free cash generated (US$ million)



Capital expenditure (US$ million)



Definition

Basic EPS represents net profit attributable to equity shareholders and is stated before exceptional items and after taking into account non-controlling interest. This is a measure of net profitability of the Group taking into account changes in the equity structure. EPS is calculated as reported in the Consolidated Income Statement and in accordance with Note 7, Earnings per share, in the financial statements.

Definition

Free cash generated represents net cash flows before financing activities and investing activities in expansion projects. This measures the cash-generating capability of the Group to fund future growth. Free cash generated is reflected in the Statement of Cash Flows and is determined by cash flows from operating activities less cash invested in Ghaghoo and sustaining capital (pre-expansion capital) of US$43.6 million and less US$61.4 million of waste cash costs.

Definition

Capital expenditure represents the amount invested in the Group's organic growth plans. Capital expenditure is reflected in the Statement of Cash Flows as purchases of property, plant and equipment and includes expansion and sustaining capital and operating costs incurred at Ghaghoo.

Commentary

Basic EPS of 30.2 US cents per share (up 17% from the prior year) is indicative of the higher earnings achieved. Basic EPS including exceptional items was 37.6 US cents. There was no significant change in the capital structure of the Group.

Commentary

Free cash generated provides flexibility to apply such cash into development and expansion initiatives and to implement the Group strategy of providing returns to shareholders through the ability to fund future dividends.

In line with the Group's strategy to conserve cash, free cash was invested into the completion of the Plant 2 Phase 1 expansion project at Letšeng and paying a maiden dividend to shareholders.

The Group ended the year with US$55.3 million cash net of drawn down facilities.

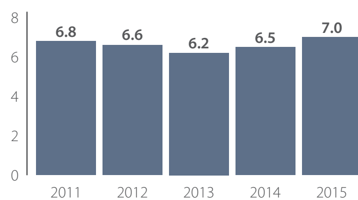
Commentary

The Group invested US$2.7 million into expansion capital expenditure for the completion of the Plant 2 Phase 1 upgrade and US$46.2 million into sustaining capital expenditure. This includes the remaining investment of US$5.3 million into the new Coarse Recovery Plant at Letšeng and operational expenses net of revenue earned at Ghaghoo of US$15.8 million which were capitalised to the carrying value of the asset during the year.

Key performance indicators continued

Value creation

Production tonnes treated (millions)



Definition

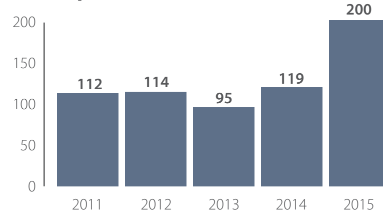
The production profile sets out the tonnes treated by Letšeng and Ghaghoo.

Commentary

The current year production represents 6.7 million tonnes treated by Letšeng and 0.3 million tonnes treated at Ghaghoo.

Letšeng tonnes treated increased by 4% following the Plant 2 Phase 1 upgrade which was completed at the end of the first quarter of the year. The full benefit of this upgrade is expected to be seen in 2016 with treatment capacity expected to increase by 250 000 tonnes per annum.

Carats produced (thousands)



Definition

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

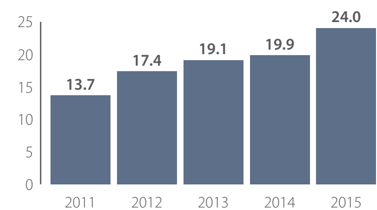
Commentary

Letšeng and Ghaghoo produced 108 579 (2014: 108 569) and 91 499 (2014: 10 167) carats respectively during the year.

Whilst production at Letšeng remained at similar levels as the prior year, a record 11 diamonds greater than 100 carats were recovered.

Ghaghoo achieved a grade of 28.0 carats per hundred tonnes (cpht) above the reserve grade of 27.8 cpht.

Waste tonnes mined (millions)



Definition

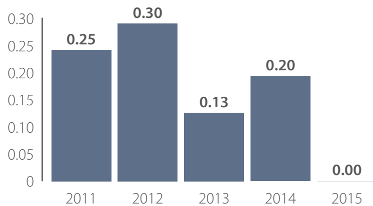
The waste tonnes mined profile sets out the waste tonnes mined by Letšeng.

Commentary

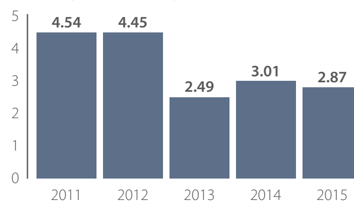
Waste moved for the year increased by 21% in line with the optimised LoM plan which was implemented in May 2015. This optimised LoM plan allows for increased levels of higher value ore from the Satellite pipe to be mined annually.

Sustainability

Lost time injury frequency rate (LTIFR)



All injury frequency rate (AIFR)



Definition

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

Definition

The AIFR is another measure of the safety performance of the Group. The AIFR is calculated based on all reported injuries including minor injuries, medical treatment cases, restricted work injuries and lost time injuries of all Gem Diamonds' companies and subcontractors, and is expressed as a frequency rate per 200 000 man hours. Prior year rates include all operations in existence at that period.

Commentary

2015 was an LTI-free year across the Group demonstrating the Group's continued focus on behaviour-based safety. As a result the LTIFR for the year was 0.00.

Commentary

The AIFR decreased to 2.87 in 2015 demonstrating the continued emphasis on proactive safety management and striving towards a goal of zero harm.

Zero
fatalities

Zero
major or significant community incidents

Zero
major or significant environmental or community incidents

Zero
incidents of HSSE legal non-compliance

Invested US$0.6 million in corporate social investment projects during the year to build mutually beneficial and transparent relationships with our project affected communities.

Principal risks and uncertainties

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

Central to Gem Diamonds' approach to risk management is having the right Board and Senior Management team in place, with such members combining extensive experience in diamond mining, corporate governance, assurance management and knowledge of the local operating conditions in Lesotho and Botswana.

The Board is accountable for risk management, assisted primarily by the Audit and HSSE Committees, who together identify and assess change in risk exposure, along with the potential financial and non-financial impacts and likelihood of occurrence.

The Company is continually strengthening its risk management processes to provide informed assurance to the Board in order to assess current objectives. A review of the Group's Internal Audit function resulted in a full-time internal auditor being appointed during 2014, reporting directly to the Audit Committee. The Group Internal Audit function carries out the risk-based audit plan approved by the Audit Committee, to evaluate the effectiveness and contribute to the improvement of risk management controls and governance processes.

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

The KPIs, which are grouped into the Growth, Value Creation and Sustainability of the Group's strategy on pages 12 to 15, are linked to the risks below.

Description and impact	Mitigation	2015 actions and outcomes	KPIs affected
Market risks			
Rough diamond prices ■ Numerous factors beyond the control of the Group may affect the price and demand for diamonds. These factors include international economic and political trends, global diamond production levels, synthetic diamonds and consumer trends. ■ The funding of growth plans could also be adversely affected by cash constraints resulting from negative market conditions.	■ Market conditions are continually monitored to identify trends that pose a threat or create opportunity for the Group. The Group has flexibility in its sales processes and the ability to reassess its capital projects and operational strategies in light of current market conditions to preserve cash balances. ■ Strict treasury management procedures are in place to monitor cash and capital projects expenditure.	■ The market for both rough and polished diamonds was constrained during 2015, with diamond indices showing a decrease in the average diamond prices across all diamond producers in excess of 19%. ■ Letšeng's high value diamond prices remained resilient increasing by 3% compared to the reserve price estimates set at 1 January 2015. The diamond damage reduction and security initiatives, through the completion of the Coarse Recovery Plant during the year, further contributed to this positive outcome. ■ During the year the price per carat achieved for the Ghaghoo production decreased from US$210 per carat in February to US$150 per carat in December. Based on this decline and the depressed state of the rough diamond market for Ghaghoo's production, various options were reviewed with the aim of minimising the cash to be consumed by this asset. It was considered prudent to downsize the production level in 2016. ■ The Group has maintained a robust balance sheet with net cash of US$55.3 million at 31 December 2015, together with existing undrawn facilities of US$51.1 million at the date of this report.	■ Growth

Description and impact	Mitigation	2015 actions and outcomes	KPIs affected
Operational risks			
Mineral resource risk ■ The Group's mineral resources influence the operational mine plans and the generation of sufficient margins. Underperformance of mineral resources could affect the Group's ability to operate profitably in the medium to long term.	■ Various bulk sampling programmes, combined with geological mapping and modelling methods, significantly improve the Group's understanding of and confidence in the mineral resources and assist in optimising the mining thereof.	■ In order to better define the Letšeng orebody, ahead-of-face drilling and discrete production sampling programmes initiated in previous years continued in 2015. In addition, micro diamond sample analysis which aims to predict grades at depth was also conducted during the year. The outcomes of these programmes will be used to update resource models. ■ Development at Ghaghoo was limited to mapping of the geology for the underground tunnels. Increased production levels during the ramp-up phase resulted in 91 499 carats being recovered during the year, improving the understanding of the VKSE phase of the orebody. As mining continues, more data will become available to further understand the resource and develop the value in the reserve.	■ Growth; ■ Value creation
A major production interruption ■ The Group may experience material mine and/or plant shutdowns or periods of decreased production due to a number of events. Any such event could negatively influence the Group's operations and impact both profitability and cash flows.	■ The Group continually reviews the likelihood and consequence of different possible events and ensures that the appropriate management controls, processes and business continuity plans are in place to immediately mitigate risk.	■ Letšeng sources its power through the Lesotho Electricity Corporation, which in turn sources its power from the South African electricity provider, Eskom. Eskom has had challenges in providing consistent power in South Africa and neighbouring dependent states. In light of this, improvements in power supply monitoring, and the provision of additional backup power supply were undertaken at Letšeng during the previous year, to minimise the impact of lengthy outages. During 2015, Eskom's downtime did not materialise to the extent expected and as such Letšeng experienced less than 88 hours of power outages, of which 64 hours were countered with backup power. ■ The fissure which caused water ingress at Ghaghoo during 2014 was sealed in 2015 and improved methodologies have been established to ensure sudden water ingresses do not occur in future. ■ In November 2015, premature caving at the end of tunnels 2 and 3 at the Ghaghoo mine propagated through to the surface, resulting in an influx of sand. There was no prolonged production interruption and a buffer zone was created to reduce the risk of sand dilution. A revised draw control regime has also been implemented to mitigate further risk. ■ Ghaghoo has a single access tunnel to the underground workings which remains a risk, however frequent and precise monitoring of the access tunnel condition is performed.	■ Growth; ■ Value creation; ■ Sustainability

Principal risks and uncertainties continued

Description and impact	Mitigation	2015 actions and outcomes	KPIs affected
Operational risks (continued)			
Diamond theft ■ Theft is an inherent risk factor in the diamond industry.	■ Security measures are constantly reviewed in order to minimise this risk.	■ The new Coarse Recovery Plant incorporates enhanced security features and was completed during 2015. The full benefits of the security features are being continually assessed.	■ Growth
Diamond damage ■ Letšeng's valuable Type II diamonds are highly susceptible to damage during the mining and recovery process and to reduce such damage creates potential upside for the Group.	■ Diamond damage is continually monitored and analysed. Studies are conducted to identify further modifications and opportunities to reduce such damage.	■ Building on the success of the new crushers installed in 2013, the Plant 2 Phase 1 upgrade with the aim of reducing diamond damage, was completed during the first quarter of 2015. Following the completion of the upgrade, higher production levels were achieved, particularly in the last quarter of the year. During the year, a record 11 diamonds greater than 100 carats were recovered.	■ Growth; ■ Value creation
Expansion ■ The Group's growth strategy is based on delivery of expansion projects, premised on various studies, cost trends and future market assumptions. In assessing the viability, cost and implementation of these projects, risks concerning cost overruns and/or delays may affect the implementation and execution thereof.	■ Project governance structures have been applied to ensure the projects are monitored and risks managed at an appropriate level. ■ Flexibility in the execution of projects allows the Group to react quickly to changes in market and operational conditions.	■ At Letšeng, the new Coarse Recovery Plant and Plant 2 Phase 1 upgrade projects were completed on schedule and within budget. ■ Downsizing the production rate at Ghaghoo during 2016, necessitated by the current adverse pricing achieved for its production, will reduce cash consumed in the current market. Options are being assessed to expand the operation in order to achieve acceptable financial returns as and when the diamond prices improve.	■ Growth; ■ Value creation

Description and impact	Mitigation	2015 actions and outcomes	KPIs affected
Operational risks (continued)			
HSSE-related risks ■ The risk that a major health, safety, social or environmental incident may occur within the Group is inherent in mining operations.	■ The Group has reviewed and published policies in this regard and significant resources have been allocated to continuously improve, review, and monitor compliance throughout the various operations within the Group. This is overseen by the HSSE Committee on behalf of the Board. ■ Further to this, the Group engages independent third parties to advise and provide assurance on current operational compliance with HSSE policies. ■ The Group actively participates and invests in corporate social initiatives and the involvement of members of the project-affected communities (PACs) who sit on the respective corporate social investment (CSI) committees is critical to the success thereof.	■ The Group continues to strive towards its goal of zero harm to its people and environment by operating within its sustainable development framework. ■ The Group recorded a fatality and LTI-free year. ■ Letšeng and Ghaghoo maintained their five-star and four-star ratings respectively for their external HSSE audits. In addition, precautionary measures at Ghaghoo ensured that no injuries occurred during the premature caving event. ■ Letšeng received ISO14001 and OHSAS18001 certification during the year. ■ Corporate social investment into the Group's PACs continued throughout the year.	■ Sustainability
Country and political risks ■ The political environments of the various jurisdictions that the Group operates within may adversely impact our 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.	■ Changes to the political environment and regulatory developments are closely monitored. Where necessary, the Group engages in dialogue with relevant government representatives in order to build relationships and to remain well informed of all legal and regulatory developments impacting its operations.	■ The Group continually monitors political risk procedures to mitigate the impact of any unrest. There were no strikes or lockouts during the year across the Group. ■ Numerous initiatives in promoting relationships were undertaken during the year and in November 2015 the Group, jointly with the Lesotho Government, attended the Commonwealth Conference in Malta to promote investment in Lesotho.	■ Growth; ■ Sustainability

Principal risks and uncertainties continued

Description and impact	Mitigation	2015 actions and outcomes	KPIs affected
Operational risks (continued)			
Retention of key personnel and skills shortages ■ 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.	■ The Group regularly reviews human resources practices, which are designed to identify areas of skill shortages, and actions such development programmes to mitigate such risks. In addition, these programmes are designed to attract, incentivise and retain individuals of the appropriate calibre through performance-based bonus schemes and long-term reward and retention schemes.	■ Intensified efforts contribute to the development of identified key employees through structured training and development programmes. ■ Extensive engagements with respective government departments are ongoing as part of the effort to develop plans for local employee upskilling.	■ Growth; ■ Value creation; ■ Sustainability
Financial risks			
Currency ■ The Group receives its revenue in US dollars, while its cost base is incurred in local currencies of the various countries within which it operates. The volatility of these currencies trading against the US dollar impacts the Group's profitability.	■ The impact of the exchange rates and fluctuations are closely monitored. It is the Group's policy to hedge a portion of future diamond sales when weakness in local currencies indicates it to be appropriate. Such contracts are generally short term in nature.	■ Local currencies in the jurisdictions in which the Group operates have weakened significantly against the US dollar during the year. This has positively impacted the Group's results. ■ A number of foreign exchange hedging contracts were entered into during the year to take advantage of the weakened currencies where appropriate.	■ Growth; ■ Value creation

Viability statement

In accordance with the revised UK Corporate Governance Code, the Board has assessed the viability of the Group far beyond the 12 months from the approval of the financial statements. The Board concluded that the most relevant time period for this assessment is a three-year period from the approval of the financial statements, taking into account the Group's current position and the potential impact of the principal risks that could impact the viability of the Group as outlined on pages 16 and 20. This period also coincides with the Group's business and strategic planning period, which is an annual review of the three-year plan, led by the CEO and involving all relevant functions including operations, sales and marketing, financial, treasury and risk. The Board actively participates in the annual review process by means of structured board meetings and annual strategy sessions. A three-year period gives management and the Board sufficient and realistic visibility in the context of the industry environment of the Group.

The Group's focus is on organic growth, with particular emphasis on enhancing efficiencies and optimising expansion plans at its flagship Letšeng operation. Similarly, the ramping up of production at the Ghaghoo mine remains a key objective, albeit at a slower rate in the current challenging diamond market conditions, in order to reduce cash outflow.

For the purpose of assessing the Group's viability, the Board focused their attention on the more critical principal risks. Although the business and strategic plan reflects the Board's 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, underlying EBITDA, cash flows and other key financial ratios over the three-year period and included:

- a significant decrease in forecast rough diamond prices; and
- a significant appreciation of local currencies to the US dollar.

The results of this stress testing showed that, due to the stability and cash-generating nature of the Group's core asset, Letšeng, along with the strong net cash position of US$55.3 million as at 31 December 2015 and available standby facilities of US$51.1 million, the Group would be able to withstand the impact of these scenarios occurring over the three-year period by making adjustments to its operating plans within the normal course of business.

Based on their robust assessment of the principal risks, prospects and viability of the Group, the Board confirms that they have reasonable expectation that the Group will be able to continue operation and meet its liabilities as they fall due over the three-year period ending March 2019.

Market review 2015

Despite a challenging year for the diamond industry as a whole, prices for the large, high-value rough production from Letšeng remained resilient during 2015, achieving an average of US$2 299* per carat for the year.

The global economic backdrop in 2015

- Continuing macro-economic uncertainty
- Slow-down in the growth of the Chinese economy
- Strengthening of the US dollar
- Grim market conditions for all commodities

The global diamond market in 2015

2015 was characterised by continuing global macro-economic volatility and uncertainty and the sentiment in the diamond market as a whole remained cautious. These conditions, together with continued liquidity constraints and high levels of stock (particularly in the manufacturing sector), plagued the diamond market throughout the year, placing downward pressure on both rough and polished diamond prices. Although these challenging market conditions continued impacting the price achieved for the Ghaghoo production, the prices achieved for the large high value rough production from Letšeng remained comparatively firm.
The significant drivers of the diamond market during 2015 included:

- **The continued US recovery**

The economic recovery in the US continued in 2015 resulting in a reported increase in personal disposable income. This positive trend is closely linked to spending on luxury goods, and had a positive impact on diamond sales in the US during the year.

On the flip side the strengthening of the US economy resulted in a stronger US dollar which, due to diamond sales being US dollar denominated, had a negative impact on sales in countries whose currency was negatively impacted by the strengthening US dollar.

- **Weakened demand from China**

Retail demand for polished diamonds from China weakened as its economic growth slowed during the year.

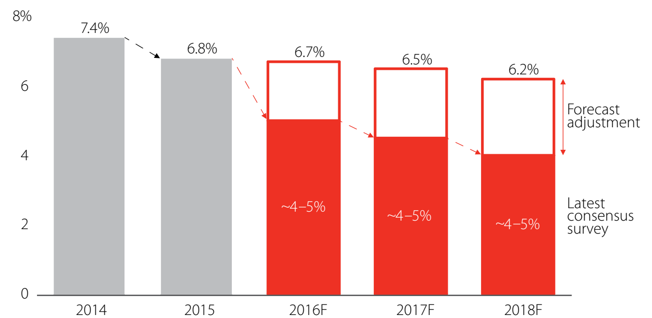
- **Funding constraints**

The closure of the Antwerp Diamond Bank at the end of 2014 and tightening of lending criteria, particularly in India, resulted in continued liquidity constraints being experienced by diamantaires during 2015.

- **High levels of polished inventory**

The decrease in demand for polished diamonds seen mainly as a result of the slowdown in the Chinese economy resulted in high levels of polished inventory in the manufacturing sector of the diamond pipeline towards the end of 2015.

China real GDP annual growth rate, US$



Sources: EIU; Bain analysis

Gem Diamonds' market position

- The large, exceptional diamonds produced from the Letšeng mine makes it the highest average dollar per carat kimberlite diamond producer in the world.
- Letšeng places the Group at the top end of the diamond market in terms of value and price with its greater than 10.8 carat production accounting for approximately 80% of its value.
- The Ghaghoo mine in Botswana produces diamonds of a more commercial quality and colour, diversifying the product the Group offers to its customers.

Letšeng average price achieved:
US$2 299* per carat

Ghaghoo average price achieved:
US$162 per carat

Estimated global average
US$103 per carat

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

Medium to long-term outlook

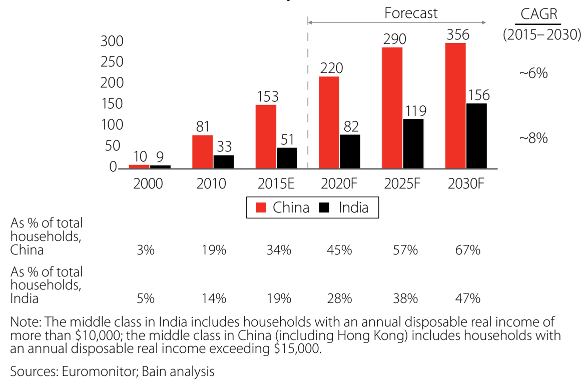
Demand is expected to outstrip supply in the medium to long term despite current market conditions. The medium to long-term outlook for the diamond demand/supply fundamentals are expected to remain favourable given rising consumer demand in developed and developing markets contrasted with a forecasted medium to long-term constrained supply.

Global demand trends

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

- The continued recovery in the US, the major diamond market.
- The growing international trend to use diamonds across a wide range of luxury goods, from jewellery, watches and accessories to pens and digital devices.
- The growing middle, upper class and continued urbanisation in emerging markets – especially in India and China.
- The continued growth in the number of high-net-worth individuals worldwide.

Middle class in China and India, millions of households



	2000	2010	2015E	2020F	2025F	2030F
As % of total households, China	3%	19%	34%	45%	57%	67%
As % of total households, India	5%	14%	19%	28%	38%	47%

Note: The middle class in India includes households with an annual disposable real income of more than $10,000; the middle class in China (including Hong Kong) includes households with an annual disposable real income exceeding $15,000.

Sources: Euromonitor; Bain analysis

Looking ahead

In the short term, the downward pressure on both rough and polished prices in the diamond market remains a challenge, particularly for the more commercial Ghaghoo operation. The prices achieved for Letšeng's large high value production has and is expected to remain resilient during a continued uncertain and difficult short-term period facing the global diamond market.

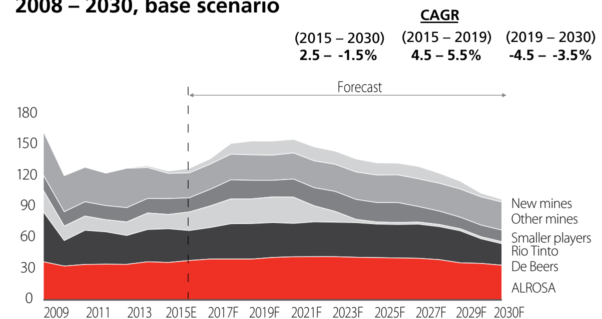
In the medium to long term, the Group expects robust diamond prices for its diamonds from both Letšeng and Ghaghoo, with favourable medium to long-term outlook.

Global supply trends

Global diamond supply, in terms of volumes, is expected to increase marginally in the next four to five years and thereafter steadily decrease:

- Rough diamond production has declined considerably since peaking in 2005 and is yet to recover to the pre-global financial crisis levels of approximately 168 million carats per annum.
- Annual global diamond production is currently in the region of 127 million carats and with the introduction of new mines is expected to peak near 150 million carats in the next four to five years. Thereafter a steady decrease in supply from 2021 reduces annual production to around 100 million carats by 2030[1].
- The aging and depletion of existing mines and the limited additional supply from new mines.
- The projected supply from new mines is expected to add an additional 20 million carats a year until 2021 and thereafter output from these mines is expected to decrease to around five million carats by 2030[1]. The additional supply from these new mines is not expected to compensate for the expected growth in demand during the same period.

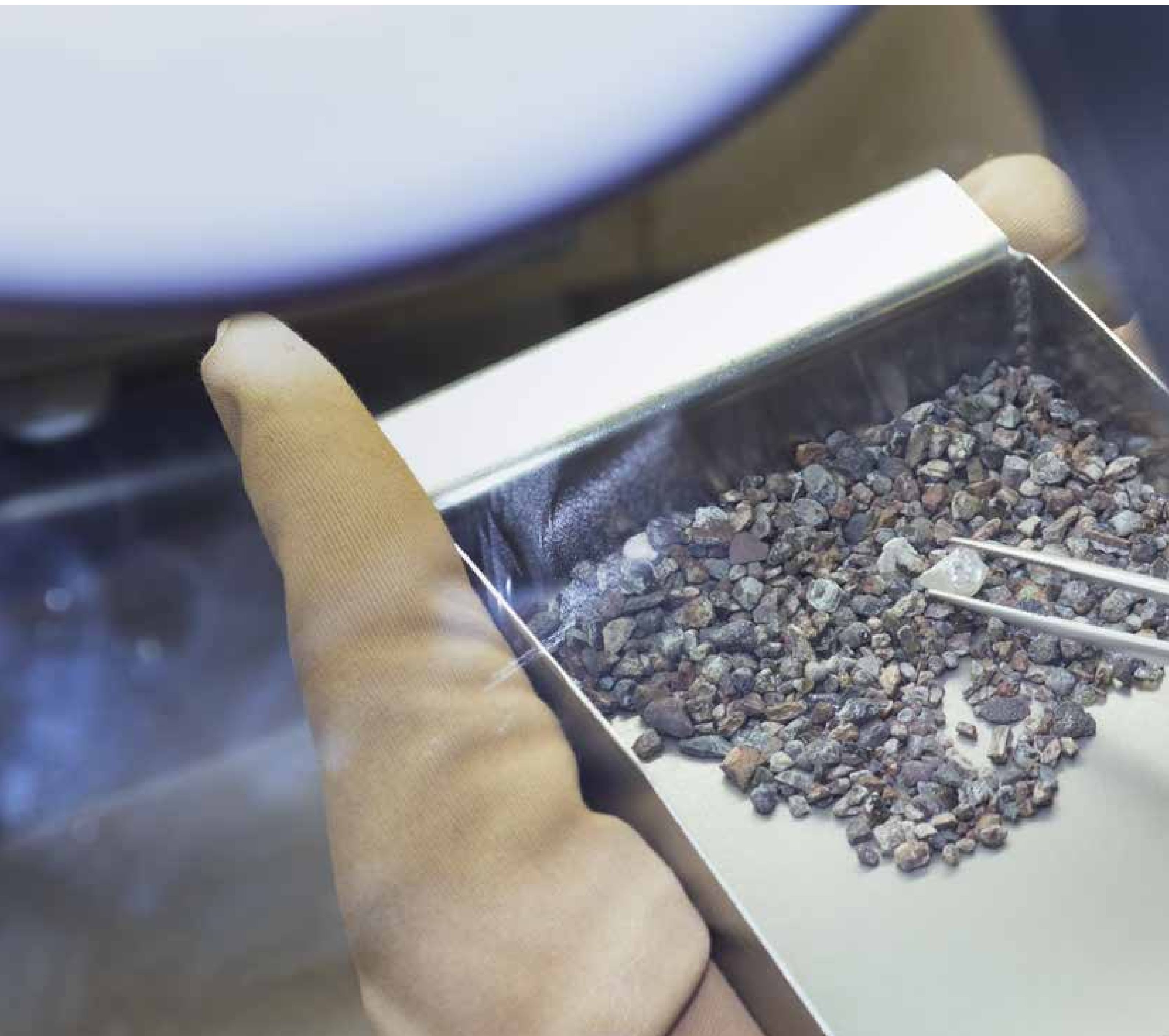
Rough diamond supply (millions of carats) 2008 – 2030, base scenario



Note: Smaller players are Dominion Diamond, BHP Billiton for 2008 – 2012, Petra Diamonds, Gem Diamonds and Catoca.

Sources: Company data; Kimberley Process; expert interviews; Bain analysis

[1] *Bain and Company: The Global Diamond Industry 2015*



Strategic report: Management review

26 Chief executive's report
30 Group financial performance

Chief executive's report

Positive results in a tough market

Disciplined cost control

Continued focus on maximising revenue

Successful project delivery within budget

Clifford Elphick

In a year characterised by adverse global market conditions, Gem Diamonds' strategy has allowed the Group to successfully navigate this challenging environment and to continue to generate cash from its core asset, Letšeng, resulting in sustainable returns for our shareholders. The Group's strong financial position, as reflected in this report, is the result of disciplined execution of its strategy which has been due to the excellent work by the whole Gem Diamonds team.

While the global commodity market saw a sharp downturn during 2015, the revenue generated from the sale of Letšeng diamonds remained robust at an average of US$2 299* per carat. This is a remarkable achievement, and clear evidence of the resilience of Letšeng's unique, high-quality diamonds and the success of our technical progress in reducing diamond damage. In current market conditions, a key focus for our team has been on maximising production whilst controlling costs and we are proud to report Group underlying EBITDA of US$104 million and EPS (before exceptional items) of 30.2 US cents.

Prudent balance sheet management

During the year, the Group upheld its fiscal discipline and maintained its healthy balance sheet. This was achieved by adhering to a number of strategic imperatives, including:

- continuing investment in low capital projects at Letšeng that deliver quick paybacks with high returns;
- achieving operational excellence and driving costs down; and
- maintaining low debt levels whilst preserving the Group's cash position.

** includes carats extracted for polishing at rough valuation*

After paying a US$6.9 million (5 US cents per share) maiden dividend during the year, the Group ended 2015 with a net cash position of US$55.3 million.

Maximising value through innovation and operational excellence at Letšeng

Gem Diamonds' focus at Letšeng is on operational excellence and optimising the value of the mine through:

- the introduction of innovative technology to reduce diamond damage and improved recoveries through incremental investment in low capital projects; and
- improving the production profile through optimal life of mine planning.

In 2015, the Company continued to reap the benefit of investments made in previous years in this regard. The introduction of optimised secondary crushers at Letšeng during 2013 was an important milestone toward reducing diamond damage. In addition, a change in mine blasting practices and patterns has resulted in improved fragmentation of the ore delivered to the treatment plants, which further contributed to a reduced damage trend in our valuable Type II diamonds.

During the year, two additional low capital investment projects were completed. The Plant 2 upgrade was completed at a total capital cost of US$3.5 million and, following commissioning, has increased Letšeng's production capacity by 250 000 tonnes per annum and has also contributed to reduced diamond damage. Furthermore, the new Coarse Recovery Plant has enhanced security, and through the use of X-ray transmissive sorting technology, has improved recovery of the high-value Type II diamonds. This plant was completed at a capital cost of US$11.0 million.

Before these interventions, an average of six diamonds greater than 100 carats were recovered per year, whereas in 2015, the Group recovered 11 diamonds greater than 100 carats, the largest of which was the 357 carat 'Letšeng Dynasty'. This exceptional diamond was sold for US$19.3 million, achieving the highest price for a single diamond from our Letšeng mine – a truly noteworthy achievement in a depressed market.

In early 2015, a revised optimal life of mine plan for Letšeng was implemented which significantly increases the net present value of the mine by increasing annual are tonnages from the higher-value Satellite pipe and reducing and smoothing the waste mining profile over the next 20 years.

The Letšeng team deserves credit for the successful implementation of these initiatives and for their continued commitment to achieving operational excellence.

Developing the Ghaghoo mine

I am pleased to report that the key objectives set out by the Group for the Phase 1 development at Ghaghoo mine have been achieved. It is also pleasing to note that the average grade recovered during the year of 28.0 cpht marginally exceeded the reserve grade of 27.8 cpht.

We continued to experience difficult underground conditions at Ghaghoo. At the end of November 2015, caving at the end of tunnels 2 and 3 propagated through to surface. Although this was anticipated to occur as the volume of ore extracted underground increased, it occurred some six months earlier than expected. Due to the safety procedures in place, no injuries were sustained nor was there any damage to equipment. Actions required to create a buffer zone to limit sand dilution have been put in place and underground mining has resumed. This will result in the deferment of extraction of approximately 300 000 tonnes of ore.

As part of the treatment plant optimisation, a 100 tonne per hour surge bin, positioned ahead of the Autogenous Mill to enhance the mill's performance, was commissioned on 21 January 2016. Following the commissioning of the surge bin, the Phase 1 planned treatment feed rate of 2 000 tonnes per day was achieved, confirming the plant's ability to run at its nameplate capacity of 60 000 tonnes per month.

Another notable achievement this year was establishing a sustainable solution for the water fissure on Level 1 and the intersection on the ramp to Level 2.

The fall in prices for the Ghaghoo production during the year has impacted the planned pace of the ramp up at Ghaghoo. A sale of 49 120 carats in December achieved US$7.4 million at an average price of US$150 per carat, down from US$210 and US$165 per carat in the previous two sales held in February and July respectively. Based on these prices and the current depressed state of the rough diamond market for Ghaghoo's production, various options were reviewed and in the short term it was considered prudent to downsize the operation to minimise the cash to be consumed by this asset. Consequently, a modified target of approximately 300 000 tonnes of ore to be treated has been set for 2016. With over 20 million carats in the resource worth over US$4 billion, Ghaghoo, located in a world renowned diamond producing country and 100% owned by the Group, remains an important asset. Opportunities are being assessed to expand the operation to achieve healthy margins and a strong return on capital as and when diamond prices improve.

Chief executive's report continued

Investing in value accretive marketing and downstream initiatives

Gem Diamonds remains committed to unlocking the full value from our assets by maximising the revenue achieved from rough and polished diamond sales. Gem Diamonds' sales and marketing team has been instrumental in developing the Letšeng Diamond brand and increasing and improving the Group's customer base. In a challenging diamond market, the sales and marketing team in Antwerp has demonstrated their expertise in achieving top prices for Letšeng's diamonds. Over the past few years, the number of registered customers for the Letšeng tenders has more than doubled and we continue to welcome renowned diamantaires in Antwerp.

The Group continued to invest in its downstream activities by selecting certain high value rough diamonds for cutting and polishing, through its own facilities in Antwerp or partnering with select clients. During the year the Group achieved an average of 25% additional value over the initial rough price for the selected diamonds put through this process, supporting the objectives of this process.

Protecting our workforce

Gem Diamonds regards its employees as a key asset and sets the health and safety of its workforce as its highest priority. It therefore gives me great pleasure to report zero lost time injuries during the 2015 calendar year. This achievement is indicative of the success of various operational initiatives and focused managerial effort in the creation of a culture of responsible care. I would like to congratulate our entire workforce across all our operations for the remarkable milestone as such an achievement is simply not possible without the concerted effort of each and every employee.

Minimising environmental impacts

The Group has continued its excellent track record in relation to the sustainable care of the environment and we can report, for the seventh consecutive year, that no major environmental incidents have occurred across the Group.

Our environmental teams, with the assistance of industry specialists and academics, continue to monitor the Group's ongoing environmental compliance and pursue best practice guidelines.

Collaborating with our project affected communities

Close collaboration with our project-affected communities continued throughout 2015 with a total investment by the Group of US$0.6 million being made into community and social programmes.

In Lesotho, positive feedback has been received from community representatives as well as from a number of Lesotho government ministers and officials about our efforts in this area. The social and community programme in Lesotho was also showcased at the Commonwealth Conference in Malta in November 2015 to the acclaim and appreciation of the prime minister and the Lesotho delegation. The main areas for community and social investment in 2015 were a tertiary education scholarship, youth development programmes, a village health worker training programme and a subsistence farming project.

In Botswana, the Ghaghoo Community Trust, a key initiative, received funding from the Group during the year. The Trust, which includes two voting community representatives, met regularly throughout the year and commissioned several community based initiatives. The provision of maintenance of the boreholes supplied to project-affected communities around the Ghaghoo mine continued. In addition, the Ghaghoo mine has adopted schools in the vicinity of the Central Kalahari Game Reserve, and the mine's relationship with these local schools has been strengthened through sponsorship of both academic and sport-related projects. The construction of facilities at the schools and the introduction of educational mine visits for scholars has proven to be particularly effective.

Industry advocacy

We remain committed to supporting the diamond industry. Gem Diamonds was one of the founding members of the Diamond Producers Association (DPA), established during 2015. The objective of the DPA is to promote the interests of diamond producers and support the

development of the sector. This includes maintaining and enhancing consumer demand for and confidence in diamonds, as well as sharing best practices in health and safety and environmental management with our diamond peers.

Outlook

The emphasis for 2016 and beyond remains on positioning the Group to leverage its strengths and invest responsibly in future value creation for our shareholders. We are focused on making the Ghaghoo mine a significant contributor to the Group's financial success, as well as concentrating on the continued development and further financial strength of the Letšeng operation.

I remain confident that the strategic direction of Gem Diamonds will continue to keep the Company in a financially strong position and generate cash to fund dividends and achieve strong returns for our shareholders.

It is also an appropriate time to acknowledge once again the excellent work of Gem Diamonds' employees, the careful guidance of the Board and the unwavering support received from our shareholders.

Clifford Elphick
Chief Executive Officer

14 March 2016

Group financial performance

Maximising production whilst controlling costs

Underlying EBITDA of US$104 million

Basic EPS of 37.6 US cents

Cash on hand of US$86 million

Ordinary and special dividends proposed

Michael Michael

In a commodities market categorised by challenging conditions, Gem Diamonds has remained focused on its fundamental goal of extracting the maximum value from its resources for long-term shareholder value creation.

In response to the operating environment during the year, the Group has focused on disciplined balance sheet management and careful cost containment resulting in a strong net cash position of US$55.3 million with US$16.1 million available facilities at 31 December 2015, increasing to US$51.1 million in January 2016 following the refinancing of one of the Group's existing revolving credit facilities.

Revenue

The Group is committed to maximising the value achieved on rough and polished diamond sales. The Group's revenue is primarily derived from its two business activities, namely its mining operations in Lesotho (Letšeng) and Botswana (Ghaghoo), and its rough diamond manufacturing operation in Antwerp. Group revenue of US$249.5 million in 2015 is 8% lower than that achieved in 2014 notwithstanding a 9% decrease in Letšeng's average US$ per carat achieved and 6% lower volume of rough carat sales. Revenue of US$3.8 million was generated through additional polished margin by the manufacturing operation. In addition, the Group's revenue was positively impacted by the movement in own manufactured inventory, increasing Group revenue by US$8.8 million.

Letšeng continued its solid operational performance in line with its optimised life of mine plan and despite 2015 being a challenging year for the general diamond industry, an average of US$2 299[1] per carat was achieved, evidence of the resilience of its large, high-value diamonds against the downward market pressures and success of the technical changes made in reducing diamond damage.

Ghaghoo sold its first parcel of diamonds in February 2015 for US$2.1 million, achieving US$210 per carat. Two more parcels were sold in July and December

for US$4.9 million and US$7.4 million, achieving US$165 and US$150 per carat respectively, reaching total sales of US$14.4 million for the full year. These sales are not reported in the Group revenue, but have been set off against operating and development costs capitalised to the carrying value of the asset, as the mine did not reach full commercial production for accounting purposes by the end of the year.

Financial highlights

US$ million	2015	2014*
Revenue	249.5	270.8
Royalty and selling costs	(21.9)	(24.7)
Cost of sales	(112.4)	(127.8)
Corporate expenses	(11.7)	(12.4)
Underlying EBITDA	103.5	106.0
Depreciation and amortisation	(10.4)	(14.8)
Other income	0.5	0.1
Share-based payments	(1.7)	(1.7)
Foreign exchange gain	7.0	5.6
Net finance income	0.1	0.2
Profit before tax from continuing operations	99.0	95.4
Income tax	(31.6)	(35.0)
Profit after tax from continuing operations	67.4	60.4
Profit/(loss) from exceptional items	10.2	(2.5)
Profit after tax after exceptional items	77.6	57.9
Non-controlling interests	(25.6)	(24.7)
Attributable profit	52.0	33.2
Basic EPS (US cents)	37.6	24.0

** Prior period figures have been restated for the reclassification impact of accounting for the discontinued operation*

	2015	2014
Letšeng revenue[1]		
Average price per carat (US$)	2 299	2 540
Carats sold	102 778	108 963
Ghaghoo revenue[2]		
Average price per carat (US$)	162	n/a
Carats sold	89 107	n/a
Group revenue summary (US$ million)		
Sales – rough	236.3	276.8
Sales – polished margin	3.8	5.8
Sales – other	0.6	0.3
Impact of movement in own manufactured inventory	8.8	(12.1)
Group revenue	249.5	270.8

[1] Includes carats extracted for polishing at rough valuation.
[2] Ghaghoo concluded its first sale in 2015 and therefore no figures are tabled for 2014. As Ghaghoo did not commence with commercial production for accounting purposes, the sales generated for the year were not included in the Group revenue.

Royalties consist of an 8% levy paid to the Lesotho Revenue Authority on the sale of diamonds in Lesotho and 10% paid to the Department of Mines in Botswana. Diamond selling and marketing-related expenses are incurred by the Group sales and marketing operation in Belgium. During the year, royalties and selling costs decreased by 11% to US$21.9 million, driven mainly by lower sales.

Operations

While revenue is generated in US dollars, the majority of operational expenses are incurred in the relevant local currency. The Lesotho loti (LSL) (pegged to the South African rand), Botswana pula (BWP) and British pound (GBP) were all weaker against the US dollar during the year, which positively impacted the Group's US dollar reported costs.

Exchange rates	2015	2014	% change
LSL per US$1.00			
Average exchange rate for the year	12.78	10.85	18
Year end exchange rate	15.50	11.57	34
BWP per US$1.00			
Average exchange rate for the year	10.14	8.98	13
Year end exchange rate	11.25	9.51	18
US$ per GBP1.00			
Average exchange rate for the year	1.53	1.65	(7)
Year end exchange rate	1.47	1.56	(6)

Letšeng mining operation

During the year, ore tonnes treated at Letšeng were 4% higher than in 2014, at 6.7 million tonnes. The volume of the higher-value, higher-grade Satellite pipe ore mined was maintained at similar levels to that of 2014, of 1.9 million tonnes, resulting in the Satellite to Main pipe mining ratio of 29:71 for the year (2014: 31:69). Carats recovered during the year of 108 579 remained at similar levels to that of the prior year (2014: 108 569). An increase in diamond inventory levels at the end of the year, due to the timing of production cut-off for tender purposes, influenced the lower number of carats sold of 102 778 during the year.

Operational excellence through proactive cost management and enhanced production efficiencies remained a key focus for the year. Cost of sales for the year was US$110.6 million, down 13% from US$126.9 million in 2014, and includes waste stripping costs amortised of US$47.2 million (2014: US$49.3 million).

Group financial performance continued

Letšeng costs	2015	2014
US$ (per unit)		
Direct cash cost (before waste) per tonne treated[1]	**11.40**	12.70
Operating cost per tonne treated[2]	**16.50**	19.64
Waste cash cost per waste tonne mined	**2.20**	2.22
Local currency (per unit) LSL		
Direct cash cost (before waste) per tonne treated[1]	**145.64**	137.75
Operating cost per tonne treated[2]	**210.84**	213.08
Waste cash cost per waste tonne mined	**28.08**	24.07
Other operating information (US$ million)		
Waste cost capitalised	**61.4**	51.5
Waste stripping costs amortised	**47.2**	49.3

[1] Direct cash costs represent all operating cash costs, excluding royalty and selling costs.
[2] Operating costs include waste stripping cost amortised, inventory and ore stockpile adjustments, and excludes depreciation.

Total direct cash costs (before waste) at Letšeng, in local currency, were LSL972.8 million compared to LSL884.6 million in 2014. This resulted in a unit cost per tonne treated of LSL145.64 relative to the prior year of LSL137.75, representing an effective increase of 6%. These costs include those associated with Alluvial Ventures (the contractor operating a third plant at Letšeng) which are based on a percentage of revenue. During 2015, the Alluvial Ventures costs increased following the higher revenue achieved from their production compared to the prior year. Cash costs excluding the impact of the Alluvial Ventures costs were LSL123.91 compared to LSL123.41 in 2014, remaining flat year on year. This is all the more noteworthy taking into account general inflation increases of approximately 5%; above inflationary power increases; additional costs relating to back up power facilities; and the negative impact of the strong US dollar on foreign currency denominated purchases.

Operating costs per tonne treated of LSL210.84 were largely in line with the prior year's cost of LSL213.08 per tonne, reflecting the similar mining profile within the Satellite and Main pipes which has occurred over the last two years. The amortisation charge attributable to the Satellite pipe ore accounted for 65% of the total waste stripping amortisation charge in 2015 (2014: 64%).

In line with the revised Letšeng life of mine plan, increased volumes of waste of 24.0 million tonnes were mined during the year, 21% more than 19.8 million tonnes mined in the prior year. Local currency waste cash costs per waste tonne mined increased by 17%. This increase was primarily driven by longer haul distances as the waste was mined at deeper levels within the waste cuts. The increase was further compounded by the impact of the strong US dollar on the mining contractor cost due to the additional earthmoving equipment required for the increased volume.

Ghaghoo mining operation

Underground mining conditions at Ghaghoo continued to be difficult and hindered the rate and progress of the ramp-up during the year. The operation therefore, did not reach commercial production for accounting purposes and as a result all costs, net of sales, have been capitalised to the carrying value of the asset on the balance sheet. During the year, Ghaghoo incurred development costs of US$9.0 million in order to access both current and future ore producing tunnels and further incurred US$30.2 million in operating costs, which include costs associated with the sealing of the fissue encountered on Level 1 and the planned intersection on Level 2. These costs, net of sales, increased the carrying value of the asset by US$24.8 million during the year.

In line with the Group's continued approach of cost optimisation and cash preservation, it was considered prudent to restructure Ghaghoo in the short term in order to meet these objectives through downsizing the operation.

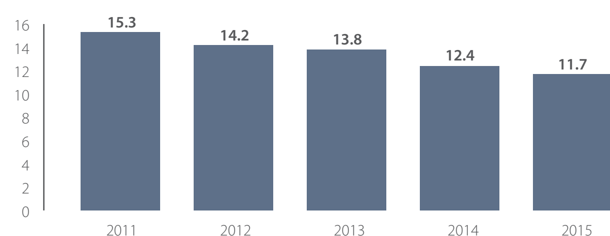
Diamond manufacturing operation

The Group continued generating additional margin on selected high-value diamonds through its manufacturing facilities and partnership arrangements. The diamond manufacturing operation in Antwerp contributed US$3.8 million to Group revenue (through additional polished margin generated) and US$2.9 million to underlying EBITDA. During the year, 336 carats valued at a rough market value of US$4.6 million were extracted from the Letšeng exports for manufacturing. In total, polished diamonds with an initial rough value of US$13.4 million were sold during the year and US$6.2 million remained in inventory at the end of the current year, compared to US$15.0 million at the end of the prior year.

Corporate office

The cost-effective streamlining of corporate structures whilst maintaining high levels of governance and assurance, continued in 2015, reducing costs from US$12.4 million in 2014 to US$11.7 million in 2015. Corporate expenses relate to central costs incurred by the Group through its technical and administrative offices in South Africa and the United Kingdom and are incurred in South African rand and British pounds. Notwithstanding local inflation costs, the overall US dollar reported costs have been positively impacted by the weaker local currencies. Corporate costs remain tightly controlled and have reduced by 24% since 2011.

Corporate expenses (US$ millions)



The share-based payment charge for the year was US$1.7 million. During the year, a new award was granted in terms of the Long-Term Incentive Plan (LTIP), whereby 667 500 nil cost options were granted to certain key employees and 740 000 nil cost options were granted to Executive Directors. The vesting of the options to key employees is subject to the satisfaction of certain performance as well as service conditions classified as non-market conditions. The vesting of the options to Executive Directors is subject to the satisfaction of certain market and non-market performance conditions over a three-year period. The share-based payment charge associated with this new award was US$0.6 million for the year.

Exceptional items

On 30 June 2015 the Group sold its manufacturing operation in Mauritius as part of streamlining its manufacturing structure. The trading results of the operation are classified as part of discontinued operations and gave rise to a profit on disposal of US$0.7 million.

In December 2015, the Company settled an interest-bearing tax liability for an amount less than that previously provided, resulting in the reversal of accrued expenses of US$8.1 million. This reversal, together with an associated foreign exchange gain of US$1.5 million was recognised as an exceptional item due to its non-recurring nature.

Underlying EBITDA and attributable profit

Based on the operating results, the Group generated an underlying EBITDA of US$103.5 million. The profit attributable to shareholders before exceptional items was US$41.8 million (up 17% from US$35.7 million in 2014) equating to 30.2 US cents per share (up 17% from 25.8 US cents in 2014) on a weighted average number of shares in issue of 138 million. Attributable profit after exceptional items was US$52.0 million or 37.6 US cents per share for the year.

The Group's effective tax rate was 29.1%, above the UK statutory tax rate of 20.25%. This tax rate is driven by tax of 25% on profits generated by Letšeng, withholding tax of 10% on dividends from Letšeng and deferred tax assets not recognised on losses incurred in non-trading operations.

Financial position and funding overview

The Group maintained its solid cash position during the year through its strong operational performance at Letšeng and prudent cash management and ended the year with US$85.7 million cash on hand, of which US$71.7 million was attributable to Gem Diamonds and US$2.6 million was restricted (2014: US$0.2 million). This restricted cash mainly relates to funds reserved for a portion of the future repayment of the US$25.0 million secured bank loan facility at Ghaghoo.

The Group generated cash flow from operating activities of US$119.1 million before the investment in waste mining of US$61.4 million and capital expenditure of US$18.7 million at Letšeng and Ghaghoo. The capital expenditure mainly comprised the investment in the Plant 2 Phase 1 upgrade of and the new Coarse Recovery Plant at Letšeng of US$2.7 million and US$5.3 respectively; and US$6.8 million at Ghaghoo for earthmoving equipment as part of its initial ramp-up programme.

During the year, Letšeng declared dividends of US$39.2 million of which US$24.7 million flowed to Gem Diamonds and US$14.5 million was paid outside of the Group for withholding taxes of US$2.7 million and payment to the Government of Lesotho of US$11.8 million for its minority portion.

The Group is well funded and ended the year in a net cash position of US$55.3 million. Furthermore, standby undrawn facilities remain availabe. The LSL140.0 million (US$9.0 million) facility at Letšeng will be fully repaid by June 2017 and has an outstanding balance of US$5.4 million at year end. The US$25.0 million facility for the completion of the Ghaghoo Phase 1 development was extended into a six-year, secured facility, with repayments due to commence during 2016.

The US$20.0 million three-year unsecured facility at the Company was successfully refinanced on 29 January 2016 for a further three years at an increased value of US$35.0 million.

Dividend

Prudent investment and disciplined capital and cash management have placed the Group in a well-funded position. Based on this position and the results achieved, notwithstanding a challenging environment, the Board is pleased to maintain its dividend policy and recommends the payment of its second ordinary dividend of 5 US cents per share. This dividend is subject to shareholder approval at the scheduled AGM to be held on 7 June 2016. The total dividend would be US$6.9 million, equating to 18% of the Group's 2015 net sustainable earnings. Following the cash saving arising from the settlement of the tax assessment referred to in the exceptional items, a special dividend of 3.5 US cents amounting to US$4.8 million will also be proposed at the AGM.

Outlook

Focus in 2016 will be on the restructuring of Ghaghoo with cost optimisation and reduction in cash consumption a priority. Expansion opportunities with respect to increasing production once market conditions improve sufficiently will be reviewed. At Letšeng, the full benefit of the Coarse Recovery Plant and the Plant 2 Phase 1 upgrade should further enhance the potential at Letšeng which will in turn add to the delivery of returns to shareholder over the short, medium and long term.

Michael Michael
Chief Financial Officer

14 March 2016

Strategic report: Operating review

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Letšeng

Letšeng had another strong year, **exceeding all prior year production** levels once again.

Letšeng Diamond Mine, Lesotho. Load and haul in the Satellite pit.

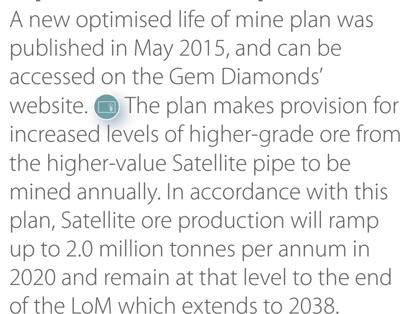
Highlights

- **The Plant 2 Phase 1 upgrade and Coarse Recovery Plant projects successfully completed**
- **Waste tonnes mined increased by 21% in line with the optimised mine plan**
- **11 diamonds larger than 100 carats recovered, setting a new record for the mine**
- **Largest diamonds recovered were a 357 carat and a 314 carat diamond**
- **36 rough diamonds achieved a value greater than US$1.0 million each**
- **LTI and fatality-free year**
- **ISO 14001 and OHSAS 18001 certification**

Operational performance

Letšeng had another strong year, exceeding all prior year production levels once again. 108 579 carats were recovered compared to 108 569 recovered in 2014. Ore treated was 6.7 million tonnes compared to 6.4 million tonnes in 2014. The increase in treated tonnes, particularly in the second half of the year, reflects the benefits of the Plant 2 Phase 1 upgrade project implemented at the beginning of the year. Of the total ore treated, 71% was sourced from the Main pipe and 29% from the Satellite pipe. Waste tonnes mined increased by 21% in line with the optimised LoM plan, which allows for increased levels of higher-grade ore from the higher-value Satellite pipe to be mined.

Optimised mine plan



A new optimised life of mine plan was published in May 2015, and can be accessed on the Gem Diamonds' website. The plan makes provision for increased levels of higher-grade ore from the higher-value Satellite pipe to be mined annually. In accordance with this plan, Satellite ore production will ramp up to 2.0 million tonnes per annum in 2020 and remain at that level to the end of the LoM which extends to 2038.

A key feature of the optimised LoM plan is the use of steeper pit slope angles. Significant improvements to side wall control and blasting of the pit slopes has allowed the mine to safely increase the pit slope angles. This will result in lower stripping ratios, thereby significantly reducing the total cost of mining over the LoM and increasing open pit ore tonnage.

During the second half of 2015, a third 300 tonne excavator and five additional 100 tonne dump trucks were acquired, equipping the mine to achieve the waste stripping target in the optimised Lom plan.

Furthermore, the optimised plan made provision for the increased treatment capacity of 250 000 tonnes per annum following the recent Plant 2 Phase 1 upgrade.

Letšeng operational performance	**Year ended 31 December 2015**	Year ended 31 December 2014	% change
Ore tonnes treated	**6 679 581**	6 421 704	4.0
Waste tonnes mined	**24 010 847**	19 884 725	20.8
Carats recovered	**108 579**	108 569	–

The expansion of the open pits has necessitated the relocation and construction of an expanded mining support services complex. The first phase of this project has been approved and will establish the infrastructure where daily service maintenance on the 100 tonne haul trucks can be carried out. The first phase service station will be completed by the end of the second quarter of 2016 at a cost of less than US$1.0 million.

Initial high-level studies suggest there is a case for an underground mine in both the Satellite and Main pipes. Further studies will be undertaken to determine the optimal timing of when underground construction needs to commence.

Reducing diamond damage remains a priority

Reducing diamond damage remains an area of key focus for Letšeng. A number of innovative work streams in mining and processing are underway to reduce diamond damage and are starting to yield positive results. This is evident in the increase in the number of larger diamonds that were recovered in 2015, with 11 diamonds greater than 100 carats having been recovered. This is a new record for the mine.

The Plant 2 Phase 1 upgrade was completed in the first quarter of the year. The project was completed at a cost of US$3.5 million, on schedule and within budget. The expected increase in the annual plant capacity as a result of the upgrade has been successfully realised.

The new Coarse Recovery Plant was finalised in the second quarter of the year at a total amount of US$11.0 million, being below the original budget. The plant is operating and has met most expectations. Some minor refinements will be introduced during the second quarter of 2016.

Skills

Skills attraction and retention remains a principal risk and focus at Letšeng. Localisation demands, challenges in obtaining work permits for skilled ex-patriates and increasing demand for skilled personnel from other companies in Lesotho have exacerbated the risk.

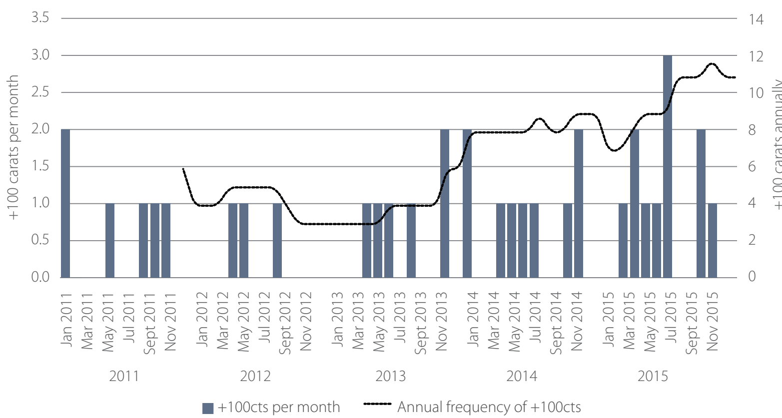
Extensive engagement with Lesotho government officials on this matter and initiatives to mitigate the skills risk by enhancing remuneration practices and conducting development programmes for local employees are ongoing.

Significant improvements to side wall control and blasting of the pit slopes has allowed the mine to safely increase the pit slope angles.

Operating review – Letšeng continued

Frequency of recoveries of large diamonds

Number of diamonds	2008	2009	2010	2011	2012	2013	2014	2015
>100 carats	7	6	7	6	3	6	9	**11**
60 – 100 carats	18	11	11	22	17	17	21	**15**
30 – 60 carats	96	79	66	66	77	60	74	**65**
20 – 30 carats	108	111	101	121	121	82	123	**126**
Total diamonds >20 carats	**229**	**207**	**185**	**215**	**218**	**165**	**227**	**217**



Letšeng implemented various behaviour-based safety initiatives to keep the focus on continuing to work safely and by the end of the year achieved a fatality and lost time injury (LTI) free calendar year and a total of 430 LTI-free days. No major or significant environmental or stakeholder incidents were recorded during 2015.

HSSE

Letšeng was awarded, for the third consecutive year, the highest possible rating for Health, Safety, Security and Environment (HSSE) management according to the IRCA global system. In addition, Letšeng also obtained ISO 14001 and OHSAS 18001 certification for its environmental, occupational health and safety management systems. These achievements reflect Letšeng's comprehensive commitment to effectively manage the risks relating to the health and safety of its employees, its project affected communities (PACs) and its impact on the natural environment in which it operates.

Letšeng implemented various behaviour-based safety initiatives to keep the focus on continuing to work safely and by the end of the year achieved a fatality and lost time injury (LTI) free calendar year and a total of 430 LTI-free days. No major or significant environmental or stakeholder incidents were recorded during 2015.

Letšeng continues to work closely with all stakeholders to address socio-economic challenges within its PACs. In line with its corporate social investment plan, Letšeng invested approximately US$0.3 million during 2015 towards community investment projects. The corporate investment plan is based on a comprehensive needs analysis that was conducted in consultation with various stakeholders including PACs and community and government leadership forums. The majority of Letšeng's corporate social investment went towards education and health facilities. Letšeng's investment towards education included projects such as tertiary education scholarships and youth development programmes.

Letšeng launched a village health worker training programme that supports the health workers from isolated villages with training as well as equipping them with medical kits. These village health workers are often the only medical assistance that members of the villages have access to and therefore the impact they have on community members is significant. In addition, the Butha-Buthe subsistence farming project commenced, aimed at empowering subsistence farmers in the neighbouring region to not only farm and provide food for their families but also to sell surplus produce to generate income for the household.

At the end of 2015, 97% of Letšeng's workforce comprised Lesotho citizens.

Focus in 2016

- Continue the ramp up of the waste stripping, in line with the optimised mine plan.
- Intensified focus on costs.
- Enhance efficiencies through continuous improvement programmes.
- Construction of the first phase of the mining equipment support services complex.
- Progress the underground mine studies.
- Progress innovation work-streams to further reduce diamond damage.

Graining and evaluating diamonds in the new Coarse Recovery Plant. Diamond – 108 carat Type II D colour.

Ghaghoo

During the year, Ghaghoo treated 326 922 tonnes and **recovered 91 499 carats**, achieving a recovered grade of 28.0 cpht.

Ghaghoo Diamond Mine, Botswana. The process plant at night.

Highlights

- **Phase 1 objectives achieved**
- **Water fissure sealed**
- **91 499 carats recovered**
- **LTI and fatality-free year**
- **Recovered grade of 28.0 cpht, above reserve estimates**
- **Largest diamond of 48 carats recovered**

It is encouraging that a number of fancy coloured diamonds, including blues, pinks, orange, lilacs and yellows, although predominantly in the smaller sieve sizes, were also recovered.

Operational performance

The Ghaghoo Phase 1 project commenced early in 2011. The objectives of this phase were to obtain a representative production sample in the VKSE phase of the orebody in order to test the autogenous milling (AG) technology and firm up the grade and diamond price estimates. These objectives to a large extent, have now been met.

Ghaghoo operational performance	Year ended 31 December 2015
Ore tonnes treated	326 922
Tunnelling metres developed	1 751
Carats recovered	91 499
Grade recovered (cpht)	28.0

During the year, Ghaghoo treated 326 922 tonnes and recovered 91 499 carats, achieving a recovered grade of 28.0 cpht. The AG technology proved successful and recovered grades were 1% above the reserve estimate of 27.8 cpht. This was further enhanced after installing a surge bin ahead of the AG mill in early 2016 to improve the AG mill performance. The majority of the ore treated during the year was sourced from Level 1. A total of 1 751 metres of tunnelling was completed.

During the year, 30 diamonds larger than 10.8 carats were recovered, including a 48 carat diamond, the largest diamond recovered at Ghaghoo to date. It is encouraging that a number of fancy coloured diamonds, including blues, pinks, orange, lilacs and yellows, although predominantly in the smaller sieve sizes, were also recovered, confirming the presence of fancy diamonds in the orebody.

Downsizing the operation

Diamond prices achieved from three sales held in 2015 were lower than the reserve estimate due to the current depressed state of the rough diamond market and the overall finer size of the recovered diamonds. Based on this fall in prices, various options were reviewed with the aim of minimising operating losses during 2016. Ghaghoo remains an important future option for the Group, however, in the short term, it is considered prudent to downsize current production to achieve a modified target of approximately 300 000 tonnes for 2016. Options are being assessed to expand the operation in order to achieve acceptable financial returns, as and when diamond prices improve.

HSSE

Ghaghoo was awarded, for the third consecutive year, a four star rating for Health, Safety, Security and Environment (HSSE) management based on the IRCA Global system. Ghaghoo's HSSE Management system matured in 2015 with various initiatives being launched on site to safeguard the health and safety of employees and surrounding community members as well as protecting the pristine natural environment that Ghaghoo operates in. Ghaghoo focussed on continuing to work safely and by the end of the year achieved a fatality and lost time injury (LTI) free calendar year and a total of 418 LTI-free days.

No major or significant environmental or stakeholder incidents occurred at Ghaghoo during 2015.

Ghaghoo continues to expand the reach of its corporate social investment programme and during 2015 invested approximately US$0.1 million towards community investment projects. The majority of this investment went towards infrastructure development, including assisting the Kaudwane Primary School, which was adopted in 2014, with the upgrading of its school buildings. Ghaghoo also made significant investments towards education and health care projects. Ghaghoo works closely with a number of other schools and during the year the operation assisted these schools by sponsoring various prize giving ceremonies, donating sporting equipment and establishing a vegetable garden. This vegetable garden allows the school to provide the scholars with practical experience that forms part of their curriculum on agriculture as well as producing fresh produce which forms part of the school feeding programme.

In an ongoing attempt to partner with schools, Ghaghoo introduced an educational tour initiative during which students are hosted and given an opportunity to see how a working mine operates, as part of their curriculum in their final year of primary school.

Focus in 2016

- Cost optimisation and restructuring the operation.
- Sampling of the VK-Main phase of the orebody.
- Continuation of Level 2 development.
- Assessing options to expand the operation.

Mineral resource management

Unlocking value through **integrated mineral resource** management

Decline access to Ghaghoo underground.

Letšeng Satellite and Main pits.

Highlights

- **Letšeng mineral resources re-estimated**
- **Letšeng US$ per carat slightly overperformed the 2015 expected values**
- **Ghaghoo's recovered grade exceeds expected reserve**
- **Mineral resource development at Letšeng continues**

Gem Diamonds adopts an integrated approach to mineral resource management (MRM) thus ensuring optimal extraction of the mineral resource. This entails understanding the in-situ resources, the modifying factors that govern the resource to reserve conversion process and the continued improvement and optimisation of processes across the MRM pipeline.

2015 Reserve performance

Letšeng

- Letšeng's recovered grade was slightly below the expected grade at less than 1% variance. This close correlation supports the 2015 reserve grade estimates.
- Letšeng US$ per carat reserve revenues slightly over performed the 2015 expected values. This close correlation is encouraging after several initiatives targeting diamond damage reduction and security improvements were put in place. In addition, this emphasises the resilience of Letšeng-type goods compared to the overall market declines experienced in 2015 of approximately 19% at the end of the year as reported in WWW's large fine goods index.

2015 Letšeng Reserve performance[1]	Grade (carat per hundred tonne)	US$ per carat
Actual	1.61	2 299
Expected	1.62	2 219
	↓ 0.6%	↑ 3.6%

[1] *Includes Plant 1, Plant 2 and Plant 3 mining contractor.*

The expected 2015 reserve performance measurement indicators detailed above are based on 2015 reserve estimates as per the 2015 reserve statement summarised later in this section.

Ghaghoo

- Ghaghoo's recovered grade was 0.7% above the expected grade from the VKSE ore mined. This is encouraging as it gives the Group confidence in the modelled reserve grades and the expected benefits from the autogenous milling process.
- The US$ per carat reserve revenues underperformed against the 2015 expected values by 23%. This under-performance is attributed to a combination of the downward movement of diamond prices and size frequency deficiencies in the larger diamond categories.

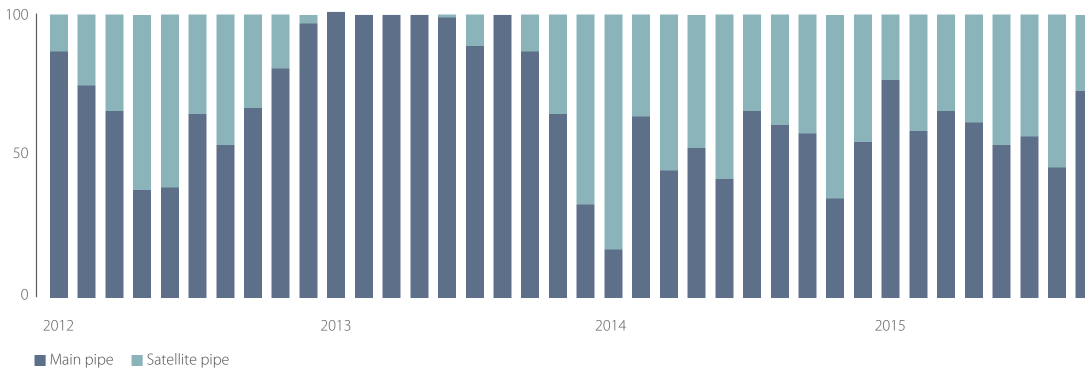
2015 Ghaghoo Reserve performance[2]	Grade (carat per hundred tonne)	US$ per carat
Actual	28.0	162
Expected	27.8	210
	↑ 0.7%	↓ 23%

[2] *The expected 2015 reserve grade is based on the 2014 reserve statement while the expected revenue is based on an internal 2015 reserve estimate.*

Mineral resource management

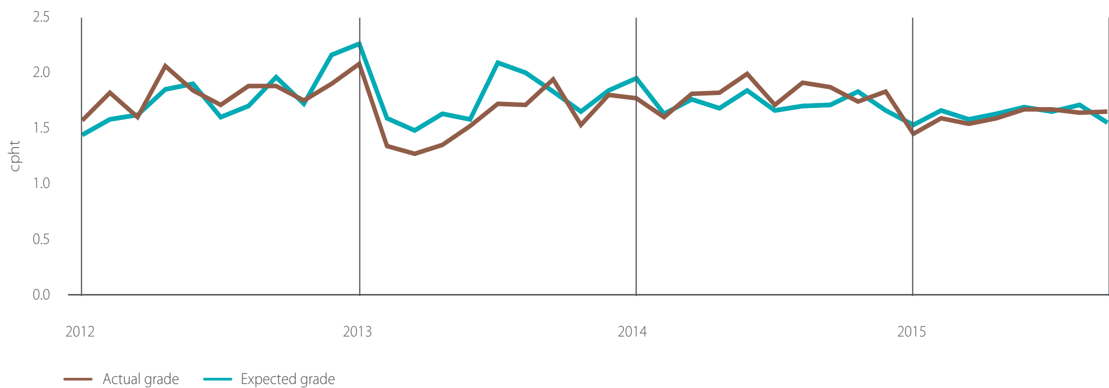
Historical performance trends

Letšeng ore provenance

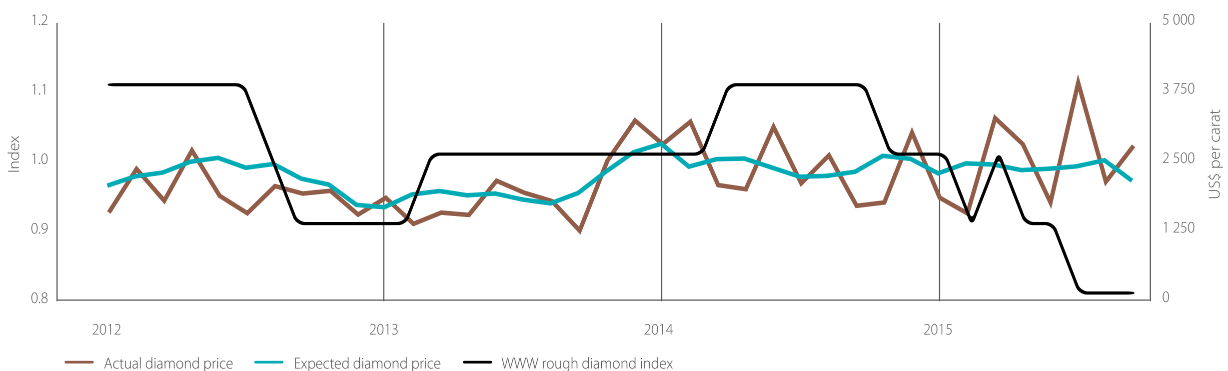


The increased levels of higher-grade ore from the higher-value Satellite pipe mined annually are in line with the new optimised LoM plan. In accordance with this plan, Satellite ore will ramp-up to 2.0 million tonnes per annum in 2020 and remain at that level to the end of the Lom.

Grade performance



Diamond price performance



These historical performance graphs highlight that although short-term variability exists within the resource, particularly with respect to diamond value, the long-term trends in both pipes are reasonably predictable.

Mineral resources development

Letšeng

- **Drilling and sampling –** In order to help determine the location, size and shapes of the basalt mega-xenoliths in both Letšeng pipes, the ahead of face drilling programme continued in 2015. This assists in guiding mine planning to ensure that rafts are not blasted together with clean ore, minimising dilution and diamond damage. A total of 48 holes or 3 179 metres were drilled. The data gathered from this programme will also be used to improve the 2016 geological model. A total of 768 396 tonnes of discrete samples were collected in 2015, consisting of the following amounts of the various rock types: 432 125 tonnes of KMain from the Main pipe, 297 553 tonnes of SVK and 38 718 tonnes of NVK from the Satellite pipe. This additional sampling information will be incorporated in the 2016 resource estimates.
- **Microdiamonds –** Five microdiamond samples were collected in 2015 from both the Main pipe and the Satellite pipe. This project aims to confirm whether microdiamonds can be used at Letšeng to predict grades at depth for the different kimberlite phases. Analysis of the results by an industry expert confirmed that microdiamonds can be used at Letšeng to predict grade at depth. Further samples will be processed in 2016 to establish grade correlation at depth in the resource.

Ghaghoo

- Resource mapping was completed on Level 1 during 2015. This mapping confirmed the homogenous nature of the VKSE ore phase.

Mineral resource and reserve statements

Letšeng's mineral resources were re-estimated in 2015 with an effective statement date of 1 January 2015.

The updated 2015 statement reflects slight changes to resources and reserves due to mining depletion and updates to orebody volumetric and estimation models.

The Ghaghoo resource and reserve statement was not updated as insufficient information was obtained during the commissioning and ramp-up phase in order to make reliable changes to the 2015 statement. The Ghaghoo statement will be updated during the course of 2016.

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

Auditing and compliance

Gem Diamonds' resource and reserve estimates were prepared in compliance with the South African Mineral Resource Committee (SAMREC) code under the supervision of the Group MRM Executive, Mr Andrew Allan, Pr Sci Nat (400127/11). Venmyn Deloitte independently reviewed and approved the resources and reserves.

Letšeng summary resource statement as at 1 January 2015

Resource	Probable reserves				Indicated resources				Inferred resources				Total resources			
	Ore (mT)	Grade (cts/100T)	Carats (m)	$/ct	Ore (mT)	Grade (cts/100T)	Carats (m)	$/ct	Ore (mT)	Grade (cts/100T)	Carats (m)	$/ct	Ore (mT)	Grade (cts/100T)	Carats (m)	$/ct
Letšeng	137.2	1.75	2.40	2 048	179.2	1.75	3.14	2 094	105.9	1.71	1.81	2 063	285.1	1.74	4.95	2 083
% change from 2014	4%	2%	6%	0%	(4)%	2%	(3)%	0%	(1)%	3%	2%	1%	(3)%	2%	(1)%	0%

Sales, marketing and manufacturing

Gem Diamonds continues to invest in its sales, marketing and manufacturing operations to pursue innovative ways of maximising revenue through a combination of marketing channels, including tenders, strategic partnerships, off take arrangements and additional initiatives further down the diamond pipeline.

124 carat Letšeng rough diamond manufactured at Baobab Technologies.

Highlights

- US$2 299* average US$ per carat achieved for Letšeng's high-value production
- Largest diamond recovered for the year sold for US$19.3 million, being the highest total amount paid for a single Letšeng diamond to date
- Polished sales through the manufacturing division contributed additional revenue of US$2.0 million
- US$162 average US$ per carat achieved for Ghaghoo production amidst depressed market

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

Sales and marketing

Opportunities

- Maximising revenue through the Group's flexible sales and marketing channels to capitalise on the ever moving rough and polished markets.

- Enhancing the Group's sales and marketing reputation through its respected and transparent tender process as well as marketing and client relationship management.

Challenges

- Understanding and adapting to the uncertain and cautious rough and polished diamond market currently being experienced.

- Staying abreast of the short and medium-term market trends to ensure an optimal marketing channel is selected to maximise revenue for the Group.

The Group's rough diamond production is marketed and sold by Gem Diamonds Marketing Services (Belgium) and Gem Diamonds Marketing Botswana (Botswana). Letšeng's diamonds are viewed and sold in Antwerp while Ghaghoo's diamonds are viewed in both Gaborone and Antwerp and, subject to prevailing market conditions, are sold either through an open tender or direct sale to maximise revenue.

Following viewings by customers in either Antwerp or Gaborone, Gem Diamonds' electronic tender platform allows customers the flexibility to participate in each tender from anywhere in the world. The tender process is managed in an extremely transparent and efficient manner. This, combined with professionalism and focused customer care, has led to a branded Gem Diamonds experience, which has contributed to securing customer loyalty, as well as assisting in achieving highest market-driven prices for the Group's rough diamond production.

Rough diamonds which have been manufactured by Baobab into polished diamonds are sold by Gem Diamonds Marketing Services through direct selling channels to prominent high-end customers.

Operational performance
During the year, the Group continued to build its premium customer base. Currently, the Group has 339 approved and registered customers, up from 105 in 2010. Eight tenders were held during the year, all of which were well attended, with an average of 130 customers attending each tender. The Group continually engages with its customers to better understand their challenges and needs and where possible accommodates these in its marketing strategy (ie the implemented change from 10 to eight Letšeng tenders per annum).

The multiple strategic marketing channels adopted in the sale of Letšeng's high-quality diamonds in 2015 contributed in achieving an average price of US$2 299* per carat in a difficult and challenging diamond market.

An average price of US$162 per carat was achieved for Ghaghoo's production. The downward pressure on prices for the more commercial Ghaghoo production seen in 2015, materially influenced the sales and marketing strategy for these goods. The Ghaghoo production was initially sold on tender at the start of the year but thereafter, as market prices for these types of goods fell, sales were concluded through direct sales, with the aim at all times of maximising the price.

Focus in 2016

- To maintain and enhance our reputation for holding premier tenders for large, high-value diamonds.

- To further understand Ghaghoo's market and maximise the revenue for these diamonds through flexible marketing strategies.

- Further strengthen relationships with clients and enhance partnerships in both the rough and polished markets.

- Develop and retain skilled employees.

During the year, the Group continued to build its premium customer base.

Ghaghoo diamonds.

Sales, marketing and manufacturing continued

Rough diamond analysis and manufacturing

Opportunities

- Use of rapidly developing technology to improve large high-value rough diamond analysis and manufacturing capabilities.

- Increasing revenue through additional analysis and manufacturing of high-value diamonds.

Challenges

- Availability and retention of required skill sets.

- Staying relevant on rapidly developing technological enhancements in the diamond analysis and manufacturing sector.

Baobab Technologies' advanced mapping and analysis of Letšeng's large exceptional rough diamonds supports the Group in analysing and assessing the estimated true value of Letšeng's rough diamonds that are presented for sale on tender or sold through other sales channel. 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 access the highest value for Letšeng's top-quality diamonds, the Group, through Baobab, selectively manufactures some of these high-value rough diamonds and additionally places other exceptional diamonds into strategic partnership arrangements with select clients. Baobab also performs analysis, cutting and polishing of large high value diamonds for third party customers.

The 108.51 carat diamond which achieved the highest US$ per carat during the year of US$65 226.

Operational performance
During 2015, Baobab Technologies received 218 carats of rough diamonds for manufacturing, with a rough market value of US$1.7 million from Letšeng and continued to cut and polish third-party goods.

Some of the diamonds manufactured during the year were a 61.30 carat diamond, which resulted in four exceptional polished diamonds with a total weight of 21.89 carats (including a 15.12 carat D Flawless, Emerald cut) and a 45.25 carat diamond, which resulted in five exceptional polished diamonds with a total weight of 16.11 carats (including a 10.26 D Flawless, Round cut). Currently in production is a 124 carat Type IIa, D colour diamond. The manufactured diamonds which were sold during the year contributed additional revenue of US$2.1 million to the Group.

Focus in 2016

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

- Obtaining the best possible polished results for all diamonds manufactured.

- Retention of key staff.

Sustainable development review

Letšeng Diamond Mine, Lesotho. Footbridge built at Lichecheng village to enable movement during the wet season.

Highlight

- **Gem Diamonds has produced its eighth Sustainable Development Report, a stand-alone report that can be viewed on the Gem Diamonds website.**

Sustainable development review

The Sustainable Development review below provides a summary of the information contained in the 2015 Sustainable Development Report. This review highlights the progress made and challenges faced during 2015 in pursuing the Group's sustainable development goals.

Embedding sustainability into the business

Gem Diamonds seeks to create and deliver maximum value to all of its stakeholders by mining and marketing its products responsibly. The Group strives to embed sustainability into every aspect of the business, believing that it is both a moral obligation and a business imperative, which serves to secure its social licence to operate.

Gem Diamonds strives to minimise any negative impact it may have on economic, social and environmental systems and follows a management approach based on a strict code of morals and ethics. This philosophy benefits current and future generations in a responsible and sustainable manner.

The Group strives for excellence in all areas, including matters of compliance with host country legislation regarded as the absolute minimum at the operations. All operations have developed comprehensive HSSE legal registers and compliance is monitored through both internal and external audits. The Group seeks to achieve full compliance with relevant international best practice standards, including compliance with the ISO 14001 and OHSAS 18001 standards. Letšeng achieved ISO 14001 and OHSAS 18 001 certification for their environmental management and occupational health and safety management respectively. In addition, all operations are required to work towards achieving full compliance with the International Finance Corporation Environmental, Health and Safety Guidelines, as well as the World Bank Equator Principles. The operations continue to monitor and manage legal compliance and none of the Group's subsidiaries incurred fines or non-monetary sanctions for non-compliance with laws or regulations during 2015.

The governance of sustainability

Gem Diamonds adheres to best practice guidelines in the governance of sustainability. The Group's HSSE Committee provides assurance to the Board that all HSSE matters are appropriately managed. The Committee is supported by the Group Chief Operating Officer and the Group HSSE Superintendent.

Each of Gem Diamonds' operations has a Corporate Social Responsibility Investment (CSRI) Committee and a Safety, Health and Environment (SHE) Committee, which oversee matters at an operational level. Additionally, Ghaghoo has a CSRI Trust. These structures exist to ensure that best practice in sustainability governance is applied throughout the Group.

Being an employer of choice

Gem Diamonds believes that its strength lies in the high quality of its people. The Group seeks to protect, develop and retain its exceptional people.

Safety

Gem Diamonds regards its people as being its greatest resource, and their health and safety is a high priority. The Group's commitment to zero harm means not only preventing injury, but also creating a safety culture that exemplifies care and collaboration.

Gem Diamonds' approach to integrated management considers the possible risks its operations pose to both the health and safety of employees and the natural and social environment in which it operates. Gem Diamonds strives to understand the sensitive link between these systems in order to manage and minimise its impact. As part of this approach, the Group regularly consults with employees to gain insights into the risks they face and to implement systems to address these risks.

Gem Diamonds' health and safety management systems are based on the principles of OHSAS 18001 and relevant international best practice standards. These systems are independently audited on an annual basis to ensure continuous improvement.

Gem Diamonds reported a fatality-free and LTI-free year in 2015. The Group-wide reported LTIFR for 2015 was 0.00, a significant improvement from 0.20 in 2014. The 2015 Group-wide AIFR was 2.87, well under the Group's ceiling value of 3.80.

The Group believes that concentrated efforts on the proactive management of safety will continue to assist in its pursuit of zero harm. The number of proactive safety management actions implemented throughout the Group in 2015 amounted to 78 998. This is an increase compared to the 62 357 proactive safety actions implemented in 2014.

Employee health and well-being

Gem Diamonds regards its people as being the lifeblood of the organisation and investment in their health and well-being is an investment in the ongoing success of the Group. The Group's health and safety management efforts, therefore, extend beyond occupational concerns.

During 2015, the Group assisted employees with health management through treatment, education and seminars, as well as counselling where necessary. The operations conducted environmental and serious-disease management programmes that addressed the total well-being of its employees. The Group's health management programmes are in various stages of maturity at the operations and are continually being improved.

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

Case study

Improving access to healthcare

Making basic healthcare available to all is a major need within Lesotho. In order to assist in meeting this need, a Community Health Workers Training initiative was undertaken. This involved the training of 260 Community Health Workers, equipping them with medical kits and the necessary skills to attend to primary health care problems. This project was initiated after extensive consultation with the PACs, as well as with the Lesotho Ministry of Health, ensuring that these efforts were directed in the best possible manner to address the real needs of stakeholders.

The Letšeng on-site clinic has also been involved in community outreach. The remote location of the mine means that the mine is often the nearest, and best-equipped, medical centre for travellers and community members moving within the region. The medical team acknowledges its duty to assist in any situation where they are needed and they have been able to assist many travellers and locals in need.

Attracting, retaining and developing employees

Gem Diamonds understands that its workforce plays a key role in achieving operational excellence. The Group, therefore, aims to engage, develop and retain top quality employees. At year end, the Group had 589 own employees and 1 359 contractor employees, compared with 501 own employees and 1 481 contractor employees in 2014. The average number of own employees was 560 (compared with 449 in 2014), while the average number of contractor employees for 2015 was 1 369, compared with 1 389 in 2014.

The Group-wide absentee rate increased to 2 days per person in 2015 from 0.90 days in 2014. Skills shortages in the natural resources sector highlight the importance of retaining high-calibre staff. The Group-wide staff turnover has improved from the 2014 value of 5% to 4% in 2015. The staff turnover rate at Letšeng decreased to 1.8% from 6% in 2015. The staff turnover rate at Ghaghoo for 2015 was 11%. Last year's numbers for staff turnover at Ghaghoo were included in the Group-wide figures due to the short-term nature of contractor work and, therefore, no comparative figure is provided.

Gem Diamonds invests in developing employees' skills by providing training opportunities throughout the Group, aiding employees' growth personally and professionally. Group-wide hours per capita for vocational training in 2015 increased by 31% from 2014. Letšeng recorded a 15% increase in hours per capita for vocational training while Ghaghoo recorded a 95% increase.

Performing annual career reviews at all operations remains a goal across the Group. There was an increase in the percentage of career reviews performed during the year from 14% to 23% due to increased awareness of career and performance reviews.

Gem Diamonds is an equal opportunity employer and has a zero-tolerance approach to discrimination on any basis as outlined in the Group's Code of Ethics. As in previous years, zero cases of discrimination were recorded in 2015. Although the mining industry is a historically male-dominated industry, Gem Diamonds continues to strive to improve the gender balance throughout the Group. In 2015, 10% of the workforce consisted of female employees compared with 18% in 2014, due to the increase in the underlying workforce, the majority of which were male. A total of 11% of the Company and its subsidiaries' Board members were female (2014: 7%), and 12% of the Group's senior management were female (2014: 12%) resulting from the decrease in total Board members throughout the Group.

Localisation of its workforce is a priority for the Group. In 2015, 97% of the Letšeng workforce comprised Basotho nationals compared with 92% in 2014. At Ghaghoo, 98% of the workforce was made up of Batswana nationals in 2015 compared with 93% in 2014.

Gem Diamonds' human resource strategy is to engage, develop and retain top quality employees. The development and retention of a skilled and operationally intelligent workforce is regarded as a key element in achieving operational excellence.

Labour relations at all operations remained stable in 2015. None of Gem Diamonds' operations and/or facilities are unionised, although freedom of association remains a core right for each employee. Ghaghoo has been in discussions with unions following an increasing number of employee memberships and the Group anticipates Ghaghoo to become unionised in 2016. No strikes or lockouts occurred during the year at any operation.

Gem Diamonds continues to remunerate its employees at or above market-related rates. The lowest-graded employees are compensated in excess of the host country's minimum legislated wage. In addition to basic remuneration, Gem Diamonds offers relevant benefits and incentives to employees. In 2015, a total of US$38.9 million was spent on employee and contractor wages, benefits and incentives (2014: US$33.8 million).

Sustainable development review continued

Optimising positive social outcomes

Knowing full well that mineral resources are finite and that the Group operates in the areas that host its operations for a limited time, Gem Diamonds strives to achieve optimal benefit for those who are impacted on by its operations. This can only be achieved through open, transparent and ongoing engagement with all relevant stakeholders and by ensuring that integrity as a responsible business is upheld in every arena of operation.

Gem Diamonds is pleased to report that 2015 marked the seventh consecutive year of achieving zero recorded major stakeholder incidents. The Group seeks to maintain open, transparent, respectful and mutually beneficial relations with its neighbours and all other stakeholders.

Engaging with and investing in communities

Gem Diamonds is committed to the development, implementation and maintenance of internationally recognised standards of Corporate Social Investment (CSI) practices.

Gem Diamonds' operations have developed culturally sensitive CSI strategies which address socio-economic risks and the needs identified in the Social and Environmental Impact Assessment and Needs Analysis. The Group's CSI strategy focuses primarily on infrastructural development, education, health, small and medium enterprises and regional environmental projects. In 2015, Group-wide CSI expenditure amounted to US$0.6 million (2014: US$0.6 million). Education formed the main drive of CSI initiatives during the year.

Letšeng continued the successful implementation of its 2014 – 2016 CSI programme. Based on a needs analysis, this CSI strategy has, and continues to outline various projects that will benefit Letšeng's project affected communities. The majority of Letšeng's CSI expenditure went towards infrastructure development, small and medium enterprise development and education. During the year, Letšeng invested US$0.3 million towards community investment projects.

During the year, Ghaghoo commissioned a comprehensive needs analysis that will inform the development of a three-year CSI plan. The needs analysis will help in assessing the specific needs of the PACs as well as focus the efforts of the CSI plan in the most effective and sustainable way. Ghaghoo invested US$0.1 million towards CSI projects.

In addition, the Company invested US$0.2 million in various education and animal welfare initiatives, including the Sentebale Foundation, the Kick 4 Life programme, the Adopt a School initiative, Community Led Animal Welfare (CLAW), the Maria Kloppers Orphanage and was a sponsor of the Kalahari Cycle Challenge.

Both Ghaghoo and Letšeng afforded employment opportunities to unskilled and appropriately skilled labour from their respective project affected communities. This resulted in capital injection into these largely unemployed communities through temporary and permanent employment.

Respecting human rights

Gem Diamonds is continuously refining its policies and procedures relating to maintaining the rights of employees and project affected communities. Subsidiaries adhere to the host country's legislation as a minimum standard, and applicable international best practice has been incorporated into all human rights-related policies and procedures. This ensures that the Group practices its core values of respecting humanity and prioritising ethical care.

The Group conducts training in human rights policies and practices based on the human rights risk profile for each operation. During 2015, Gem Diamonds conducted 152 hours of human rights training, extended to all employees across the Group, up from 122 hours of training in 2014.

No resettlement of communities took place during 2015, and it is not anticipated to be necessary at any future time for any of the current operations.

Being a responsible corporate citizen

Gem Diamonds understands that the manner in which diamonds are mined, and the consequent value distributed, plays a significant role in its broader social licence through the creation and maintenance of a positive public perception. The Group aims to supply clients with rough and polished diamonds while meeting its responsibilities as an ethical and accountable organisation.

The Group complies strictly with the provisions of the Kimberley Process and all rough diamond exports are certified in terms of the Kimberley Process certification scheme. The Kimberley Process certification scheme aims to eliminate the global trade of conflict diamonds.

This commitment to upholding the highest ethical standards ensures compliance with relevant government regulations and voluntary codes concerning labelling and product and service information. In order to ensure that the Group's diamonds reach the market through the correct channels, strict controls are applied concerning potential consumers. Gem Diamonds' clients are subject to a strict screening process, and trade is by invitation only. During the screening process, potential clients are assessed to confirm and validate their good standing and compliance with internal and external anti-money laundering protocols.

Gem Diamonds develops and maintains trust relationships with clients and other stakeholders. Gem Diamonds maintains the highest level of transparency and integrity during the marketing and sales process. 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. All tenders are governed by conditions agreed to by all 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.

Prevention of diamond theft is a major focus for the Group. Risk profile assessments are an ongoing practice at all operations and recognised specialists

and insurers are engaged on a regular basis to assess the status of the Group's security management systems and solutions, and to ensure that the diamonds remain secure.

Ensuring long-term environmental well-being

As a responsible mining company, Gem Diamonds aims to minimise its impact through the creation of an environmentally responsible corporate culture.

The minimisation, mitigation and management of environmental impacts related to mining activities are all key elements of Gem Diamonds' duty of care – a responsibility that Gem Diamonds takes seriously. Any mining activity undertaken is subjected to an extensive Social and Environmental Impact Assessment (SEIA). The SEIA process takes account of relevant international best practice standards and guidelines such as the International Finance Corporation environmental, health and safety guidelines for mining and the Equator Principles. The ultimate goal of undertaking SEIAs at the operations is to identify, minimise, mitigate and manage any potential impacts on the environment as a result of mining.

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

Case study
Access to clean drinking water

Supplying water to local communities is one of the vital initiatives that Ghaghoo undertook in the very early stages of its development and still continues today. Due to the arid climate, this effort has made a life-saving difference to those affected. To date, Ghaghoo has provided clean water to four communities.

Boreholes were sunk in Molapo, Metsiamanong, Mothomelo and Gope. The Gope community receives treated water directly from the mining site in addition to the borehole water. While the borehole water for the Metsiamanong and Mothomelo communities is of a high quality, the borehole water at Molapo is too salty for human consumption. The community was therefore provided with an on-site water treatment plant. Ghaghoo has taken responsibility for maintaining the plant and ensuring that water is in constant supply. Ghaghoo continues to work with surrounding communities to overcome challenges associated with the sustainable supply of water, such as the presence of wild animals and the fluctuating groundwater levels.

Gem Diamonds continues to invest in environmental protection initiatives. During 2015, the Group invested a total of US$1.5 million (2014: US$1.0 million) in environmental training, specialist consultation, research and development, green purchases and other environmental protection measures.

For the seventh consecutive year, in 2015, zero major environmental incidents were recorded. This was also the sixth year in a row that no fines for environmental transgressions or non-compliance were recorded. During 2015, zero significant environmental incidents (2014: zero) were reported for the operations. There were 289 minor environmental incidents reported during 2015, compared to 267 incidents reported during 2014. This increase can be attributed to increased mining activities at Ghaghoo and awareness campaigns around the importance of reporting minor environmental incidents.

The continuous development and review of comprehensive rehabilitation plans remained a focus during 2015. The Group leases 6 174ha of land of which 8.65ha was newly disturbed by mining activities during the year, bringing the total disturbed land leased by Gem Diamonds to 558ha. The Group continued with the annual review and improvement of comprehensive rehabilitation plans for its mining operations. Letšeng continued with extensive rehabilitation trials, which were initiated in 2012, to determine the feasibility and success of its planned rehabilitation strategies.

Water quality is constantly monitored at the Group's operations, and any inconsistencies are addressed. At Letšeng, seepage occurred from the Patiseng Tailings Storage Facility and the Qaqa waste rock dump. The seepage flows into the Patiseng and Qaqa river systems respectively. In the Patiseng tributary, a return water system has been constructed to capture the seepage below the Patiseng Tailings Storage Facility. The Group is currently investigating innovative solutions to reduce the nitrate level in the water entering the Qaqa water catchment.

Sustainable development review continued

Waste generated by the Group's operations includes domestic and general waste from on-site accommodation and office facilities, restricted amounts of hazardous waste such as used oils and lubricants, sewage effluent, medical waste and a significant amount of mineral waste. Each of the Group's operations have implemented waste management plans to minimise the volume of waste generated, avoid environmental pollution and at the very least comply with host country legislation. During the year, Ghaghoo implemented a waste separation at source initiative and assisted the Lephehpe neighbouring community with waste management. Letšeng is currently undertaking assessments to identify possible waste reduction and recycling initiatives.

All on-site mineral waste structures are designed, maintained and managed in compliance with host country legislation and according to international best practice standards. Volumes of mineral waste generated increased at Letšeng during 2015, in line with the mine plan. Volumes of mineral waste increased at Ghaghoo during 2015 due to increased mining activity.

In 2015, total energy consumption was 1 119 586 gigajoules* (GJ) as compared with 1 004 429 used in 2014. Letšeng had a 10% increase in total energy consumption during 2015. This can be attributed to a 14% increase in diesel consumption and a 4% decrease in electricity consumption from 2014. At Ghaghoo, the implementation of energy-efficient initiatives has remained a priority since the inception of the project. Solar geysers were installed for all ablution facilities and microchipped LED lighting is used where possible. In addition, the processing plant, which became operational in the second half of 2014, incorporates several energy-efficient technologies to ensure reduced energy consumption over the life of the mine. As a result of the use of these energy efficient technologies, the mine recorded a decrease in energy consumption of 9% during 2015. The mine is currently exploring additional alternative energy sources. Solar power options are under investigation, and early meetings have been held with authorities. Three suppliers are currently conducting feasibility studies on-site.

To better understand the Group's total water footprint, Gem Diamonds undertook a water footprint study during 2015. A water footprint measures the total water consumed to produce the goods and services businesses supply. It is a combination of the water that goes into the mining process as well as the water used throughout the supply chain. The survey showed that the Group's total water use in 2015 was 10 186 138m^3, of which only 2 599 636m^3 was consumptive.

Gem Diamonds undertakes an annual carbon footprint assessment in order to understand the impact of the Group's activities on global greenhouse gas (GHG) emissions. The annual assessment assists the Group in identifying emission reduction opportunities. The total carbon footprint reported for the Group during 2015 was 146 499 tonnes CO_2e. This includes direct GHG Emissions (Scope 1), indirect GHG Emissions (Scope 2), as well as material Scope 3 emissions.

** During 2015, the historically accepted measures used to calculate Group-wide energy usage were revised. As a result, prior year energy consumption comparatives have been restated to reflect the updated calculations.*

Sign off of our strategic report

Our Strategic Report, as set out on pages 2 to 55, has been reviewed and approved by the Board of Directors on 14 March 2016.

Roger Davis
Non-Executive Chairman

14 March 2016

Governance

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Directorate

Non-Executive Directors

ROGER DAVIS (59)

Non-Executive Chairman

MA (Oxon)

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

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

Key skills and experience
Commercial and capital markets; Public company board governance.

Board committee membership
Audit, Remuneration and Nominations Committees.

MIKE SALAMON (60)

Senior Independent Director

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

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

Appointed
Mike was appointed to the Board in February 2008.

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

Board committee membership
Nominations, HSSE and Remuneration Committees.

GAVIN BEEVERS (66)

Non-Executive Director

BSc Hons (Mechanical Engineering) (Lanchester Polytechnic)

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

Appointed
Gavin was appointed to the Board in February 2007.

Key skills and experience
Operational mining, health and safety, sustainability, corporate social responsibility.

Board committee membership
Audit and HSSE Committees.

MICHAEL LYNCH-BELL (62)

Non-Executive Director

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

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 a non-Executive Director at Kaz Minerals Plc, Lenta Limited and Transocean Partners LLC. Michael is also currently honorary treasurer and board trustee of ActionAid International, a Human Rights campaigning NGO.

Appointed
Michael was appointed to the Board in December 2015.

Key skills and experience
Finance and capital markets; Oil and gas; Mining and metals.

Board committee membership
Audit and Remuneration Committees.

Executive Directors

CLIFFORD ELPHICK (55)
Chief Executive Officer
BCom (University of Cape Town); BCompt Hons (University of South Africa)

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

Appointed
Clifford formed Gem Diamonds in July 2005.

Key skills and experience
Diamond and mining industries; Commercial and capital markets.

Board committee membership
Nominations Committee.

ALAN ASHWORTH (61)
Chief Operating Officer
BSc (Mining Engineering) (Nottingham University); South African Mine Managers Certificate of Competency

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

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

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

MICHAEL MICHAEL (45)
Chief Financial Officer
BCom Hons (Rand Afrikaans University); CA(SA)

Michael Michael has over 20 years' experience in financial management. He joined RSM Betty & Dickson (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 Limited to assist with the financial aspects of the Main London Listing including the financial reporting, management accounting and tax relating to the Initial Public Offering. In March 2008 Michael joined Gem Diamonds on a full-time basis as the Group Financial Manager. On 2 April 2013 he was promoted to the position of Chief Financial Officer.

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

Key skills and experience
Finance and capital markets; Diamond industry.

GLENN TURNER (55)
Chief Legal and Commercial Officer and Company Secretary
BA LLB (University of Cape Town); LL.M (Cambridge)

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.

Appointed
Glenn joined Gem Diamonds in May 2006 and was appointed to the Board in April 2008. Glenn was appointed as the Company Secretary in January 2015.

Key skills and experience
Diamond industry; Legal.

Board committee membership
HSSE Committee.

Chairman's overview of corporate governance

Corporate governance is embedded in the way we organise our business, with local boards and audit committees taking responsibility for our operations in local jurisdictions.

One of the key responsibilities of the Board is to maintain a high standard of corporate governance. This is a vital element in ensuring our future as a successful and sustainable Group.

The Board provides leadership to the Group within a framework of controls which enables risk to be assessed and managed and to ensure the necessary financial and human resources are in place in order for the Group to meet its objectives and increase shareholder value.

During the year we have continued to be mindful of our duties as directors to manage the Group for the long term benefit of all its stakeholders.

In accordance with provision C2.2 of the UK Corporate Governance Code (the Code) we are required to provide a viability statement. In order for us to do this, the Audit Committee was engaged to assess the Group's current position and prospects, the strategy, the Board's risk appetite and the Board's associated principal risks. We then carried out an overall integration of the enterprise risk management into future cash flows and conducted stress testing scenarios to support the viability statement. You will find full details and our viability statement in our Strategy Report on pages 2 to 55.

Corporate governance is embedded in the way we organise our business, with local boards and audit committees taking responsibility for our operations in local jurisdictions. This helps us to do the right thing for our shareholders, customers, employees, suppliers, local communities and the environment.

As the Chairman, I am ultimately accountable for the application of the various provisions of the Code. It is my duty to delegate specific tasks to individuals whose responsibility it is to ensure adoption and implementation at the highest standard.

These individuals include the Chairmen of the various committees and the Company Secretary, Glenn Turner. Mr Turner is assisted by Susan Wallace, a Fellow of the Institute of Chartered Secretaries and Administrators, who specialises in all company secretarial and corporate governance matters.

The Board is kept informed on legal, regulatory and governance matters through regular communication from the Company Secretary and by presentations from internal and external advisors.

During 2015, we undertook a Board evaluation process to review the Board's approach to strategy and the effectiveness of the committees and risk management. The evaluation was carried out by way of a questionnaire administered by Bruce Wallace Associates. A detailed description of the evaluation process is set out on page 66.

Key focus areas that had been identified in the 2015 Board evaluation were the Board's commitment to applying best practice with regard to internal and external communication, decision-making, succession planning and risk management.

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

All four committees operate within clearly defined terms of reference. This year we reviewed and updated the terms of reference for our Remuneration, Nomination and Audit Committee, taking into account the new provisions introduced in the Code and current best practice.

A key concern for good corporate governance is to eradicate bribery, fraud and corruption. I am confident that we have a stringent process in place throughout the Group. The ongoing monitoring and review of this process is led by our internal audit function and is conducted on an annual basis.

Our whistleblowing hotline, used to report suspected fraud, corruption and irregularities, is being used more frequently and every case is recorded. I am pleased to confirm that following investigation, none of the cases reported were significant and they were resolved without serious consequences.

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

Board composition is very important, with three critical dimensions:

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

As we act in shareholders' interests, it is appropriate that shareholders have the opportunity to vote on the re-election of every Director on an annual basis. We are delighted to welcome Michael Lynch-Bell to the Board. His wealth of knowledge and expertise in finance, internal audit and risk management provides additional support and insight for the Board.

We continue to assess the composition of the Board with the aim to obtain an effective balance and diversity of skills and experience to meet the Group's needs.

At present, our Board comprises four Executive Directors and four non-Executive Directors representing different nationalities and disciplines (the detail of which you will find in the biography for each individual on pages 58 to 59). We acknowledge the importance of diversity, including gender, to the effective functioning of our Board. We continue to be supportive of diversity in the Boardroom.

Directors with a range of skill sets, capabilities and experience gained from different geographic and cultural backgrounds, enhance the Board by bringing a wide spectrum of experience and expertise to the business. More information about our Board diversity policy can be found under the UK Corporate Governance Code Compliance Report on page 67.

Looking ahead, we continue to recognise that corporate governance is vital to our success and we endeavour to maintain the highest standards.

Roger Davis
Non-Executive Chairman

UK corporate governance code compliance

The Board sets standards of conduct, which provide an ethical framework for the Group's business functions.

This report combines the Directors' Report, the Strategic Report and the Group's compliance with the principles and provisions of 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 Committee in line with the Disclosure and Transparency Rules (DTR).

The Board continues to review and assess all policies and practices throughout the organisation in light of the changes made to the Code in 2014 which became applicable for financial years beginning on or after 1 October 2014. The Board also keeps apprised of all revisions and market practice recommendations issued by institutional investor bodies such as The National Association of Pension Funds, and the Association of British Insurers. The Company has remained below the FTSE 350 for the past three consecutive financial years and, therefore, is subject to the provisions applicable to the smaller company regime. The Company considers that it is compliant with all provisions of the Code.

Board of Directors

The role of the Board

The Board is responsible for the overall conduct of the Group's business 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;
- annual and half-year financial results and shareholder communications;
- system of internal control and risk management; and
- administrative matters including corporate governance issues.

The Board 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 which are documented in a comprehensive list of authorisation levels and prior approval requirements for key corporate decisions and actions, are reviewed annually and by the Board. Such matters reserved for the Board include, but are not limited to, approval of business plans, major capital expenditure, major acquisitions and disposals and bank borrowings. The matters reserved were last reviewed in March 2016.

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 management'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 2015

Name	Title	Held appointment during 2015	Committee chairmen and number of members
Executive Board members (4)			
CT Elphick	Chief Executive Officer	√	
AR Ashworth	Chief Operating Officer	√	
M Michael	Chief Financial Officer	√	
GE Turner	Chief Legal and Commercial Officer	√	
Non-Executive Board members (4)			
RW Davis	Chairman	√	Nominations (3)
GA Beevers		√	HSSE (3)
M Salamon	Senior Independent Director	√	Remuneration (3)*
DJ Elzas (resigned 2 June 2015)		√	
RJ Williams (resigned 2 June 2015)		√	
MD Lynch-Bell (appointed 15 December 2015)		√	Audit (2)

** MD Lynch-Bell was appointed to the Remuneration Committee on 14 March 2016.*

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.

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

Board and Committee meetings

Five scheduled Board meetings were held during 2015, all in the United Kingdom. Attendance by Directors at Board and committee meetings is shown below.

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

In the event that Board approval is required between Board meetings for such matters as capital expenditure, 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.

The Terms of Reference for each committee require members to be re-nominated every three years (subject to annual re-election).

Attendance at Board and committee meetings during 2015

	Number of meetings held				
	Board	Audit	Remuneration	Nominations	HSSE
Director					
RW Davis	5/5	4/4	4/4	4/4	–
CT Elphick	5/5	–	–	4/4	–
GA Beevers (appointed to Audit Committee in June 2015)	5/5	3/4	–	–	4/4
DJ Elzas (resigned 2 June 2015)	1/1	1/1	1/1	–	–
M Salamon	5/5	–	4/4	4/4	4/4
RJ Williams (resigned 2 June 2015)	1/1	1/1	1/1	–	–
AR Ashworth	5/5	–	–	–	–
M Michael	5/5	–	–	–	–
GE Turner	5/5	–	–	–	4/4
MD Lynch-Bell (appointed 15 December 2015)	–	–	–	–	–

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 a practice adopted by many listed companies. During the year, four such meetings were held.

Chairman and Chief Executive Officer

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

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

Roles of the Chairman and Chief Executive Officer

Chairman, Roger Davis	Chief Executive Officer, Clifford Elphick
The effective operation and leadership of the Board and setting the highest standards of corporate governance.	Developing a business strategy for the Group to be approved by the Board on an annual basis.
Providing strategic guidance to the executive team.	Producing the business plans for the Group to be approved by the Board on an annual basis.
Setting the agenda, style and tone of Board discussions.	Overseeing the management of the executive resource and succession planning processes and presenting the output from these to the Board and Nominations Committee annually.
Through the Nominations Committee, ensuring that the Board comprises individuals with 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, Mike Salamon	Non-Executive Directors
Acting as a sounding board for the Chairman.	Scrutinising the performance of management in meeting agreed goals and objectives and monitoring the reporting of performance.
Serving as an intermediary for other Directors if necessary.	Reviewing the integrity of financial information and determining whether internal controls and systems of risk management are robust.
Being available to shareholders if concerns they have raised with the executive team and/or the Chairman have not been satisfactorily resolved.	Determining the Company's policy for executive remuneration, as well as the remuneration packages for the Chairman and Executive Directors through the Remuneration Committee.
	Providing a wide range of skills and independence, including independent judgement on issues of strategy, performance and risk management.

Board skills, balance and independence

As a mining company, the efficiency of the day-to-day operations, in both the medium and long term, is essential to the Group's progress in producing shareholder value.

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

Financial resources and capability are also necessary to ensure fulfilment of the Group's strategy. The biographies, which can be found on pages 58 and 59, provide more information on each Director's competencies. All Directors allocate sufficient time to the Group to fulfil their responsibilities effectively.

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

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

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

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

Appointments and re-elections to the Board (see also Board diversity on page 67)

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 on the basis of recommendation; thus 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 taking into account diversity and the specialist skill set which is required by the business.

The Nominations Committee's section of this report is set out on page 74.

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

Continuing Board development, independent professional advice and the Company Secretary

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

Board-approved arrangements ensure that new Directors receive a full, formal and tailored induction upon joining the Board. In addition, ongoing support and resources are provided to Directors, enabling them to extend and refresh

UK corporate governance code compliance continued

their skills, knowledge and familiarity with the Group. Professional development and training is provided through three measures:

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

Board evaluation

Aim

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

One of the overarching objectives of the 2015 Board evaluation was to carry out a comprehensive review on the effectiveness of the Board, not only as a unit, but also to assess and evaluate the contributions made by individual Directors.

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

It also looked at specific issues raised in the 2014 evaluation, such as board composition, risk management and communications.

Approach

In line with best practice on Board evaluation, as set out in provision B.6.2 of the Code, the Board appointed Bruce Wallace Associates to undertake an externally facilitated independent review of Board effectiveness during December 2015 and January 2016. The scope of the 2015 evaluation review was agreed with the Chairman and Company Secretary and implemented by means of a questionnaire. The questionnaire was sent to each Director and their responses were collated by Bruce Wallace Associates who then presented their analysis, findings and recommendations in a report to the Board.

Analysis

The report from Bruce Wallace Associates to the Board noted that considerable progress had been made addressing recommendations in the 2014 Board evaluation, in particular Board composition and external communications were identified in the 2015 Board evaluation as the two main areas where the Board had performed well.

The Nomination Committee spent a substantial amount of time recruiting a non-Executive Director that not only would strengthen the Board but someone with financial expertise to chair the Audit Committee thereby supporting the Board's ongoing commitment to good governance.

In addition, an effective stakeholder's plan was also put in place with regular roadshows being planned.

While extensive work has been done to ensure all risks are identified, evaluated and reported, the Board agreed that a clearer understanding of the correlation between identified and potential risks associated with the Group's strategy is needed.

Next step

The findings and recommendations have been discussed with the Board by the Chairman. The Board agreed that continued focus on developing succession plans was key. The Board also confirmed that internal communications and risk management would be further considered for improvements.

Conflicts of interest

The UK Companies Act requires that Directors avoid any situation where they may have a direct or indirect interest that conflicts, or may conflict, with the Group's interests, unless approved by the non-interested Directors. In accordance with this Act, the Directors are allowed to authorise conflicts and potential conflicts where appropriate. The Company operates a procedure to ensure the disclosure of conflicts and, if appropriate, for the consideration and authorisation of them by non-conflicted Directors. The board maintains a register of 'conflicts of interests' that it reviews annually (most recently in March 2016). The Company voluntarily complies with this requirement.

Dealings in shares

The Company has a policy based on the Model Code, published in the FCA's UK Listing Rules, which covers dealings in securities and applies to all Directors, persons discharging managerial responsibilities and employee insiders. This policy was last reviewed in November 2012 and was circulated to all insiders in January 2014. The insider list is reviewed and updated routinely. A review and update will be carried out in 2016 to reflect the changes being introduced by the Market Abuse Regulations in July 2016.

Directors' remuneration

While the Board is ultimately responsible for Directors' remuneration, the Remuneration Committee, consisting of Independent non-Executive Directors, is responsible for determining the remuneration and conditions of employment of Executive Directors, as well as the Chairman. The details of all Directors' remuneration are covered in the Directors' Remuneration Report and the Annual Report on Remuneration on pages 77 to 95.

Bribery Act

The Company engaged KPMG to carry out a review of the Group's operations in South Africa, Belgium and the UK in 2014. In addition, implementation reviews were conducted at Letšeng and Ghaghoo in early 2015 by the Group Internal Audit function. A gap analysis and comparison between the Group policy and the anti-bribery and corruption legislation has been performed and all recommendations will be rolled out into the operations during 2016 and form part of the Group's amended anti-bribery and corruption policy going forward.

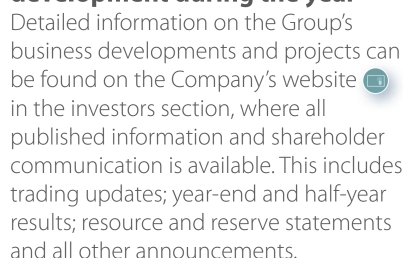
The Group's terms of business require all customers and third parties with whom business is transacted to adopt the same zero tolerance approach to bribery and corruption as implemented by the Board.

Board diversity

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

More information on gender-based employment is contained in the Sustainable Development Review on page 51.

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

Financial reporting

The Board is conscious of its responsibility to present a fair, balanced and understandable assessment of the Group's position and prospects and is satisfied that the Strategic Report on pages 2 to 55 has met this obligation. The Responsibility Statement of the Directors in respect of the Annual Report and Financial Statements is set out on page 102.

Information and financial reporting systems

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

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

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

Internal control

The Board of Directors has responsibility for the Group's overall approach to risk management and internal control, which are embedded in all key operations. In accordance with the 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 Financial Statements. In addition, regular management reporting and a balanced assessment of key risks and controls, is an important component of Board assurance.

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

These included:

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

The principal aim of the system of internal control is the management of business risks that significantly threaten the fulfilment of the Group's business and strategic objectives, with a view to 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 confirm that they have reviewed the effectiveness of the system of internal control. For the review, the Audit Committee considered reports dealing with internal audit plans and outcomes, as well as risk logs and sign-off from external audit and management representations. These did not reveal any significant findings or weaknesses.

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.

Group internal audit, reporting directly to the Audit Committee, is responsible for coordinating the Group's risk-based approach to internal audit and to evaluate the effectiveness and contribute to the improvement of risk management, controls and governance systems.

A risk-based internal audit plan for 2015 was approved by the Audit Committee. Reports on the outcomes of the risk-based audits, the findings together with progress on implementing the

UK corporate governance code compliance continued

actions arising from the findings were presented to management and the Audit Committee for consideration and approval.

The risk-based audit plan 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, capital projects and related internal controls identified in the risk self-assessment process. Findings and agreed actions are reported to management and the Audit Committee.

Internal audit services are provided by means of a co-sourced agreement with KPMG managed through the Group internal audit function. The objective of the co-sourced agreement is that KPMG will perform certain internal audits on behalf of the Group internal audit as and when required.

Risk assessment and management

The Board, through the Audit Committee, considers effective risk management as an essential element of professional management and has implemented 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.

These risks are monitored continually and formally reviewed annually. A more comprehensive report of the Group's principal risks and the means by which these are managed and/or mitigated can be found on pages 16 to 20 of the Strategic Report.

The Company has a value-driven approach in order to meet its objective of ensuring it operates in a stable environment. Through monitoring the locations in which we operate, enhancing the Group's assets and protecting employees and the surrounding ecosystem, the Group is able to uphold its processes in turn creating greater shareholder value and enhancing the Group's moral reputation.

All of the Group's operations perform comprehensive annual self-assessment risk reviews and maintain their 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 and 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 in order 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 by a budgetary process and authorisation levels. For expenditure beyond specified levels, detailed written proposals are submitted to the Board. There is an approval procedure for investment, which includes a detailed calculation of return based on current assumptions that are consistent with those included in management reports.

Reviews are carried out after the project is completed and, for some projects, during the development period of the investment to monitor progress against the approved plan. All major overruns are subject to a post-investment review.

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

External audit

A principle of the Code is that the Board should establish formal and transparent arrangements for considering how it should apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the Group's external auditors, EY. These responsibilities are delegated to and discharged by the Audit Committee, whose role is defined on pages 70 to 73.

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 incidents reported are fully investigated, and the results are reported to the boards of local operations and the Group's Audit Committee. To raise awareness of the hotline throughout the Company, literature is issued to employees detailing the whistleblowing tool and relevant contact details. Group internal audit periodically reviews the design and effectiveness of the hotline and reports the results to the Audit Committee.

The process was reviewed in 2012, and each operation reissued literature to all employees.

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

Dialogue with shareholders

Communication with industry analysts, institutional investors and shareholders is of great importance to the Board. Having an understanding of the views of our stakeholders and shareholders has proven to be highly beneficial to the Group. The responsibility of investor relations is that of the Chief Legal and Commercial Officer, Glenn Turner, who is based at the Company's London office. Presentations are given by the Executive Directors after the Group's announcement of the year-end and half-year results. Any concerns raised by shareholders in relation to the Group and its affairs are communicated to the Board as a whole, and a summary of shareholders' views are tabled at each Board meeting.

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

The Executive Directors conduct quarterly roadshows to engage with a number of the Group's larger investors creating a suitable platform for them to express any concerns.

The shareholder base comprises 138.30 million issued ordinary shares of US$0.01 each. There are 253 institutional shareholders that hold 127.5 million shares (92%) and 352 private shareholders who hold 10.8 million shares (8%).

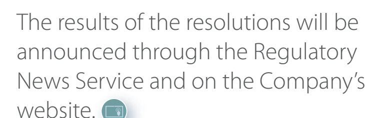
The Company's Senior Independent Director, Mike Salamon, is available to shareholders if contact through normal channels fails to resolve their concerns, or if such contact would be inappropriate.

Constructive use of the Annual General Meeting (AGM)

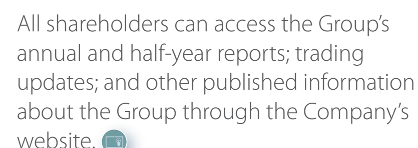
The Code strongly encourages boards to use the AGM to communicate with all investors. All Directors attends the AGM, and shareholders are invited to ask questions during the meeting and to meet Directors after the formal proceedings have closed. Shareholders attending the Company's next scheduled meeting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

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

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



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.



Care is taken to ensure that any price-sensitive information is released to all shareholders, institutional and private, at the same time, and in accordance with both the DTR and the Group policy. This policy was reviewed by the Board in November 2014 and is in the process of being updated to reflect the changes being introduced by the Market Abuse Regulations in July 2016.

Details of the resolutions to be proposed at the AGM can be found in the notice of the AGM. In accordance with the Code, the notice of the AGM and relevant papers will be sent to shareholders a minimum of 20 business days before the meeting, the 2016 AGM will be held on Tuesday, 7 June 2016.

Shareholders

Majority interest in shares

On 11 March 2016, the Company was notified that the following major interests (at or above 3%) in the issued ordinary shares of the Company in accordance with the DTR 5:

Shareholders	Number of ordinary shares	% shareholding
Graff Diamonds International	**20 906 699**	15.11
Lansdowne Partners	**20 721 413**	14.98
Gem Diamonds Holdings Limited	**9 325 000**	6.74
Majedie Asset Management	**7 304 263**	5.28
BlackRock	**6 189 766**	4.47
FMR LLC	**5 786 072**	4.18
Lazard Asset Management	**5 573 653**	4.03
GLG Partners	**4 851 414**	3.51
Norges Bank Investment Management	**4 379 676**	3.17
Miton Asset Management	**4 283 515**	3.10

Audit Committee

"The primary role of the Audit Committee is to act on behalf of shareholders to rely on the financial reporting of the Company by establishing that effective measures and internal controls for the oversight of the financial reporting and audit process are in place and proficiently applied throughout the financial reporting period". – Roger Davis, Chairman

Composition, meetings and attendance in 2015

In accordance with provision C.3.1 of the Code, all members of the Audit Committee should be non-Executive Directors, independent in character and judgement, and free from relationships or circumstances which are likely to affect, or could appear to affect, their judgement.

In June 2015 two of the Company's non-Executive Directors, Dave Elzas and Richard Williams MBE MC stepped down. Roger Davis agreed to act as Chairman until a replacement for Mr Elzas was sourced, and Gavin Beevers was appointed a member of the Committee to ensure that, in the interim, Audit Committee meetings were in line with the terms of reference. Michael Lynch-Bell's appointment as a non-Executive Director and Chairman of the Audit Committee has further strengthened the skill set to uphold shareholders' interests.

The Audit Committee terms of reference were updated in 2015 in line with the new provisions introduced by the Code applicable to the smaller company regime.

Four meetings of the Audit Committee were held in 2015. The Chief Executive Officer, the Chief Financial Officer, the Group's internal auditor, and representative of the Company's external auditors attend each meeting by invitation. Other Directors of the Company and Senior Executives may also attend by invitation to speak, but not vote, at a meeting.

Committee members	Member throughout 2015	Number of meetings attended/held 2015
MD Lynch-Bell – Chairman	Appointed on 15 December 2015	–
RW Davis (stepped down as Chairman on 15 December 2015)	✓	4/4
GA Beevers	Appointed on 2 June 2015	3/4
DJ Elzas	Resigned on 2 June 2015	1/1
RJ Williams	Resigned on 2 June 2015	1/1

The role and focus of the Audit Committee

The Audit Committee's primary role is to ensure:

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

By fulfilling this role, the Audit Committee assists the Board in discharging its responsibilities of financial reporting, external and internal audits and controls.

Activities of the Audit Committee during 2015

Internal controls and risk

- Received reports from the external auditors and the Group's internal auditor on their assessment of the control environment.
- Assessed the effectiveness of the Group's internal control environment and approved the statement on the process by which the committee and the Board review the effectiveness of internal control.
- Received reports of the internal control environment in place at its subsidiaries which were considered to be effective. These included:
  - procedures for identifying business and operational risks and control of their impact on the Group;
  - budgeting and forecasting systems, financial reporting systems and controls;
  - procedures for detecting fraud and serious breaches of business conduct including whistleblowing;
  - procedures for ensuring compliance with relevant regulators and eliminating bribery;
  - operational effectiveness of the Audit Committee structures; and
  - overseeing the adequacy of the internal controls and allocation of responsibilities for monitoring internal financial controls.
- Reviewed feedback from the reports submitted by managers across the Group, prior to approval of the half-year and annual financial statements and before the audit.
- The management reports cover areas involving significant judgement, estimation or uncertainty, including assessment of fair values, impairment reviews of goodwill, quality of earnings, taxation, treasury, reserves and resources, legal matters and the appropriateness of preparing the financial statements on a going-concern basis.
- Reviewed and assessed the systems and processes in place required to formulate the viability statement and support its conclusions.

External auditors

- Reviewed reports on audit findings.
- Considered the independence of the auditors and their effectiveness, taking into account:
  - non-audit work undertaken by the external auditors and compliance with the Group's policy; and
  - the committee's own assessment.
- Agreed on the audit approach and scope of the audit work to be undertaken by the external auditors and the fees for the same.
- Considered key focus areas for the 2015 audit, including going-concern assessment, impairment reviews, significant judgements applied (specifically in terms of 'production start date' of when a mine moves into its production phase) and revenue recognition.
- Recommended to the Board the reappointment of the external auditors following an evaluation of their effectiveness and confirmation of auditor objectivity and independence.

Financial reporting

- Reviewed the annual financial (2014) and half-year (2015) statements and the significant financial reporting judgements and the Auditors' Report thereon.
- Reviewed the trading announcements published in January, May, July and November.
- Reviewed the liquidity risk and the basis for preparing the Group accounts on a going-concern basis and reviewed the related disclosures in the Annual Report.
- Reviewed disclosures in the Annual Report in relation to internal controls, risk management, principal risks and uncertainties and the work of the committee.
- Reviewed management's considerations on impairment.
- Reviewed the appropriateness of the Group's accounting policies.

Audit Committee continued

Internal controls and risk

- Ensured that there is a system of control in place for identifying and managing risk in the Group. The Board, through the Audit Committee, reviewed the systems that have been established for this purpose, including whether the processes continued to meet evolving external governance requirements.
- The Board conducted reviews of the effectiveness of the Group's systems of risk management and internal controls in accordance with the Code and the Risk Guidance. These covered financial, operational and compliance controls and risk assessment. Management presented an assessment of the material business risks facing the Group. The reviews were overseen by the Audit Committee, with findings and recommendations reported to the Board where appropriate. In addition, the Board received an assessment of the effectiveness of internal controls over key risks identified through the work of the Board committees. The Board was satisfied that the effectiveness of the internal controls was properly reviewed.
- Examined the effectiveness of the Group's risk management system, including its risk management process and profile, and the Group's internal control systems.
- Evaluated the performance of the committee and its terms of reference.
- Reviewed matters reported to the external whistleblowing hotline and reports on the findings of the investigations. There were no matters reported which were considered significant.
- Considered and approved the structure, scope of cover and renewal terms of the Group's insurance programme.
- Reviewed foreign exchange management, including investment hedging and related foreign exchange exposure.
- Reviewed litigation matters affecting all Group Companies, monitored their status and progress and, where appropriate, made recommendations regarding future action.
- Received routine reports on cash management (including the negotiation of committed facilities) to ensure adequate resources were available for future trading and capital expenditure, and to underpin the going concern and viability assumptions.

External auditors

- Adhered to the Financial Reporting Council's consultation of audit firm tendering, and their rotation of audit partners. As such, audit partner rotation is due and the external auditor's engagement partner, appointed in 2011, will step down and be replaced by another audit partner after the 2015 Annual Report who will head up the Group's Audit Engagement Team, responsible for carrying out the audit of the consolidated financial statements of the Group going forward.
- Compiled a comprehensive timetable and plan in relation to the tendering of auditor firm which must be in effect for the 2017 financial year.
- Managed the relationship with the external auditors covering terms of engagement, remuneration and effectiveness.

Financial reporting

- Assisted the Board in assuring the integrity of the financial statements which the Chief Executive Officer and Chief Financial Officer have certified as representing a true and fair view of the Group.
- Evaluated the effectiveness of the Group's internal control over financial reporting based on the established framework and criteria. No material weaknesses in the Group's internal controls over financial reporting were identified by management.

Meetings with auditors and management

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

- external auditors;
- the Group internal auditor; and
- Executive Management.

Matters discussed during these meetings include, but are not limited to, the transparency of the auditors' interactions with management, confirmation that there has been no restriction of scope placed on them by management, independence of their audit and how they have exercised professional scepticism. In particular, the primary areas of judgement considered by the committee in relation to the 2015 accounts, and how these were addressed, were:

- **Assessing assets for impairment:** The judgements in relation to asset impairment largely relate to the assessment of whether impairment indicators exist and key assumptions used. In assessing the Ghaghoo development asset for impairment, the achievement of the long-term business plan and macro-economic assumptions underlying the valuation process and going concern assumptions are primarily judgements. The committee addresses these matters through receiving reports from management outlining the basis for the assumptions used, of which the business plan is the most significant, which is approved by the Board. In addition, this area is a primary source of audit focus and accordingly EY provides detailed reporting to the Committee.
- **Critical accounting estimates and judgements applied, specifically to Ghaghoo's production start date:** The judgement in relation to 'production start date' is to determine when a mine moves from its construction phase into its production phase. The criteria used to assess the start date are determined by the nature of each mine's construction. Relevant criteria are considered to assess when the mine is substantially complete and ready for its intended use and moves into the production phase at which point the capitalisation of certain mine construction costs cease and depreciation of the mine asset commences. The committee addresses such issues through reports submitted by management. This creates a platform for open discussion where management can communicate the reasoning behind their views of this is an additional primary focus for EY who provides regular verbal and written reports to the Committee.
- **Revenue recognition:** The judgement applied to revenue recognition is based on the timing of risks and rewards of ownership transfer on rough diamond sales and in particular on the uplift element of rough diamonds sold into partnership arrangements. The committee addresses such comments through a range of reporting from management. This is an area of higher audit risk and accordingly the committee receives detailed verbal and written reports from EY regarding this matter.
  EY further provides the Group with a detailed audit plan identifying its assessment of the key risks. These risks are continuously tracked and the Committee challenges the work performed by the auditors to test management's assumptions and estimates. The committee assesses the effectiveness of the audit process in addressing those matters through the reporting received from EY.

Auditors' independence and non-audit work

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

The external auditors are permitted to provide non-audit services that do not conflict with auditor independence. The Audit Committee regularly reviews the non-audit fees paid.

The fees for such work amounted to US$0.2 million in total. This was against external audit fees of US$0.7 million representing approximately 29% of external audit fees.

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

Recommendation of auditor

The Audit Committee's assessment of the external auditor's performance and its independence underpins its recommendation to the Board to propose to shareholders the reappointment of EY (appointed as the Company's auditor in 2006) until the conclusion of the Company's AGM in 2016. This assessment reviews the EY policies for independence and five-year rotation policy. In accordance with this policy a new audit partner will be appointed in 2016. Resolutions allowing the Board to reappoint and determine the external auditor's remuneration will be proposed at the Company's AGM on Tuesday, 7 June 2016.

During the year the Committee reviewed the Group's position on its audit services contract and examined options regarding the timing of tendering for the Group's external audit, taking into account the UK Corporate Governance Code and the reforms of the audit market by the Competition and Markets Authority (CMA) and the European Union. The Committee intends that the audit contract will be put out to tender in 2016, and it is expected that the new audit services contract would be effective for the 2017 financial year end.

Nominations Committee

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

Committee members	Member throughout 2015	Number of meetings attended/held 2015
RW Davis – Chairman	✓	4/4
M Salamon	✓	4/4
CT Elphick	✓	4/4

Composition, meetings and attendance in 2015

The Nominations Committee comprises two non-Executive Directors and one Executive Director. The Committee's terms of reference provide for a formal and transparent procedure for the Committee to follow in executing its responsibilities. The terms of reference of the Nominations Committee were updated in September of 2015 to reflect the changes made to the Code in September 2014, and to further reflect current best practice. The Committee has the responsibility of identifying, evaluating and recommending candidates for Board vacancies and to make recommendations on Board composition, balance and diversity. Four meetings were held in 2015. In December 2015, Michael Lynch-Bell was appointed as a non-Executive Director to redress the balance of the Board following the stepping down of Mr Elzas and Mr Williams at the June AGM in 2015. All recommendations for Board appointments are made on merit and against objective criteria.

The role and focus of the Nominations Committee

The key objective of the Nominations Committee is to ensure that the Board of the Company comprises individuals with the requisite skills, knowledge and experience. The importance of the high calibre of Board members is required to perform the complex Board responsibilities in order to support the Group's strategic objectives.

Responsibilities include:

- Lead the process for identify and make recommendations to the structure, size and composition of the Board. The Committee is accountable for the diversity and balance of skills, knowledge and experience as well as the independence of non-Executive Directors.
- To make recommendations to the Board regarding the composition of the Nominations Committee and the composition and chairmanship of the Audit, Remuneration and HSSE Committees.
- Identify and make recommendations to the Board regarding candidates for appointment as Directors, which includes considering succession planning and the future leadership needs of the Group.
- Overseeing the performance evaluation of the Board, and Board Committees, and individual Directors.

The Board acknowledges that diversity extends beyond the boardroom and supports management in its efforts to build diversity throughout the Group. It endorses the Group's policy to attract and develop a highly qualified and diverse workforce, to ensure that all appointments are based on merit and recruitment activities are fair, non-discriminatory and that due diligence is peformed. The policy acknowledges the contribution of diversity, including gender, to the effective functioning of the Board. When recruiting additional Directors and/or filling vacancies which arise when Directors do not seek re-election, the Nominations Committee will seek to appoint new Directors who fit the skills criteria and gender balance that are in line with the Board's aspirations. The Committee recognises that to further enhance the effectiveness of the Board there must be combined qualities, capabilities and skill set gained from different geographical and cultural backgrounds. It is also recognised that there is a shortage of suitable appropriate Directors currently in the market. The Nominations Committee continues to encourage and support a diversity of business skills and experience. Details, including the proportion of women in senior management, can be found in the "Attracting, retaining and developing employees" section of the Sustainable Development Review on page 51.

Activities of the Nominations Committee during 2015

The Nominations Committee in 2015 deliberated upon:

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

In the year ahead, the Committee will continue to assess the Board's composition, evaluates the composition of various committees and monitor developments in corporate governance to ensure the Group remains at the forefront of good governance practices.

HSSE Committee

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

Committee members	Member throughout 2015	Number of meetings attended/held 2015
GA Beevers – Chairman	✓	4/4
M Salamon	✓	4/4
GE Turner	✓	4/4

The role and focus of the Health, Safety, Social and Environment (HSSE) Committee

The role and responsibility of the committee is to provide the Board assurance that the approved HSSE policies and guidelines have been implemented throughout the Group. The Committee is accountable for ensuring the management of health, safety, social and environmental matters. The Committee is also responsible for maintaining relevant policies to reflect and comply with all relevant in-country legislation.

The Committee reviews the policies regularly to ensure the Group continues to uphold the highest standard and best practice internationally.

The committee achieves this by regularly:

- monitoring HSSE policies and guidelines, and ensuring they take account of minimum requirements and international best practice;
- gaining insight of and providing assurance to the Board on the Group's compliance with applicable legal and regulatory matters;
- assessing the effectiveness of management's approach to managing risks, particularly with respect to the importance of HSSE;
- reviewing significant incidents and considering causative factors, consequences and the impact on employees, the environment, third parties and reputational risk;
- recommending to the Board the Group's key performance indicators and monitoring the performance against approved targets;
- reviewing the Group's external reporting and public disclosures on HSSE matters;
- reviewing and reporting to the Board, developments, trends and sustainability matters which are relevant to the Group's operations, its assets or employees;
- reviewing significant external HSSE incidents and assessing the effectiveness of internal prevention and preparedness to avoid similar incidents at the Group's operations.

Activities of the HSSE Committee during 2015

In 2015, members of the HSSE Committee visited the Group's operations to obtain first-hand knowledge of current practices. The HSSE management teams at the operations continually assist the Committee to ensure the policies and procedures remain current and effective.

HSSE Committee continued

Health	Safety	Social	Environment	Governance
■ Reviewed project-affected communities and employee health indicators and trends. ■ Monitored the effectiveness of on-site clinics at Letšeng and Ghaghoo. ■ Reviewed the effectiveness of health risk mitigation strategies at the mine sites.	■ Reviewed the implementation of the strategic plan to improve safety. ■ Monitored the introduction of Behaviour Based Safety programmes at the mine sites. ■ Examined reports on investigation into the root cause of all serious safety incidents to avoid similar future incidents. ■ Reviewed reports on key safety indicators and trends. ■ Recognised the risk associated with water and slimes storage facilities and mitigated the risk at operational level through the sourcing of specialist research recommendations. ■ Recognised the concerns associated with the use of contractors and ensured that the correct measures were embedded and at operational level to mitigate this risk. A contractor safety system was put in place making it compulsory to follow the approved systems and practices as required by the Group.	■ Identified and addressed material social governance risks and resolved in line with the Group's approved policies and guidelines. ■ Received reports from and interviewed accountable managers on the introduction of community development initiatives. ■ Reviewed project-affected community socio- economic indicators and trends. ■ Monitored the implementation at operational level of corporate social investment plans at the mines in Botswana and Lesotho.	■ Reviewed key natural systems-related risks and associated mitigation plans. ■ Reviewed key environmental indicators and updated trends. ■ Recognised the importance of safeguarding the quality and quantity of water at the Group's operations and initiated a Group-wide water footprint programme to assess the impact of the operations on water sources in the surrounding areas. ■ Identified material environmental risks and ensured that the risks were adequately addressed with effective mitigation measures as per the Group's policies and guidelines.	■ Reviewed on the key indicators and trends. ■ Reviewed changes to local and international best practice guidelines on safety, health and environmental governance. ■ Considered amending to the Global Reporting Initiative reporting standard and agreed the indicators to be disclosed in the 2015 Sustainable Development Report.

Annual Statement on Directors' remuneration

"Our remuneration policy is designed to support our business strategy, to achieve sustainable growth and maximise long-term sustainable shareholder returns." – Mike Salamon, Chairman

Chairman's statement

Dear shareholder,
On behalf of the Board I am pleased to present the Remuneration Committee's Directors' Remuneration Report for 2015.

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. The Directors' remuneration policy detailed on pages 77 to 95 remains consistent with that approved by shareholders at the 2014 AGM, and is reproduced in full for both ease of reference and in order to provide context to the decisions taken by the Committee during the year.

Although 2015 was a challenging year for the diamond mining industry, it is pleasing to report that the Group has had a strong year. The Letšeng mine achieved strong operational results and their low capital projects have seen the important +100 carat diamond recoveries rise from an average of six per year to 11 in 2015.

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

Long-term incentives

Executive Directors were each granted an award under the Employee Share Option Plan (ESOP) during the year which vest based on performance over the three financial years to 31 December 2017. These awards will vest to the extent that challenging relative Total Shareholder Return (TSR), production and profit targets are achieved over the period.

Annual bonus outcomes for the financial year

For 2015, achievement against annual bonus targets was strong, both in terms of performance against the scorecard objectives of growth, operating performance and HSSE, and achievement of personal objectives. The Executive Directors will receive between 74.4% and 77.4% of the maximum bonus. This outcome reflects both the continued strong financial and operational performance of the Group and the exceptional individual contributions made by each of the Executive Directors over the last year.

Salary increase for 2016

The Executive Directors' salaries were reviewed in March 2016, and all received an inflationary increase of 3.0%, in line with the general practice of applying inflation as a base for salary increase across the Group.

Areas for future consideration

The Committee will continue to monitor market trends throughout 2016 and consider the implications for the Company's remuneration practices. The appropriateness of claw back will be considered by the Committee in time for the next policy vote.

We continue to value feedback from our shareholders and hope to receive your support at the AGM.

Mike Salamon
Chairman of the Remuneration Committee

14 March 2016

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 103 to 109 and we have clearly marked the audited sections of the report.

The Company's remuneration policy

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

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

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

The Company's remuneration policy was approved by shareholders at the 2014 AGM on 10 June 2014, and became effective from this date.

The report below is as originally disclosed in the 2013 Directors' Remuneration Report save a number of non-significant changes as follows:

- references to financial years have been updated where appropriate;
- new non-Executive Director appointment expiry dates have been updated;
- further details have been provided in relation to the rationale for the selection of performance measures in the annual bonus and ESOP; and
- pay-for-performance scenario charts have been updated to reflect 2016 salaries and benefits.

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
Benefits	■ To provide competitive benefits taking into account market value of role and benefits offered to the wider UK management population, in line with the Company's strategy to keep remuneration simple and consistent.	■ Executive Directors receive a cash allowance in lieu of non-cash benefits.	■ Benefit value may vary by role; the value of benefits received during 2015 ranged between 5.5% and 6% of base salary for the Chief Executive Officer and other Executive Directors respectively. ■ It is not anticipated that the cost of benefits will exceed this level over the term of this policy, though the Committee retains discretion to approve a higher cost in exceptional circumstances (for example relocation or increase in insurance premiums).	N/A

Directors' remuneration policy continued

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

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

Directors' remuneration policy continued

Notes to policy table

Payments from existing arrangements

Executive Directors will be eligible to receive remuneration or other payments in respect of any award granted or payment agreed prior to the approval and implementation of the policy, or prior to the individual becoming a Director. Such payments include awards made to Executive Directors under the ESOP prior to the revisions implemented and approved in 2014. 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 objectives of value creation, growth and sustainability, and are well accepted measures for the mining sector. The use of profit and production is consistent with the Company's key performance indicators, 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, taking into account the Company's strategic priorities and the economic environment in which the Company operates. Targets are set taking into account a range of reference points including the Group's business plan. The Committee believes that the performance targets set are adequately stretching and that the maximum outcomes are achievable only for exceptional performance.

Remuneration policy for other employees

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

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

Pay for performance: scenario analysis

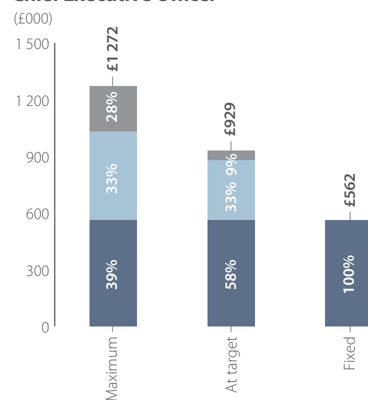
The following graphs provide an estimate of the potential future remuneration for the Executive Directors and the potential split between the different elements of pay under three performance scenarios: 'fixed', 'at target' and 'maximum'. Potential remuneration is based on the policy that will be in force in 2016, applied to the salaries effective 1 April 2016. For the annual bonus, the amounts illustrated are those potentially receivable in respect of performance for 2015 (ie a maximum of 100% of salary). ESOP values are based on the proposed number of shares to be awarded in 2016 and the average share price from 1 October 2015 to 31 December 2015 of 105 pence. Note that the projected values exclude the impact of any share price movements.

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

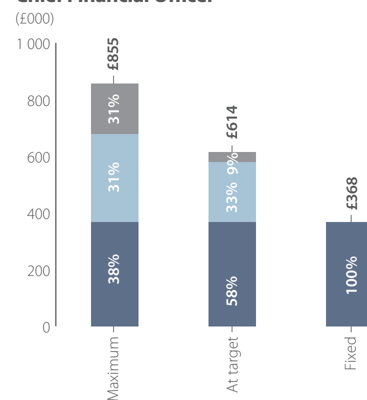
The 'at target' scenario includes fixed remuneration as above, plus a target payout of 68% maximum annual bonus, and 20% vesting for the ESOP Award.

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

Chief Executive Officer

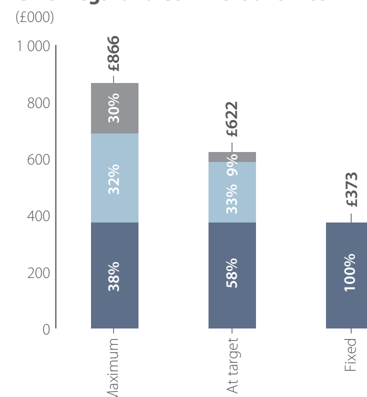


Chief Financial Officer



Chief Operating Officer

Chief Legal and Commercial Officer



Salary, pension and benefits   Annual bonus   Long-term incentives

Approach to remuneration on executive recruitment

In recruiting new Executive Directors, the Committee will typically follow the existing remuneration policy as set out in the policy table, but retains the discretion to offer remuneration that is outside of the policy if necessary in exceptional circumstances to enable the recruitment of an individual of the appropriate calibre. The Committee will pay no more than is appropriate while seeking to secure the necessary world-class Executive Directors required to deliver the Company's strategy and create value for shareholders.

On appointment of an external Executive Director, any arrangement specifically established to recruit an individual would be capped at the limits described in the policy table. The Committee does not envisage a payment such as a 'golden hello' would be offered, although the Committee may consider it appropriate to compensate for incentive arrangements the Director forfeits on leaving 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 use the remuneration components under the regular policy to make such buy-out awards but may also exercise its discretion under Listing Rule 9.4.2 if an alternative incentive structure was required.

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

Service contracts

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

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

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

Directors' remuneration policy continued

Payments for loss of office under all service contracts

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

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

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

Non-Executive Directors

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

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

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

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

Non-Executive Directors' appointment terms

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

Directors	Contract date	Unexpired term	Notice period	Contractual termination payment
RW Davis	1 February 2007	Rolling appointment	Three months	No provision for payment of compensation.
GA Beevers	1 February 2007	Rolling appointment	Three months	
M Salamon	3 February 2008	Rolling appointment	Three months	
MD Lynch-Bell	15 December 2015	Rolling appointment	Three months	

Considerations of conditions elsewhere in the Group

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

Considerations of shareholder views

The Committee always welcomes feedback from shareholders on the Company's remuneration policy and commits to undergoing shareholder consultation in advance of any significant changes to policy. The Committee most recently consulted with major shareholders regarding changes to the Company's remuneration 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 95 for further details.

Mike Salamon
Chairman of the Remuneration Committee

14 March 2016

The Annual Report on Remuneration

Remuneration Committee

Composition of the Remuneration Committee

The Committee comprises the following members:

Committee members	Member throughout 2015	Number of meetings attended/ held 2015
RJ Williams – Chairman (1/4)	Resigned in June	1/1
M Salamon – Chairman (3/4)	✓	4/4
RW Davis	✓	4/4
DJ Elzas	Resigned in June	1/1
MD Lynch-Bell	Joined the Committee on 14 March 2016	–

Following the recent appointment of Michael Lynch-Bell to the Board as a non-Executive Director, he has also been appointed to the Remuneration Committee.

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

Role of the Remuneration Committee

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

The Committee's main responsibilities are to:

- consider and agree on the Company's remuneration policy for approval by shareholders at the AGM;
- 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; and
- consider major changes in employee remuneration in the Group and select and appoint consultants to advise the Committee.

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

Activities of the Remuneration Committee in 2015

The activities of the Committee are governed by its terms of reference which reflect best practice. A review of the Committee's terms of reference and the Committee's effectiveness was carried out in March 2015. In September 2015 the Committee approved and adopted the changes to the terms of reference for the Remuneration Committee which had been amended in accordance with changes to the UK Corporate Governance Code in September 2014.

During the year, activities undertaken by the Committee included:

- approving the Directors' Remuneration Report for 2014;
- reviewing and approving the Executive Directors' performance against 2014 annual bonus targets, and determining bonuses payable;
- determining the Executive Directors' annual bonus and ESOP opportunities and performance targets for 2015 in line with the Company's strategic plan and remuneration policy;
- considering recent developments in remuneration market trends and best practice;
- conducting a detailed review of the ESOP, taking into account Company strategy and market practice;
- reviewing and approving the base salary and benefits of the Chairman, Executive Directors and Company Secretary; and
- reviewing operating unit incentive plans.

Advisers to the Committee

Kepler was appointed by the Committee in February 2010 and provided independent remuneration advice to the Committee and attended Committee meetings during 2015. Kepler provides remuneration advice to a large portfolio of clients including many in the FTSE350 and FTSE Small Cap; this gives the Committee comfort that the advice provided is appropriate and relevant. 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 Kepler nor Kepler's parent company, Mercer, provides non-remuneration services to the Group or is in any other way connected to the Group, and Kepler is therefore considered to be independent. The fees payable in relation to work for the Committee in 2015 were £44 571 (US$68 112) excluding VAT.

Voting outcome for 2014
The table below shows the results of the advisory vote on the 2014 Annual Report on Remuneration at the 2 June 2015 AGM.

		For	Against	Total votes cast	Abstentions
Annual Report on Directors' Remuneration	Total number of votes	108 269 838	8 302 136	116 578 927	6 953
	Percentage of votes cast	92.9%	7.1%	100%	<0.1%

Audited

The current remuneration policy was approved by shareholders with a 95.4% vote for at the 2014 AGM.

Total single figure of remuneration for Directors

The table below sets out the total single figure remuneration received by each Director for 2015 and the prior year. Although the Group's reporting currency is US dollars, these figures are stated in sterling as the Directors' emoluments are paid in this currency.

	Salary and fees[1]		Cash payments in lieu of other non-cash benefits[2]		Cash payments in lieu of pension[2]		Bonuses[3]		ESOP[4]		Total	Total
	2015 £	2014 £	2015 £	2014 £	2015 £	2014 £	2015 £	2014 £	2015 £	2014 £	2015 £	2014 £
CT Elphick	**451 264**	438 121	**24 819**	24 097	**65 433**	63 527	**338 203**	367 190	**–**	–	**879 719**	892 935
AR Ashworth	**334 151**	324 419	**20 049**	19 465	**43 440**	42 175	**250 432**	271 896	**–**	–	**648 072**	657 955
M Michael	**284 740**	234 220	**17 085**	14 053	**37 016**	30 449	**232 200**	198 815	**69 679**	–	**640 720**	477 537
GE Turner	**302 304**	293 498	**18 138**	17 610	**39 300**	38 155	**226 564**	245 982	**–**	–	**586 305**	595 245
Total of Executive Directors	**1 372 459**	1 290 258	**80 091**	75 225	**185 189**	174 306	**1 047 399**	1 083 883	**69 679**	–	**2 754 817**	2 623 672
RW Davis	**107 500**	100 000	**–**	–	**–**	–	**–**	–	**–**	–	**107 500**	100 000
GA Beevers	**54 375**	52 500	**–**	–	**–**	–	**–**	–	**–**	–	**54 375**	52 500
DJ Elzas*	**22 292**	52 500	**–**	–	**–**	–	**–**	–	**–**	–	**22 292**	52 500
M Salamon	**54 375**	52 500	**–**	–	**–**	–	**–**	–	**–**	–	**54 375**	52 500
RJ Williams*	**22 292**	52 500	**–**	–	**–**	–	**–**	–	**–**	–	**22 292**	52 500
MD Lynch-Bell	**2 538**	–	**–**	–	**–**	–	**–**	–	**–**	–	**2 538**	–
Total of non-Executive Directors	**263 372**	310 000	**–**	–	**–**	–	**–**	–	**–**	–	**263 372**	310 000
Total of all Directors	**1 635 831**	1 600 258	**80 091**	75 225	**185 189**	174 306	**1 047 399**	1 083 883	**69 679**	–	**3 018 189**	2 933 672

Audited

[1] Salary and fees: amount earned for the year.
[2] Benefits and pension: cash payments in lieu.
[3] Bonuses: awarded for performance for the year.
[4] ESOP: value at vesting of awards vesting on performance over the three-year period ended 31 December 2014 (ie March 2012 ESOP) and 31 December 2015 (ie September 2012 ESOP). The September 2012 ESOP relates only to M Michael, who was granted this award before he became a Director. The vesting amount is calculated using the closing share price on the date of vesting (ie 1 January 2016) of 125.25 pence.
** Resigned in June 2015.*

Pensions and other benefits

No formal pension provision is made by the Company. Instead Executive Directors received a cash allowance in lieu of pension which was equivalent to 14.5% and 13.0% of base salary for the Chief Executive Officer and other Executive Directors, respectively. Executive Directors received a cash allowance in lieu of other non-cash benefits, the value of which ranged between 5.5% and 6.0% of base salary during 2015.

The Annual Report on Remuneration continued

Annual bonus

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

Business scorecard for 2015

The following key metrics were considered under business performance in 2015:

Performance measure	Weighting % of maximum
Growth	**30**
Operating performance	**50**
HSSE performance	**20**

The Committee and Board have given careful consideration to the retrospective disclosure of targets and have disclosed targets and actual outturn in respect of 2015 in full in the table below.

Performance measure		Weighting (% of max)	Threshold target	Stretch target	Actual performance	Payout (% of max)
Growth		30	Judged by Committee on a discretionary basis			20
Operating performance	Underlying EBITDA (US$ millions)	10	85.6	128.3	103.5	7
	EPS (US cents)	10	18.9	28.4	30.2	10
	Waste tonnes mined (millions)	10	20.0	21.0	24.0	10
	Ore tonnes treated (millions)	10	6.9	7.6	7.0	6
	Carats recovered	10	232 057	313 959	200 079	0
HSSE performance	Fatalities	5	0	0	Zero fatalities occurred during the year.	5
	All injury frequency rate	5	4.56	3.80	2.75	5
	Major environmental or community incidents	5	0	0	No major environmental or community incidents arose during the year.	5
	HSSE legal compliance	5	Judged by Committee on a discretionary basis			5

Growth

The growth component of the bonus is assessed at the discretion of the Committee. In terms of performance against the Group's growth targets, the Committee considered the excellent progress made in the year at Letšeng, with the completion of the Coarse Recovery Plant and the Plant 2 expansion project, together with the implementation of the optimised life of mine plan. Furthermore the robust cash position and funding facilities available, has positioned the Company to continue to pay a further dividend in 2016. The Committee have also considered the Executive Directors' efforts in assessing possible strategic activities. The slower than anticipated progress at Ghaghoo during the year was also taken into account and has restricted the awarding of the maximum score for this component. The Committee has therefore concluded that the growth component of the bonus warranted a payout of 20% (relative to the maximum of 30%).

HSSE legal compliance

Letšeng and Ghaghoo, respectively acquired a 5-star and 4-star IRCA rating with no major findings. In addition, Letšeng achieved accreditation for ISO 14001 and OHSAS 18001.

Business scorecard for 2014

The business performance targets in respective of 2014 were disclosed only partially in last year's report for reasons of commercial sensitivity. The targets and actual outturn in respect of 2014 are disclosed in full in the table below.

Performance measure		Weighting (% of max)	Threshold target	Stretch target	Actual performance	Payout (% of max)
Growth		30	Judged by Committee on a discretionary basis			24
Operating performance	Underlying EBITDA (US$ millions)	10	46.0	69.1	104.2	10
	EPS (US cents)	10	5.8	8.8	24.0	10
	Waste tonnes mined (millions)	10	16.5	17.3	19.9	10
	Ore tonnes treated (millions)	10	5.7	6.3	6.5	10
	Carats recovered	10	145 509	196 865	118 736	0
HSSE performance	Fatalities	5	0	0	1 fatality occurred during the Ghaghoo underground development	0
	All injury frequency rate	5	5.04	4.20	3.01	5
	Major environmental or community incidents	5	0	0	No major environmental or community incidents arose during the year.	5
	HSSE legal compliance	5	Judged by Committee on a discretionary basis			5

Personal performance

The personal performance assessment was based on individual disciplines and was designed to collectively achieve the strategic targets of the Group and deliver sustainable returns to shareholders. 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 stakeholders relationships; bank financing and treasury management and HSSE objectives.

In assessing personal performance the Committee took into account the successful completion of the low capital projects implemented at Letšeng within budget and on schedule; the strong operational performance at Letšeng with production and financial targets met; on-time risk avoidance through the successful review and mitigation of any tax and legal exposures; the robust cash position with the timeous refinancing of facilities; the strengthening of key relationships with stakeholders in order to mitigate political in-country instability; and the achievement of HSSE objectives with zero fatalities, a reduced LTIFR, and zero major or significant environmental incidents or negative CSR exposures. Although various corporate activity opportunities were explored by the Executive Directors, the current business and economic environment did not lend itself to suitable prospects. The Committee agreed that each Executive Director successfully carried out their duties and collectively achieved the Group's objectives.

Actual bonuses awarded for 2015

Based on business and personal performance, actual bonuses for 2015 were as follows:

	% of salary	Bonus £
CT Elphick	**74.4**	**338 203**
AR Ashworth	**74.4**	**250 432**
M Michael	**77.4**	**232 200**
GE Turner	**74.4**	**226 564**

Audited

The Annual Report on Remuneration continued

Employee Share Option Plan (ESOP)

M Michael received an award of 24 000 performance shares and 48 000 performance options under the ESOP in September 2012, before he became an Executive Director. The terms of this award differ from the ESOP performance conditions for Executive Directors, and awards were granted only to Senior Managers below the Board. The scheme provides that a third of the award granted in 2012 will vest in 2014, 2015, and 2016 based on performance in each of the 2013, 2014 and 2015 financial years. The extent to which the award vests depends on the achievement of Group and individual targets (weighted 70% and 30% of the total, respectively) in each of the three one-year performance periods. Any award that vests is banked, and may be exercised only at the end of the three-year performance period. As soon as reasonably practicable following the end of the performance periods, the achievement of the targets for each of the 2013, 2014 and 2015 financial years are calculated.

Based on performance in 2013, 2014 and 2015, 77% of M Michael's September 2012 award vested on 1 January 2016. The table below sets out the awards held by M Michael under the September 2012 ESOP.

Executive Director	Awards	Awards held	Vesting %	Date from which awards are exercisable	Exercise price
M Michael	Performance shares	24 000	77	1 January 2016	$0.01
	Performance options	48 000	77	1 January 2016	177.6p

No other Executive Director had ESOP awards due to vest based on performance to 31 December 2015 (as no awards were made to them during 2013).

ESOP awards granted in 2015

On 1 April 2015 performance shares with a face value of between 71% and 80% of salary were awarded to the Executive Directors, as summarised in the table below.

Executive Director	Date of grant	Awards made during the year	Share price on date of award £	Face value on date of award £	Face value as % of salary[1]
CT Elphick	1 April 2015	230 000	1.41	324 300	71
AR Ashworth	1 April 2015	170 000	1.41	239 700	71
M Michael	1 April 2015	170 000	1.41	239 700	80
GE Turner	1 April 2015	170 000	1.41	239 700	79

[1] *The face values of awards as a percentage of salary have been updated since the 2014 Annual Report on Remuneration based on the actual share price on the date of award.*

The performance conditions that apply to these awards remain the same as those for the 2014 awards, and are summarised in the table below:

	ESOP scorecard			
Performance measure	Weighting (% of max)	Threshold	Stretch	Super-stretch
TSR ranking vs FTSE350 Miners	25	Median	75th percentile	85th percentile
Profit	37.5	80% of business plan	120% of business plan	132% of business plan
Production	37.5	90% of business plan	110% of business plan	121% of business plan
Vesting (% of award)		20%	80%	100%

For achievement in between these points, the award will vest on a straight-line basis. For achievement of less than threshold, vesting will be nil.

The performance period is from 1 January 2015 to 31 December 2017. As in 2014, TSR ranking will be measured over three years. Profit and production will be measured on an annual basis, with final vesting based on the average achievement of targets over the three years. The precise profit and production performance ranges will be disclosed after the performance period has ended as these targets relate to the Company's business plan and medium- and long-term strategy and are therefore considered commercially sensitive.

The Committee is satisfied that the performance targets set for the 2015 awards (as described above) are sufficiently stretching and full vesting is achievable only for exceptional performance.

Implementation of remuneration policy for 2016

The Committee approved the following salary increases from 1 April 2016:

Executive Director	2015 salary £	2016 salary £	% increase
CT Elphick	454 574	**468 211**	**3.0**
AR Ashworth	336 602	**346 700**	**3.0**
M Michael	300 000	**309 000**	**3.0**
GE Turner	304 521	**313 657**	**3.0**

Audited

Pension and benefits

In line with the UK Pensions Regulator requirements, Executive Directors will be automatically enrolled to a pension scheme. The Executive Directors have chosen to opt out of the pension scheme and will continue to receive cash supplements *in lieu* of pension and benefits in line with the current policy.

Annual bonus

In 2016, the annual bonus will have the same maximum opportunity and will operate on broadly the same basis as for 2015. The measures have been selected to reflect a range of financial and operational goals that support the key strategic objectives of the Group. The performance measures and weightings will be similar to those in 2015 but may vary at the Committee's discretion. The Chief Operating Officer, Alan Ashworth, announced his intention to retire at the end of June 2016. In light of his retirement, he is not eligible to participate in the 2016 annual bonus. The Committee has considered the development of a bonus plan based on specific targets to the date of his retirement.

During the year, the Remuneration Committee considered the pre-vesting performance adjustments (malus) and post-vesting clawback provisions for Executive Directors' incentive plans and agreed that no changes would be effected at this time in relation to either the annual bonus or the ESOP. The Committee will keep the appropriateness of malus and clawback provisions under review.

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 2016 the ESOP will continue to operate on the same basis as in 2015. The Chief Executive Officer will receive an award of 230 000 performance shares (equivalent to 53% of salary) and the other Executive Directors will each receive an award of 170 000 performance shares (equivalent to between 59% and 60% of salary). No awards were made to the Chief Operating Officer due to his planned retirement in 2016.

Vesting will be based on the TSR versus the constituents of the FTSE 350 Mining Index (25% of the award), profit (37.5%) and production (37.5%) objectives measured over the three-year performance period ending on 31 December 2018. The relative TSR targets remain unchanged from 2015 and the profit and production targets will be disclosed after the performance period has ended as these targets relate to the Company's business plan and medium- and long-term strategy and are therefore considered commercially sensitive.

Chairman and non-Executive Director fees

Chairman and non-Executive Director fees were 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 were reviewed again in March 2016 where it was agreed that no changes would be made at this time.

The percentage increase in Chief Executive Officer remuneration (salary, benefits and annual bonus) compared with employee pay 2015

	CT Elphick			Other employees		
	2015 £	2014 £	% change	2015 £	2014 £	% change
Base salaries	**451 264**	438 121	3.0	**12 908 516**	11 968 035	7.9
Benefits	**90 252**	87 642	3.0	**1 368 646**	1 110 625	23.2
Annual bonuses	**338 203**	367 190	(7.9)	**2 363 700**	2 752 383	(14.1)
Total	**879 719**	892 953	(1.5)	**16 640 862**	15 831 043	5.1

Audited

The Annual Report on Remuneration continued

Relative importance of spend on pay

The table below shows the percentage change in total employee pay expenditure and shareholder distributions (that is dividends and share buy-backs) from the financial year ended 31 December 2014 to the financial year ended 31 December 2015.

	2015 US$	2014 US$	% change
Distribution to shareholders	**11 755 200**	6 913 491	70.0
Employee remuneration[1]	**23 727 685**	25 193 146	(3.7)

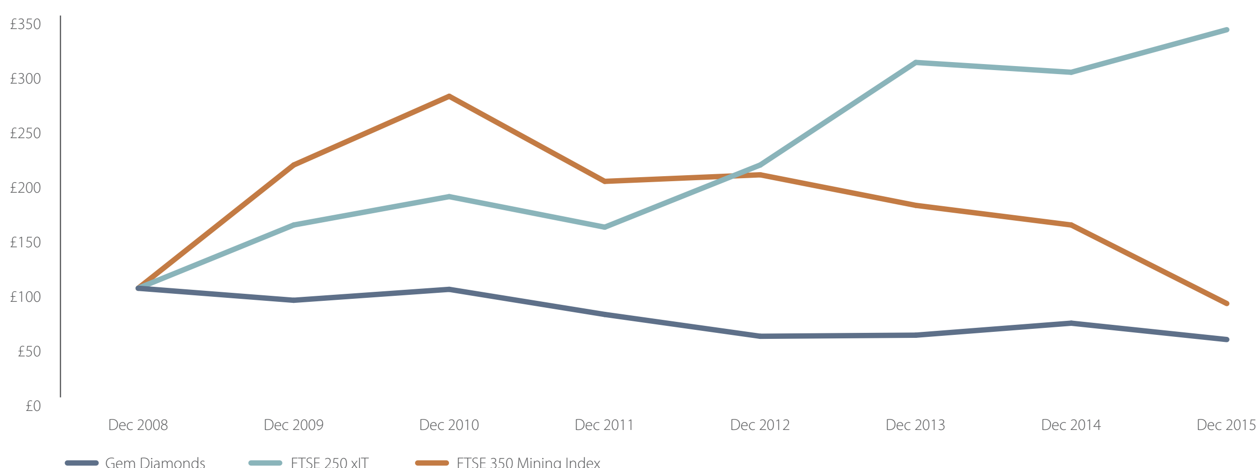
Audited

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

Pay for performance

The graph below shows the Company's TSR performance compared with the performance of the FTSE 250 (excluding investment trusts) and the FTSE350 Mining Index over the seven-year period to 31 December 2015. The former has been selected to reflect broad market movements and the latter has been selected because the Group believes it is affected by similar commercial and economic factors to the comparator group.

Gem Diamond vs FTSE 350 Mining Index and FTSE SmallCap IT Index



	2009	2010	2011	2012	2013	2014	**2015**
Chief Executive Officer single figure of remuneration (£)	640 150	726 050	797 755	564 419	776 406	892 935	**879 719**
Annual bonus outcome (% of maximum)	54	67	75	13	61	83	**74**
ESOP vesting outcome (% of maximum)	Nil	Nil	Nil	Nil	Nil	Nil	**N/A**

Audited

Dilution

ESOP awards may be satisfied with newly issued shares subject to aggregate dilution limits. The issue of shares to satisfy awards under the Company's share schemes will not exceed 10% of the Company's issued ordinary share capital in any rolling 10-year period. As of 31 December 2015, a total of 2 767 323 shares (2% of issued share capital) have been or may be issued pursuant to all current awards outstanding over the last 10 years.

Details of outstanding awards of performance shares to Directors

Directors	Performance shares[1] as at 1 January 2015	Granted in the year	Vested in the year	Lapsed in the year[2]	Exercised in the year	Exercise price US$	Market value at date of grant US$	Date of grant	Earliest normal exercise date	Expiry date	Performance shares outstanding at 31 December 2015
CT Elphick	45 000	–	–	(45 000)	–	0.01	214 200	20 March 2012	20 March 2015	20 March 2022	–
	206 000	–	–	–	–	0.01	556 200	10 June 2014	10 June 2017	10 June 2024	**206 000**
	–	230 000	–	–	–	0.01	453 100	1 April 2015	1 April 2018	1 April 2025	**230 000**
Total	**251 000**	**230 000**	**–**	**(45 000)**	**–**						**436 000**
AR Ashworth	34 000	–	–	(34 000)	–	0.01	161 840	20 March 2012	20 March 2015	20 March 2022	–
	153 000	–	–	–	–	0.01	413 100	10 June 2014	10 June 2017	10 June 2024	**153 000**
	–	170 000	–	–	–	0.01	334 900	1 April 2015	1 April 2018	1 April 2025	**170 000**
Total	**187 000**	**170 000**	**–**	**(34 000)**	**–**						**323 000**
M Michael	20 000	–	–	(20 000)	–	0.01	95 200	20 March 2012	20 March 2015	20 March 2022	–
	24 000[3]	–	(18 544)	(5 456)	–	0.01	68 400	11 September 2012[3]	1 January 2016	31 December 2023	–
	112 000	–	–	–	–	0.01	302 400	10 June 2014	10 June 2017	10 June 2024	**112 000**
	–	170 000	–	–	–	0.01	334 900	1 April 2015	1 April 2018	1 April 2025	**170 000**
Total	**156 000**	**170 000**	**(18 544)**	**(25 456)**	**–**						**282 000**
GE Turner	30 000	–	–	(30 000)	–	0.01	90 015	20 March 2012	20 March 2015	20 March 2022	–
	138 000	–	–	–	–	0.01	221 987	10 June 2014	10 June 2017	10 June 2024	**138 000**
	–	170 000	–	–	–	0.01	334 900	1 April 2015	1 April 2018	1 April 2025	**170 000**
Total	**168 000**	**170 000**	**–**	**(30 000)**	**–**						**308 000**

Audited

[1] Conditional right to acquire shares.

[2] 2012 awards were granted on 20 March 2012. The vesting criteria run on a calendar year basis. Based on performance to 31 December 2014, it was determined that none would vest on 20 March 2015.

[3] These awards were granted to M Michael before he became a Director. Further details are provided on page 87.

The Annual Report on Remuneration continued

Details of outstanding awards of performance options to Directors

Directors	Performance options[1] as at 1 January 2015	Granted in the year	Vested in the year	Lapsed in the year[2]	Exercised in the year	Exercise price GB pence	Date of grant	Earliest normal exercise date	Expiry date	Performance options outstanding at 31 December 2015
CT Elphick	90 000	–	–	(90 000)	–	300.05	20 March 2012	20 March 2015	20 March 2022	–
Total	**90 000**	**–**	**–**	**(90 000)**	**–**					**–**
AR Ashworth	68 000	–	–	(68 000)	–	300.05	20 March 2012	20 March 2015	20 March 2022	–
Total	**68 000**	**–**	**–**	**(68 000)**	**–**					**–**
M Michael	40 000	–	–	(40 000)	–	300.05	20 March 2012	20 March 2015	20 March 2022	–
	48 000[3]	–	(37 088)	(10 912)	–	177.60	11 September 2012	1 January 2016	31 December 2023	–
Total	**88 000**	**–**	**(37 088)**	**(50 912)**	**–**					**–**
GE Turner	60 000	–	–	(60 000)	–	300.05	20 March 2012	20 March 2015	20 March 2022	–
Total	**60 000**	**–**	**–**	**(60 000)**	**–**					**–**

Audited

[1] Option is a right to acquire shares granted under the plan including, unless indicated otherwise, a nil-cost option. The market price of an ordinary share at the year end was 131.50 pence. The highest and lowest closing prices in the year were 180.09 pence and 97.75 pence respectively. Details of the vesting conditions, which are subject to audit, for awards made under the ESOP are included in Note 25 of the financial statements and a full set of the rules will be available for inspection at the AGM.

[2] 2012 awards were granted on 20 March 2012. The vesting criteria run on a calendar year basis. Based on performance to 31 December 2014, it was determined that none would vest on 20 March 2015.

[3] These awards were granted to M Michael before he became a Director. Further details are provided on page 87.

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 2015 are given below. It is confirmed that there were no changes to the Directors' holdings between 31 December 2015 and up to the date of this report. No Director held an interest in the shares of any subsidiary company.

In addition to these interests in shares, the Executive Directors, along with other employees, also have conditional rights to acquire shares under the Company's Long-Term Incentive Plan disclosed in Note 25 to the financial statements.

Executive Directors

		Performance shares held		Performance options held		
	Shares owned outright as at 31 December 2015	Subject to performance conditions	Vested but not exercised	Subject to performance conditions	Vested but not exercised	Total shareholding
CT Elphick	9 325 000[1]	436 000	Nil	–	Nil	9 761 000
AR Ashworth	21 900	323 000	Nil	–	Nil	344 900
M Michael	10 000	282 000	18 544	–	37 088	292 000
GE Turner	400 000	308 000	Nil	–	Nil	708 000

Audited

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

Non-Executive Directors

	Number of shares as at 31 December 2015 held in own right
RW Davis	**1 267 752**
GA Beevers	**159 964**
M Salamon	**316 944**

Audited

Directors' external appointments

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

By order of the Board

Mike Salamon
Chairman of the Remuneration Committee

14 March 2016

Directors' Report

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

The Directors take pleasure in submitting the financial statements of the Group for the year ended 31 December 2015.

As a British Virgin Islands (BVI) registered company, Gem Diamonds Limited is not obliged to comply with the Companies Act, 2006. However, the Directors have elected to conform to the requirements of the Companies Act, 2006.

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

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

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

The Strategic Report and other sections of this report contain forward-looking statements. By their nature, forward-looking statements involve a number of risks, uncertainties and future assumptions because they relate to events and/or depend on circumstances that may or may not occur in the future which could cause actual results and outcomes to differ materially from those expressed or implied by the forward-looking statements. No assurance can be given that the forward-looking statements in the Strategic Report will be realised. Statements about the Directors' expectations, beliefs, hopes, plans, intentions and strategies are inherently subject to change and are based on expectations and assumptions about future events, circumstances and other factors which are, in some cases, outside the Company's control. The information contained in the Strategic Report has been prepared on the basis of the knowledge and information available to Directors at the date of its preparation and the Company does not undertake any obligation to update or revise the Strategic Report during the financial year ahead. It is believed that the expectations set out in the forward-looking statements are reasonable, but they may be affected by a wide range of variables which could cause actual results or trends to differ materially. In particular, the forward-looking statements should be read in context 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.

Related-party transaction

Other than those disclosed in Note 23 of the financial statements, the Company did not have any transactions with, nor made loans to related parties during the period in which any Director is or was interested.

Exploration and resource development

Resource development activities were concentrated at Letšeng with the ahead of face drilling programme and microdiamond analysis continuing in 2015.

The drilling programme was largely aimed at assisting in guiding mine planning. The sampling information from the drilling will be incorporated in the 2016 resource estimates. The microdiamond analysis aims to confirm whether microdiamonds can be used at Letšeng to predict grades at depth.

Further details can be found in the Mineral Resource Management section on pages 42 to 45.

Resource development at Ghaghoo was limited to resource mapping on Level 1 which confirmed the homogenous nature of the VKSE ore phase.

Results and dividends

The Group's attributable profit after taxation (before exceptional items) amounted to US$41.8 million (2014: US$33.2 million). Post exceptional items, the Group's attributable profit was US$52.0 million.

The Group's detailed financial results are set out in the financial statements section on pages 102 to 162.

The current focus of the Group is on internal growth through enhancing operational efficiencies and investing in low-cost, high-return projects. Based on positive earnings generated and disciplined cash management, the Board recommends that a dividend be declared for the 2015 financial year. As was set out in last year's Annual Report, the Board has adopted a 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 growth strategy, and aims to pay a total dividend at an approximately consistent proportion of sustaining net earnings. Dividends are expected to be declared by the Board annually with the full-year results. An ordinary dividend representing a total amount of US$6.9 million or 5 US cents per share will be proposed at the 2016 AGM. In addition, a special dividend of US$4.8 million or 3.5 US cents per share will also be proposed.

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 49 to 54.

Greenhouse gas emissions

The total carbon footprint for the Group in 2015 was 146 499 tCO_2e (2014: 138 046 tCO_2e), a 6% increase from the 2014 total carbon emissions. This figure includes all Scope 1 direct emissions (mobile and stationary combustion and waste-related emissions), Scope 2 indirect GHG emissions (electricity consumption) and material Scope 3 emissions (employee and contractor transport-related emissions).

Scope 2 emissions made up 47% of the Group's carbon footprint emissions in 2015, followed by Scope 1 emissions (44%) and Scope 3 emissions contributing the least to the total carbon footprint at 9%. The total carbon footprint increased by 3% in 2014 compared to the 2013 carbon footprint and by 6% in 2015 compared to 2014. This can be attributed to increased waste stripping at Letšeng, increased activities at Ghaghoo and the increased reliance on fossil fuel for powering vehicles and generating electricity for the camp and mining infrastructure through generators. Ghaghoo is not connected to the national electricity grid and therefore electricity generation takes place on-site. In response to the increased reliance on non-renewable resources to power the operation and the impact it has on Group-wide emissions, Ghaghoo is exploring renewable energy sources.

The Group tracks the tonnes CO_2 emitted per carat recovered and per employee. In 2015, the Group emitted 0.66 tonnes CO_2 per recovered carat; a decrease from 1.27 tonnes CO_2 per recovered carat in 2014. In terms of tonnes CO_2 per employee the Group recorded 240 tonnes CO_2 per employee in 2015 compared to 273 tonnes CO_2 per employee in 2014. The decreases in the intensity analysis above for both tonnes CO_2 per carat and per employee can be attributed to energy efficiency initiatives at the operation as well as an increase in diamonds produced and employee headcount at Ghaghoo.

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

The operations continue to implement the recommendations from the GHG reduction strategy which was formulated in 2014.

Water footprint

In 2015, the World Economic Forum identified the impact of water crises as a primary global risk. The Alliance for Water Stewardship has defined water stewardship as "the use of fresh water that is socially equitable, environmentally sustainable and economically beneficial, achieved through a stakeholder-inclusive process that involves site and catchment-based actions". Good water stewards understand their own water usage, the catchment context and their shared risk in terms of water governance, water balance and water quality, who then engage in meaningful individual and collective actions that benefit people and nature.

A Water Footprint (WF) can be defined as the measure of freshwater usage to produce a certain product. During 2015 Gem Diamonds undertook a Group-wide Water Footprint Assessment (WFA) to better understand its water consumption whilst producing diamonds.

The total gross water usage, during 2015, for the Group was 10 186 138 m^3, of which only 2 599 639 m^3 (26%) was consumptive use. Water sources include municipal supplies, groundwater, surface water and direct rainfall. The total amount of water recycled by the Group in 2015 amounted to 4 553 761m^3 (45%).

The total 2015 WF for the Group was 13 m^3 per carat and 0.37 m^3 per tonne of ore treated. The stress WF of the Group was calculated to be 4.08 m^3 per carat and 0.31 m^3 per tonne of ore treated. The WF of the Group is sustainable and is not contributing to scarcity in any of its catchments in which it operates.

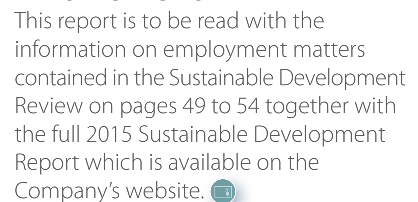
Political donations

The Group made no political donations in 2015.

The Group's CSI expenditure supports initiatives that benefit the project-affected communities in the areas of health, education, infrastructure development, development of small to medium enterprises, regional environmental initiatives and general donations to relevant causes in project-affected communities. In both 2015 and 2014, the Group contributed US$0.6 million to social initiatives.

Employee policies and involvement

This report is to be read with the information on employment matters contained in the Sustainable Development Review on pages 49 to 54 together with the full 2015 Sustainable Development Report which is available on the Company's website.



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

Employees are kept informed about the performance and objectives of the Group through direct involvement and access to the Company's website, published information, the circulation of press cuttings' and Group announcements, as well as continuous communication between employees and management.

It is the Group's policy to communicate openly with employees and encourage dialogue between employees and management. Over the course of 2016, an internal info portal will be designed and launched to further support this.

Directors' Report continued

The Company always seeks to have a direct relationship between its employees and business function management founded on quality, leadership, effective communication and trust. The Group is committed to the principle and achievement of equal opportunities in employment, irrespective of gender, religion, race or marital status. Full consideration is given to applications from people with disabilities who apply for positions which they can adequately fill, having regard for their particular abilities and aptitude. Where existing employees become disabled, it is the Group's policy, where practicable, to provide continuing employment under normal terms and conditions and to provide training, career development and promotion to disabled employees wherever possible.

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

Corporate governance

The UK Financial Conduct Authority's Disclosure and Transparency Rules (DTR 7.2) require that certain information be included in a corporate governance statement set out in the Directors' Report. The Group has an existing practice of issuing a separate Corporate Governance Code Compliance Report as part of its Annual Report. The information required by the Disclosure and Transparency Rules and the UK Financial Conduct Authority's Listing Rules (LR 9.8.6) is located on pages 62 to 69 of this Annual Report.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 2 to 55. The financial position of the Company, its cash flows and liquidity position are described in the Strategic Report on pages 30 to 33. In addition, Note 24 to the financial statements includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit and liquidity risk.

After making enquiries which 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 2014 revision of the 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 21.

Directors

The Directors, as at the date of this report, are listed on pages 58 and 59 together with their biographical details. Details of the Directors' interests in shares and share options of the Company can be found in the Annual Report on Remuneration on pages 94 and 95.

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

Executive Directors

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

Non-Executive Directors

GA Beevers	1 February 2007
RW Davis	1 February 2007
M Salamon	3 February 2008
MD Lynch-Bell	Appointed 15 December 2015
RJ Williams (Resigned)	2 June 2015
DJ Elzas (Resigned)	2 June 2015

Re-election of Directors

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

Protection available to Directors

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

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

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

Annual General Meeting

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

Share capital and voting rights

Details of the authorised and issued share capital of the Company, including the rights pertaining to each share class, are set out in Note 15 to the financial statements.

As at 14 March 2016, there were 138.30 million fully paid ordinary shares of £0.01 each in issue and listed on the Official List maintained by the FCA in its capacity as the UK Listing Authority.

The Company has one class of ordinary shares. Shareholders have the right to receive notice of and attend, speak and vote at any general meeting of the Company. Each shareholder who is present in person (or, being a corporation, by representative) or by proxy at a general meeting on a show of hands has one vote and, on a poll, every such holder present in person (or, being a corporation, by representative) or by proxy shall have one vote in respect of every ordinary share held by them. To be valid, the appointment of a proxy to vote at a general meeting must be received not less than 48 hours before the time appointed for holding the meeting. In addition, the holders of ordinary shares have the right to participate in dividends and other distributions according to their respective rights and interests in the 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 2015, shareholders authorised the Company to make on-market purchases of up to 13 826 980 of its ordinary shares, representing approximately 10% of the Company issued share capital at that time. During 2015, 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 2016 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 2016 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 69.

Directors' interests

No Director had, at any time during the year, a material interest in any contract of significance in relation to the Company's business. The interest of Directors in the shares of the Company is included in the Annual Report on Remuneration on pages 94 and 95.

Creditors' payment practice

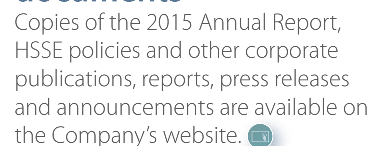
In view of the international nature of the Group's operations, there is no specific Group-wide policy in respect of payments to suppliers. Individual operating companies are responsible for agreeing terms and conditions for their business transactions and ensuring that suppliers are aware of the terms of payment. It is Group practice that payments are made in accordance with those terms, provided that all trading terms and conditions have been met by the supplier. Trade creditors at 31 December 2015 represented 53 days of the Company's annual purchases.

Subsequent events

Refer to Note 28 of the financial statements for details of events subsequent to the reporting date.

Electronic copies of documents

Copies of the 2015 Annual Report, HSSE policies and other corporate publications, reports, press releases and announcements are available on the Company's website.



Disclosure of information and auditor re-election

The lead audit partner is based in London, UK.

As required under section 418 of the Companies Act, 2006, to which the Directors have voluntarily elected to conform, each Director confirms that to the best of his knowledge and belief, there is no information relevant to the preparation of the 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 reappoint EY as the Company's auditors and to authorise the Board to determine the auditors' remuneration will be proposed at the 2016 AGM.

The Strategic Report, the Directors' Report and the Directors' Remuneration Report were approved by the Board on 14 March 2016.

By order of the Board

Glenn Turner
Company Secretary

14 March 2016

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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 of the Company and the undertakings included in the consolidation taken as a whole. In addition, suitable accounting policies have been selected and applied consistently.
Information, including accounting policies, has been presented in a manner that provides relevant, reliable, comparable and understandable information, and additional disclosures have been provided when compliance with the specific requirements in IFRS have been insufficient to enable users to understand the financial impact of particular transactions, other events and conditions on the Group's financial position and financial performance. Where necessary, the Directors have made judgements and estimates that are reasonable and prudent.

The Directors of the Company have elected to comply with the Companies Act 2006, in particular the requirements of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 of the United Kingdom pertaining to Directors' remuneration which would otherwise only apply to companies incorporated in the UK.

Michael Michael
Chief Financial Officer

14 March 2016

Independent Auditor's Report to the Members of Gem Diamonds Limited

This report is made solely to the Company's members, as a body, in accordance with the terms of our engagement letter dated 4 March 2016.

Our opinion on financial statements

In our opinion:

- the financial statements of Gem Diamonds Limited (the Group) give a true and fair view of the state of the Group's affairs as at 31 December 2015 and of its profit for the year then ended; and
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRS).

Opinion on other matters requested by the Group

In our opinion:

- the information given in the Corporate Governance Statement set out on page 62 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements;
- the information given in the Directors' Report and the Strategic Report is consistent with the Group financial statements; and
- the part of the Directors' Remuneration Report audited has been properly prepared in accordance with the basis of preparation as described therein.

What we have audited

We have audited the financial statements of Gem Diamonds Limited which comprise:
Consolidated statement of financial position as at 31 December 2015
Consolidated income statement for the year then ended
Consolidated statement of comprehensive income for the year then ended
Consolidated statement of changes in equity for the year then ended
Consolidated statement of cash flows for the year then ended
Related notes 1 to 28 to the financial statements

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS).

Overview of our audit approach

Risks of material misstatement	■ Revenue recognition ■ Key judgements relating to the production start date of the Ghaghoo mine ■ Assessing the Ghaghoo development asset for impairment
Audit scope	■ We performed an audit of the complete financial information of four components and audit procedures on specific balances for a further five components. ■ The components where we performed full or specific audit procedures accounted for 99% of pre-tax profit, 100% of revenue and 97% of total assets.
Materiality	■ Overall Group materiality of US$5.4 million which represents 5% of pre-tax profit.

Independent Auditor's Report to the Members of Gem Diamonds Limited continued

Our assessment of risk of material misstatement

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual areas.

Risk	Our response to the risk	What we concluded to the Audit Committee
Revenue recognition		
Refer to the Audit Committee Report (page 73); Note 1.2.23; and Note 2 of the Annual Financial Statements		
The Group recognised revenue of US$249.5 million in the year (2014: US$270.8 million). Diamonds are sold through the following revenue streams: ■ Rough diamonds sold on tender; ■ Selected diamonds sold through partnership arrangements; ■ Diamonds sold through joint operation arrangements; and ■ Diamonds extracted for purposes of own manufacturing and sold thereafter in polished form. We focused on this area due to the inherent risk related to the recognition and measurement of revenue, particularly on partnership arrangements and diamonds extracted for purposes of own manufacturing. For partnership arrangements, revenue is earned on the sale of the rough diamond, with an additional uplift recognised on the polished stone. Judgement is involved in determining when the risks and rewards of ownership transfer on rough diamond sales and also on the polished stone margin component. During the year, the Group entered into joint operation arrangements and therefore management undertook a review of this new revenue recognition practice and has updated its revenue policy as set out in Note 1.2.23. For diamonds extracted for purposes of own manufacturing, there is a risk related to the completeness of sales recognised through the extraction process in light of the polishing losses that result from the manufacturing process.	The component audit teams based in Belgium, Botswana, and Lesotho, with close oversight from the primary audit team performed procedures as follows: ■ We considered all diamond revenue streams as significant, and therefore, identified and observed controls around the revenue process in understanding management's internal processes and the control environment. ■ We verified management's recognition of revenue, covering all revenue streams of the Group. This involved agreeing revenue transactions to underlying agreements, invoices and supporting calculations. ■ For partnership arrangements and joint operation arrangements, we assessed and challenged as to when the risks and rewards transferred. We verified this to supporting agreements and documents; and ■ We performed cut-off testing at year end by selecting transactions close to the period end, and we reconciled inventory movements related to diamonds extracted for purposes of own manufacturing in validating the completeness of revenue. The primary audit team: ■ Evaluated the revenue recognition policy established for joint operation arrangements with respect to appropriateness and compliance with IFRS. ■ We performed full and specific scope audit procedures over revenue in three locations, which covered 100% of the risk amount.	Following our audit procedures on the underlying fact patterns and the analysis supporting management's conclusions, we agreed with the revenue recognition policy applied to the joint operation arrangements. We concluded that revenue recognised in the year is correct on the basis of our procedures performed both at group and by component audit teams.

Risk	Our response to the risk	What we concluded to the Audit Committee
Key judgements relating to the production start date of the Ghaghoo mine		
Refer to the Audit Committee Report (page 73) and Note 1.2.26 and Note 8 of the Annual Financial Statements		
We focused on this area due to the judgements applied by management in determining whether the Ghaghoo mine had reached production or continued to be in development stage during the year. Management determined that the Ghaghoo mine had not reached operations as intended by management in 2015 and was still in the development stage based on an assessment of key judgements and activity to date, including: ■ the level of capital expenditure compared to the construction costs estimates; ■ completion of a reasonable period of testing of the mine plant and equipment; ■ the ability to produce inventory in saleable form; and ■ the ability to sustain ongoing production of inventory.	The primary audit team performed audit procedures related to this risk as follows: ■ We challenged management's assessment that the development phase continued throughout 2015, including our assessment of the key judgements applied through comparison to our findings from other areas of our audit and the underlying fact patterns. ■ We assessed whether the production start date policy is appropriate and in accordance with IFRS and industry practice, including the adequacy of disclosures in the financial statements. ■ We also audited costs capitalised to the Ghaghoo mining project in accordance with IAS 16 by agreeing amounts to underlying documentation and validating that the capitalisation criteria was met.	Based on our evaluation of the development progress at the Ghaghoo mine and management's technical analysis, we agreed that the mine has yet to reach the production start date for accounting purposes. Through the audit testing performed by the component audit team, we concluded that the amount capitalised in the year to the Ghaghoo mine asset is appropriate.
Assessing the Ghaghoo development asset for impairment		
Refer to the Audit Committee Report (page 73) and Note 1.2.26 and Note 8 of the Annual Financial Statements		
We focused on this area due to the size of the Ghaghoo development asset of US$139.0 million (2014: US$112.2 million) and because of the judgements and estimates involved related to the expected future performance of the mine. In light of the low prices achieved to date and the increasing asset value, management considers these factors to have triggered an impairment test.	The primary audit team performed audit procedures on the Ghaghoo mine valuation model as follows: ■ We tested the methodology applied in the value-in-use calculation as compared to the requirements of IAS 36, *Impairment of Assets*, and the mathematical accuracy of management's model. ■ We obtained an understanding of and assessed the basis for key underlying assumptions in the mine's business plan. We challenged management's cash flows forecasting by considering evidence available to support assumptions for reasonableness. ■ We used EY internal valuations specialists to evaluate management's price and discount rate assumptions and performed sensitivity testing on these key assumptions. ■ We discussed with management, including operations personnel, and understood the future mine plan for the Ghaghoo asset in order to verify the reasonableness of assumptions in the valuation model; and ■ We considered the adequacy of the Group's disclosures in respect to the Ghaghoo impairment test within the critical accounting estimates and judgements within Note 1.	Following the audit procedures performed, it is evident that management's valuation model is highly sensitive to slight changes in the pricing and discount rate assumptions. We concluded that the result of the impairment test for the Ghaghoo development asset is complete and accurate and that the carrying value presented at 31 December 2015 is materially correct.

Independent Auditor's Report to the Members of Gem Diamonds Limited continued

In the prior year, our Auditor's Report included a risk of material misstatement in relation to impairment of property, plant and equipment and goodwill.

In the current year, we have continued to audit the Group's goodwill impairment test, and in light of the significant calculated headroom of US$342 million, we did not consider this to be a risk of material misstatement for our 2015 audit.

With respect to the risk of impairment of property, plant and equipment, we have focused our work in the current year on the risk of impairment on the Ghaghoo development asset.

The scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of group-wide controls, changes in the business environment and other factors when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 19 reporting components of the Group, we selected 15 components covering entities within Belgium, Botswana, Lesotho, Mauritius, South Africa, United Arab Emirates, and the United Kingdom, which represent the principal business units within the Group.

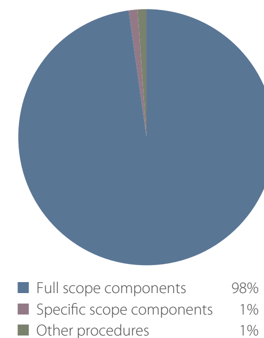
Of the 15 components selected, we performed an audit of the complete financial information of four components ('full scope components') which were selected based on their size or risk characteristics. For five components ('specific scope components'), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 99% (2014: 99%) of the Group's pre-tax profit, 100% (2014: 100%) of the Group's revenue and 97% (2014: 98%) of the Group's total assets. For the current year, the full scope components contributed 98% (2014: 98%) of the Group's pre-tax profit, 98% (2014: 98%) of the Group's revenue and 95% (2014: 71%) of the Group's total assets. The specific scope components contributed 1% (2014: 1%) of the Group's pre-tax profit, 2% (2014: 2%) of the Group's revenue and 2% (2014: 27%) of the Group's total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

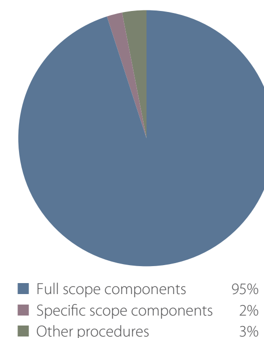
Of the remaining six components that together represent 1% of the Group's pre-tax profit, we performed other procedures, including analytical reviews, testing of consolidation journals and intercompany eliminations, and assessing entity level controls to respond to any potential risks of material misstatement to the Group financial statements.

The adjacent charts illustrate the coverage obtained from the work performed by our audit teams.

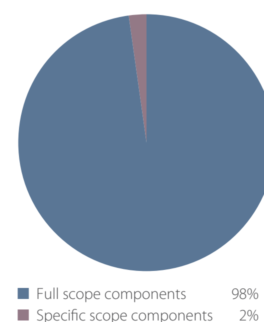
Pre-tax profit



Total assets



Revenue



Changes from the prior year

Our scope allocation in the current year is broadly consistent with 2014 in terms of overall coverage of the Group; however, we did make some changes in the identity of components subject to full and specific scope audit procedures. Changes in our scope since the 2014 audit included moving the Ghaghoo mine in Botswana from a specific scope to a full audit scope component due to the risks of material misstatement we identified for the location. We also brought the Mauritius operations into scope as a specific scope component in light of the Group's disposal of this business during the year.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. For the four full scope components, audit procedures were performed on two of these directly by the primary audit team and by our component audit teams in Botswana and Lesotho. For the five specific scope components, audit procedures were performed on two of these directly by the primary audit team. Of the three specific scope components where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

The Group audit team continued to follow a programme of planned visits that has been designed to ensure that the Senior Statutory Auditor visits each of the full scope locations at least once a year. During the current year's audit cycle, visits were undertaken by the primary audit team to the component teams in Belgium, Botswana, Lesotho and South Africa. The Global Team Planning Event was held in South Africa with representatives of the components from Botswana, Lesotho and South Africa all attending. The primary audit team also held a separate Team Planning Event with the component audit team in Belgium. Dependent on the timing of our visits, these involved discussion of the audit approach with the component team and any issues arising from their work, consideration of the approach to revenue recognition, and meeting with local management. The primary team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed key working papers, attended audit closing meetings, including discussions of fraud and error, and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality	US$5.4 million
Performance materiality	US$2.7 million
Reporting threshold	US$0.2 million

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be US$5.4 million (2014: US$4.7 million), which is 5% (2014: 5%) of pre-tax profit. We consider pre-tax profit provides us with the most relevant performance measure to the stakeholders of the entity given the production stage of the Group's Letšeng mine. Our planning materiality has increased by 15% compared to 2014 given the higher pre-tax profit recognised by the Group in 2015.

During the course of our audit, we reassessed initial materiality and changed our final materiality to reflect the actual reported performance of the Group in the year.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2014: 50%) of our planning materiality, namely US$2.7 million (2014: US$2.3 million). We have set performance materiality at this percentage due to our past experience of the audit.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was US$0.4 million to US$1.4 million (2014: US$0.4 million to US$1.6 million).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We have agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of US$0.2 million (2014: US$0.2 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

Independent Auditor's Report to the Members of Gem Diamonds Limited continued

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 102, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. In addition, the Company has also instructed us to:

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

Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Matters on which we are required to report by exception

ISAs (UK and Ireland) reporting	We are required to report to you if, in our opinion, financial and non-financial information in the Annual Report is: ■ materially inconsistent with the information in the audited financial statements; or ■ apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or ■ otherwise misleading. In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the directors' statement that they consider the Annual Report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy; and whether the annual report appropriately addresses those matters that we communicated to the Audit Committee that we consider should have been disclosed.	We have no exceptions to report.
Engagement letter requirements	The Company has instructed us to report, whether in our opinion: ■ adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or ■ the financial statements are not in agreement with the accounting records and returns; or ■ we have not received all the information and explanations we require for our audit; or ■ a Corporate Governance statement has not been prepared by the Company.	We have no exceptions to report.
Listing Rules review requirements	We are required to review: ■ the directors' statement in relation to going concern and longer-term viability, set out on page 98. This statement is specified for review by the Listing Rules of the Financial Conduct Authority for premium listed UK incorporated companies. ■ the part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.	We have no exceptions to report.

Statement on the directors' assessment of the principal risks that would threaten the solvency or liquidity of the entity

ISAs (UK and Ireland) reporting	We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to: ■ the directors' confirmation in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity; ■ the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated; ■ the directors' statement in the financial statements about whether they considered it appropriate to adopt the going-concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements; and ■ the directors' explanation in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Mirco Bardella
Senior Statutory Auditor
For and on behalf of Ernst & Young LLP
London

14 March 2016

Consolidated Income Statement

for the year ended 31 December 2015

	Notes	2015 US$'000 Before exceptional items	2015 US$'000 Exceptional Items	2015 US$'000 Total	2014* US$'000 Total
CONTINUING OPERATIONS					
Revenue	2	**249 475**	–	**249 475**	270 838
Cost of sales		**(122 483)**	–	**(122 483)**	(142 360)
Gross profit		**126 992**	–	**126 992**	128 478
Other operating income	3	**458**	**8 126**	**8 584**	134
Royalties and selling costs		**(21 929)**	–	**(21 929)**	(24 692)
Corporate expenses		**(11 941)**	–	**(11 941)**	(12 628)
Share-based payments	25	**(1 738)**	–	**(1 738)**	(1 740)
Foreign exchange gain	3	**6 997**	**1 472**	**8 469**	5 616
Operating profit	3	**98 839**	**9 598**	**108 437**	95 168
Net finance income	4	**120**	–	**120**	219
Finance income		**1 505**	–	**1 505**	3 430
Finance costs		**(1 385)**	–	**(1 385)**	(3 211)
Profit before tax for the year from continuing operations		**98 959**	**9 598**	**108 557**	95 387
Income tax expense	5	**(31 553)**	–	**(31 553)**	(35 005)
Profit for the year from continuing operations		**67 406**	**9 598**	**77 004**	60 382
DISCONTINUED OPERATION					
Profit/(loss) after tax for the year from discontinued operation	6	–	**668**	**668**	(2 435)
Profit for the year		**67 406**	**10 266**	**77 672**	57 947
Attributable to:					
Equity holders of parent		**41 759**	**10 266**	**52 025**	33 217
Non-controlling interests		**25 647**	–	**25 647**	24 730
Earnings per share (cents)	7				
– Basic earnings for the year attributable to ordinary equity holders of the parent		**30.2**	**7.4**	**37.6**	24.0
– Diluted earnings for the year attributable to ordinary equity holders of the parent		**29.9**	**7.3**	**37.2**	23.9

** The prior year figures have been restated for the reclassification impact of accounting for the discontinued operation (refer to Note 6, Disposal of subsidiary).*

Consolidated Statement of Comprehensive Income

	2015 US$'000	2014 US$'000
Profit for the year	**77 672**	57 947
Other comprehensive income that could be reclassified to the income statement in subsequent periods		
Exchange differences on translation of foreign operations	**(81 601)**	(37 307)
Recycling of exchange differences on discontinued operation	**(988)**	–
Other comprehensive (expense)/income for the year, net of tax	**(82 589)**	(37 307)
Total comprehensive (expense)/income for the year	**(4 917)**	20 640
Attributable to:		
Equity holders of the parent	**(15 586)**	2 908
Non-controlling interests	**10 669**	17 732
Total comprehensive (expense)/ income for the year, net of tax	**(4 917)**	20 640

Consolidated Statement of Financial Position

as at 31 December 2015

	Notes	**2015 US$'000**	2014 US$'000
Assets			
Non-current assets			
Property, plant and equipment	8	**339 367**	374 927
Investment property	9	**615**	615
Intangible assets	10	**13 510**	18 181
Receivables and other assets	12	**2 218**	2 877
Other financial assets		**4**	10
		355 714	396 610
Current assets			
Inventories	13	**30 288**	28 770
Receivables and other assets	12	**5 827**	7 598
Other financial assets		**6**	4
Income tax receivable		**269**	353
Cash and short-term deposits	14	**85 719**	110 738
		122 109	147 463
Total assets		**477 823**	544 073
Equity and liabilities			
Equity attributable to equity holders of the parent			
Issued capital	15	**1 383**	1 383
Share premium		**885 648**	885 648
Treasury shares[1]		**(1)**	(1)
Other reserves	15	**(163 420)**	(97 753)
Accumulated losses		**(439 764)**	(484 874)
		283 846	304 403
Non-controlling interests		**59 923**	61 014
Total equity		**343 769**	365 417
Non-current liabilities			
Interest-bearing loans and borrowings	16	**25 082**	7 261
Trade and other payables	17	**1 138**	1 274
Provisions	18	**12 473**	19 543
Deferred tax liabilities	20	**50 385**	57 467
		89 078	85 545
Current liabilities			
Interest-bearing loans and borrowings	16	**5 339**	29 841
Other financial liabilities	19	**–**	249
Trade and other payables	17	**32 228**	43 711
Income tax payable		**7 409**	19 310
		44 976	93 111
Total liabilities		**134 054**	178 656
Total equity and liabilities		**477 823**	544 073

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

Approved by the Board of Directors on 14 March 2016 and signed on their behalf by:

CT Elphick
Director

M Michael
Director

Consolidated Statement of Changes in Equity

	Issued capital[1] US$'000	Share premium[1] US$'000	Own shares[2] US$'000	Other reserves[1] US$'000	Accumulated (losses)/ retained earnings US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
				Attributable to the equity holders of the parent				
Balance at 1 January 2015	**1 383**	**885 648**	**(1)**	**(97 753)**	**(484 874)**	**304 403**	**61 014**	**365 417**
Profit for the year	**–**	**–**	**–**	**–**	**52 025**	**52 025**	**25 647**	**77 672**
Other comprehensive expense	**–**	**–**	**–**	**(67 611)**	**–**	**(67 611)**	**(14 978)**	**(82 589)**
Total comprehensive income/(expense)	**–**	**–**	**–**	**(67 611)**	**52 025**	**(15 586)**	**10 669**	**(4 917)**
Share-based payments (Note 25)	**–**	**–**	**–**	**1 944**	**–**	**1 944**	**–**	**1 944**
Dividends paid	**–**	**–**	**–**	**–**	**(6 915)**	**(6 915)**	**(11 760)**	**(18 675)**
Balance at 31 December 2015	**1 383**	**885 648**	**(1)**	**(163 420)**	**(439 764)**	**283 846**	**59 923**	**343 769**
Balance at 1 January 2014	1 383	885 648	(1)	(69 408)	(518 091)	299 531	70 879	370 410
Profit for the year	–	–	–	–	33 217	33 217	24 730	57 947
Other comprehensive expense	–	–	–	(30 309)	–	(30 309)	(6 998)	(37 307)
Total comprehensive income/(expense)	–	–	–	(30 309)	33 217	2 908	17 732	20 640
Share-based payments (Note 25)	–	–	–	1 964	–	1 964	–	1 964
Dividends paid	–	–	–	–	–	–	(27 597)	(27 597)
Balance at 31 December 2014	1 383	885 648	(1)	(97 753)	(484 874)	304 403	61 014	365 417

[1] *Refer to Note 15, Issued capital and reserves, for further detail.*
[2] *Being shares held by the Gem Diamonds Limited Employee Share Trust.*

Consolidated Statement of Cash Flows

for the year ended 31 December 2015

	Notes	2015 US$'000	2014 US$'000
Cash flows from operating activities		**119 103**	133 736
Cash generated by operations	21.1	**155 257**	153 577
Working capital adjustments	21.2	**(3 769)**	59
		151 488	153 636
Interest received		**1 762**	2 575
Interest paid		**(417)**	(521)
Income tax paid		**(33 730)**	(21 954)
Cash flows used in investing activities		**(109 605)**	(101 301)
Purchase of property, plant and equipment		**(48 562)**	(47 364)
Waste cost capitalised		**(61 416)**	(53 996)
Proceeds from sale of property, plant and equipment		**407**	59
Cash disposed of from disposal of subsidiary	21.3	**(34)**	–
Cash flows (used in)/from financing activities		**(23 057)**	10 309
Financial liabilities (repaid) / raised		**(4 384)**	37 906
Dividends paid to holders of the parent		**(6 913)**	–
Dividends paid to non-controlling interests		**(11 760)**	(27 597)
Net (decrease)/increase in cash and cash equivalents		**(13 559)**	42 744
Cash and cash equivalents at beginning of the year - continuing operations		**110 704**	71 140
Cash and cash equivalents at beginning of the year - discontinuing operation		**34**	38
Foreign exchange differences		**(11 460)**	(3 184)
Cash and cash equivalents at the end of the year held at banks		**83 165**	110 541
Restricted cash at the end of the year		**2 554**	163
Add: cash and equivalents of discontinued operation at end of year		**–**	34
Cash and cash equivalents at the end of the year	14	**85 719**	110 738

Notes to the Annual Financial Statements

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 BVI. The Company's registration number is 669758.

These financial statements were authorised for issue by the Board on 14 March 2016.

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

1.1.2 Operational information

The Company has the following investments directly in subsidiaries at 31 December 2015:

Name of company	Share-holding	Cost of investment[1]	Country of incorporation	Nature of business
Subsidiaries				
Gem Diamond Technical Services (Proprietary) Limited[2]	100%	US$17	RSA	Technical, financial and management consulting services.
Gem Equity Group Limited[2]	100%	US$52 277	BVI	Dormant investment company holding 1% in Gem Diamonds Botswana (Proprietary) Limited, 2% in Gem Diamonds Marketing Services BVBA, 1% in Baobab Technologies BVBA and 0.1% in Gem Diamonds Marketing Botswana (Proprietary) Limited.
Letšeng Diamonds (Proprietary) Limited[2]	70%	US$126 000 303	Lesotho	Diamond mining and holder of mining rights.
Gem Diamonds Botswana (Proprietary) Limited[2]	100%	US$27 752 144	Botswana	Diamond mining; evaluation and development; and holder of mining licences and concessions.
BDI Mining Corp[2]	100%	US$82 064 783	BVI	Dormant investment company.
Gem Diamonds Australia Holdings[2]	100%	US$293 960 521	Australia	Dormant investment company.
Gem Diamonds Investments Limited[2]	100%	US$17 531 316	UK	Investment holding company holding 100% in each of Gem Diamonds Technology (Mauritius) Limited[3], Gem Diamonds Technology DMCC and Calibrated Diamonds Investment Holdings (Proprietary) Limited; 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] On 30 June 2015 the Group sold the manufacturing facility in Gem Diamonds Technology (Mauritius) Limited. As a result, the trading results of the operation have been classified as part of discontinued operations (refer to Note 6, Disposal of subsidiary).

1.1.3 Segment information

For management purposes, the Group is organised into geographical units as its risks and required rates of return are affected predominantly by differences in the geographical regions of the mines and areas in which the Group operates. Other regions where no direct mining activities take place are organised into geographical regions in the areas where the operations are managed. The main geographical regions and the type of products and services from which each reporting segment derives its revenue from are:

- Lesotho (diamond mining activities);
- Botswana (diamond mining activities);
- Belgium (sales, marketing and manufacturing of diamonds);
- BVI, RSA and UK (technical and administrative services); and
- Mauritius (manufacturing of diamonds) – disposed of during the year.

Notes to the Annual Financial Statements continued

for the year ended 31 December 2015

1. Notes to the financial statements (continued)

1.1 Corporate information (continued)

1.1.3 Segment information (continued)

The Mauritius operation, which was disposed of during the year, was previously aggregated with the Belgium operations into one operating segment, as management monitored these two operations as one, due to the similarity of their services provided.

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.

Inter-segment transactions are entered into under normal arm's-length terms in a manner similar to transactions with third parties. Segment revenue, segment expenses and segment results include transactions between segments. Those transactions are eliminated on consolidation.

Segment revenue is derived from mining activities, polished manufacturing margins, and Group services.

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

Year ended 31 December 2015	Lesotho US$'000	Botswana US$'000	Belgium US$'000	BVI, RSA and UK US$'000	Total continuing operations	Discontinued operation	Total US$'000
Revenue							
Total revenue	236 357	–	263 490	9 788	509 635	85	509 720
Inter-segment	(235 183)	–	(15 696)	(9 281)	(260 160)	–	(260 160)
External Customers	1 174	–	247 794	507[1]	249 475	85	249 560
Depreciation and amortisation	56 497	–	615	362	57 474	117	57 591
Depreciation and mining asset amortisation	9 275	–	615	362	10 252	117	10 369
Waste stripping cost amortisation	47 222	–	–	–	47 222	–	47 222
Share-based equity transactions	489	–	–	1 249	1 738	–	1 738
Segment operating profit/(loss)	113 998	(1 864)	(1 281)	(2 416)	108 437	(1 002)	107 435
Net finance income					120	–	120
Profit/(loss) before tax					108 557	(1 002)	107 555
Income tax expense					(31 553)	–	(31 553)
Gain on disposal of subsidiary					–	1 670	1 670
Profit for the year					77 004	668	77 672
Segment assets	278 570	158 399	7 938	32 916	477 823	426	478 249
Segment liabilities	44 426	35 105	1 123	3 015	83 669	758	84 427
Other segment information						–	–
Capital expenditure							
- Property, plant and equipment[2]	10 206	19 871	374	2 337	32 788	–	32 788
- Waste cost capitalised	61 416	–	–	–	61 416	–	61 416
- Operating expenses capitalised	–	14 260	–	–	14 260		14 260
Total capital expenditure	71 622	34 131	374	2 337	108 464	–	108 464

[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 and Botswana segments and capitalisation of share-based payments for the Botswana 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 a single customer which amounted to US$46.7 million arising from sales reported in the Lesotho and Belgium segment.

Segment liabilities do not include deferred tax liabilities of US$50.4 million.

Total sales for the current year are lower than that of the prior year mainly as a result of the current market conditions and lower diamond prices achieved at the Lesotho segment, together with lower number of carats sold due to production cut-off periods.

Year ended 31 December 2014	Lesotho US$'000	Botswana US$'000	Belgium US$'000	BVI, RSA and UK US$'000	Total continuing operations	Discontinued operations	Total US$'000
Revenue							
Total revenue	277 908	–	272 169	8 877	558 954	52	559 006
Inter-segment	(276 429)	–	(3 141)	(8 546)	(288 116)	–	(288 116)
External customers	1 479	–	269 028	331[1]	270 838	52	270 890
Results							
Depreciation and amortisation	62 800	–	719	607	64 126	344	64 470
Depreciation and mining asset amortisation	13 488	–	719	607	14 814	344	15 158
Waste stripping cost amortised	49 312	–	–	–	49 312	–	49 312
Share-based equity transactions	488	–	–	1 252	1 740	–	1 740
Segment operating profit/(loss)	107 527	(75)	480	(12 764)	95 168	(2 457)	92 711
Net finance income					219	–	219
Profit before tax					95 387	(2 457)	92 930
Income tax expense					(35 005)	22	(34 983)
Profit for the year					60 382	(2 435)	57 947
Segment assets	321 464	139 987	6 552	75 192	543 195	878	544 073
Segment liabilities	68 212	9 304	939	42 705	121 160	29	121 189
Other segment information							
Capital expenditure							
– Property, plant and equipment[2]	7 720	42 086	92	40	49 938	–	49 938
– Waste cost capitalised	51 484	–	–	–	51 484	–	51 484
Total capital expenditure	59 204	42 086	92	40	101 422	–	101 422

[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 and Botswana segments and capitalisation of share-based payments for the Botswana segment.*

Segment liabilities do not include deferred tax liabilities of US$57.5 million.

Notes to the Annual Financial Statements continued

for the year ended 31 December 2015

1. Notes to the financial statements (continued)

1.2 Summary of significant accounting policies

1.2.1 Basis of presentation

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

The functional currency of the Company and certain of its subsidiaries is US dollar, which is the currency of the primary economic environment in which the entities operate. All amounts are expressed in US dollar. The financial statements of subsidiaries whose functional and reporting currency is in currencies other than US dollar have been converted into US dollar on the basis as set out in Note 1.2.16, Foreign currency translations.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 1.2.26, Critical accounting estimates and judgements.

The Group has also adopted the following standards and interpretations from 1 January 2015:

Investment Entities – *Amendments to IFRS 10, IFRS 12 and IAS 27*

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 *Consolidated Financial Statements* and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Group as none of the entities in the Group qualify to be an investment entity under IFRS 10.

***Amendments to IAS 19* Defined Benefit Plans: Employee Contributions**

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. This amendment is not relevant to the Group, since none of the entities within the Group have defined benefit plans with contributions from employees or third parties.

Standards issued but not effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards if applicable when they become effective.

1. Notes to the financial statements (continued)

1.2 Summary of significant accounting policies (continued)

1.2.1 Basis of presentation (continued)

Standard or interpretation			Effective date*
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 will assess the impact prior to effective date.	1 January 2019
IFRS 9	*Financial Instruments*	Classification and measurement of financial assets and financial liabilities as defined in IAS 39. The Group is still currently assessing the impact.	1 January 2018
IFRS 15	*Revenue from Contracts with Customer*	The new revenue standard introduces a single, principles-based, five-step model for the recognition of revenue when control of a good or service is transferred to the customer. The Group is still currently assessing the impact.	1 January 2017
IFRS 14	*Regulatory Deferral Accounts*	IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. The Group's activities are currently not subject to rate regulation and therefore this standard does not apply to the Group. Should the Group's activities change in this regard, the Group will assess the impact at that time.	1 January 2016
IAS 16/IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*	The amendments clarify the principle in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* that revenue reflects a pattern of economic benefits that are generated from operating a business rather than the economic benefits that are consumed through use of an asset. As such, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. As this revenue ratio is not currently used as a method of depreciation, it is anticipated that this standard will not impact the Group. Should the Group's policies change in this regard, the Group will assess the impact at that time.	1 January 2016
IFRS 10, IFRS 12 and IAS 28	*Applying the Consolidation Exception Amendments*	The amendments to IFRS 10 clarify that the exemption in IFRS 10.4 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures its subsidiaries at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. The Group is still currently assessing the impact.	1 January 2016
IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The Group is still currently assessing the impact.	1 January 2016
IFRS 11	*Accounting for Acquisitions of interest in Joint Operations*	The amendments require an entity acquiring an interest in a joint operation, in which the activity of the joint operation constitutes a business, to apply, to the extent of its share, all of the principles and disclosure in IFRS 3 and other IFRS that do not conflict with the requirements of IFRS 11. The Group is still currently assessing the impact.	1 January 2016
IAS 27	*Equity Method in Separate Financial Statements*	The amendments to IAS 27 allow an entity to use the equity method as described in IAS 28 to account for its investments in subsidiaries, joint ventures and associates in its separate financial statements. Therefore, an entity must account for these investments either at cost or in accordance with IFRS 9 (or IAS 39) or using the equity method. The Group is still currently assessing the impact.	1 January 2016

**Annual periods beginning on or after.*

Notes to the Annual Financial Statements continued

for the year ended 31 December 2015

1. Notes to the financial statements (continued)

1.2 Summary of significant accounting policies (continued)

1.2.1 Basis of presentation (continued)

Business environment and country risk

The Group's operations are subject to country risk being the economic, political and social risks inherent in doing business in certain areas of Africa and Europe. These risks include matters arising out of the policies of the government, economic conditions, imposition of or changes to taxes and regulations, foreign exchange rate fluctuations and the enforceability of contract rights.

The consolidated financial information reflects management's assessment of the impact of these business environments on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

1.2.2 Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Review on pages 36 to 41 and pages 46 to 48. The financial position of the Company, its cash flows and liquidity position are described in the Strategic Review on pages 30 to 33. In addition, Note 24, Financial risk management, includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

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

These financial statements have been prepared on a going-concern basis which assumes that the Group will be able to meet its liabilities as they fall due for the foreseeable future.

Refer to Note 24, Financial risk management, for statements on the Company's objectives, policies and processes for managing its capital; details of its financial instruments and hedging activities; its exposures to market risk in relation to diamond prices and foreign exchange risks; cash flow interest rate risk; credit risk; and liquidity risk.

1.2.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company.

Subsidiaries

Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three following criteria must be met, being:

(a) an investor has power over an investee;

(b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and

(c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns.

The financial statements of subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting year as the parent company and are based on consistent accounting policies. All intra-group balances and transactions, including unrealised profits arising from them, are eliminated in full.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it (i) derecognises the assets (including goodwill) and liabilities of the subsidiary; (ii) derecognises the carrying amount of any non-controlling interest; (iii) derecognises the cumulative translation differences, recorded in equity; (iv) recognises the fair value of the consideration received; (v) recognises the fair value of any investment retained; (vi) recognises any surplus or deficit in profit or loss; and (vii) reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

1. Notes to the financial statements (continued)

1.2 Summary of significant accounting policies (continued)

1.2.3 Basis of consolidation (continued)

Non-controlling interests

Non-controlling interests represent the equity in a subsidiary not attributable, directly 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 underway as planned.

1.2.5 Development expenditure

When proved reserves are determined and development is sanctioned, capitalised exploration and evaluation expenditure is reclassified within property, plant and equipment to development expenditure. As the asset is not available for use, during the development phase, it is not depreciated. On completion of the development, any capitalised exploration and evaluation expenditure already capitalised to development expenditure, together with the subsequent development expenditure, is reclassified within property, plant and equipment to mining assets and depreciated on the basis as laid out in Note 1.2.6, Property, plant and equipment.

All development expenditure is monitored for indicators of impairment annually.

Notes to the Annual Financial Statements continued

for the year ended 31 December 2015

1. Notes to the financial statements (continued)

1.2 Summary of significant accounting policies (continued)

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
Finance lease assets	Straight line	Lesser of period of lease or five years
Other assets	Straight line	Two to five years

Pre-production stripping costs

The capitalisation of pre-production stripping costs as part of exploration and development assets ceases when the mine is commissioned and ready for production. Subsequent stripping activities that are undertaken during the production phase of a surface mine may create two benefits, being either the production of inventory or improved access to the ore to be mined in the future. Where the benefits are realised in the form of inventory produced in the period, the production stripping costs are accounted for as part of the cost of producing those inventories. Where production stripping costs are incurred and where the benefit is the creation of mining flexibility and improved access to ore to be mined in the future, the costs are recognised as a non-current asset, referred to as a 'stripping activity asset', if:

(a) future economic benefits (being improved access to the ore body) are probable;

(b) the component of the ore body 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 8, Property, plant and equipment. If all the criteria are not met, the production stripping costs are charged to the income statement as operating costs. The stripping activity asset is initially measured at cost, which is the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component of ore, plus an allocation of directly attributable overhead costs. If incidental operations are occurring at the same time as the production stripping activity, but are not necessary for the production stripping activity to continue as planned, these costs are not included in the cost of the stripping activity asset. If the costs of the stripping activity asset and the inventory produced are not separately identifiable, a relevant production measure is used to allocate the production stripping costs between the inventory produced and the stripping activity asset. The stripping activity asset is subsequently amortised over the expected useful life of the identified component of the orebody that became more accessible as a result of the stripping activity. Based on proven and probable reserves, the expected average stripping ratio over the average life of the area being mined is used to amortise the stripping activity. As a result, the stripping activity asset is carried at cost less amortisation and any impairment losses.

1. Notes to the financial statements (continued)

1.2 Summary of significant accounting policies (continued)

1.2.6 Property, plant and equipment (continued)

The average life of area cost per tonne is calculated as the total expected costs to be incurred to mine the ore body divided by the number of tonnes expected to be mined. The average life of area stripping ratio and the average life of area cost per tonne are recalculated annually in light of additional knowledge and changes in estimates. Changes in the stripping ratio are accounted for prospectively as a change in estimate.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount of the asset. These are included in the income statement.

1.2.7 Investment property

Investment property is initially recognised using the cost model. Subsequent recognition is at cost less accumulated depreciation, and less any accumulated impairment losses. Rental income from investment property is recognised on a straight-line basis over the term of the lease. Initial direct costs incurred in negotiating and arranging the lease are capitalised to investment property and depreciated over the lease term. Depreciation is calculated as follows:

Item	Method	Useful life
Investment property	No depreciation is provided due to depreciable amount being zero	
Initial direct costs capitalised to investment property	Straight line	Five years

1.2.8 Business combinations, goodwill and other intangible assets

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. The choice of measurement of non-controlling interest, either at fair value or at the proportionate share of the acquiree's identifiable net assets, is determined on a transaction-by-transaction basis. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IFRS 13 in the income statement. If the contingent consideration is classified as equity, it will not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the acquisition date fair value of the consideration transferred and the amount recognised for the non-controlling interest (and where the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree) over the net identifiable amounts of the assets acquired and the liabilities assumed in exchange for the business combination. Assets acquired and liabilities assumed in transactions separate to the business combinations, such as the settlement of pre-existing relationships or post-acquisition remuneration arrangements are accounted for separately from the business combination in accordance with their nature and applicable IFRS. Identifiable intangible assets, meeting either the contractual legal or separability criterion are recognised separately from goodwill. Contingent liabilities representing a present obligation are recognised if the acquisition date fair value can be measured reliably.

Notes to the Annual Financial Statements continued

for the year ended 31 December 2015

1. Notes to the financial statements (continued)

1.2 Summary of significant accounting policies (continued)

1.2.8 Business combinations, goodwill and other intangible assets (continued)

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.

Concessions and licences

Concessions and licences are shown at cost. Concessions and licences have a finite useful life and are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of concessions and licences over the shorter of the life of mine or term of the licence once production commences.

1.2.9 Other financial assets

Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date. Currently the Group only has financial assets at fair value through profit or loss, and loans and receivables.

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

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss. Upon initial recognition, a financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Gains and losses on investments held for trading are recognised in profit or loss. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the reporting date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except those with maturities greater than 12 months after the reporting date. These are classified as non-current assets. Such assets are carried at amortised cost using the effective interest rate method, less any allowance for impairment, if the time value of money is significant. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at an appropriate interest rate. The amount of the provision is recognised in the income statement.

1. 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 1.2.24, Finance costs, over the period of the borrowings, using the effective interest rate method.

Bank overdrafts are recognised at amortised cost.

Fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on liabilities held for trading are recognised in the income statement.

1.2.11 Fair value measurement

The Group measures financial instruments at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

1.2.11 Fair value measurement (continued)

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.

Notes to the Annual Financial Statements continued

for the year ended 31 December 2015

1. Notes to the financial statements (continued)

1.2 Summary of significant accounting policies (continued)

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.

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. Notes to the financial statements (continued)

1.2 Summary of significant accounting policies (continued)

1.2.14 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at amortised cost. Cash and cash equivalents comprise cash on hand, deposits held at call with banks, 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 15, 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.

1.2.17 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.

Notes to the Annual Financial Statements continued

for the year ended 31 December 2015

1. Notes to the financial statements (continued)

1.2 Summary of significant accounting policies (continued)

1.2.17 Share-based payments (continued)

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 1.2.26, 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.

1.2.19 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. Notes to the financial statements (continued)

1.2 Summary of significant accounting policies (continued)

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.

1.2.21 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.

Notes to the Annual Financial Statements continued

for the year ended 31 December 2015

1. Notes to the financial statements (continued)

1.2 Summary of significant accounting policies (continued)

1.2.22 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;

(b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;

(c) there is a change in the determination of whether fulfilment is dependent on a specific asset; or

(d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) and at the date of renewal or extension period for scenario (b).

Group as a lessee

Leases of property, plant and equipment where the Group has, substantially, all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding lease obligations, net of finance charges, are included in financial liabilities.

The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each year. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. When the Group is a party to a lease where there is a contingent rental element associated within the agreement, a cost is recognised as and when the contingency materialises.

Group as a lessor

Assets leased out under operating leases are included in investment property. Rental income is recognised on a straight-line basis over the lease term. Refer to Note 1.2.7, Investment property, for further information on the treatment of investment property.

1.2.23 Revenue

Revenue is measured at fair value of the consideration received or receivable and comprises the fair value for the sale of goods, net of value added tax, rebates and discounts and after eliminated sales within the Group. Revenue is recognised as follows:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer and can be measured reliably and receipt of future economic benefits is probable.

The following revenue streams are recognised:

- rough diamonds which are made through competitive tender processes, partnership agreements and joint operation arrangements;
- polished diamonds and other products which are made through direct sale transactions;
- additional uplift on partnership arrangements; and
- additional uplift joint operation arrangements.

1. Notes to the financial statements (continued)

1.2 Summary of significant accounting policies (continued)

1.2.23 Revenue (continued)

Revenue through joint operation arrangements is recognised for the sale of the rough diamond according to the percentage interest in the joint operation arrangement, as only that percentage of significant risks and rewards pass at the time of sale. Contractual agreements are entered into between the Group and the joint operation partner (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 joint operation arrangement. For more detail on how these arrangements have been included in the financial statements refer to Note 2, Revenue and 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 the significant risks and rewards have passed to the third party. For additional uplift on partnership arrangements, certain estimates and judgements are made by management as referred to under policy 1.2.26, Critical accounting estimates and judgements.

Rendering of service

Sales of services relating to third-party diamond manufacturing, are recognised in the accounting period in which the services are rendered, and it is probable that the economic benefits associated with the transaction will flow to the entity, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Interest income

Interest income is recognised on a time-proportion basis using the effective interest rate method.

Dividends

Dividends are recognised when the amount of the dividend can be reliably measured and the Group's right to receive payment is established.

1.2.24 Finance costs

Finance costs are generally expensed as incurred, except where they relate to the financing of construction or development of qualifying assets requiring a substantial period of time to prepare for their intended future use. Finance costs are capitalised up to the date when the asset is ready for its intended use.

1.2.25 Dividend distribution

Dividend distributions to the Group's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Group's shareholders.

1.2.26 Critical accounting estimates and judgements

The preparation of the consolidated financial statements requires management to make estimates and judgements and form assumptions that affect the reported amounts of the assets and liabilities, the reported revenue and costs during the periods presented therein, and the disclosure of contingent liabilities at the date of the financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future and the resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the financial results or the financial position reported in future periods are discussed below.

Notes to the Annual Financial Statements continued

for the year ended 31 December 2015

1. Notes to the financial statements (continued)

1.2 Summary of significant accounting policies (continued)

1.2.26 Critical accounting estimates and judgements (continued)

Life of mine

There are numerous uncertainties inherent in estimating ore reserves and the associated life of mine. Therefore the Group must make a number of assumptions in making those estimations, including assumptions as to the prices of commodities, exchange rates, production costs and recovery rates. Assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of ore reserves and may, ultimately, result in the ore reserves being restated. Where assumptions change the life of mine estimates, the associated depreciation rates, residual values, waste stripping and amortisation ratios, and environmental provisions are reassessed to take into account the revised life of mine estimate. Refer to Note 8, Property, plant and equipment.

Exploration and evaluation expenditure

This policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether economically viable extraction operations are viable where reserves have been discovered and whether indications of impairment exist. Any such estimates and assumptions may change as new information becomes available. Refer to Note 8, Property, plant and equipment.

Development expenditure

Judgement is applied by management in determining when a project has reached a stage at which economically recoverable reserves exist and that development may be sanctioned. Management is required to make certain estimates and assumptions similar to those described above for capitalised exploration and evaluation expenditure. Refer to Note 8, Property, plant and equipment.

Revenue – partnership arrangements

Management has entered into partnership arrangements to increase the revenue earned on the sale of rough diamonds. Under these arrangements, revenue is earned for the sale of the rough diamond, with an additional uplift based on the polished margin achieved. Management recognises the revenue on the sale of the rough diamond at the point at which it is sold to the third party, as there is no continuing involvement by management in the cutting and polishing process and the significant risks and rewards have passed to the third party. Judgement is applied by management in determining when additional uplift is recognised and measured with regard to rough diamonds sold into partnership arrangements. Management is required to make certain estimates and assumptions based on when the uplift can be reliably measured. This occurs when the third party sells these goods, at which point in time the value of the final polished goods are determined. Refer to Note 2, Revenue.

Impairment reviews

The Group determines if goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating unit to which the goodwill relates. Recoverable amount is the higher of fair value less costs to sell and value in use.

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 life of mine (LoM) plans, production costs and macroeconomic 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 Group has performed impairment testing, which is on an annual basis for all significant operations and when there are potential indicators which may require impairment review. The results of the impairment testing performed did not indicate any impairments on the mining operations.

1. Notes to the financial statements (continued)

1.2 Summary of significant accounting policies (continued)

1.2.26 Critical accounting estimates and judgements (continued)

The key assumptions used in the recoverable amount calculations, determined on a value-in-use basis, are listed in the table below:

Valuation basis

Discounted present value of future cash flows.

LoM and recoverable value of reserves and resources

Economically recoverable reserves and resources 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 plans and current lease periods have not been included in determining the value in use of the operations.

LoM – capital expenditure

Management has estimated the timing and quantum of the capital expenditure based on the Group's current LoM plans for each operation.

Diamond prices

The diamond prices used in the impairment test have been set with reference to recent prices achieved, Group's medium-term forecast and market trends; and long-term diamond price escalation reflect the Group's assessment of market supply/demand fundamentals.

Discount rate

The discount rate of 12.0% used for Letšeng and 13.1% for Ghaghoo, in both instances represents the before-tax risk-free rate adjusted for market risk, volatility and risks specific to the asset and its operating jurisdiction.

Cost inflation rate

Long-term inflation rates of 4% to 6% above the long-term US dollar inflation rate were used for operating costs and capital cost escalators.

Exchange rates

Exchange rates are estimated based on an assessment of current market fundamentals and long-term expectations. The US$/LSL and US$/BWP exchange rate range used commenced at LSL15.50 and BWP11.25 respectively, devaluing over the period in line with economic forecasts provided by independent, third party experts.

Sensitivity

The value in use for Letšeng indicated sufficient headroom, and no reasonable change in the key assumptions will result in an impairment.

The value in use for Ghaghoo exceeded the carrying value, however based on the current prices achieved for the Ghaghoo production; this value does not reflect significant headroom. The diamond prices used in the impairment review have been set with reference to recent achieved prices and market trends. The long-term escalators reflect the Group's assessment of market supply/demand fundamentals, although short-term volatility remains present within the market. Although the value in use exceeds the carrying value, it remains highly sensitive to rough diamond prices and escalation rates.

Market capitalisation

The Group has made a judgement in determining if, in the instance where the Group's asset carrying values, result in an indicator of impairment. The Group believes that the capitalisation position does not represent an impairment as all significant operations were assessed during the year and no impairments were recognised.

Refer to Note 11, Impairment testing, for further detail.

Provision for restoration and rehabilitation

Significant estimates and assumptions are made in determining the amount of the restoration and rehabilitation provisions. These deal with uncertainties such as changes to the legal and regulatory framework, magnitude of possible contamination, and the timing, extent and costs of required restoration and rehabilitation activity. Refer to Note 18, Provisions, for further detail.

Notes to the Annual Financial Statements continued

for the year ended 31 December 2015

1. Notes to the financial statements (continued)

1.2 Summary of significant accounting policies (continued)

1.2.26 Critical accounting estimates and judgements (continued)

Taxation

The determination of the Group's obligations and expense for taxes requires an interpretation of tax law and therefore certain assumptions and estimates are made. Refer to Note 5, Income tax, for further detail.

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 ore body needs to be identified in its various separately identifiable components. An identifiable component is a specific volume of the ore body 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 ore body 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 ore body, 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 8, Property, plant and equipment, for further detail.

Stripping ratio

Estimated recoverable reserves are used in determining the amortisation of mine-specific assets. Amortisation is calculated by using the expected average stripping ratio over the average life of the area being mined. The average stripping ratio is calculated as the number of tonnes of waste material expected to be removed during the life of area, per tonne of ore mined. The average life of area cost per tonne is calculated as the total expected costs to be incurred to mine the ore body 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. Refer to Note 8, Property, plant and equipment, for further detail.

Production start date

The phase of each mine construction project is assessed to determine when a mine moves into the production phase. The criteria used to assess the start date are determined by the unique nature of each mine's construction project and include factors such as the complexity of a plant and its location. Various relevant criteria are considered to assess when the mine is substantially complete and ready for its intended use and moves into the production phase. At this point, all related amounts are reclassified from 'exploration and development assets' to 'mining assets', 'stripping activity asset' and/or 'property, plant and equipment'. Some of the criteria would include but are not limited to the following:

- the level of capital expenditure compared to the construction costs estimates;
- completion of a reasonable period of testing of the mine plant and equipment;
- ability to produce inventory in saleable form; and
- ability to sustain ongoing production of inventory.

Refer to Note 8, Property, plant and equipment, for further detail.

Notes to the annual financial statements continued

for the year ended 31 December 2015

1. Notes to the financial statements (continued)

1.2 Summary of significant accounting policies (continued)

1.2.26 Critical accounting estimates and judgements (continued)

Production start date (continued)

When a mine construction project moves into the production phase, the capitalisation of certain mine construction costs ceases and costs are either regarded as inventory or expensed, except for capitalisable costs related to mining asset additions or improvements, production phase stripping costs capitalisable as stripping activity asset(s), and exploration expenditure that meets the criteria for capitalisation. It is also at this point that depreciation/amortisation commences.

Management made the key judgement that the Ghaghoo mine had not reached production start date during the year based on the following:

- Water ingress from the bassalt fissure which was sealed during the later part of the year, together with continued difficult ground conditions experienced, delayed the anticipated ramp-up in production to steady state levels.
- Inconsistent feed rates to the plant did not allow the commissioning process to progress to its intended production state.

As a result, the mine was not in the condition necessary for it to be capable of operating in the manner intended by management on a sustainable basis and therefore the mine remained in its construction phase with all costs incurred during the year being capitalised to the exploration and development asset category of Note 8, Property, plant and equipment.

Share-based payments

Judgement is applied by management in determining whether the share options relating to employees who resigned before the end of the service condition period have been cancelled or forfeited in light of their leaving status. Where employees do not meet the requirements of a good leaver as per the rules of the long-term incentive plan (LTIP), no award will vest and this will be treated as cancellation by forfeiture. The expenses relating to these charges previously recognised are then reversed. Where employees do meet the requirements of a good leaver as per the rules of the LTIP, some or all of an award will vest and this will be treated as a modification to the original award. The future expenses relating to these awards are accelerated and recognised as an expense immediately. Refer to Note 25, Share-based payments, for further detail.

1.2.27 Exceptional items

The Group presents as exceptional items on the face of the income statement, those material items of income and expenses which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better trends in financial performance. Refer to Note 3, Operating profit, for further detail.

Notes to the annual financial statements continued

for the year ended 31 December 2015

2. Revenue

	2015 US$'000	2014* US$'000
Sale of goods	**248 969**	269 818
Rendering of services	**506**	1 020
	249 475	270 838

** The prior year figures have been restated for the reclassification impact of accounting for discontinued operations (refer to Note 6, Disposal of subsidiary).*

Included in revenue is sales of rough and polished diamonds sold through joint operation arrangements totalling US$2.2 million and US$0.2 million respectively.

Finance income is reflected in Note 4, Net finance income.

3. Operating profit

	2015 US$'000	2014* US$'000
Operating profit includes the following:		
Other operating income		
Profit on disposal of property, plant and equipment	**251**	49
Depreciation and amortisation		
Depreciation and mining asset amortisation – continuing operations	**(13 057)**	(16 646)
Depreciation – discontinued operation	**(117)**	(345)
Waste stripping costs amortised	**(47 222)**	(49 312)
	(60 396)	(66 303)
Less: Depreciation capitalised to development	**2 738**	1 957
Less: Depreciation and mining asset amortisation capitalised to inventory	**224**	33
	(57 434)	(64 313)
Amortisation of intangible assets	**(157)**	(157)
	(57 591)	(64 470)
Inventories		
Cost of inventories recognised as an expense	**(111 969)**	(129 195)
Exceptional items		
Other operating income	**8 126**	–
Foreign exchange gain	**1 472**	–
	9 598	–

In December 2015, the Company settled an interest-bearing tax liability for an amount less than that previously provided for (refer to Note 17, Trade and other payables), resulting in the reversal of accrued expenses of US$8.1 million. This reversal has been disclosed as other income. In addition, the interest-bearing tax liability was payable in Australian dollars, resulting in a foreign exchange gain of US$1.5 million being recognised in the consolidated financial statements.

	2015 US$'000	2014* US$'000
Foreign exchange gain		
Foreign exchange gain	**7 314**	5 882
Mark-to-market revaluations on forward exchange contracts	**1 155**	(266)
	8 469	5 616

** The prior year figures have been restated for the reclassification impact of accounting for the discontinued operation (refer to Note 6, Disposal of subsidiary).*

3. Operating profit (continued)

	2015 US$'000	2014* US$'000
Operating lease expenses as a lessee		
Mine site property	**(112)**	(90)
Equipment and service leases	**(51 147)**	(39 535)
Contingent rental – Alluvial Ventures	**(11 360)**	(8 489)
Leased premises	**(2 509)**	(2 694)
	(65 128)	(50 808)
Auditor's remuneration – Ernst & Young		
Group financial statements	**(555)**	(443)
Statutory	**(154)**	(172)
	(709)	(615)
Auditor's remuneration – other		
Statutory	**(34)**	(25)
	(34)	(25)
Other non-audit fees – Ernst & Young		
Tax services advisory and consultancy	**(32)**	(13)
Corporate finance services	**–**	–
Tax compliance services	**(17)**	(11)
Other services	**(38)**	(42)
Other assurance services	**(134)**	(151)
	(221)	(217)
Other non-audit fees – other		
Internal audit	**(29)**	(356)
Tax services advisory and consultancy	**(16)**	(101)
	(45)	(457)
Employee benefits expense		
Salaries and wages[1]	**(21 784)**	(20 864)
Underlying earnings before interest, tax, depreciation and mining asset amortisation (underlying EBITDA)		
Underlying EBITDA is shown, as the Directors consider this measure to be a relevant guide to the performance of the Group. The reconciliation from operating profit to underlying EBITDA is as follows:		
Operating profit	**108 437**	95 168
Other operating income	**(8 584)**	(134)
Foreign exchange gain	**(8 469)**	(5 616)
Share-based payments	**1 738**	1 740
Depreciation and mining asset amortisation (excluding waste stripping cost amortised)	**10 424**	14 812
Underlying EBITDA	**103 546**	105 970

** The prior year figures have been restated for the reclassification impact of accounting for the discontinued operation (refer to Note 6, Disposal of subsidiary).*

[1] Includes contributions to defined contribution plan of US$0.6 million (31 December 2014: US$0.8 million).

Notes to the annual financial statements continued

for the year ended 31 December 2015

4. Net finance income

	2015 US$'000	2014 US$'000
Finance income		
Bank deposits	**1 098**	2 575
Other	**407**	855
Total finance income	**1 505**	3 430
Finance costs		
Bank overdraft	**(82)**	(116)
Interest on debt, borrowings and trade and other payables[1]	**(335)**	(2 029)
Finance costs on unwinding of rehabilitation provision	**(968)**	(1 066)
Total finance costs	**(1 385)**	(3 211)
	120	219

[1] Included in interest on debt, borrowings and trade and other payables in the prior year, was a provision for interest on potential tax liabilities which were under dispute. This tax liability was settled during the current year and all interest waived.

5. Income tax

	2015 US$'000	2014* US$'000
Income tax expense		
Income statement		
Current		
– Overseas	**(22 209)**	(30 626)
Withholding tax		
– Overseas	**(2 858)**	(6 565)
Deferred		
– Overseas	**(6 486)**	2 186
	(31 553)	(35 005)
Profit before taxation	**108 557**	95 387
Reconciliation of tax rate	**%**	%
Applicable income tax rate	**20.3**	21.5
Permanent differences	**(1.9)**	4.0
Unrecognised deferred tax assets	**3.6**	1.1
Effect of overseas tax at different rates	**4.5**	4.0
Withholding tax	**2.6**	7.1
Effective income tax rate	**29.1**	37.7

** The prior year figures have been restated for the reclassification impact of accounting for the discontinued operation (refer to Note 6, Disposal of subsidiary).*

Included in permanent differences is income from exceptional items. For more information on this refer to Note 3, Operating profit. During the year the UK Corporate Tax Rate changed to 20.3% (2014: 21.5%).

6. Disposal of subsidiary

In 2012, the Group established a small manufacturing facility in Mauritius through Gem Diamonds Technology Mauritius (Proprietary) Limited. On 30 June 2015 the Group sold its manufacturing business. As a result, the trading results of the operation have been classified as part of discontinued operations. The net assets have been derecognised and the subsidiary has therefore been deconsolidated from this date.

The sale was finalised for the agreed purchase price of US$0.4 million, to be paid in quarterly instalments of a minimum of US$50 000 commencing in October 2016. The Group retained a cession over the shares of Gem Diamonds Technology Mauritius (Proprietary) Limited as security for the due, proper and timeous payment of the deferred proceeds. The consideration receivable has been included in non-current and current receivables and other assets (refer to Note 12, Receivables and other assets).

The results of the Mauritius operation are as follows:

	31 December 2015 US$'000	31 December 2014 US$'000
Revenue	**85**	52
Cost of sales and other operating costs	**(443)**	(2 134)
Gross loss	**(358)**	(2 082)
Foreign exchange loss	**(644)**	(375)
Operating loss	**(1 002)**	(2 457)
Gain on disposal of subsidiary	**1 670**	–
Profit/(loss) before tax from discontinued operation	**668**	(2 457)
Income tax expense	**–**	22
Profit/(loss) after tax from discontinued operation	**668**	(2 435)
Earnings/(loss) per share from discontinued operation (cents)		
Basic	**0.48**	(1.76)
Diluted	**0.48**	(1.76)
The net cash flows attributable to the discontinued operation is as follows:		
Operating	**(293)**	(1 855)
Investing	**444**	–
Financing	**(151)**	1 835
Foreign exchange loss on translation cash balance	**(4)**	(3)
Net cash outflow	**(4)**	(23)

The net assets disposed of are as follows:	**31 December 2015 US$'000**
Assets	
Property, plant and equipment	**269**
Inventories	**4**
Trade and other receivables	**119**
Cash and cash equivalents	**34**
Liabilities	
Trade and other payables	**(732)**
Provisions	**(26)**
Net identifiable assets disposed of	**(332)**
Recycling of foreign currency translation reserve	**(988)**
Consideration not yet received	**(350)**
Gain on disposal of subsidiary	**(1 670)**

Notes to the annual financial statements continued

for the year ended 31 December 2015

7. Earnings per share

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

	2015 US$'000	2014* US$'000
Profit for the year from continuing operations	**77 004**	60 382
Profit/(loss) for the year from discontinued operations	**668**	(2 435)
Recycling of foreign currency translation reserve on discontinued operations	**–**	57 947
Less: Non-controlling interests	**(25 647)**	(24 730)
Net profit attributable to equity holders of the parent for basic and diluted earnings	**52 025**	33 217
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)	**138 227**	138 204

Earnings per share is calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year after taking into account future potential conversion and issue rights associated with the ordinary shares.

	Number of shares 2015	Number of shares 2014
Weighted average number of ordinary shares outstanding during the year	**138 227**	138 204
Effect of dilution:		
– Future share awards under the Employee Share Option Plan	**1 476**	962
Weighted average number of ordinary shares outstanding during the year adjusted for the effect of dilution	**139 703**	139 166

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.

** The prior year figures have been restated for the reclassification impact of accounting for the discontinued operation (refer to Note 6, Disposal of subsidiary).*

8. Property, plant and equipment

As at 31 December 2015	Stripping activity asset US$'000	Mining asset US$'000	Exploration and development assets[1] US$'000	Decommissioning assets US$'000	Leasehold improvement US$'000	Plant and equipment[2] US$'000	Other assets[3] US$'000	Total US$'000
Cost								
Balance at 1 January 2015	243 952	125 361	124 081	8 408	22 348	88 554	14 579	627 283
Additions	61 416	–	27 402	–	390	13 183	8 824	111 215
Net movement in rehabilitation provision	–	–	–	(2 751)	–	–	–	(2 751)
Disposals	–	–	–	–	(96)	(1 450)	(209)	(1 755)
Reclassifications	–	2 126	–	–	13 115	(15 408)	167	–
Foreign exchange differences	(72 589)	(15 608)	(21 990)	(1 716)	(7 552)	(23 136)	(3 960)	(146 551)
Balance at 31 December 2015	232 779	111 879	129 493	3 941	28 205	61 743	19 401	587 441
Accumulated depreciation/ amortisation								
Balance at 1 January 2015	138 079	44 434	–	3 646	9 944	48 135	8 118	252 356
Charge for the year	47 222	2 098	–	439	1 945	5 355	3 337	60 396
Disposals	–	–	–	–	(96)	(842)	(157)	(1 095)
Foreign exchange differences	(40 806)	(1 908)	–	(1 068)	(2 978)	(14 706)	(2 117)	(63 583)
Balance at 31 December 2015	144 495	44 624	–	3 017	8 815	37 942	9 181	248 074
Net book value at 31 December 2015	88 284	67 255	129 493	924	19 390	23 801	10 220	339 367

[1] *Borrowing costs of US$1.6 million (31 December 2014: US$0.6 million) incurred in respect of the $25.0 million facility at Ghaghoo development (refer to Note 16, Interest-bearing loans and borrowings) were capitalised to the development asset. The weighted average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 6.5%.*

[2] *During the year the new Coarse Recovery Plant was completed and reclassified out of plant and equipment, into leasehold improvements. Borrowing costs of US$0.9 million (31 December 2014: US$0.5 million) incurred in respect of the LSL140.0 million bank loan facility for the total funding of the new Coarse Recovery Plant at Letšeng have been capitalised (refer to Note 16, Interest-bearing loans and borrowings). The weighted average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 11.35%.*

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

Notes to the annual financial statements continued

for the year ended 31 December 2015

8. Property, plant and equipment (continued)

As at 31 December 2014	Stripping activity asset US$'000	Mining asset US$'000	Exploration and development assets[1] US$'000	Decommissioning assets US$'000	Leasehold improvement US$'000	Plant and equipment[2] US$'000	Other assets[3] US$'000	Total US$'000
Cost								
Balance at 1 January 2014	216 133	130 981	94 339	13 014	19 891	92 814	12 818	579 990
Additions	54 642	–	38 668	–	80	11 536	2 609	107 535
Reallocated to prepayments (Note 12)	(3 158)	–	–	–	–	–	–	(3 158)
Net movement in rehabilitation provision	–	–	616	(3 571)	–	–	–	(2 955)
Disposals	–	–	–	–	–	(25)	(103)	(128)
Reclassifications	–	1 177	81	–	4 439	(6 237)	540	–
Foreign exchange differences	(23 665)	(6 797)	(9 623)	(1 035)	(2 062)	(9 534)	(1 285)	(54 001)
Balance at 31 December 2014	243 952	125 361	124 081	8 408	22 348	88 554	14 579	627 283
Accumulated depreciation/ amortisation								
Balance at 1 January 2014	100 843	42 625	–	3 144	8 544	44 993	6 216	206 365
Charge for the year	49 312	2 477	–	880	2 459	8 435	2 740	66 303
Disposals	–	–	–	–	–	(25)	(91)	(116)
Foreign exchange differences	(12 076)	(668)	–	(378)	(1 059)	(5 268)	(747)	(20 196)
Balance at 31 December 2014	138 079	44 434	–	3 646	9 944	48 135	8 118	252 356
Net book value at 31 December 2014	105 873	80 927	124 081	4 762	12 404	40 419	6 461	374 927

9. Investment property

The investment property consists of a commercial unit located in the Almas Towers in Dubai. The unit is being let out in terms of a rental agreement entered into for a two-year period which commenced on 1 October 2014.

	2015 US$'000	2014 US$'000
Cost		
Balance at 1 January	**617**	617
Balance at 31 December	**617**	617
Accumulated depreciation		
Balance at 1 January	**2**	2
Depreciation	**–**	–
Balance at 31 December	**2**	2
Net book value at 31 December	**615**	615
Fair value[1]	**1 011**	1 164
Amounts recognised in profit or loss		
Rental income	**59**	54
Direct operating expenses	**(16)**	(16)
The future minimum rental income under the rental agreement in aggregate and for each of the following periods are as follows:		
– Within one year	**44**	59
– After one year but not more than five years	**–**	44
– More than five years	**–**	–
	44	103

[1] No independent valuation was performed. Fair value was based upon an overview of property sales (units within the same building as the investment property) during 2015, weighted towards the most recent sales activity, which is valued using a Level 2 input in terms of the fair value hierarchy.

10. Intangible assets

As at 31 December 2015	Intangibles US$'000	Goodwill US$'000	Total US$'000
Cost			
Balance at 1 January 2015	**784**	**17 818**	**18 602**
Foreign exchange difference	**(1)**	**(4 513)**	**(4 514)**
Balance at 31 December 2015	**783**	**13 305**	**14 088**
Accumulated amortisation			
Balance at 1 January 2014	**421**	**–**	**421**
Amortisation	**157**	**–**	**157**
Balance at 31 December 2015	**578**	**–**	**578**
Net book value at 31 December 2015	**205**	**13 305**	**13 510**
As at 31 December 2014			
Cost			
Balance at 1 January 2014	786	19 680	20 466
Foreign exchange difference	(2)	(1 862)	(1 864)
Balance at 31 December 2014	784	17 818	18 602
Accumulated amortisation			
Balance at 1 January 2013	264	–	264
Amortisation	157	–	157
Balance at 31 December 2014	421	–	421
Net book value at 31 December 2014	363	17 818	18 181

Impairment of goodwill within the Group was tested in accordance with the Group's policy. Refer to Note 11, Impairment testing, for further details.

Notes to the annual financial statements continued

for the year ended 31 December 2015

11. Impairment testing

	2015 US$'000	2014 US$'000
Goodwill		
Goodwill acquired through business combinations has been allocated to the individual cash-generating unit, as follows:		
– Letšeng Diamonds	**13 510**	17 818
Balance at end of year	**13 510**	17 818

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

The discount rate is outlined below, and represents the real 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 the Letšeng Diamonds cash-generating unit, taking into account risks associated therein.

	2015 %	2014 %
Discount rate		
– Letšeng Diamonds	**12.0**	13.7

Goodwill impairment testing is undertaken annually and whenever there are indications of impairment. The most recent test was undertaken at 31 December 2015. In assessing whether goodwill has been impaired, the carrying amount of the Letšeng Diamonds cash-generating unit is compared with its recoverable amount. For the purpose of goodwill impairment testing in 2015, the recoverable amount for Letšeng Diamonds has been determined based on a value-in-use model.

Value in use

Cash flows are projected for a period up to the date that mining is expected to cease, based on management's expectations at the time of completing the testing. The period used was nine years, representing the lesser of the current economic resource or the remaining nine-year mining lease period.

Key assumptions used in the calculations

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

- recoverable reserves and resources;
- expected carats recoverable;
- expected grades achievable;
- expected US$/carat prices;
- costs of extracting and processing;
- expected yield on polished diamonds;
- discount rates; and
- expected LSL/US$ exchange rates.

Economically recoverable reserves and resources, carats recoverable and grades achievable are based on management's current expectation and mine plan, supported by the evaluation work undertaken by appropriately qualified persons. The impairment test is most sensitive to changes in diamond prices, LSL:US$ exchange rate and discount rates.

Long-term US dollar per carat prices are based on external market consensus forecasts as published by independent marketing consultants adjusted for the Group's specific operations. Plant throughput is based on current plant facilities and processing capacities. Costs are determined on management's experience and the use of contractors over a period of time whose costs are fairly reasonably determinable. Mining costs for the next seven years (effective 1 January 2014) have been based on the negotiated mining contract which was concluded during the prior year. Costs of extracting and processing which are reasonably determinable are based on management's experience. Expected yield on polished has been based on management's experience. The LSL:US$ exchange rate used at 31 December 2015 was LSL15.50 and was devalued over the period in line with economic forecasts.

Sensitivity to changes in assumptions

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

For the purpose of testing for impairment of goodwill using the value-in-use basis for the Letšeng mining cash-generating unit, it was assessed that no reasonably possible change in any of these key assumptions would cause its carrying amount to exceed its recoverable amount.

The Group will continue to test its assets for impairment where indications are identified and may, in future, record additional impairment charges or reverse any impairment charges to the extent that market conditions improve and to the extent permitted by accounting standards.

12. Receivables and other assets

	2015 US$'000	2014 US$'000
Non-current		
Prepayments[1]	**1 905**	2 877
Other receivables	**313**	–
	2 218	2 877
Current		
Trade receivables	**83**	106
Prepayments[1]	**780**	1 250
Deposits	**457**	419
Other receivables	**58**	167
VAT receivable	**4 449**	5 656
	5 827	7 598

[1]A total prepayment of US$2.1 million (comprising a non-current portion of US$1.9 million and a current portion of US$0.2 million) has been reallocated from the stripping activity asset disclosed in Note 8, Property, plant and equipment. This represents the current value of waste costs to be recovered from the mining contractor as a result of the estimation change in respect of the waste mined out of the surveying review which was disclosed in 2012. The waste tonnes and strip ratio for future cuts have been reassessed and have resulted in a credit to the waste stripping cost amortised charge (included in cost of sales) of US$0.7 million and a finance income adjustment of US$0.4 million in the year.

The carrying amounts above approximate their fair value.

Terms and conditions of the receivables:

	2015 US$'000	2014 US$'000
Analysis of trade receivables		
Neither past due nor impaired	**53**	56
Past due but not impaired:		
Less than 30 days	**20**	34
30 to 60 days	**4**	16
60 to 90 days	**4**	–
90 to 120 days	**2**	–
	83	106

13. Inventories

	2015 US$'000	2014 US$'000
Diamonds on hand	**18 984**	17 460
Ore stock piles	**1 658**	2 055
Consumable stores	**9 646**	9 255
	30 288	28 770
Net realisable value write-down	**–**	–

Included in diamonds on hand is inventory relating to joint operation arrangements of $0.7 million (31 December 2014: US$nil).

Notes to the annual financial statements continued

for the year ended 31 December 2015

14. Cash and short-term deposits

	2015 US$'000	2014 US$'000
Cash on hand	**1**	2
Bank balances	**58 465**	56 925
Short-term bank deposits	**27 253**	53 811
	85 719	110 738

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 2015, the Group had restricted cash of US$2.6 million (31 December 2014: US$0.2 million). This restricted cash mainly relates to funds reserved for the debt service of the US$25.0 million secured bank loan facility at Ghaghoo.

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 2015, the Group has US$16.1 million (31 December 2014: US$41.6 million) of undrawn facilities representing the LSL250.0 million three-year revolving working capital facility at Letšeng.

The US$20.0 million three-year unsecured revolving credit facility's availability period ended in October 2015, with the full facility expiring on 16 January 2016. On 29 January 2016 this facility was refinanced for a further three years at an increased amount of US$35.0 million.

For further details on these facilities, refer to Note 16, Interest-bearing loans and borrowings, and Note 28, Events after the reporting period.

15. Issued capital and reserves

Issued capital	31 December 2015		31 December 2014	
	Number of shares '000	US$'000	Number of shares '000	US$'000
Authorised – ordinary shares of US$0.01 each				
As at year end	**200 000**	**200**	200 000	2 000
Issued and fully paid				
Balance at beginning of year	**138 270**	**1 383**	138 270	1 383
Allotments during the year	**27**	**–**	–	–
Balance at end of year	**138 297**	**1 383**	138 270	1 383

Share premium

Share premium comprises the excess value recognised from the issue of ordinary shares at par value.

Treasury shares

The Company established an Employee Share Option Plan (ESOP) on 5 February 2007. Under the terms of the ESOP, the Company granted options to employees of over 376 500 ordinary shares with a nil exercise price upon listing. At listing, the Gem Diamonds Limited Employee Share Trust acquired these ordinary shares by subscription from the Company at nominal value of US$0.01.

During the current year, 7 350 shares were exercised (31 December 2014: nil) and no shares lapsed (31 December 2014: nil). At 31 December 2015, 58 200 shares were held by the trust (31 December 2014: 65 550).

15. Issued capital and reserves (continued)

Other reserves	Foreign currency translation reserve US$'000	Share-based equity reserve US$'000	Total US$'000
Balance at 1 January 2015	**(146 551)**	**48 798**	**(97 753)**
Other comprehensive expense	**(67 611)**	**–**	**(67 611)**
Total comprehensive expense			
Share-based payments	**–**	**1 944**	**1 944**
Balance at 31 December 2015	**(214 162)**	**50 742**	**(163 420)**
Balance at 1 January 2014	(116 242)	46 834	(69 408)
Other comprehensive expense	(30 309)	–	(30 309)
Total comprehensive expense	(30 309)	–	(30 309)
Share-based payments	–	1 964	1 964
Balance at 31 December 2014	(146 551)	48 798	(97 753)

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of foreign entities. During the year, the South African, Lesotho, Botswana, Mauritian and United Arab Emirate subsidiaries' functional currencies were different to the Group's functional currency of US dollar. The rates used to convert the operating functional currency into US dollar are as follows:

	Currency	2015	2014
Average rate	ZAR/LSL to US$1	**12.78**	10.85
Period end	ZAR/LSL to US$1	**15.50**	11.57
Average rate	Pula to US$1	**10.14**	8.98
Period end	Pula to US$1	**11.25**	9.51
Average rate	Rupee to US$1	**35.12**	30.65
Period end	Rupee to US$1	**35.90**	31.75
Average rate	Dirham to US$1	**3.67**	3.67
Period end	Dirham to US$1	**3.67**	3.67

Share-based equity reserves

For details on the share-based equity reserve, refer to Note 25, Share-based payments.

Capital management

For details on capital management, refer to Note 24, Financial risk management.

Notes to the annual financial statements continued

for the year ended 31 December 2015

16. Interest-bearing loans and borrowings

	Effective interest rate %	Maturity	2015 US$'000	2014 US$'000
Non-current				
LSL140.0 million bank loan facility	South African JIBAR + 4.95%	30 June 2017	**1 807**	7 261
US$25.0 million bank loan facility	London US$ three-month LIBOR + 5.5%	30 June 2021	**23 275**	
			25 082	7 261
Current				
LSL140.0 million bank loan facility	South African JIBAR + 4.95%	30 June 2017	**3 614**	4 841
US$25.0 million bank loan facility	London US$ three-month LIBOR + 5.5%	30 June 2021	**1 725**	25 000
			5 339	29 841

LSL140.0 million bank loan facility at Letšeng Diamonds

This loan is a three-year unsecured project debt facility signed jointly with Standard Lesotho Bank and Nedbank Limited on 26 June 2014 for the total funding of the new coarse recovery plant. The loan is repayable in 10 quarterly payments which commenced on 31 March 2015 with a final payment due on 30 June 2017. The interest rate for the facility at 31 December 2015 is 11.58%.

US$25.0 million bank loan facility at Gem Diamonds Botswana (Ghaghoo)

This loan facility is held with Nedbank Capital. During the year this loan was converted from a nine-month unsecured facility to a six-year secured debt facility. The loan is repayable in staggered bi-annual payments commencing in June 2016, with final payment due on 30 June 2021. At year-end, this facility was fully drawn down. The interest rate for the facility at 31 December 2015 is 5.8%.

Total interest for the year on the interest-bearing loans and borrowings was US$2.5 million (2014: US$1.1 million) which has been capitalised to the carrying value of the assets as borrowing costs.

17. Trade and other payables

	2015 US$'000	2014 US$'000
Non-current		
Operating lease	**82**	82
Severance pay benefits[1]	**1 056**	1 192
	1 138	1 274
Current		
Trade payables[2]	**16 340**	12 544
Accrued expenses[2]	**9 342**	25 962
Leave benefits	**730**	835
Royalties[2]	**4 285**	3 245
Operating lease	**741**	575
Other	**790**	550
	32 228	43 711
Total trade and other payables	**33 366**	44 985

The carrying amounts above approximate fair value.

Terms and conditions of the trade and other payables:

[1] *The severance pay benefits arise due to legislation within the Lesotho jurisdiction, requiring that two weeks of severance pay be provided for every completed year of service, payable on retirement.*

[2] *These amounts are mainly non-interest-bearing and are settled in accordance with terms agreed between the parties. Included in the balance in the prior year was an amount accrued for an interest-bearing tax liability which was settled during the current year. For further details refer to Note 3, Operating profit (exceptional item).*

Notes to the annual financial statements continued

for the year ended 31 December 2015

18. Provisions

	2015 US$'000	2014 US$'000
Rehabilitation provisions	**12 473**	19 543
Reconciliation of movement in provisions		
Balance at beginning of year	**19 543**	23 186
Arising during the year	**–**	616
Decrease in rehabilitation provisions	**(4 229)**	(3 571)
Unwinding of discount rate	**1 265**	1 336
Foreign exchange differences	**(4 106)**	(2 024)
Balance at end of year	**12 473**	19 543

Rehabilitation provisions

The provisions have been recognised as the Group has an obligation for rehabilitation of the mining areas. The provisions have been calculated based on total estimated rehabilitation costs, discounted back to their present values. The pre-tax discount rates are adjusted annually and reflect current market assessments. These costs are expected to be utilised over a life of mine at the mining operation.

In determining the amounts attributable to the rehabilitation provisions, management used a discount rate range of 6.5% to 7.5% (31 December 2014: 7.0% to 7.5%), estimated rehabilitation timing of nine to 12 years (31 December 2014: 10 to 13 years) and an inflation rate range of 4.6% to 6.0% (31 December 2014: 5.9% to 6.0%). In addition to the changes in the discount rates, inflation and rehabilitation timing, the decrease in the provision is attributable to the annual reassessment of the estimated closure costs performed at the operations and the weakening of the local currencies against the US dollar.

19. Other financial liabilities

	2015 US$'000	2014 US$'000
Current		
Forward exchange contract	**–**	249

The Group enters into forward exchange contracts to hedge the exposure to changes in foreign currency of future sales of diamonds at Letšeng Diamonds. The forward exchange contract is the revaluation on the mark-to-market financial liabilities at year end. The Group performs no hedge accounting.

The forward exchange contracts are measured using a Level 2 input in terms of the fair value hierarchy, thus basing its fair value on observable spot exchange rates, the yield curves of the respective currencies as well as the currency basis spreads between the respective currencies.

There were no open forward exchange contracts as at 31 December 2015.

20. Deferred taxation

	2015 US$'000	2014 US$'000
Deferred tax assets		
Accrued leave	**34**	50
Operating lease liability	**2**	7
Provisions	**3 594**	5 140
Tax loss not utilised	**239**	–
	3 869	5 197
Deferred tax liabilities		
Property, plant and equipment	**(49 652)**	(58 293)
Prepayments	**(563)**	(333)
Unremitted earnings	**(4 039)**	(4 038)
	(54 254)	(62 664)
Net deferred tax liability	**(50 385)**	(57 467)
Reconciliation of deferred tax liability		
Balance at beginning of year	**(57 467)**	(64 824)
Movement in current period:		
– Accelerated depreciation for tax purposes	**(6 193)**	2 906
– Accrued leave	**(5)**	11
– Operating lease liability	**93**	120
– Prepayments	**(293)**	(124)
– Provisions	**(308)**	(297)
– Tax losses utilised in the year	**220**	(408)
– Disposal of subsidiaries	**50**	–
– Foreign exchange differences	**13 518**	5 149
Balance at end of year	**(50 385)**	(57 467)

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$30.7 million (31 December 2014: US$30.1 million).

The Group has estimated tax losses of US$313.8 million (31 December 2014: US$294.6 million). Deferred tax assets have been recognised on losses amounting to US$0.9 million as management considers that it is probable that the losses in those entities will be utilised against taxable profits in the foreseeable future. All tax losses are generated in jurisdictions where tax losses do not expire. In the prior year, tax losses of US$4.8 million related to the Mauritius operation which was disposed of during the current year. Refer to Note 6, Disposal of subsidiary.

Notes to the annual financial statements continued

for the year ended 31 December 2015

21. Cash flow notes

		2015 US$'000	2014 US$'000
21.1	**Cash generated by operations**		
	Profit for the year before tax from continuing operations	**108 557**	95 387
	Profit/(loss) before tax for the year from discontinued operation	**668**	(2 457)
	Adjustments for:		
	Depreciation and amortisation on property, plant and equipment	**10 369**	15 158
	Waste stripping cost amortised	**47 222**	49 312
	Finance income	**(1 505)**	(3 430)
	Finance costs	**1 385**	3 211
	Market to market revaluations	**(249)**	266
	Unrealised foreign exchange differences	**(6 369)**	(7 942)
	Profit on disposal of property, plant and equipment	**(251)**	(49)
	Movement in prepayment	**1 115**	138
	Other non-cash movements	**(5 753)**	2 243
	Gain on disposal of subsidiary	**(1 670)**	–
	Share-based equity transaction	**1 738**	1 740
		155 257	153 577
21.2	**Working capital adjustment**		
	Increase in inventory	**(8 216)**	(1 969)
	Increase in receivables	**(4 586)**	(1 560)
	Increase in trade and other payables	**9 033**	3 588
		(3 769)	59
21.3	**Cash flows used in investing activities**		–
	Proceeds on sale of subsidiary	**350**	–
	Proceeds on sale of subsidiary not yet received	**(350)**	
	Net costs incurred	**–**	
	Cash equivalents sold	**(34)**	
	Net cash proceeds divested	**(34)**	–

22. Commitments and contingencies

Commitments

Operating lease commitments – Group as lessee

The Group has entered into commercial lease arrangements for rental of office premises. These leases have a period of between two and 11 years with an option of renewal at the end of the period. The terms will be negotiated during the extension option periods catered for in the agreements. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases:

	2015 US$'000	2014 US$'000
– Within one year	**1 443**	1 438
– After one year but not more than five years	**3 759**	4 997
– More than five years	**5 900**	10 313
	11 102	16 748

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.

22. Commitments and contingencies (continued)

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:

	2015 US$'000	2014 US$'000
– Within one year	**107**	132
– After one year but not more than five years	**492**	611
– More than five years	**1 271**	1 711
	1 870	2 454

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.

	2015 US$'000	2014 US$'000
– Within one year	**25 428**	32 942
– After one year but not more than five years	**157 883**	189 170
– More than five years	**33 138**	100 486
	216 449	322 598
Capital expenditure		
Approved but not contracted for	**127**	5 197
Approved and contracted for	**5 229**	10 794

Contingent rentals – Alluvial Ventures

The contingent rentals represent the Group's obligation to a third party (Alluvial Ventures) for operating a third plant on the Group's mining property at Letšeng Diamonds. The rental is determined when the actual diamonds mined by Alluvial Ventures are sold. The rental agreement is based on 50% to 70% of the value (after costs) of the diamonds recovered by Alluvial Ventures and is limited to US$1.2 million per individual diamond. As at the reporting date, such future sales cannot be determined.

Letšeng Diamonds Educational Fund

In terms of the mining agreement entered into between the Group and the government of the Kingdom of Lesotho, the Group has an obligation to provide funding for education and training scholarships. The quantum of such funding is at the discretion of the Letšeng Diamonds Education Fund Committee. The amount of the funding provided for the current year was US$0.1 million (31 December 2014: 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$0.6 million (December 2014: US$3.5 million) and tax claims within the various jurisdictions in which the Group operates approximating US$1.3 million (December 2014: US$1.3 million).

There remains a risk that further tax liabilities may potentially arise. While it is difficult to predict the ultimate outcome in some cases, the Group does not anticipate that there will be any material impact on the Group's results, financial position or liquidity.

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for the year ended 31 December 2015

23. Related parties

Related party	Relationship
Jemax Management (Proprietary) Limited	Common director
Jemax Aviation (Proprietary) Limited	Common director
Gem Diamond Holdings Limited	Common director
Government of Lesotho	Non-controlling interest
Geneva Management Group (UK) Limited (until June 2015)	Common director

Refer to Note 1.1.2, Operational information, for information regarding shareholding in subsidiaries.

Refer to the Directors' Report for information regarding the Directors.

	2015 US$'000	2014 US$'000
Compensation to key management personnel (including Directors)		
Share-based equity transactions	**1 421**	1 447
Short-term employee benefits	**7 784**	7 170
	9 205	8 617
Fees paid to related parties		
Jemax Aviation (Proprietary) Limited	**(108)**	(73)
Jemax Management (Proprietary) Limited	**(165)**	(181)
Royalties paid to related parties		
Government of Lesotho	**(19 273)**	(22 102)
Lease and licence payments to related parties		
Government of Lesotho	**(112)**	(114)
Sales to/(purchases) from related parties		
Jemax Aviation (Proprietary) Limited	**(75)**	(36)
Geneva Management Group (UK) Limited	**2**	(6)
Amount included in trade receivables owing by/(to) related parties		
Jemax Aviation (Proprietary) Limited	**(42)**	28
Jemax Management (Proprietary) Limited	**(7)**	(8)
Amounts owing to related party		
Government of Lesotho	**(3 513)**	(3 167)
Dividends paid		
Government of Lesotho	**(11 760)**	(27 597)

Jemax Management (Proprietary) Limited and Jemax Aviation (Proprietary) Limited provided administrative and aviation services with regard to the mining activities undertaken by the Group. Geneva Management Group (UK) Limited provided administration, secretarial and accounting services to the Company. The above transactions were made on terms agreed between the parties and were made on terms that prevail in arm's-length transactions.

24. Financial risk management

Financial risk factors

The Group's activities expose it to a variety of financial risks:

(a) market risk (including commodity price risk and foreign exchange risk);

(b) credit risk; and

(c) liquidity risk.

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out under policies approved by the Board of Directors. The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investing excess liquidity.

There have been no changes to the financial risk management policy since the prior year.

Capital management

The capital of the Company is the issued share capital, share premium and treasury shares on the Group's Statement of Financial Position. The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may issue new shares. The management of the Group's capital is performed by the Board.

At 31 December 2015, the Group has US$16.1 million (31 December 2014: US$41.6 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) – revolving credit facility

The Group, through its subsidiary, Letšeng Diamonds, has an LSL250.0 million (US$16.1 million), three-year unsecured revolving working capital facility. This facility was refinanced jointly with Standard Lesotho Bank and Nedbank Capital in July 2015. The renewed facility will bear interest at the Lesotho prime rate.

At year end, there is no drawdown on this facility.

Secured – Nedbank Capital (a division of Nedbank Limited) – six-year project debt facility

The Group, through its subsidiary, Gem Diamonds Botswana (Ghaghoo), has a loan facility held with Nedbank Capital. In May 2015 this loan was converted from a nine-month unsecured facility to a six-year secured debt facility. The loan is repayable in staggered bi-annual payments commencing in June 2016, with final payment due on 30 June 2021. The facility bears interest at London USD Interbank three-month LIBOR + 5.5%.

At year end, this facility was fully drawn down.

Unsecured – Standard Lesotho Bank and Nedbank Limited – three-year unsecured project debt facility

This loan is a three-year unsecured project debt facility signed jointly with Standard Lesotho Bank and Nedbank Limited on 26 June 2014 for the total funding of the new Coarse Recovery Plant with a final payment due on 30 June 2017. This facility bears interest at South African JIBAR + 4.95%.

Unsecured – Nedbank Capital (a division of Nedbank Limited) – revolving credit facility

The Company had a US$20.0 million three-year unsecured revolving credit facility which expired in January 2016. This facility was refinanced to a US$35.0 million three-year unsecured revolving credit facility. Refer to Note 28, Events after the reporting period.

The US$20.0 million three-year unsecured revolving credit facility's availability period ended in October 2015, with the full facility expiring on 16 January 2016. On 29 January 2016 this facility was refinanced for a further three years at an increased amount of US$35.0 million. This facility bears interest at London USD Interbank three-month LIBOR +5.5%. Refer to Note 28, Events after the reporting period.

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$ 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.

Notes to the annual financial statements continued

for the year ended 31 December 2015

24. Financial risk management

Capital management (continued)

(a) Market risk

(i) 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 2015. There has been no change in the assumptions or method applied from the prior year.

Sensitivity analysis

If the US dollar had appreciated/(depreciated) 10% against currencies significant to the Group at 31 December 2015, income before taxation would have been US$2.8 million higher/(lower) (31 December 2014: US$0.1 million). There would be no effect on equity reserves other than those directly related to income statement movements.

(ii) 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 2015, the Group had no forward exchange contracts outstanding (31 December 2014: US$20.0 million).

(iii) Cash flow interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's cash flow interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. At the time of taking new loans or borrowings, management uses its judgement to decide whether it believes that a fixed or variable rate borrowing would be more favourable to the Group over the expected period until maturity.

(b) Credit risk

The Group's potential concentration of credit risk consists mainly of cash deposits with banks and other receivables. The Group's short-term cash surpluses are placed with the banks that have investment grade ratings. The maximum credit risk exposure relating to financial assets is represented by the carrying value as at the reporting dates. The Group considers the credit standing of counterparties when making deposits to manage the credit risk.

Considering the nature of the Group's ultimate customers and the relevant terms and conditions entered into with such customers, the Group believes that credit risk is limited as customers pay on receipt of goods.

No other financial assets are impaired or past due and accordingly, no additional analysis has been provided.

No collateral is held in respect of any impaired receivables or receivables that are past due but not impaired.

(c) Liquidity risk

Liquidity risk arises from the Group's inability to obtain the funds it requires to comply with its commitments including the inability to sell a financial asset quickly at a price close to its fair value. Management manages the risk by maintaining sufficient cash, marketable securities and ensuring access to shareholding funding. This ensures flexibility in maintaining business operations and maximises opportunities. Furthermore, the Company has available debt facilities of US$16.1 million at year end.

24. Financial risk management (continued)

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

	2015 US$'000	2014 US$'000
Floating interest rates		
Interest-bearing loans and borrowings		
– Within one year	**7 438**	31 381
– After one year but not more than five years	**29 658**	8 041
Total	**37 096**	39 422
Trade and other payables		
– Within one year	**32 228**	43 711
– After one year but not more than five years	**1 138**	1 274
Total	**33 366**	44 985

25. Share-based payments

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

	2015 US$'000	2014 US$'000
Equity-settled share-based payment transactions charged to the income statement	**1 738**	1 740
Equity-settled share-based payment transactions capitalised	**206**	224
	1 944	1 964

The long-term incentive plans are described below:

Employee Share Option Plan (ESOP)

Certain key employees are entitled to a grant of options under the ESOP of the Company. The vesting of the options is dependent on employees remaining in service for a prescribed period (normally three years) from the date of grant. The fair value of share options granted is estimated at the date of the grant using a Black Scholes simulation model, taking into account the terms and conditions upon which the options were granted. It takes into account projected dividends and share price fluctuation co-variances of the Company.

There is a nil or nominal exercise price for the options granted at admission of the Company. The contractual life of the options is 10 years and there are no cash settlement alternatives. The Company has no past practice of cash settlement.

Non-Executive share awards

In order to align the interests of the Chairman and independent Directors with those of the shareholders, the non-Executive Directors were invited to subscribe for shares at nominal value on terms set out in the prospectus. The non-Executive Directors shall not be eligible to participate in the short-term incentive bonus scheme (STIBS) or ESOP or any other performance-related incentive arrangements which may be introduced by the Company from time to time. There are currently no non-Executive share awards.

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25. Share-based payments (continued)

ESOP for March 2012 (long-term incentive plan (LTIP))

None of the performance conditions for this award were satisfied, and therefore the award lapsed during 2015.

ESOP for September 2012 (LTIP)

On 11 September 2012, 936 000 options were granted to certain key employees (excluding Executive Directors) under the LTIP of the Company. Of the total number of shares, 312 000 were nil value options and 624 000 were market value options. The exercise price of the market value options is £1.78 (US$2.85), which was equal to the market price of the shares on the date of grant. Of the 936 000 options originally granted, only 458 000 are still outstanding following the resignation of a number of employees. The awards which vest over a three-year period in tranches of a third of the award each year, dependent on the performance targets for the 2013, 2014 and 2015 financial years being met, are exercisable between 1 January 2016 and 31 December 2023. The vesting of the options is subject to performance conditions based on goals relating to the Group and individual performance which are classified as non-market conditions. The fair value of the options granted is estimated at the date of the grant using a Monte Carlo simulation model, taking into account the terms and conditions upon which the options were granted, projected dividends, share price fluctuations, the expected volatility, the risk-free interest rate, expected life of the options in years and the weighted average share price of the Company. The contractual life of each option granted is three years.

ESOP for March 2014 (LTIP)

In March 2014, 625 000 nil-cost options were granted to certain key employees under the LTIP of the Company. The vesting of the options will be subject to the satisfaction of certain performance as well as service conditions classified as non-market conditions. The options which vest over a three-year period in tranches of a third of the award each year are exercisable between 19 March 2017 and 18 March 2024. If the performance or service conditions are not met, the options lapse. As the performance conditions are non-market-based, they are not reflected in the fair value of the award at grant date, and therefore the Company will assess the likelihood of these conditions being met with a relevant adjustment to the cumulative charge as required at each financial year end. The fair value of the nil-cost options is £1.74 (US$2.87). Of the 625 000 options originally granted, only 486 389 are still outstanding following the resignation of a number of employees.

ESOP for June 2014 (LTIP)

In June 2014, 609 000 nil-cost options were granted to the Executive Directors under the LTIP of the Company. The vesting of the options will be subject to the satisfaction of certain market and non-market performance conditions over a three-year period. Of the 609 000 nil-cost options, 152 250 relate 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.

25. Share-based payments (continued)

ESOP for April 2015 (LTIP)

In April 2015, 667 500 nil-cost options were granted to certain key employees under the Long-Term Incentive Plan (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 667 500 options originally granted, only 642 500 are still outstanding following the resignation of a number of employees.

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 relates 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 non-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.

Movements in the year

ESOP

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

	2015 '000	2014 '000
Outstanding at beginning of year	**18**	18
Exercised during the year	**(7)**	–
Balance at end of year	**11**	18
Exercisable at end of year	**–**	–
The following table lists the inputs to the model used for the plan for the awards granted under the ESOP:		
Dividend yield (%)		–
Expected volatility (%)		22
Risk-free interest rate (%)		5
Expected life of option (years)		10
Weighted average share price		18.28
Model used		Black Scholes

The fair value of share options granted is estimated at the date of the grant using a Black Scholes simulation model, taking into account the terms and conditions upon which the options were granted, projected dividends, share price fluctuations, the expected volatility, the risk-free interest rate, expected life of the option in years and the weighted average share price of the Company.

The ESOP is an equity-settled plan and the fair value is measured at the grant date.

Notes to the annual financial statements continued

for the year ended 31 December 2015

25. Share-based payments (continued)

ESOP for April 2015, June 2014, March 2014, September 2012 and March 2012 (LTIP)

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

	2015 '000	2014 '000
Outstanding at beginning of year	**2 445**	2 073
Granted during the year	**1 408**	1 234
Exercised during the year	**–**	–
Forfeited	**(917)**	(862)
Balance at end of year	**2 936**	2 445

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

	LTIP April 2015	LTIP June 2014	LTIP September 2012	LTIP March 2012
Dividend yield (%)	**2.00**	–	–	–
Expected volatility (%)	**37.18**	37.25	42.10	63.88
Risk-free interest rate (%)	**1.16**	1.94	0.33	1.20
Expected life of option (years)	**3.00**	3.00	3.00	3.00
Weighted average share price (US$)	**2.10**	2.70	2.85	4.76
Fair value of nil value options (US$)	**1.97**	1.83	2.85	3.76
Fair value of market value options (US$)	**–**	–	1.66	2.27
Model used	**Monte Carlo**	Monte Carlo	Monte Carlo	Monte Carlo

The fair value of share options granted is estimated at grant date 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.

26. Dividends paid and proposed

	2015 US$'000	2014 US$'000
Proposed dividends on ordinary shares		
Final ordinary cash dividend for 2015: 5 US cents per share (2014: 5 US cents per share)	**6 915**	6 913
Special dividend for 2015: 3.5 US cents per share	**4 840**	–
Total	**11 755**	6 913

Proposed dividends on ordinary shares are subject to approval at the AGM to be held on 7 June 2016 and are not recognised as a liability as at 31 December.

The 2014 dividend was approved on 2 June 2015 and a final cash dividend of 5 US cents per share was paid to shareholders on 9 June 2015.

27. Material partly owned subsidiaries

Financial information of Letšeng Diamonds, a subsidiary which has a material non-controlling interest, is provided below.

Proportion of equity interest held by non-controlling interests

Name	Country of incorporation and operation	2015 US$'000	2014 US$'000
Letšeng Diamonds (Proprietary) Limited	Lesotho		30%
Accumulated balances of material non-controlling interest		**57 494**	66 148
Profit allocated to material non-controlling interest		**24 397**	24 782

The summarised financial information of this subsidiary is provided below. This information is based on amounts before intercompany eliminations.

Summarised income statement for the year ended 31 December

	2015 US$'000	2014 US$'000
Revenue	**236 357**	277 908
Cost of sales	**(118 385)**	(138 293)
Gross profit	**117 972**	139 615
Royalties and selling costs	**(19 475)**	(22 379)
Other income	**8 401**	3 384
Operating profit	**106 898**	120 620
Net finance income/(costs)	**279**	2 045
Profit before tax	**107 177**	122 665
Income tax expense	**(25 850)**	(40 059)
Profit for the year	**81 327**	82 606
Total comprehensive income	**81 327**	82 606
Attributable to non-controlling interest	**24 397**	24 782
Dividends paid to non-controlling interest	**11 760**	27 597

Notes to the annual financial statements continued

for the year ended 31 December 2015

27. Material partly owned subsidiaries (continued)

Summarised statement of financial position as at 31 December

	2015 US$'000	2014 US$'000
Assets		
Non-current assets		
Property, plant and equipment and intangible assets	**204 350**	252 397
Current assets		
Inventories, receivables and other assets, and cash and short-term deposits	**78 436**	81 958
Total assets	**282 786**	334 355
Non-current liabilities		
Trade and other payables, provisions and deferred tax liabilities	**59 345**	69 557
Current liabilities		
Interest-bearing loans and borrowings and trade and other payables	**31 794**	44 306
Total liabilities	**91 139**	113 863
Total equity	**191 647**	220 492
Attributable to:		
Equity holders of parent	**134 153**	154 345
Non-controlling interest	**57 494**	66 148
Summarised cash flow information for the year ended 31 December		
Operating	**4 701**	82 581
Investing	**–**	(62 730)
Financing	**5 421**	(15 496)
Net increase in cash and cash equivalents	**10 122**	4 355

28. Events after the reporting period

The Company's existing US$20.0 million three-year unsecured revolving credit facility's availability period ended in October 2015, with the full facility expiring on 16 January 2016. This facility was refinanced for a further three-year unsecured credit facility with Nedbank Capital (a division of Nedbank Limited) for an increased amount of US$35.0 million. The facility agreement was signed and concluded on 29 January 2016 and the facility is available for drawdown.

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

AG	Autogenous milling
AGM	Annual general meeting
AIFR	All injury frequency rate
Basotho	Lesotho nationals
Batswana	Botswana nationals
BVI	British Virgin Islands
BWP	Botswana pula
CEO	Chief Executive Officer
CGU	Cash-generating unit
CO_2e	Carbon dioxide equivalent
cpht	Carats per hundred tonnes
CSI	Corporate social investment
CSRI	Corporate social responsible investment
DPA	Diamond Producers Association
EBITDA	Earnings before interest, tax, depreciation and amortisation
EPS	Earnings per share
ESOP	Employee share option plan
GBP	British pound
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
IFRS	International Financial Reporting Standards
ISO	International Organisation for Standardisation
KPI	Key performance indicators
LoM	Life of mine

Abbreviations and definitions continued

LSL	Lesotho loti
LTI	Lost time injury
LTIFR	Lost time injury frequency rate
LTIP	Long-term incentive plan
MRM	Mineral resource management
NPV	Net present value
OHSAS	Occupational Health and Safety Assessment Specification
PAC	Project affected community
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)
SEIA	Social and environmental impact assessment
SHE	Safety, health and environment
STIBS	Short-term incentive bonus scheme
The Board	The Gem Diamonds Board of Directors
The Group	The Gem Diamonds Company and its subsidiaries
UK	United Kingdom
US$	United States dollar
WACC	Weighted average cost of capital

Contact details and advisers

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