GEM DIAMONDS

Gem Diamonds Limited
2nd Floor, Coastal Building
Wickham's Cay II
Road Town
Tortola
British Virgin Islands
Registration number: 669758

www.gemdiamonds.com

GEM DIAMONDS

Annual Report and Accounts 2017

Contents

Gem Diamonds is a leading producer of high-value diamonds

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

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

Welcome to the Gem Diamonds Annual Report and Accounts 2017

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

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

On the cover, the 910 carat Lesotho Legend, recovered in January 2018. For further information refer to page 29.

2017 in review

Results at a glance

Year to 31 December	2017	2016	% change
Average price per carat achieved (US$)	**1 930**	1 695	13.9↑
Revenue (US$ million)	**214.3**	189.8	12.9↑
Underlying EBITDA[1] (before exceptional items) (US$ million)	**48.6**	62.8	22.6↓
Profit for the year (before exceptional items) (US$ million)	**20.8**	32.4	35.8↓
Profit for the year (after exceptional items) (US$ million)	**17.2**	(144.1)	111.9↑
Basic earnings per share[2] (before exceptional items) (US cents)	**6.56**	12.77	48.6↓

[1] Refer to Note 3, Operating profit, for definition of non-GAAP measures.
[2] Refer to Group financial performance for GAAP measures.

At 31 December	2017	2016	% change
Cash and short-term deposits (US$ million)	**47.7**	30.8	54.9↑
Drawn down bank facilities (US$ million)	**46.3**	27.8	66.5↑
Net cash (US$ million)	**1.4**	3.0	53.3↓
Available bank facilities (US$ million)	**36.2**	53.3	32.1↓

Operational

WASTE TONNES MINED (millions)
29.7 (2016: 29.8)

ORE TONNES TREATED (millions)
6.5 (2016: 6.9)

CARATS RECOVERED (thousands)
119.9 (2016: 149.2)

CAPITAL EXPENDITURE (US$ million)
17.8 (2016: 11.0)

CARATS SOLD (thousands)
120.2 (2016: 156.2)

AVERAGE EMPLOYEES (including contractors)
2 089 (2016: 2 131)

Health, safety, social and environment (HSSE)

Fatality-free year

One LTI resulting in 0.04 LTIFR

Letšeng retains **OHSAS 18001 and ISO 14001** certification

Zero major or significant environmental or stakeholder incidents

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

NAVIGATION AID

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

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

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 41.
The Directors' Report is set out on pages 82 to 85.

About Gem Diamonds

Diamond analysis and manufacturing

Baobab Technologies

OWNERSHIP 100%

DESCRIPTION OF OPERATIONS

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

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

Sales and marketing

Gem Diamonds Marketing Services

OWNERSHIP 100%

DESCRIPTION OF OPERATIONS

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

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

Technical and administrative services

Gem Diamond Technical Services

Mining

Gem Diamonds Botswana

Ghaghoo Diamond Mine

OWNERSHIP 100%

DESCRIPTION OF OPERATIONS

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

TOTAL RESOURCE

20.5m carats

(as at 1 January 2014)

IN-SITU VALUE

US$4.9 billion

(as at 1 January 2014)

Letšeng Diamonds

Letšeng Diamond Mine

OWNERSHIP[1] 70%

DESCRIPTION OF OPERATIONS

Open pit mining operation in Lesotho focuses on:

- mining and processing ore efficiently and safely from its two kimberlite pipes (Main and Satellite);
- optimising expansion projects to reduce diamond damage, diamond theft and to improve diamond liberation; and
- implementing optimised life of mine (LoM) extensions.

TOTAL RESOURCE

5.0m carats

(as at 1 January 2015)

IN-SITU VALUE

US$10.3 billion

(as at 1 January 2015)

[1] *30% ownership by Government of the Kingdom of Lesotho.*

Chairman's statement

On behalf of the Board, it is my pleasure to present the Gem Diamonds 2017 Annual Report.

Harry Kenyon-Slaney Chairman

Gem Diamonds is on a journey to reposition itself as a lean and efficient operator of the flagship Letšeng mine in Lesotho, and there is every reason to have confidence in the future of the Group.

Dear shareholders,

On behalf of the Board, it is my pleasure to present the Gem Diamonds 2017 Annual Report. This is my first opportunity to communicate directly with you since taking up the role of Chairman in June last year and I particularly want to say how tremendously impressed I have been with the energy, passion and commitment that I have seen demonstrated by every employee I have met. These characteristics are evident throughout the business and I do hope that this report goes some way to conveying to you what I believe is a very strong desire to continue to improve the value of your company.

2017 in review

As my predecessor explained in these pages last year, 2016 was a difficult year for the Group and therefore attention in 2017 has been firmly on strengthening the Company's foundation. We are tackling this challenge on multiple fronts; initiating a comprehensive business improvement programme, vigorously lowering our cost base, accelerating the search for ways to improve diamond detection and liberation and working closely with stakeholders in Lesotho to support long-term growth opportunities at the Letšeng mine.

Early in the year, on account of the prevailing tough market conditions, the decision was taken to place our Ghaghoo mine in Botswana on care and maintenance. Although this was a disappointing outcome, it allows Gem Diamonds to refocus on its primary asset; the Letšeng mine in Lesotho, and efforts are now under way to identify potential buyers for Ghaghoo.

Towards the middle of the year, the Company launched a major Business Transformation programme the aim of which is to materially improve the operational and financial performance of the Group. Every aspect of the Group's activities is being challenged to enhance the efficiency of our operations by improving day-to-day performance, vigorously improving cost control and capital discipline and to dispose of any non-core assets. Dedicated teams from every area of the business are systematically identifying, analysing and then implementing a wide range of improvement opportunities. Of particular importance in this programme is the work to optimise the planning and operation of the mine and to enhance recoveries in the processing plant and it is pleasing that, during the second

Chairman's statement continued

half of the year, the frequency of discovery of large +100 carat diamonds improved. This is a trend that has continued into 2018 when seven +100 carat diamonds were discovered early in 2018, including the spectacular 910 carat Lesotho Legend. The Letšeng mine has a long history of producing very large diamonds of exceptional quality and this return towards the long-term average rate of recovery is a testament both to the quality of the orebody and the good work being done to operate it in the most sustainable manner. By year end the Group had formally committed to achieving annualised and once-off savings of US$20.0 million. Further improvement is now expected as every business process has been scrutinised for any possible enhancement and management has set a cumulative target of US$100.0 million by the end of 2021.

Gem Diamonds is transitioning to becoming a single asset company and our aim is to ensure that we operate our flagship mine Letšeng in the most efficient manner in order to maximise both returns to shareholders and the contribution we make to the wider Lesotho society. This improvement in operational discipline and in the recovery of large diamonds, combined with a steady improvement in the market price of Letšeng's exceptional quality large diamonds, meant that the Group generated underlying EBITDA before exceptional items of US$48.6 million for the year, significantly up from the first half of the year of US$13.0 million. Attributable profit for the year before exceptional items was US$9.1 million and US$5.5 million after exceptional items, and the Group returned to a net cash position at year end.

Returns to shareholders

While the second half of 2017 demonstrated an improving trend of cash generation through strong cost control and an improved recovery of large diamonds, there is still work to be done. To this end, the Board remains committed to our strategy to deliver improved shareholder returns, and has determined that paying a dividend in current circumstances will constrain the business and act against shareholders' long-term interests. This decision may be disappointing to our shareholders, but we believe this is a necessary step in strengthening our balance sheet and positioning ourselves for the future, ultimately generating greater returns for our shareholders. It remains the policy of the Board to pay a dividend to shareholders when the financial position of the Company permits.

Technical improvements

The Board reaffirmed its approach to maximising value at the Letšeng mine and progressing the technical workstreams aimed at improving the detection and liberation of diamonds. One of the Groups' most important technical challenges is the impact of diamond breakage which is more pronounced at a mine like Letšeng that contains larger, high-value diamonds. Given the potential that progress in this area would have on profitability, the reduction of damage to diamonds either through blasting or liberation in the processing plant remains a key area of focus.

Safety and health

The safety and health of those working for the Group, and of those living close to our operations, remains one of our highest priorities and we strive at all times to cause no harm either to people or the environment. A strong safety and health performance is widely regarded as a good indicator of a company's commitment to operational efficiency and I can report that there was only one lost time injury (LTI) during 2017, a decrease from that in 2016 resulting in a Group-wide lost time injury frequency rate (LTIFR) of 0.04 for the year.

Corporate citizenship

While generating shareholder value is our primary objective, the Group is proud to be making a meaningful contribution to the local communities and economies in which our mines are situated. We are the second largest employer in Lesotho, second only to the government, with a local citizen employment proportion of some 97% and with locally based procurement for the Letšeng mine of over 90%. In addition, the Letšeng university scholarship programme not only sponsors local students to study at tertiary level but our internship programme affords employment opportunities for our graduate students at the Letšeng mine.

In addition to our support of local education, the Company has also fulfilled a local need by completing a dairy and milking parlour project in the Mokhotlong district in Lesotho and the official opening of this facility was held in February 2018 with cabinet ministers in attendance.

Board composition

The year saw a number of changes to the composition of the Board with Roger Davis, my predecessor, who led the Board for 10 years retiring in June 2017. It was with great sadness that in October 2017 the Company announced the passing of our Senior Independent Director, Mike Salamon. Mike had served on the Board since 2008 and his contribution, wisdom and friendship is much missed by all within the Company. Gavin Beevers, another longstanding Board member, retired as a non-Executive Director and was replaced by Mike Brown, also a highly experienced executive in the diamond mining industry. To ensure the correct balance between the number of Executive and non-Executive Directors the Board was reduced in size with Glenn Turner offering to step down. Glenn continues to be a key executive of the Company and remains the Company Secretary and Legal and Compliance Officer. I would like to thank Roger, Gavin and Glenn for the significant contributions they have made while serving on the Board.

Outlook

Gem Diamonds is on a journey to reposition itself as a lean and efficient operator of the flagship Letšeng mine in Lesotho, and there is every reason to have confidence in the future of the Group. The reduction in operating costs and the improved recovery of the large, high-quality diamonds at Letšeng – including the 910 carat Lesotho Legend, together with the positive impact of the business transformation programme, offer the prospect of improved cash flows and give cause for optimism. Demand for the large Type IIa diamonds which are such a feature of the Letšeng production remains firm and the Company is confident that the market for these diamonds will remain resilient for the foreseeable future.

Finally, I would like to thank our shareholders for their continuing support. The Board is committed to a high level of transparency and openness through regular communication with all stakeholders. I have met with a number of shareholders since joining the Board and I greatly value these interactions. I trust that I have managed to convey their suggestions and concerns accurately to the Board.

Having been Chairman now for almost a year I have been able to visit our operations at Letšeng in Lesotho, our sales and marketing office in Antwerp and our small corporate teams in London and Johannesburg. I am enormously impressed by the professionalism and dedication of everyone in the Company and on behalf of the Board, I would like to thank all of our staff for their hard work. Our gratitude is also extended to our very important partners, the Governments of Lesotho and Botswana.

Harry Kenyon-Slaney
Non-Executive Chairman

13 March 2018

Our strategy

How we create value

During 2017 a **transformation commenced** at Gem Diamonds resulting in an **intentional evolution** of our business which will facilitate an enhanced focus on **maximising value** from our operations, enabling the **delivery of sustainable returns** for our investors while **optimising the benefit** for our communities and **minimising our impact** on our environment.

Our business cycle

Mining

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

Processing

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

Sales, marketing and manufacturing

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

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

Extracting Maximum Value from Operations

Driving business optimisation through the cycle by enhancing the efficiency of our operations through stringent cost control and capital discipline, and selling non-core assets
Refer to the Business Transformation section on pages 25 to 27.

Building balance sheet strength
Refer to the Group financial performance section on pages 20 to 24.

Exploring new sales avenues to maximise value
Refer to the Sales, marketing and manufacturing section on pages 33 to 34.

Working Responsibly and Maintaining Social Licence

Promoting a culture of zero harm and responsible care

Delivering sustainable returns for our investors while optimising the benefit for our communities and minimising our impact on the environment

Building long-term, transparent and mutually beneficial relationships with stakeholders
Refer to the Sustainable Development section on pages 35 to 40.

Prioritise organisational health through areas identified during the Business Transformation process
Refer to the Business Transformation section on pages 25 to 27.

Preparing for Our Future

Advancement of innovative technologies to enhance revenues and reduce costs through reduction of diamond damage
Refer to the Technology and innovation section on page 28.

Early renewal of the mining lease at Letšeng which expires in 2024
Refer to the Chief Executive's review on pages 18 to 19.

External growth opportunities assessed against strict investment criteria
Refer to the Chief Executive's review on pages 18 to 19.

How we measure this

In 2017 we progressed our key priorities as follows:

Extracting Maximum Value from Operations

- P Commenced Business Transformation process and identified cumulative once-off and annualised savings of US$100.0 million by 2021
- A Placed Ghaghoo mine on care and maintenance
- A Pilot tender viewing of Letšeng large diamonds held in Tel Aviv, Israel, in October 2017
- A Reduced net debt of US$14.2 million in H1 2017 to a net cash position of US$1.4 million at 31 December 2017
- A Recovered seven +100 carat diamonds during the year

Working Responsibly and Maintaining Social Licence

- A Fatality-free year
- A Zero major or significant incidents of health, safety, social and environmental (HSSE) legal non-compliance
- A Zero major or significant community or environmental incidents
- A CSI expenditure of US$0.5 million
- P Organisational health index survey conducted as part of the Business Transformation process

Preparing for Our Future

- P Proof of concept testing performed on prototype which allows the breaking of kimberlite rock through non-mechanical means
- A Due diligence work completed on technologies evaluated and developed in collaboration with leading scientists designed to identify locked diamonds within kimberlite
- P The application to renew Letšeng's mining lease for a further 10 years to 2034 was lodged in March 2018

A – *Achieved* P – *In progress*

Key performance indicators

How we create value

- **Zero** fatalities
- **Zero** major or significant community incidents
- **Zero** major or significant environmental incidents
- **Invested US$0.5 million** in corporate social projects during 2017 and continued to build positive relationships with stakeholders and project affected communities (PACs)

	KPI	Definition	Commentary	2017 results	2013–2017	Relevance to strategy
Extract Maximum Value from Operations	**Revenue** (US$ million)	The **value of goods sold** during the year (both rough and polished) as reported in the consolidated income statement.	**Group revenue increased by 13%** compared to 2016 largely due to the **improved recovery of large diamonds** at Letšeng resulting in an average price of US$1 930 per carat for the year compared to US$1 695 per carat in 2016.	**Sales for the year** US$214 million	2017: 214; 2016: 190; 2015: 249; 2014: 271; 2013: 213	The Group remains **committed to maximising the value achieved** on rough and polished diamond sales.
Extract Maximum Value from Operations	**Underlying EBITDA** (US$ million)	**Earnings before interest, tax, depreciation and amortisation.** It excludes share-based payments, other income, foreign exchange differences and exceptional items. Refer to Note 3, Operating profit in the financial statements.	Underlying EBITDA is 23% lower than 2016 due to higher waste amortisation, the negative impact of the weakening US dollar on translated costs, partially mitigated by the increase in revenue generated.	**Underlying EBITDA of** US$49 million	2017: 49; 2016: 63; 2015: 104; 2014: 106; 2013: 79	Underlying EBITDA gives insight to cost management, production, growth and performance efficiency on a like-for-like basis. We are focused on **reducing operating costs, increasing productivity, and extracting maximum value** from our operations.
Extract Maximum Value from Operations	**Return on average capital employed (ROACE)** (%)	ROACE is calculated as **underlying EBITDA** (as per Note 3, Operating profit, in the financial statements) **less depreciation and amortisation divided by average capital employed** (being total equity and non-current liabilities as per the consolidated statement of financial position).	**Pre-tax ROACE achieved 12%,** reducing from 15% in 2016, mainly driven by lower EBITDA. Prior years' ROACE is as reported at that point in time and includes all operations in existence in those relevant years.	**Pre-tax ROACE achieved** 12%	2017: 12; 2016: 15; 2015: 20; 2014: 19; 2013: 13	ROACE is a pre-tax measure of the **efficiency** with which the Group **generates operating profits** from its capital.
Extract Maximum Value from Operations	**Basic earnings per share (EPS)** (US cents)	**Basic EPS is stated before exceptional items and after non-controlling interest.** It is calculated as reported in the consolidated income statement and in accordance with Note 7, Earnings per share, in the financial statements.	The reduced basic **EPS per share of 6.56 US cents** in 2017 is indicative of the lower earnings achieved. Basic EPS after exceptional items was 3.96 US cents. There was no significant change in the capital structure of the Group.	**Basic EPS of** 7 US cents	2017: 7; 2016: 13; 2015: 30; 2014: 26; 2013: 17	The aim of our strategy is to **deliver maximum value for all shareholders** through our business cycle. Basic EPS represents profit attributable to equity shareholders and is a **measure** of the Group's **profitability** taking into account changes in the equity structure.
Extract Maximum Value from Operations	**Cash generated from operating activities** (US$ million)	Cash flows from operating activities represents the **cash generated by the Group's operations** reflected in the consolidated statement of cash flows in the financial statements on page 98.	The Group generated **higher cash from operating activities** due to the **improved recovery** of large diamonds at Letšeng resulting in an average price achieved of US$1 930 per carat for the year (compared to US$1 695 per carat in 2016) together with lower tax paid. The Ghaghoo mining operation was placed on care and maintenance which reduced the Group's cash burn.	**Cash generated from operating activities** US$97 million	2017: 97; 2016: 71; 2015: 119; 2014: 134; 2013: 88	Cash generated from operating activities measures the **cash-generating capability** of the Group. It provides additional insight into how costs are managed thereby **increasing efficiency** and **productivity, building balance sheet strength** through **stringent cost control**.
Extract Maximum Value from Operations	**Ore tonnes treated** (million)	**The production profile** sets out the tonnes treated at Letšeng and Ghaghoo.	Notwithstanding the engineering challenges faced by Plants 1 and 2, **Letšeng treated similar ore tonnes** to that of 2016. Ghaghoo treated 43 991 ore tonnes for the year until it was placed on care and maintenance.	**Ore tonnes treated** 6.5 million	2017: 6.5; 2016: 6.9; 2015: 7.0; 2014: 6.5; 2013: 6.2	The aim of our strategy is to **deliver maximum value for all shareholders** through our business cycle. Ore tonnes treated measures the **level of operating activity** of the business to achieve this objective.
Extract Maximum Value from Operations	**Carats recovered** (thousand)	The carats recovered profile sets out the **carats recovered by Letšeng and Ghaghoo.**	**At Letšeng, carats recovered were in line with those recovered in 2016.** The average mine call factor was 99% for the year. A mobile XRT sorting machine was introduced to retreat tailings material which recovered 3 298 carats from 25 404 tonnes of ore.	**Carats produced** 119 895	2017: 120; 2016: 149; 2015: 200; 2014: 119; 2013: 95	The aim of our strategy is to **deliver maximum value for all shareholders** through our business cycle. Carats recovered measures the **level of earnings activity** of the business to achieve this objective.
Preparing for Our Future	**Capital expenditure** (US$ million)	Capital expenditure is reflected in the statement of cash flows as **purchases of property, plant and equipment and includes expansionary and sustaining capital.**	**The Group's investment in capital expenditure** mainly comprised US$12.2 million at Letšeng for construction of the new mining complex, which is fully funded, and US$1.5 million at Ghaghoo for the construction of the slimes dam.	**Capital investment of** US$18 million	2017: 18; 2016: 11; 2015: 23; 2014: 20; 2013: 13	The Group is **committed** to a **disciplined investment process** where investment is only made in assets that offer attractive returns.
Preparing for Our Future	**Waste tonnes mined** (million)	The waste tonnes mined profile sets out the **waste tonnes mined by Letšeng.**	Waste tonnes mined were **in line with the life of mine plan** which was updated in March 2017.	**Waste tonnes mined** 29.7 million	2017: 29.7; 2016: 29.8; 2015: 24.0; 2014: 19.9; 2013: 19.1	The Group is **flexible** to respond to an **everchanging operating environment**. Life of mine plans are continually reviewed to ensure the Group is mining in the **most efficient manner to extract maximum returns**.
Working Responsibly and Maintaining Social Licence	**Lost time injury frequency rate (LTIFR)**	**Measures the safety performance of the Group**, including contractors, based on the reported LTI statistics and is expressed as a frequency rate per 200 000 man hours. Prior year's rates include all operations in existence at that period.	The Group recorded **one LTI** during 2017 compared to five in 2016.	**LTIFR of** 0.04	2017: 0.04; 2016: 0.18; 2015: 0.00; 2014: 0.20; 2013: 0.13	The Group is **committed** to promoting a culture of **zero harm** and responsible care.
Working Responsibly and Maintaining Social Licence	**All injury frequency rate (AIFR)**	**Measures the safety performance of the Group**, including contractors, calculated on all reported injuries and is expressed as a frequency rate per 200 000 man hours. Prior year's rates include all operations in existence at that period.	The increase in AIFR reflects the decrease in total man hours worked across the Group in 2017.	**AIFR of** 2.02	2017: 2.02; 2016: 1.93; 2015: 2.87; 2014: 3.01; 2013: 2.49	The Group is **committed** to promoting a culture of **zero harm** and responsible care.

Viability statement

In accordance with the revised UK Corporate Governance Code, the Board has assessed the viability of the Group over a period significantly longer than 12 months from the approval of the financial statements.

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

The Group has set a target of US$100.0 million of cumulative annualised and once-off efficiency and cost reduction initiatives by the end of 2021 as part of the Group-wide efficiency review performed during 2017 as set out in the Business Transformation on pages 25 to 27. There will be a key focus over the period to deliver on these initiatives. At Letšeng, the focus is on organic growth with particular emphasis on optimising mine planning, improving mining efficiencies and increasing plant uptime. At Ghaghoo, the key objective is cash preservation while in its care and maintenance state and a process to dispose of the asset has commenced.

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

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

The scenarios tested included the compounding effect of:
- a decrease in forecast rough diamond prices from the historical prices achieved and anticipated planned reserve prices;
- a strengthening of local currencies to the US dollar from expected market forecasts;
- a delay beyond the three-year period in the implementation and benefit of the more complex Business Transformation initiatives, mainly in process plant uptime; and
- no renewal of facilities which expire within the three-year period

With the current net cash position of US$1.4 million as at 31 December 2017 and available standby facilities of US$36.2 million, the Group would be able to withstand the impact of these scenarios occurring over the three-year period, due to the cash-generating nature of the Group's core asset, Letšeng, and its flexibility in adjusting its operating plans within the normal course of business, together with the Business Transformation benefits which are estimated to have achieved approximately 70% of the cumulative target by the end of the three-year period.

Based on the robust assessment of the principal risks, prospects and viability of the Group, the Board confirms that it has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period ending March 2021.

Principal risks and uncertainties

How we approach risk

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

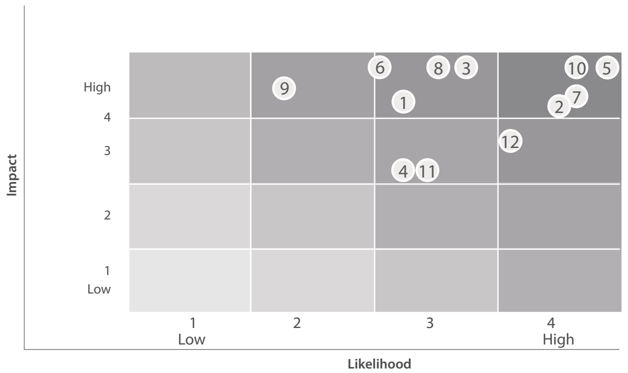
The Board is accountable for risk management, assisted primarily by the Audit and HSSE Committees, that together identify and assess change in risk exposure, along with the potential financial and non-financial impacts and likelihood of occurrence.

The Company continually reviews its risk management processes to provide informed assurance to the Board to assess current objectives. The Group internal audit function carries out a 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.

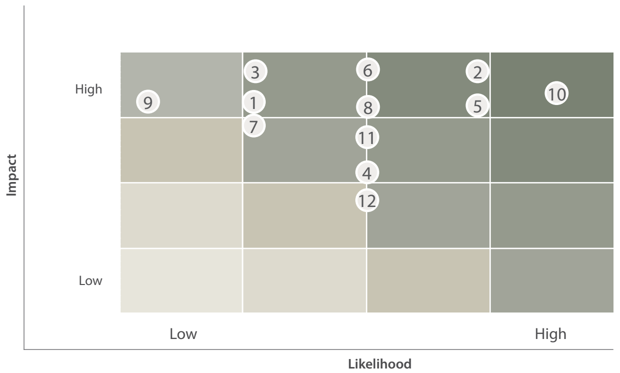
Given the long-term nature of the Group's mining operations, risks are unlikely to alter significantly on a short-term basis; however, inevitably the level of risk and the Group's risk appetite could change. The Board and its Committees have identified the following key risks which have been set out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

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

Inherent risk (pre-mitigating controls)



Residual risk (post-mitigating controls)



Board of Directors

Accountable for risk management within the Group.

Provide stakeholders with assurance that key risks are properly identified, assessed, mitigated and monitored.

Maintains a formal risk management policy for the Group and formally evaluates the effectiveness of the Group's risk management process.

Confirms that the risk management process is accurately aligned to the strategy and performance objectives of the Group.

Oversight

Audit Committee

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

Responsibility

Risk Officer

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

Management

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

Governance

Group internal audit

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

Risk management framework

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

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

Principal risks and uncertainties continued

Λ Increasing risk or uncertainty V Decreasing risk or uncertainty — No change in risk or uncertainty

	1	2	3
Type of risk	**Strategic risks** Λ	**Strategic risks** Λ	**Operational risks** V
Description Impact	**SUCCESSFUL IMPLEMENTATION OF BUSINESS TRANSFORMATION (BT)** The success of the BT process is highly dependent on change management, skills and certain contract renegotiations.	**GROWTH AND RETURN TO SHAREHOLDERS** The volatility of the Group's share price and lack of growth has a negative impact on the Group's market capitalisation. Constrained cash flows can put pressure on returns to shareholders. Following the placing of Ghaghoo on care and maintenance, the Group is currently solely dependent upon the Letšeng mine for its revenues, profits and cash flows.	**A MAJOR PRODUCTION INTERRUPTION** The Group may experience material mine and/or plant shutdowns or periods of decreased production due to certain unplanned events. Any such event could negatively impact the Group's operations and its profitability and cash flows.
Mitigation	A dedicated team has been set up to drive the transformation process. As part of this process, skills, change management and overall organisational health support initiatives have been implemented to underpin the process.	The Board reviewed its strategy and has identified its three key priorities, Extracting Maximum Value from Operations, Working Responsibly and Maintaining Social Licence, and Preparing for Our Future. Letšeng is a positive cash generating operation. The Group's focus is on enhancing the efficiency of our operations by improving day-to-day performance, stringent cost control and capital discipline and the sale of non-core assets through the BT process.	The Group continually reviews the likelihood and consequence of various possible events and ensures that the appropriate management controls, processes, and business continuity plans (BCPs) are in place to immediately mitigate risk.
Strategy affected	**Extracting Maximum Value from Our Operations; Working Responsibly and Maintaining Social Licence; Preparing for Our Future.**	**Extracting Maximum Value from Our Operations; Preparing for Our Future.**	**Extracting Maximum Value from Our Operations; Working Responsibly and Maintaining Social Licence.**
2017 actions and outcomes	The BT process commenced during the year following initial due diligence. Cumulative once-off and annualised savings of US$100.0 million by the end of 2021 have been targeted. The implementation of these initiatives commenced in the last quarter of 2017 and by the end of the year US$3.2 million of the target had already been implemented.	The Group strategy was reviewed with the objective of growing the share price through the implementation of the BT process and pursuing technologically innovative opportunities to reduce diamond damage. Refer to risk 5, Diamond damage. The Letšeng life of mine plan was reviewed with the objective of reducing waste tonnes mined and further enhancing cash flows. This is an annual review process. The Letšeng mining lease expires in 2024. The process for renewal of the mining lease advanced and the application for renewal was lodged in March 2018. The Ghaghoo mine was placed on care and maintenance in Q1 2017 and a process to dispose of the asset has commenced.	**Letšeng** Following the severe weather conditions experienced in 2016, the generators were retested and synchronised to confirm full utilisation of back-up power. Ongoing monitoring of pit stability was conducted and the implementation of automatic notification scanners was introduced. The extension of the tailings dam facilities was reviewed to ensure all operational requirements are met. As a result, capital to the value of c. US$13.7 million was approved to be spent over the next three years to extend the tailings dam facilities. BCPs were retested for execution with plans implemented to address any weaknesses identified. **Ghaghoo** An earthquake, with an epicentre 25km from the mine occurred during Q2 2017, causing damage to the seal of the underground water fissure leading to an influx of water. Appropriate water pumping facilities were on site to maintain the water levels. This caused a slight increase in the planned care and maintenance costs during the year.

	4	5	6
Type of risk	**Operational risks** —	**Operational risks** —	**Operational risks** —
Description Impact	**UNDERPERFORMING MINERAL RESOURCE** The Group's mineral resources influence the operational mine plans. Uncertainty or underperformance of mineral resources could affect the Group's ability to operate profitably. Limited knowledge of the resource could lead to an inability to forecast or plan accurately or optimally, and lead to financial risk. With Letšeng being the world's lowest grade operating kimberlite mine, the risk of resource underperformance is elevated.	**DIAMOND DAMAGE** Letšeng's valuable Type II diamonds are highly susceptible to damage during the mining and recovery process. To reduce such damage creates a potential upside for the Group.	**SECURITY OF PRODUCT** Theft is an inherent risk factor in the diamond industry. Due to the low frequency of high-value diamonds at Letšeng, theft can have a material impact on the Group. This could result in significant losses and negatively affect revenue and cash flows.
Mitigation	Furthering orebody knowledge using various bulk sampling programmes, combined with geological mapping and modelling methods to significantly improve the Group's understanding of and confidence in the mineral resources and assist in optimising the mining thereof.	Diamond damage is regularly monitored and analysed through studies and variance analyses.	Security measures are constantly reviewed and implemented to minimise this risk. State-of-the-art security infrastructure and technologies are invested in and supported through additional surveillance processes. A Diamond Recovery Protection Committee has been established at Letšeng to monitor security processes.
Strategy affected	**Extracting Maximum Value from Our Operations; Preparing for Our Future.**	**Extracting Maximum Value from Our Operations; Preparing for Our Future.**	**Extracting Maximum Value from Our Operations.**
2017 actions and outcomes	At Letšeng, ahead-of-face drilling and discrete production sampling programmes initiated in previous years continued in 2017 to better define the orebody. In addition, micro-diamond sample analysis which aims to predict grades at depth was also conducted. The outcomes of these programmes will be used to update resource models. A core drilling project commenced in H2 2017 to firm up on the existing resource, the results of which will be utilised to make operational and infrastructural adjustments to extract maximum value from the operation. During 2017 there was an improvement in recovery of exceptional large, high-value diamonds at Letšeng compared to the prior year, evidenced by the increased overall dollar per carat achieved in 2017 to US$1 930 from US$1 695 in 2016. The improvement in recoveries was driven by the improved reserve performance and the reserve call factor increasing to 91% in 2017 from 83% in 2016.	Blasting designs and crusher settings were reviewed to identify any improvements to limit diamond damage. There was an improvement in the recoveries of the larger higher-value diamonds with seven +100 carat diamonds recovered and an increase in the number of diamonds between 20 and 60 carats in 2017 compared to the prior year. Progress was also made in the development of innovative technologies that could be used to identify diamonds within kimberlite prior to the crushing process and liberating diamonds using non-mechanical crushing methods to significantly reduce diamond damage, reduce costs and improve earnings.	The external surveillance service process was enhanced with improved monitoring facilities set up internally at the Group's offices in Johannesburg. External and internal audits regularly conducted at Letšeng resulted in findings that provided opportunities to further improve security processes.

BUSINESS OVERVIEW

Principal risks and uncertainties continued

Λ Increasing risk or uncertainty V Decreasing risk or uncertainty — No change in risk or uncertainty

	7	8	9	10	11	12
Type of risk	Operational risks Λ	Operational risks —	Operational risks Λ	External risks —	External risks V	External risks Λ
Description Impact	**CASH GENERATION** The lack of cash generation can negatively impact the Group's ability to effectively operate, fund capital projects and repay debt.	**ATTRACTING AND RETAINING APPROPRIATE SKILLS** The success of the Group's objectives and sustainable growth depends on its ability to attract and retain key suitably qualified and experienced personnel, especially in an environment and industry where skills shortages are prevalent and in jurisdictions where localisation policies exist.	**HSSE FACTORS** The risk that a major health, safety, social or environmental incident may occur is inherent in mining operations. These risks could impact the safety of employees, licence to operate, Company reputation and compliance with debt facility agreements.	**ROUGH DIAMOND DEMAND AND PRICES** Numerous factors beyond the control of the Group may affect the price and demand for diamonds, including international economic and political trends; projected supply from existing mines; supply and timing of production from new mines; and consumer trends. These factors can significantly impact the ability to generate cash flows and to fund operations and growth plans.	**COUNTRY AND POLITICAL ENVIRONMENT** The political environment of the various jurisdictions that the Group operates within may adversely impact its ability to operate effectively and profitably. Emerging market economies are generally subject to greater risks, including regulatory and political risk, and can be exposed to a rapidly changing environment.	**CURRENCY VOLATILITY** The Group receives its revenue in US dollar, while its cost base is incurred in the local currency of the various countries within which the Group operates. The volatility of these currencies trading against the US dollar impacts the Group's profitability and cash.
Mitigation	The Group has the flexibility to reassess its capital projects and operational strategies. Treasury management procedures are in place to monitor cash and capital projects expenditure. The Group has appropriate standby facilities available. Cost controls and monitoring measures are a continual focus and life of mine plans are continually reviewed to optimise cash flows and profitability. Inability to dispose of Ghaghoo mine could result in pressure on the Group's cash position or the ability to expand operations.	The Group regularly reviews human resources practices, which are designed to identify areas of skill shortages, and implements development programmes to mitigate such risks. In addition, these programmes attract, incentivise and retain individuals of the appropriate calibre through performance-based bonus schemes and long-term reward and retention schemes. The Group continues to monitor the external environment to review the skills market. Remuneration Committees set up at subsidiary level review current remuneration policies, skills and succession planning together with a review of the training budgets.	The Group has implemented appropriate HSSE policies which are subjected to a continuous improvement review. The Group actively participates and invests in corporate social initiatives for its PACs.	Market conditions are continually monitored to identify trends that pose a threat or create opportunity for the Group. Based on existing market conditions, the Group has the ability to preserve cash and manage balance sheet strength through flexibility in its sales processes and the ability to reassess its capital projects and operational strategies. The quality of Letšeng's high-value production has been less susceptible to fluctuating market conditions.	Changes to the political environment and regulatory developments are closely monitored. Where necessary, the Group engages in dialogue with relevant government representatives to build relationships and to remain well informed of all legal and regulatory developments impacting its operations.	The impact of the exchange rates and fluctuations are closely monitored. It is the Group's policy to hedge a portion of future diamond sales when weakness in the local currency reach levels where it would be appropriate. Such contracts are generally short term in nature.
Strategy affected	**Extracting Maximum Value from Our Operations; Preparing for Our Future.**	**Extracting Maximum Value from Our Operations; Working Responsibly and Maintaining Social Licence; Preparing for Our Future.**	**Working Responsibly and Maintaining Social Licence.**	**Extracting Maximum Value from Our Operations.**	**Working Responsibly and Maintaining Social Licence; Preparing for Our Future.**	**Extracting Maximum Value from Our Operations.**
2017 actions and outcomes	There was an improvement in the recoveries of the larger higher-value diamonds and an increase in the number of diamonds recovered between 20 and 60 carats, resulting in an increased overall US$ per carat, positively contributing to cash flows. The Group's cash position improved from a net debt of US$14.2 million in June 2017 to a net cash position of US$1.4 million at the end of the year. Due to the poor diamond market for the smaller commercial goods as produced by the Ghaghoo mine the decision to place the mine on care and maintenance was taken in February 2017. The Group is currently pursuing the sale of this asset. Following the placement of Ghaghoo on care and maintenance, the Group successfully restructured its existing US$35.0 million Revolving Credit Facility (RCF) into a new US$45.0 million RCF. Ghaghoo debt repayments were deferred to September 2018. In July 2017, the Group commenced an efficiency and cost reduction review. A BT process was established with a key focus to deliver US$100.0 million by the end of 2021.	Intensified efforts continued in the development of selected key employees through structured training and development programmes. Extensive engagements with the Labour and Mining Ministry continue as part of the effort to implement efficient work permit processing and to develop plans for local employee upskilling. Successfully obtained work permits and exemptions during the year.	The Group achieved a fatality-free year. One LTI was reported resulting in an LTIFR of 0.04 and AIFR of 2.02. Letšeng retained its OHSAS 18001 and ISO 14001 certification. Corporate social investment into the Group's PACs continued during the year. Investment was made in the Letšeng university scholarship programme and the completion of a dairy farm project in the Mokhotlong district. All compliance terms of facility agreements were met during the year.	Sentiment in the rough and polished diamond markets improved in 2017, albeit that it remained cautious. Letšeng's high-value diamonds remained in high demand and continued to achieve firm prices. Successful pilot tender viewing for Letšeng's large rough diamonds was held in Tel Aviv in October as part of the sales strategy to expand marketing footprint in international markets. Although Ghaghoo was placed on care and maintenance, reducing the impact of this risk on the current production, the overall market risk associated with the lower quality production may impact the future viability of the Ghaghoo asset.	Following the disbandment of the Lesotho parliament in early 2017, peaceful elections were concluded in June 2017 where a new government was elected. Engagement with the new government has commenced positively with the aim of developing effective relationships. There were no strikes or lockouts during the year across the Group. Ghaghoo was successfully placed on care and maintenance with no stakeholder issues.	The Lesotho loti (LSL) (pegged to the South African rand (ZAR)) and Botswana pula (BWP) were stronger against the US dollar during the latter part of 2017. The overall stronger currencies negatively impacted the Group's US dollar reported costs. Hedges were taken out during the year to mitigate the risk associated with the volatility of the LSL/ZAR against the US dollar.

Market review 2017

Globally, demand for rough diamonds improved during 2017 which resulted in a slight upward trend in rough diamond prices.

The global economic backdrop in 2017

- Stronger growth of the Chinese economy
- Moderate growth in the US economy
- Increase in retail demand in India
- Continued improvement in commodities markets
- Improved macro-economic outlook

The global diamond market in 2017

The overall sentiment in the rough and polished diamond markets improved in 2017, albeit that it remained cautious. The moderate growth of the US economy, stronger growth in the Chinese economy, increase in retail demand in India and a slightly more favourable macro-economic outlook had a positive influence on the diamond market during the year. This resulted in prices trending upward for both rough and polished diamonds. The prices achieved for the unique, large, high-value rough production from Letšeng remained robust.

Significant drivers of the diamond market during 2017 included:

Stabilised demand in China

The large retail jewellery stores in China experienced growth following the stabilisation of the yuan and a jump in consumer confidence. A positive outlook for 2018 remains after the stronger than expected growth of the Chinese economy during 2017.

The continued US recovery

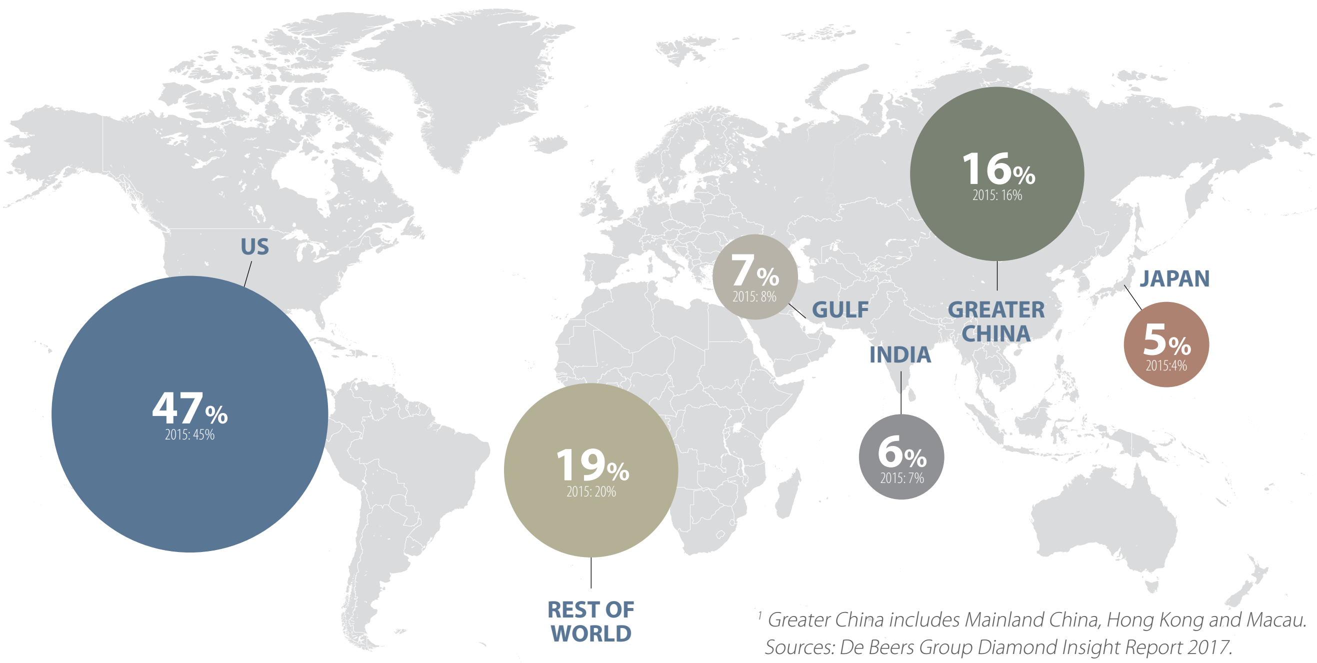
The economic recovery in the US continued in 2017 albeit moderate. This positive trend is closely linked to spending on luxury goods, and had a positive influence on diamond sales in the US during the year. The US remains the largest consumer of polished diamonds, with an estimated 47% of world consumption.

Gem Diamonds' market position

Prices achieved for Letšeng's unique, large, high-value diamonds during the year ensured that the mine retained its standing as the highest average dollar per carat kimberlite diamond producer in the world at an average of US$1 930 per carat compared to US$1 695 per carat achieved in 2016. The increase in average US$ per carat is attributed to a more positive diamond market together with an improvement in the size and quality (seven +100 carat gem quality diamonds were recovered compared to five in 2016) of Letšeng's production during the year. The Letšeng mine places the Group at the top end of the diamond market in terms of the size and quality of its large diamond production, with its greater than 10.8 carat diamonds accounting for approximately 76% of its value in 2017.

Global polished diamond demand share by geography

In 2016, the US gained share in polished diamond demand due to continued growth in diamond jewellery demand from consumers, while Japanese growth was influenced by the yen/US dollar exchange rate.



[1] Greater China includes Mainland China, Hong Kong and Macau.
Sources: De Beers Group Diamond Insight Report 2017.

Medium to long-term outlook

Demand for rough and polished diamonds is expected to outstrip supply in the medium to long term. The diamond demand/supply fundamentals are expected to remain favourable given the expected rising consumer demand in developed and developing markets contrasted with a forecast declining supply in the medium to long term.

Global demand trends

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

- the expected continuing recovery in the US, the major diamond market;
- the growing middle and upper classes and the continued urbanisation in emerging economies – especially in India and China;
- the growing international trend to use diamonds across a wider range of luxury goods, including watches, accessories and digital devices; and
- the continued growth in the number of high-net-worth individuals worldwide.

Global supply trends

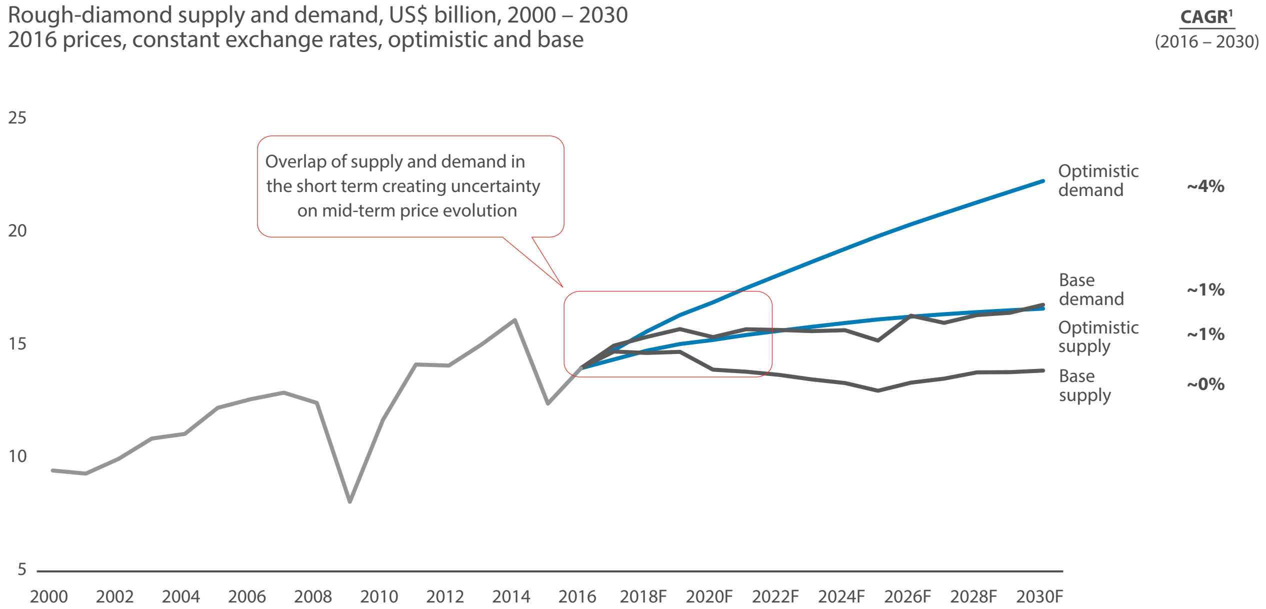
The ageing and depletion of existing diamond mines will, in the medium term, result in a steady decrease of the global diamond supply. This will be marginally offset by limited additional supply from new mines in the short to medium term.

- Rough diamond production has declined considerably since peaking in 2005 and is 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 130 million carats and with the introduction of a number of new mines is expected to peak near 150 million carats in the medium term. Thereafter a steady decrease in supply from 2026 is expected to reduce to around 110 million carats by 2030.
- The projected supply from new mines is expected to add an additional 26 million carats a year until 2026 and thereafter output from these mines is expected to decrease to around 16 million carats by 2030. The additional supply from these new mines is not expected to compensate for the expected growth in demand during the same period.

Looking ahead

In the short term, it is expected that demand for polished diamonds will remain stable which will improve consumer confidence in both the rough and polished diamond markets. It is also expected that Letšeng's unique, large, high-value production will continue to achieve strong prices.

Rough-diamond supply and demand, US$ billion, 2000 – 2030
2016 prices, constant exchange rates, optimistic and base



[1]The CAGRs are calculated as the growth rate for year-average or period-average prices; H1 2017 change is shown

Note: Rough-diamond demand has been converted from polished-diamond demand using historical ratio of rough diamonds and polished diamonds values

Sources: Kimberley Process; Euromonitor; EIU; expert interviews; De Beers; Bain analysis

Chief Executive's review

The Letšeng mine has maintained its status as a world-class diamond producer in 2017, further supported by the more recent recovery of the 910 carat Lesotho Legend, its largest diamond recovered to date and is believed to be the fifth biggest gem quality diamond ever recovered worldwide.

After a difficult 2016 and first half of 2017 for both the diamond mining industry and the Group, the second half of 2017 saw benefit from the ongoing operational and financial improvements which were implemented during the year.

There was a significant improvement in the recovery of the large diamonds at the Letšeng mining operation, including a high-quality 202 carat diamond in November. This positive trend has continued into the beginning of 2018 with the recovery of seven diamonds over 100 carats each, including the landmark 910 carat Lesotho Legend.

The Lesotho Legend

On 15 January 2018, the Company announced the recovery of an exceptional 910 carat, D colour Type IIa diamond. This exceptional diamond is the largest recovered from Letšeng to date and is the fifth largest gem quality diamond ever recovered worldwide. The recovery of a diamond of this size and quality supports the world-class calibre of the Letšeng mine. The diamond has been named the Lesotho Legend and was sold on 12 March for a remarkable sum of US$40.0 million.

Our 2017 performance

The market for Letšeng's large, high-quality white rough diamonds remained strong over the course of 2017, a trend which has continued into 2018. Over the course of the year, the average price achieved increased by over 50% from US$1 444* per carat in the final quarter of 2016 to US$2 217* per carat achieved at the end of 2017. Some notable special diamonds were recovered during the second half of 2017. A 7.87 carat pink diamond achieved US$202 222 per carat and an 8.65 carat pink diamond achieved US$164 855 per carat, which represents the second and seventh highest US$ per carat respectively for any Letšeng rough diamond sold to date.

During 2017, a total of 107 152 carats were sold generating revenue of US$206.8 million at an average dollar per carat price of US$1 930*. This translated into an underlying EBITDA of US$48.6 million (before exceptional items) and earnings per share of 6.56 US cents (before exceptional items). The Group improved its position to end the year in a net cash position of US$1.4 million from a net debt position of US$14.2 million at 30 June 2017.

Optimising value

The Letšeng life of mine (LoM) plan was updated during the first half of the year. This is an important ongoing practice with the objective of improving near-term cash flows by reducing waste tonnes mined. The updated LoM achieved a reduction in the 2017 waste mining requirements to 29.7 million tonnes, a decrease of some 5.0 million tonnes from the previous LoM plan.

In 2017, the Company launched a Business Transformation initiative with the focus on further optimising mine planning, improving mining efficiencies, increasing plant uptime, driving stringent cost control and capital discipline, and selling non-core assets. With the assistance of external consultants and a dedicated internal Business Transformation team, the Company initially identified US$20.0 million of annualised and once-off efficiency and cost reduction initiatives. Based on positive progress made to date, a target has now been set of obtaining US$100.0 million of cumulative cash savings by the end of 2021, with an ongoing rate of improvement of US$30.0 million per year thereafter. The significant progress achieved to date gives management the confidence that this is a realistic target.

As part of the process to preserve cash and optimise the application of capital, the decision was taken to place the Ghaghoo mining operation on care and maintenance in February 2017. This was due to the unfavourable market conditions for the type of diamonds recovered at Ghaghoo. A non-binding offer to purchase the Ghaghoo mine was received, however, after initial discussions the offer was withdrawn. A process to dispose of the mine continues.

Preparing for the future

Diamond damage is an ongoing challenge for the diamond mining industry and for the Group, especially at Letšeng with its unique diamond distribution and with 76% of its revenue generated by the 10.8 carat and upwards size of diamonds. During 2017 progress was made in the development of two key technologies, which are in the process of being evaluated and developed in collaboration with leading scientists in these fields. The first of these technologies is designed to identify locked diamonds within kimberlite using positron emission tomography (PET) technology. This PET technology is used to scan kimberlite to identify the diamondiferous rocks. Due diligence work completed during the year has yielded positive results.

The second of these technologies is designed to liberate diamonds outside of the traditional processing technology using a non-mechanical crushing system, which utilises electrical power to fracture the kimberlite without causing damage to the diamond itself. This workstream is progressing well and during

** Includes carats extracted at rough valuation.*

A target has been set of obtaining US$100 million of cash savings by the end of 2021, with an ongoing target of US$30 million per year thereafter.

Clifford Elphick Chief Executive Officer

the year, a prototype was successfully tested in Johannesburg, South Africa. Further testing is currently being conducted at high altitude at the Letšeng mine.

These two technologies which should be developed over the next few years will play an increasingly important role in maximising value for our shareholders through reducing diamond damage and operating costs thereby increasing margins and profits.

With Letšeng's optimised value and current open pit LoM extending past the current mining lease period, a key area of focus is extending the tenure of the Letšeng mining lease. Although this mining lease is only due for renewal in 2024, Letšeng has recently lodged its application for the renewal of the mining lease for a further 10 years to 2034.

Our commitment to HSSE

The sustainability of the Group is strongly dependent upon maintaining its social licence to operate. The health and safety of employees and contractors, environmental responsibility, legal compliance and community contribution remain key elements of the Group's success.

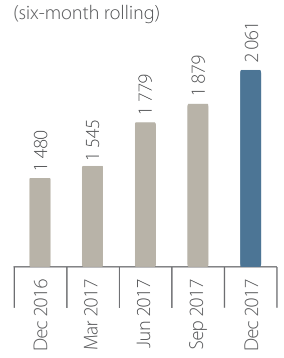
The Group continues to pursue its goal of zero harm and I am pleased to report a fatality-free year for the fifth consecutive year.

The Group has continued its excellent record of accomplishment in relation to the sustainable care of the environment and is pleased to report no major or significant environmental or stakeholder incidents across the Group during 2017.

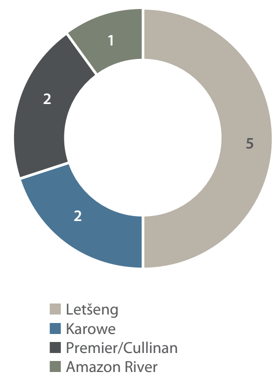
Close collaboration with our PACs has continued throughout 2017 with a significant

Letšeng average US dollar per carat achieved

(six-month rolling)



Top 10 largest white diamonds recovered this century



investment being made into community and social programmes. These include the Letšeng university scholarship programme and the completion of a dairy farm project in the Mokhotlong district in Lesotho which was formally opened by the Mines Minister in February 2018, and is expected to service 5% of the total milk demand in Lesotho.

Board, management and stakeholders

2017 saw peaceful national elections held in Lesotho and the subsequent forming of a new government in June. The Company has continued to participate in a constructive interaction with the Government of Lesotho and we look forward to a continued and effective partnership.

Letšeng recently appointed Kelebone Leisanyane as its Chief Executive Officer (CEO). Kelebone is an experienced businessman and joined Letšeng in February 2018. I would like to welcome him and to thank Jeff Leaver for his work as acting CEO.

Moving forward with confidence

With the benefits of the efficiency programme bearing fruit, a positive market outlook, and an investment case underpinned by the proven quality of the Letšeng mine, we look to the future with confidence.

I would like to close by expressing my sincerest appreciation to our employees for their hard work and commitment. I would also like to thank the Board for their guidance during the year, as well as our shareholders.

Clifford Elphick
Chief Executive Officer

13 March 2018

Group financial performance

Improved large diamond recoveries add strength to our balance sheet.

The past few years have been challenging for the Group with difficult macro-economics, stagnant diamond prices and an increasing cost environment. This was the catalyst for a strategic review of the way in which the Company runs its business. Although there has been continued focus on cost control and cash management, a business efficiency and optimisation programme (Business Transformation) was implemented to rigorously interrogate all aspects of the business by enhancing the efficiency of our operations, driving stringent cost control, capital discipline and selling non-core assets.

After a difficult 2016 and first half of 2017, operational enhancements which had previously been implemented started bearing fruit, resulting in the improved recovery in the larger high-value diamonds and in the number of diamonds greater than 20 carats. The increased volume of the higher-value Satellite pipe material mined of 1.2 million tonnes compared to 0.9 million tonnes in H1 2017 further contributed to the improvement in recoveries. These improvements resulted in Letšeng achieving an average price of US$2 061* in H2 2017, an improvement of 16% over H1 2017 of US$1 779*, and an overall average price achieved of US$1 930* for 2017. The second half of 2017 saw EBITDA increase to US$48.6 million from US$13.0 million in H1 2017 and the Group moving into a net cash position of US$1.4 million by year end compared to a net debt position of US$14.2 million at half-year.

With the positive progress made on the Business Transformation during the year, a target has been set to achieve US$100.0 million cumulative cash cost savings and productivity improvements over the next four years to the end of 2021. This will roll out into US$30.0 million annual savings thereafter, compared with the 2017 cost base.

With the ongoing difficult market conditions for Ghaghoo's production and the Company's focus on profitable operations, a decision was made in February 2017 to place the operation on care and maintenance.

** Includes carats extracted at rough valuation.*

Summary of financial performance

US$ million	2017 Pre-exceptional items	2017 Exceptional items[1]	2017 Post-exceptional items	2016
Revenue	**214.3**	**–**	**214.3**	189.8
Royalty and selling costs	**(18.8)**	**–**	**(18.8)**	(17.2)
Cost of sales[2]	**(137.7)**	**(3.6)**	**(141.3)**	(98.8)
Corporate expenses	**(9.2)**	**–**	**(9.2)**	(11.0)
Underlying EBITDA[3]	**48.6**	**(3.6)**	**45.0**	62.8
Depreciation and mining asset amortisation	**(8.9)**	**–**	**(8.9)**	(10.4)
Share-based payments	**(1.5)**	**–**	**(1.5)**	(1.8)
Other income	**0.8**	**–**	**0.8**	0.3
Foreign exchange gain	**(1.3)**	**–**	**(1.3)**	1.7
Net finance costs	**(3.8)**	**–**	**(3.8)**	(0.2)
Impairment and other non-cash items[4]	**–**	**–**	**–**	(176.5)
Profit/(loss) before tax	**33.9**	**(3.6)**	**30.3**	(124.1)
Income tax expense	**(13.1)**	**–**	**(13.1)**	(20.0)
Profit/(loss) for the year	**20.8**	**(3.6)**	**17.2**	(144.1)
Non-controlling interests	**(11.7)**	**–**	**(11.7)**	(14.7)
Attributable profit/(loss)	**9.1**	**(3.6)**	**5.5**	(158.8)
Earnings/(loss) per share (US cents)	**6.6**	**(2.6)**	**4.0**	12.8
Loss per share after impairment	**–**	**–**	**–**	(114.9)

[1] Exceptional items relate to once-off costs associated with placing Ghaghoo on care and maintenance. In addition, this also includes costs associated with the additional dewatering and sealing of the fissure as a result of the earthquake that occurred with an epicentre 25km from the mine.
[2] Including waste stripping costs amortisation but excluding depreciation and mining asset amortisation
[3] Underlying earnings before interest, tax, depreciation and mining asset amortisation (EBITDA) as defined in Note 3 of the notes to the consolidated financial statements.
[4] In 2016, the impairment and other non-cash items related to an impairment charge to the carrying value of the Ghaghoo development asset of US$170.8 million, US$2.2 million relating to the closing down of the calibrated operation and foreign currency translation reserves relating to this operation being recycled of US$3.5 million.

Focus in 2018 is to continue to build balance sheet strength through pursuing the optimisation of the operations and delivering the target of the Business Transformation.

Michael Michael Chief Financial Officer

Revenue

The Group continued its objective of maximising the value achieved on rough and polished diamond sales. The Group's revenue is primarily derived from its mining operation in Lesotho (Letšeng).

Group revenue of US$214.3 million in 2017 represents a 13% improvement from 2016. Letšeng achieved an average of US$1 930* per carat from the sale of 107 152 carats, which was 14% higher than that achieved in 2016 of US$1 695*. This improved US$ per carat is largely attributable to the improvement in the frequency of the recovery of large, high-quality white rough diamonds, with seven gem quality diamonds greater than 100 carats recovered in 2017.

Ghaghoo sold 13 021 run of mine carats during the year for US$2.3 million, achieving an average price of US$175 per carat and as part of the Business Transformation objective to sell non-core assets also sold diamond samples to the value of US$0.1 million.

Additional revenue of US$4.5 million generated, comprised US$0.6 million polished margin from the Group's manufacturing operation and US$3.9 million as a result of the effect on Group revenue of the movement in own manufactured closing inventory year on year.

** Includes carats extracted at rough valuation.*

US$ million	2017	2016
Group revenue summary		
Letšeng sales – rough	**206.8**	184.6
Ghaghoo sales – rough[1]	**2.4**	–
Sales – polished margin	**0.6**	3.2
Sales – other	**0.6**	0.2
Impact of movement in own manufactured inventory	**3.9**	1.8
Group revenue	**214.3**	189.8

[1] Ghaghoo's revenue in 2016 was capitalised to the carrying value of the development asset as the mine had not reached full commercial production for accounting purposes.

Royalties consist of an 8% levy paid to the Government of Lesotho and a 10% levy paid to the Botswana Department of Mines on the value of diamonds sold by Letšeng and Ghaghoo, respectively. Selling costs relating to diamond selling and marketing-related expenses are incurred by the Group's sales and marketing operation in Belgium. During the year, royalties and selling costs increased by 9% to US$18.8 million, mainly driven by the improvement in revenue.

Operational expenses

While revenue is generated in US dollar, the majority of operational expenses are incurred in the relevant local currency in the operational jurisdictions. The Lesotho loti (LSL) (pegged to the South African rand) and Botswana pula (BWP) were stronger against the US dollar during 2017. The impact of the stronger local currencies, negatively impacted the Group's US dollar reported costs. Group cost of sales before exceptional items was US$137.7 million, compared to US$98.8 million in the prior year, the majority of which was incurred at Letšeng.

Exchange rates	2017	2016	% change
LSL per US$1.00			
Average exchange rate	**13.31**	14.70	(9.5)
Year-end exchange rate	**12.38**	13.68	(9.5)
BWP per US$1.00			
Average exchange rate	**10.34**	10.89	(5.1)
Year-end exchange rate	**9.83**	10.68	(8.0)
US$ per GBP1.00			
Average exchange rate	**1.29**	1.35	(4.4)
Year-end exchange rate	**1.35**	1.24	8.9

Group financial performance continued

Letšeng mining operation

Due to the higher proportion of Satellite pipe ore mined in the current year, waste stripping costs amortised increased to US$67.9 million (2016: US$34.7 million) increasing cost of sales at Letšeng by 30% to US$127.6 million (2016: US$97.8 million).

In line with the mine plan at Letšeng, 29.7 million tonnes of waste were mined (2016: 29.8 million tonnes of waste). During 2017, tonnes treated were 3% lower than 2016 due to reduced plant availability and downtime associated with the installation and commissioning of the split front-ends for Plants 1 and 2 during H1 2017, as well as a reduced feed rate into Plant 2 in H2 2017, driven by a crack in the scrubber shell. Notwithstanding these lower treated tonnes, carats recovered improved by 3% to 111 811 (2016: 108 206) mainly as a result of the improved Satellite to Main pipe ratio (33:67 compared to the previous year of 26:74) and additional carats recovered from a mobile XRT sorting machine, which was installed on a test basis to re-treat recovery tailings material. Ore tonnes treated was 6.4 million tonnes, of which 2.1 million tonnes were sourced from the Satellite pipe compared to 1.7 million tonnes in 2016.

Letšeng costs	2017	2016
Unit cost US$		
Direct cash cost (before waste) per tonne treated[1]	**11.24**	10.70
Operating cost per tonne treated[2]	**19.96**	14.64
Waste cash cost per waste tonne mined	**2.50**	2.09
Unit cost LSL (Local currency)		
Direct cash cost (before waste) per tonne treated[1]	**149.54**	157.29
Operating cost per tonne treated[2]	**265.57**	215.13
Waste cash cost per waste tonne mined	**33.23**	30.69
Other operating information (US$ million)		
Waste cost capitalised	**84.0**	70.4
Waste stripping cost amortised	**67.9**	34.7

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

Total direct cash costs (before waste) at Letšeng, in local currency, were LSL962.9 million compared to LSL1 045.4 million in 2016. The total direct cash costs (before waste) includes a once-off insurance receipt in the current year relating to the claim on the impact of the heavy snow storms and extreme weather disruption at Letšeng in July 2016 that resulted in 17 days of production being lost, reducing unit costs by LSL3.49 per tonne. This contributed to a unit cost per tonne treated of LSL149.54 relative to the prior year of LSL157.29, representing an effective decrease of 5%, notwithstanding the impact of local country inflation. This decrease is mainly the result of proactive cost management together with lower costs associated with the processing contractor due to the lower pricing achieved in the first half of the year which impacted unit costs by LSL7.52 per tonne.

Operating costs per tonne treated of LSL265.57 were 23% higher than the prior year's cost of LSL215.13 per tonne treated. The increase was driven by higher waste amortisation costs during the year, as a result of the different waste to ore strip ratios for the particular Satellite pipe ore mined. In addition to mining 24% more Satellite pipe material during the year, ore was sourced from a cut within the Satellite pipe with a significantly higher strip ratio compared to 2016 resulting in an amortisation charge of LSL140.32 per tonne treated (2016: LSL76.76 per tonne treated). The amortisation charge attributable to the Satellite pipe ore accounted for 79% of the total waste stripping amortisation charge in 2017 (2016: 61%).

The increase in local currency waste cash costs per waste tonne mined of 8% was impacted by local country inflation and longer haul distances to mine the various waste cuts, in line with the updated mine plan.

Ghaghoo mining operation (on care and maintenance)

With the ongoing difficult market conditions for Ghaghoo's production and the Company's focus on profitable operations, the decision was made to place the operation on care and maintenance. As a result, all operating costs for the year have been recognised in the income statement. The majority of these costs related to the operating costs incurred, net of revenue, to the date of attaining care and maintenance status of US$2.8 million, once-off costs associated to achieve care and maintenance status of US$3.6 million and ongoing care and

maintenance costs of US$2.1 million. The once-off costs mainly relate to retrenchment costs and costs associated with renegotiating and modifying existing contracts under the new care and maintenance environment as well as costs associated with the additional dewatering and sealing of the fissure which was damaged following an earthquake that occurred with an epicentre 25km from the mine. These once-off costs have been classified as exceptional items in the income statement, having an overall loss effect of 2.60 US cents on earnings per share in the year. Most of the prior year exceptional item relates to US$170.8 million impairment charge on Ghaghoo's development asset.

Corporate office

Corporate expenses relate to central costs incurred by the Group through its technical and administrative offices in South Africa and head office in the United Kingdom and are incurred in South African rand and British pounds. Corporate costs for the year reduced by 16% to an all-time low of US$9.2 million with the initial benefits of the Business Transformation process bearing fruit as the Group has pursued reducing its corporate footprint.

The share-based payment charge for the year was US$1.5 million. During the year, new awards were granted in terms of the long-term incentive plan (LTIP), whereby 1 382 200 nil-cost options were granted to certain key employees and Executive Directors. The vesting of the options to key employees is subject to the satisfaction of certain market and non-market performance conditions over a three-year period. The share-based payment charge associated with these new awards was US$0.2 million for the year.

Underlying EBITDA and attributable profit

Based on the operating results, the Group generated an underlying EBITDA, before exceptional items, of US$48.6 million. The reduced EBITDA from US$62.8 million in 2016 was driven by the increased waste amortisation charge at Letšeng and costs incurred at Ghaghoo, now being recognised in the income statement. Previously these costs were capitalised to the development asset on the balance sheet asset as the mine had not reached full commercial production for accounting purposes. Before exceptional items, the profit attributable to shareholders was US$9.1 million equating to 6.6 US cents per share, based on a weighted average number of shares in issue of 138.5 million. After including the effect of the exceptional items of US$3.6 million, the Group's attributable profit was US$5.5 million.

The Group's effective tax rate was 43.1% before exceptional items. The tax rate reconciles to the statutory Lesotho corporate tax rate of 25.0% rather than the statutory UK corporate tax rate of 19.25% performed in previous years, as this is now the jurisdiction in which the majority of the Group's taxes are incurred, following the Ghaghoo mine achieving full care and maintenance. Deferred tax assets were not recognised on losses incurred in non-trading operations.

Financial position and funding overview

The Group continued its disciplined cash management and ended the year with cash on hand of US$47.7 million (2016: US$30.8 million) of which US$35.2 million is attributable to Gem Diamonds and US$0.2 million is restricted. At year end, the Group had utilised facilities of US$46.3 million, resulting in a net cash position of US$1.4 million. Furthermore, standby undrawn facilities of US$36.2 million remain available, comprising US$13.9 million at Gem Diamonds and US$22.3 million at Letšeng (of which US$2.1 million relates to the mining complex project funding).

The Group generated cash from operating activities of US$97.4 million (2016: US$70.7 million) before investment in waste stripping costs at Letšeng of US$84.0 million and capital expenditure of US$17.8 million, incurred mainly at Letšeng.

After placing the Ghaghoo mine on care and maintenance, its US$25.0 million fully accessed facility was settled by utilising the available Gem Diamonds Limited US$35.0 million revolving credit facility (RCF). Subsequently, the Gem Diamonds Limited RCF was restructured to increase it from US$35.0 million to US$45.0 million. This restructured facility comprises two tranches, with the first tranche relating to the Ghaghoo US$25.0 million debt whereby quarterly capital repayments have been rescheduled to commence in September 2018 with final repayment by 31 December 2020. The second tranche of US$20.0 million is an RCF and includes an upsize mechanism whereby the available facility of this tranche will increase by a ratio of 0.6:1 for every repayment made under the first tranche.

Group financial performance continued

During the year, construction of the relocated mining complex at Letšeng, which is bank funded, commenced. The loan is an unsecured project debt facility of LSL215.0 million (US$17.3 million) which was signed jointly with Nedbank Limited and the Export Credit Insurance Corporation (ECIC). The loan is repayable in equal quarterly payments commencing in September 2018. At year end, LSL188.4 million (US$15.2 million) has been drawn down resulting in LSL26.6 million (US$2.1 million) remaining available.

At year end, the full LSL250.0 million (US$20.2 million) RCF at Letšeng was available.

Summary of loan facilities as at 31 December 2017

Company	Term/ description	Lender	Expiry	Interest rate[1]	Amount (US$ million)	Drawn down (US$ million)	Available (US$ million)
Gem Diamonds Limited	Three-year RCF and term loan	Nedbank	December 2020	London US$ three-month LIBOR + 4.5%	**45.0**	**31.1**	**13.9**
Letšeng Diamonds	Three-year RCF	Standard Lesotho Bank and Nedbank Lesotho	July 2018	Lesotho prime rate	**20.2**	**–**	**20.2**
Letšeng Diamonds	5.5-year project facility	Nedbank/ ECIC	August 2022	Tranche 1 (R180 million) South African JIBAR + 3.15% Tranche 2 (LSL35 million) South African JIBAR + 6.75%	**17.3**	**15.2**	**2.1**
Total					**82.5**	**46.3**	**36.2**

[1] At 31 December 2017 LIBOR was 1.69% and JIBAR was 7.16%.

Dividend

Based on the Group's available cash resources, the Board resolved not to propose the payment of a dividend based on the 2017 results.

Outlook

Focus in 2018 is to continue to build balance sheet strength through pursuing the optimisation of the operations and delivering the target of the Business Transformation as set out on pages 25 to 27, driving the objective of maximising shareholder returns with the intention of recommencing the payment of a dividend in the future. The proceeds from the sale of the 910 carat Lesotho Legend, which sold for US$40.0 million will further improve Letšeng's cash position.

Michael Michael
Chief Financial Officer

13 March 2018

Business Transformation

By turning the spotlight on enhancing the efficiency of our operations, we are shaping our business for a profitable and sustainable future for the benefit of all our stakeholders – targeting US$100 million cumulative cash cost savings and productivity improvements over the next four years.

Time for change

The Group has in recent years faced short and medium-term price pressures, challenging operational conditions and increasing costs related primarily to deeper mining, increased waste and longer haul distances. These factors have placed increasing pressure on margins and cash flow, in particular over the past two years. In response, management embarked on streamlining the business in 2016 with continued cost control focus in early 2017. In February 2017, the Group identified the need for a formal business review process, and with the assistance of McKinsey & Co., the roll-out of the Group-wide Business Transformation commenced in the second half of 2017. The Business Transformation primarily focuses on optimising mine planning, improving mining efficiencies, increasing plant uptime, placing greater emphasis on asset and contract management and driving capital discipline and stringent cost controls, bringing about significant cost reduction and improved productivity through optimising day-to-day performance.

A dedicated Business Transformation team, headed by the Chief Business Transformation Officer, and fully supported by the Chairman and Board of Directors, was tasked to ensure the successful implementation and ongoing sustainability of all cost reduction and productivity improvement opportunities. These opportunities were primarily generated by the entire workforce through focused idea generation sessions to drive bottom-up innovation and ownership.

The organisational health of the Group underpins the success and sustainability of the Business Transformation and through an organisational health index (OHI) survey, areas requiring improvement were identified and are being addressed. In addition, the dedication and performance of the Group's employees in driving the Business Transformation will be recognised and rewarded through a transformation incentive plan which will be self-funded through the gains of the Business Transformation. As optimising the benefit for our communities and minimising our impact on our environment is a key pillar of our strategy, certain identified initiatives have the added benefit of addressing these objectives in conjunction with the financial gain.

Delivering value

Through a vigorous planning phase, over 200 initiatives were identified, targeting cumulative cash cost savings and productivity improvements of approximately US$100 million over the next four years (net of implementation costs and fees). Thereafter, an annual run rate improvement of approximately US$30 million has been targeted from 2022 compared with the 2017 cost base. This target is based on the current operating environment and uncontrollable factors such as inflation, currency movements and any material once-off incidences will be excluded when measuring performance against the target.

The implementation phase of the Business Transformation commenced in the fourth quarter of 2017, and by year end, initiatives which will contribute approximately US$3.2 million to the cumulative US$100 million target over the next four years, were implemented, of which US$2.4 million relate to once-off savings and the sale of non-core assets. US$1.3 million of these savings had been cash flowed by year end.

Continuing the trend

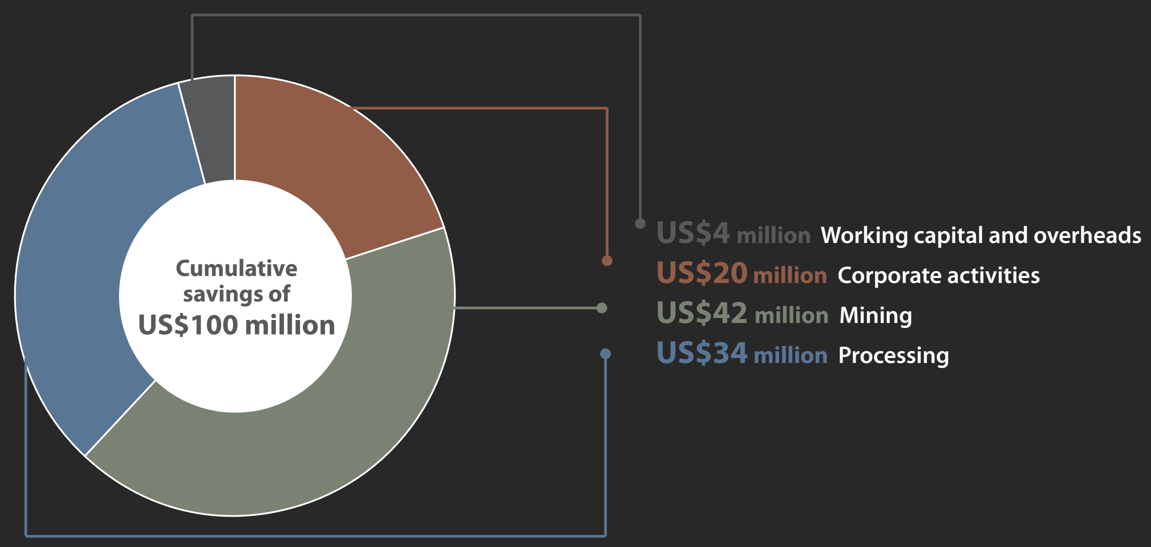
The Business Transformation continues to gain momentum in 2018. To date in the first quarter, implemented initiatives (including those implemented in 2017) will contribute approximately US$25.0 million to the cumulative US$100 million target over the next four years, of which US$4.0 million relates to once-off savings and the sale of non-core assets. The continued focus on driving improvements and efficiencies in the key metrics identified and in supporting the continuous identification of new initiatives to feed the Business Transformation pipeline will ensure an ongoing capturing of additional value while at the same time ensuring the sustainability of the implemented initiatives. In addition, a follow up OHI survey is scheduled during the last quarter of 2018 in order to assess progress against the initial survey outcome.

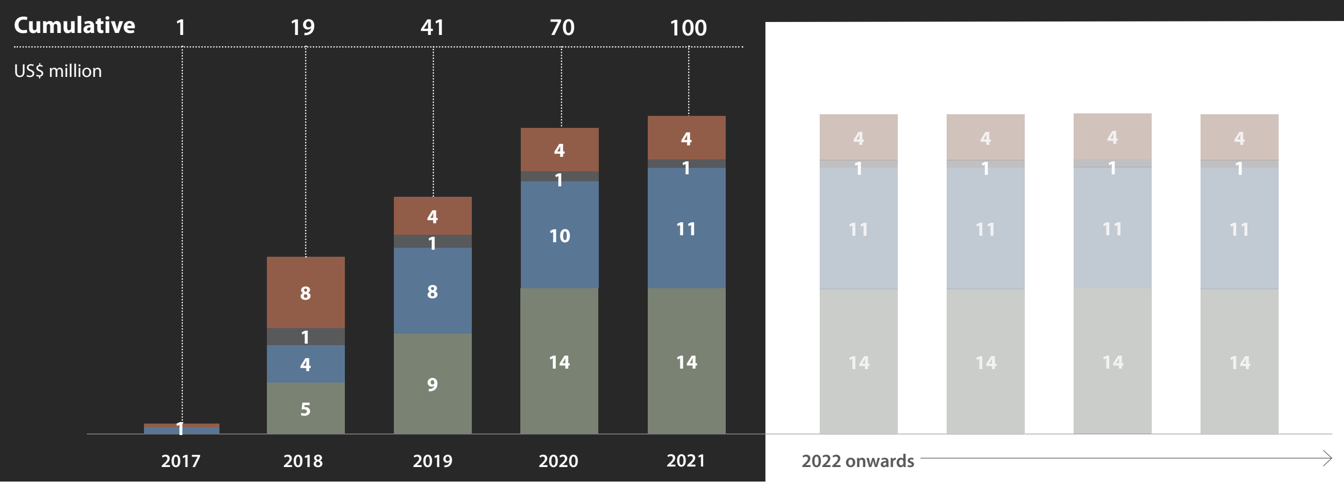
A healthy organisation has the ability to sustain exceptional performance over time. As part of the Business Transformation, an OHI survey was launched in July 2017.

This survey measured outcomes (how healthy we are); practices (how we run the Company) and values (what it feels like). The results of this survey informed a health plan which focused initiatives on 12 priority practices grouped under the levers of Clarity, Achievement, Recognition and Engagement – the CARE programme.

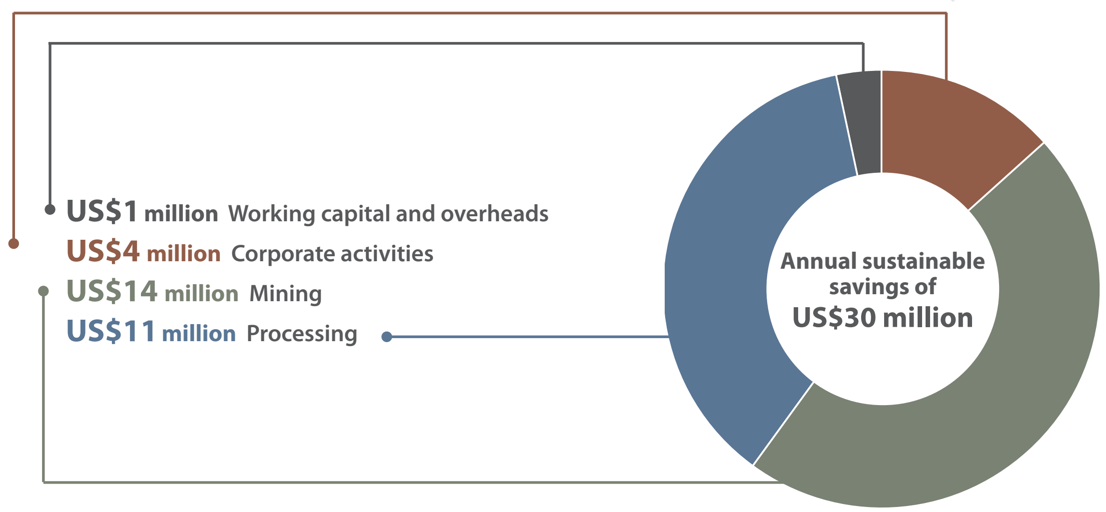
Currently 41 health initiatives have been identified to be implemented across the Group in two phases over a period of 18 months, the first phase having commenced in the last quarter of 2017.

Delivering US$100 million
(up to 2021)





Delivering US$30 million
(annually 2022 onwards)



	Activity	Objective	Impact
Mining US$ 42 million	US$ 31 million Drill, load and haul activities	Reduce mining costs through: • reviewing efficiencies, rates and tenure of mining contractor; • optimise support equipment requirements and associated cost; • improve haul roads to optimise truck speeds; • increasing truck capacity by 7% by installing greedy boards; and • improve drill rates by 30% by modernising the drilling fleet with a cost-efficient autonomous system.	Waste unit costs ↓
	US$ 6 million Pit design	Opportunities to steepen current slope angles are being studied with the benefit of reducing waste tonnes over the life of mine.	Waste tonnes ↓
	US$ 5 million Blasting practices	Changing blasting patterns, explosive mix and charging practices, leading to a reduction in blasting consumables by up to 30%.	Direct cash costs ↓
Processing US$ 34 million	US$ 16 million Plant uptime	More than 40 initiatives have been identified to improve plant uptime through: • improved maintenance (planned and unplanned); • improving feed management; • improving capacity of backup power; and • reducing operational delays.	Carats recovered ↑ Ore tonnes treated ↑
	US$ 16 million Additional throughput	A mobile XRT sorting machine has been deployed to retreat tailings. The Alluvial Ventures contract for the operation of the third plant at Letšeng is being reviewed in relation to value and extended tenure to mid-2020.	Carats recovered ↑ Ore tonnes treated ↑
	US$ 2 million Plant consumables	Efficient usage and reduced consumption of plant consumables.	Direct cash costs ↓
Working capital and overheads US$ 4 million	US$ 1 million Working capital	Improved working capital management with specific focus on redundant and slow-moving plant inventory at Letšeng.	Once-off working capital ↓
	US$ 3 million Overheads	Reducing support service costs at Letšeng through contract reviews and focused contract management. Implementing stricter spend control procedures on admin and support costs. Reducing the Maseru corporate office footprint and office costs.	Direct cash costs ↓
Corporate activities US$ 20 million	US$ 16 million Non-core assets	Reduce or eliminate the ongoing care and maintenance costs at Ghaghoo. Selling non-core mining fleet and redundant stock at Ghaghoo. Selling other non-core assets across the Group.	Care and maintenance costs ↓ Once-off sales proceeds
	US$ 4 million Corporate costs	Implementation of stricter spend control procedures on admin and support costs and focusing on fit-for-purpose operations. Downsizing office footprint in the United Kingdom and South Africa.	Corporate costs ↓

Technology and innovation

Diamond winning innovation to reduce breakage and increase recovered value.

The Letšeng mine has a unique diamond distribution with a significant portion of its revenue held in the +5mm fraction (greater than two carats). The quest to optimise the traditional diamond recovery process has not yet yielded the full potential to reduce diamond damage. Gem Diamonds continues to explore and evaluate new technologies to enhance diamond recovery and extract maximum value.

The opportunities for improved revenue through reducing diamond damage are (i) early identification of liberated or locked diamonds within kimberlite and (ii) non-mechanical means of liberating these diamonds. During 2017 progress was made in the development of key technologies that could be used to significantly reduce diamond damage, reduce costs and improve earnings.

Diamond detection

Collaborations were established with various entities and institutions to advance the development of detection technology that can identify a diamond within kimberlite. The prospect of having technology that can detect diamonds within kimberlite at a rate of 1 000 tonnes per hour, makes this a very attractive opportunity for the Group. Among others, the Group evaluated positron emission tomography (PET) technology, which is a sensor-based sorting technology that can be applied to scan kimberlite to identify the diamondiferous rocks.

During the year, the Group embarked on a technical due diligence to assess the scientific merit, scalability and commercialisation options of this technology. The technical due diligence concluded that:

- the physics of the PET technology applied in the minerals industry is sound and functional;
- scalability challenges were identified that could be addressed in the development and engineering phase; and
- value engineering is required to optimise the material handling and associated capital expenditure.

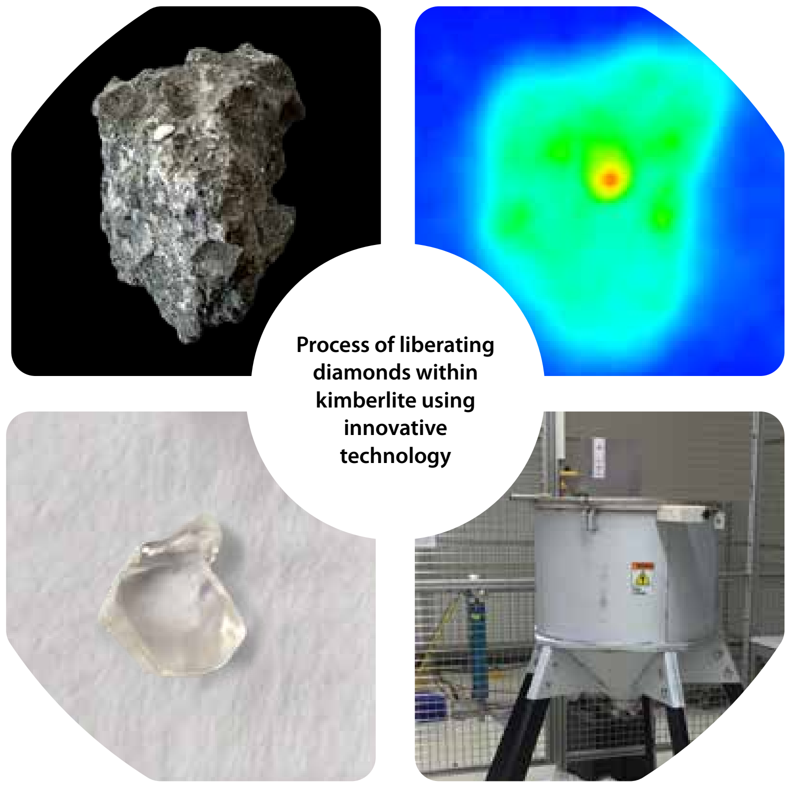
Diamond liberation

Once a diamond has been identified within the kimberlite, the next step is to liberate this diamond without causing any damage. Gem Diamonds has developed a non-mechanical crushing system that utilises electrical power to break the kimberlite. During the year, a prototype was developed and has been successfully tested in Johannesburg, South Africa. Further testing at higher altitude is being carried out at the Letšeng mine.

The Group believes that the advancement of these and other technologies to detect and liberate diamonds within kimberlite will change the future processing paradigm, with a commensurate increase in the overall profitability.

1
> Kimberlite rock to be scanned using PET technology

2
> Scan results detecting diamond within kimberlite



3
> Electrical power utilised to break kimberlite and liberate diamond

4
> Rough 0.91 carat diamond exposed

The Lesotho Legend

In January 2018, one of the largest diamonds in history was discovered at the Letšeng mining operation at an elevation of 3 100 metres above sea level in the Maluti mountains of Lesotho in southern Africa.

Weighing 910 carats, this exceptional top-quality D colour, Type IIa rough diamond is the fifth largest gem quality diamond ever found and the largest diamond to be recovered at Letšeng.

The exceptional size, colour and quality of diamonds produced at Letšeng makes it the highest dollar per carat producing kimberlite diamond mine in the world and the recovery of the Lesotho Legend reinforces the unsurpassed quality of this mine.

This magnificent and historically significant diamond has been named the Lesotho Legend to celebrate not only the mine, but also its country of origin.

Letšeng is famously known for producing some of the world's most remarkable diamonds, including the 603 carat Lesotho Promise, the 550 carat Letšeng Star and the 493 carat Letšeng Legacy.

Letšeng

2017 IN REVIEW

- Seven diamonds larger than 100 carats recovered
- 38 diamonds achieved a value greater than US$1.0 million each
- Achieved an average diamond price of US$1 930 per carat
- Commenced construction of the new mining complex commenced
- Retained OHSAS 18001 and ISO 14001 certification
- Reported one lost time injury

Operational performance

As part of the annual planning cycle, Letšeng implemented an updated life of mine (LoM) plan designed to reduce waste mined over the life of the open pit. This resulted in a reduction of waste mined of 5 million tonnes and improved cash flows by c. US$9.0 million in 2017.

2017 saw an increase in the amount of Satellite material mined, compared to 2016, in line with the updated LoM plan. Letšeng treated 6.4 million tonnes during the year, 3% lower than that treated in 2016. Of the total ore treated, 66% was sourced from the Main pipe, 32% from the Satellite pipe and 2% from the Main pipe stockpiles. Recovered grade was higher than 2016, largely due to the greater percentage of higher-grade Satellite pipe ore processed during 2017. Carats recovered were marginally up from 2016, trending well within the expected grade supported by the mine call factor of 99% and reserve price index of 91%, both of which improved compared to 2016.

Both Letšeng plants experienced a reduction in engineering availability in H1 2017, negatively impacting ore tonnes treated. These were caused mainly by the increased downtime due to unplanned maintenance and maintenance overruns. An internal and external review of the maintenance framework, strategies and tactics pointed to deficiencies in the system and execution methodology that contributed to the lack of plant and system performance in comparison to international benchmarks. This triggered a full review of the asset management system and process. The maintenance management system and processes have been vastly improved and the availability of the plants improved over the course of the second half of the year, and have also led to the initiatives that will inform the 'plant uptime' activity as set out in the Business Transformation section on page 27. In addition, Plant 2's scrubber shell cracked in H2 2017, necessitating a reduction in the feed rate and the design of a bypass system (installed in January 2018) in the event of the scrubber failing prior to the replacement scrubber being commissioned. The fabrication of the new scrubber shell is progressing according to plan and installation will take place in Q2 2018.

A mobile XRT sorting machine was installed on a test basis in H2 2017 to re-treat previously generated recovery tailings. During the year, 3 298 carats were recovered from re-treating 25 404 tonnes of these recovery tailings. Based on the successful results, focus on operating the machine on a 24-7 basis has informed one of the initiatives which will contribute to the 'additional throughput' initiatives as set out in the Business Transformation section on page 27. The re-treatment of the recovery tailings material will be concluded in 2018 and the machine will then be used to re-treat tailings generated from the Alluvial Ventures operation.

Operational performance	2017	2016	% change
Waste tonnes mined	**29 718 985**	29 776 058	(0.2)
Ore tonnes mined	**6 717 905**	6 694 753	0.3
Ore tonnes treated	**6 439 299**	6 646 098	(3.1)
Carats recovered – production	**108 513**	108 206	0.3
Grade recovered[1] (cpht)	**1.69**	1.63	3.7
Carats recovered – re-treated recovery tailings	**3 298**	N/A	N/A
Carats sold	**107 152**	108 945	(1.7)
Average price per carat (US$)	**1 930**	1 695	13.9

[1] *Based on production carats and excludes carats from the tailings re-treatment.*

Details of overall costs and capital expenditure incurred at Letšeng during the year are included in the Group financial performance section on pages 20 to 24.

Large diamond recoveries

Letšeng recovered seven +100 carat diamonds during the year, compared to five recovered in 2016. The largest was a 202 carat Type IIa diamond recovered in November. There was also a 22% increase in the number of diamonds recovered between 20 and 60 carat categories.

The operation continues to focus on diamond damage as a key lever in creating value at Letšeng. All aspects of the plant configuration were reviewed during the course of the year and modifications to the plant set up were implemented. These changes relate to the set up of the crushing circuit, the DMS feed arrangements and drop heights into the crushers. The Group is also in the process of advancing the work on identifying diamonds within kimberlite, as well as a method to liberate diamonds from rock using a non-mechanical crushing system. For more detail on this process, refer to the Technology and innovation section on page 28.

The table below shows the frequency of large diamonds.

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

New mining complex

The construction of the relocated mining complex, which is required to make way for the expansion of the open pits, was 86% complete by year end and is expected to be completed in H1 2018 on time and within budget.

Mineral resources and reserves

No additional resources and reserves have been added since the last update performed by Venmyn Deloitte in 2015, which is available on the Company's website (www.gemdiamonds.com). The core drilling project to firm up the existing resource base commenced during the year. The results of this project will be utilised to make operational and infrastructural adjustments to extract maximum value from the operation.

Health, safety, social and environment (HSSE)

Letšeng retained its OHSAS 18001 and ISO 14001 certification for the third consecutive year. The operation's occupational health, safety and environmental management systems were audited and rated against these OHSAS 18001 and ISO 14001 standards independently. Letšeng recorded one LTI in 2017 and remains committed to identifying and mitigating risks to the health and safety of its employees, contractors, and project affected communities (PACs).

The operation considers the protection of its natural environment as critical to sustainable success and as a reflection of this commitment, Letšeng recorded no major or significant environmental incidents for the year.

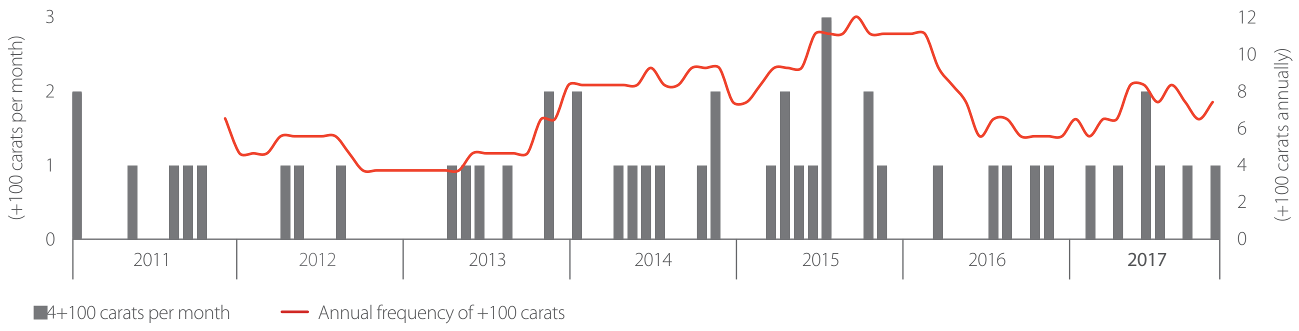
No major or significant stakeholder incidents were recorded in 2017 and Letšeng continues to work closely with all its stakeholders. PACs, identified through a comprehensive social and environmental impact assessment, form an important part of the operation's success.

During the year US$0.3 million was invested towards community projects. This investment was made in accordance with a needs analysis and corporate social investment strategy that is specific to Letšeng. Infrastructure and small and medium enterprise developments received the bulk of the social investment. The dairy project, which was a flagship project started in 2016, was successfully brought into operation during 2017. This flagship social investment project is aimed at empowering local farmers by providing them with the means to generate income from dairy farming.

2018 focus

- **Deliver the Business Transformation initiatives, detailed on pages 25 to 27**
- **Complete the new mining complex on time and within budget**
- **Further investigate technologies to enhance diamond recovery and reduce diamond damage**

Letšeng +100 carat diamonds



Ghaghoo

2017 IN REVIEW

- Achieved full care and maintenance in March 2017
- Sold last parcel of diamonds for US$175 per carat
- Achieved zero LTIs

In February 2017, a decision was made to place the Ghaghoo mine on care and maintenance due to the suppressed diamond market for the size and quality of goods produced. Full care and maintenance status was achieved in March 2017 with no major or significant environmental or stakeholder incidents.

A significant amount of work has been done to put the operation on care and maintenance and all contracts were renegotiated and modified for the new operating environment.

During the year, an earthquake of magnitude 6.5 with an epicentre 25km from the mine occurred. There was superficial damage to the surface infrastructure, however, the seal of the underground water fissure was damaged. This led to a large influx of water into the underground workings of the mine and dewatering activities were increased. Water levels are being effectively managed with continuous pumping.

In total, US$3.6 million relating to the once-off costs of placing the mine on care and maintenance and the costs associated to the increased dewatering activities due to the earthquake have been classified and reported as exceptional costs during the year.

The 13 021 carats on hand were sold during Q3 2017, achieving an average price of US$175 per carat and as part of the Business Transformation objective to sell non-core assets, diamond samples recovered during re-treatment of tailings material and from the VK main portions of the orebody were sold during the year for US$0.1 million. Further initiatives identified include the sale of certain non-core moveable assets and redundant stock.

As previously announced, an offer to acquire 100% of the Ghaghoo asset was received and was considered by the Board. However, discussions did not result in agreement between parties and the offer was withdrawn. Discussions with other interested parties are continuing.

Operational performance	2017[1]	2016
Ore tonnes mined	**41 121**	231 099
Ore tonnes treated	**43 991**	217 372
Carats recovered	**8 084**	40 976
Grade recovered (cpht)	**18.4**	18.9
Carats sold	**13 021**	47 266
Average price per carat (US$)	**175**	152

[1] *Year to 31 March 2017, the date full care and maintenance was achieved.*

HSSE

No major or significant environmental or stakeholder incidents occurred during the year. The operation recorded zero LTIs during 2017.

2018 focus

- **Reduce care and maintenance costs**
- **Pursue sale of the mine**

Sales, marketing and manufacturing

2017 IN REVIEW

- Letšeng achieved an average price of US$1 930 per carat
- 7.87 carat pink diamond achieved US$202 222 per carat (second highest dollar per carat achieved for a Letšeng rough diamond)
- 8.65 carat pink diamond achieved US$164 855 per carat (seventh highest dollar per carat achieved for a Letšeng rough diamond)
- 58.38 carat white diamond achieved US$61 905 (highest dollar per carat achieved for a Letšeng white rough diamond during the year)

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

Sales and marketing

The Group's rough diamond production is marketed and sold by Gem Diamonds Marketing Services in Belgium. Letšeng's rough diamonds are viewed and sold through an open tender in Antwerp, unless extracted for either manufacturing or strategic partnerships.

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

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

Operational performance

During the year, the Group continued to build its premium client base. Currently, the Group has 393 approved and registered clients. Eight large, high-value rough diamond tenders and four small rough diamond tenders were held during the year for Letšeng, all of which were very well attended, with an average attendance of 130 clients per tender. The Group continually engages with its clients to understand their challenges and needs and, where possible, accommodates these in its marketing strategy. In this regard, a pilot viewing of Letšeng's large rough diamonds was held in Tel Aviv in October in addition to the usual viewing in Antwerp. The Tel Aviv viewings are planned to continue in H1 2018 following the initial success of the pilot viewing.

Prices achieved for Letšeng's large, high-value diamonds remained firm during the year. The flexible marketing channels used in the sale of Letšeng's high-quality diamonds contributed to achieving an average price of US$1 930 per carat in 2017.

Following Ghaghoo being placed on care and maintenance, the final sale of 13 021 carats was concluded in July achieving an average price of US$175 per carat.

Rough diamond analysis and manufacturing

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

To attain highest value for Letšeng's top-quality diamonds, certain high-value rough diamonds are selected for manufacturing and this process is managed by Baobab.

Operational performance

Baobab continued to provide specialised services to the Group and to third-party clients. Services to third-party clients increased and contributed additional revenue of US$0.3 million to the Group.

To take advantage of the stronger rough diamond market experienced during the year, no diamonds were extracted for manufacturing during 2017. This illustrates the benefit of a flexible marketing strategy to capitalise on the fluctuation of the rough and polished diamond markets.

2018 focus

- **Continue to build on the unique Gem Diamonds marketing experience**
- **Expanding marketing footprint in international markets**

OPERATING REVIEW

Sustainable development

2017 IN REVIEW

- Zero fatalities, for the fifth consecutive year
- One lost time injury (LTI) recorded
- 2.02 AIFR
- Zero major or significant stakeholder incidents
- Zero major or significant environmental incidents

Sustainability for the Group is considered a fundamental part of its strategy, which seeks to create long-term shareholder value by embracing opportunities and managing risks derived from economic environmental and social developments.

Managing the Group's material matters

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

Gem Diamonds has organised its material matters under five core pillars, namely:
- financial and operational;
- governance and ethics;
- employees;
- social; and
- environmental.

Each pillar makes up a core component of the business and the way in which Gem Diamonds sustainably mines diamonds. It is by monitoring these matters and remaining flexible in its approach to them that the business drives sustainable results and that its impact on the places and communities where it operates is positive and any environmental damage is appropriately mitigated.

This Sustainable Development Review provides a summary of the information contained on the 2017 Sustainable Development Reporting Platform, available on Gem Diamonds' website (www.gemdiamonds.com). In 2017, the Group took a decision to migrate sustainable development reporting from annual printed reports to an online reporting platform. This decision will not only assist in the reduction of the Group's carbon footprint and associated reporting costs, but also assist the Group to communicate sustainability performance more effectively with its stakeholders. Readers are encouraged to read the information below in conjunction with the full Sustainable Development Reporting Platform.

The review highlights the progress made and challenges faced during 2017 in pursuing the Group's Sustainable Development goals.

Financial and operational

Gem Diamonds seeks to create economic value while delivering ongoing benefit to all its stakeholders. The Group's leadership approach is one that stimulates and encourages integrity at all levels of the business.

During 2017, Gem Diamonds embarked on a Business Transformation process aimed at enhancing operational efficiencies, improving performance, and controlling costs. This transformation process aims to create sustainable value and sustainability forms a fundamental part of this. Improving process efficiencies and reducing wasteful practices will assist the Group in protecting the natural environment in which it operates as well as generate significant savings. The Group endeavours to continuously engage with its employees throughout this process and an organisational health campaign has been launched to facilitate employee engagement and consultation. The transformation process is cognisant of the Group's commitment to zero harm and therefore no changes will be implemented that will compromise sustainability, the environment or the health and safety of our employees or PACs.

Sustainable development continued

The Group's sales and marketing team is tasked with developing the Letšeng brand and increasing and improving its 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.

For more information see pages 25 to 27, and 33 and 34.

Governance and ethics

As an organisation whose product derives its value from the perception of its consumers, the Group is committed to selling diamonds that are produced and distributed in accordance with legal and ethical standards. To achieve this, the Group has fostered a strong culture of corporate integrity and governance, which extends throughout the full business cycle. For more information, refer to the Governance section on pages 42 to 85.

Protecting human rights

Gem Diamonds recognises that diamonds, when mined and traded responsibly, can have a beneficial impact on the areas in which it operates. The Group acknowledges, however, that if diamonds are mined and sold irresponsibly, they may fuel conflict and contribute to human rights violations.

During 2017, Gem Diamonds conducted human rights training for 38 (2016: 264) employees. Beyond training, the Group is committed to adhere to its policies on the fair treatment of employees through negotiated remuneration policies and stringent health and safety practices.

Gem Diamonds condemns any human rights violations, including gender, age and racial injustices in the workplace. Non-discrimination policies are implemented across the Group, and stringent policies to prevent child and forced labour are adhered to. No cases of child or forced labour involving Gem Diamonds have ever been reported. Gem Diamonds also ensures rigorous controls are in place throughout its supply chain to ensure no slavery or human trafficking occurs, and during the year, Gem Diamonds signed a statement to confirm its commitment with the United Kingdom Modern Slavery Act. Furthermore, none of the Group's operations have engaged in the relocation or resettlement of any PACs during the reporting period.

Prioritising business integrity

The Group aims to supply clients with rough and polished diamonds while meeting its responsibilities as an ethical and accountable organisation.

The Group complies with the provisions of the Kimberley Process and all rough diamond exports are certified in terms of the Kimberley Process certification scheme, which 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, product, and service information. To ensure that the Group's diamonds reach the market through the correct channels, strict controls are applied concerning potential clients. Potential clients are subject to a 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 maintains the highest levels 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.

Raising standards across the pipeline

As part of its initiative to identify and mitigate risk, the Group has an established whistleblowing policy, which allows for anonymous reporting by employees of any unethical activity taking place in the workplace.

To ensure all those in the supply chain support the ethos of the Group, there are procurement policies in place, which drive rigorous vetting processes. Potential risk areas are scrutinised, and goods and services are only procured from reputable companies. Suppliers are required to adhere to the Group's ethical policies.

The Group has adopted a zero-tolerance approach to acts of bribery and corruption involving any of its staff and third-party representatives or associates and is committed to upholding and complying with the requirements of the UK Bribery Act. All customers and third parties with whom business is transacted are required to adopt the same zero-tolerance approach to bribery and corruption as implemented by the Group. Group internal audit carries out regular reviews of the Group's anti-bribery and corruption policy to ensure continued compliance with the UK Bribery Act requirements.

Employees

The Group is committed to providing a work environment that actively promotes the health and safety, as well as the development and retention of its employees. This is achieved through investing in employees' skills and capabilities and promoting equality and diversity in the workforce.

Providing a safe working environment

Gem Diamonds' health and safety management system is based on the principles of OHSAS 18001 and relevant international best practice standards. These systems are independently audited on an annual basis to ensure compliance and provide the organisation with improvement opportunities.

Gem Diamonds reported a fatality-free year. One LTI occurred, down from five in 2016, resulting in an LTIFR of 0.04 (2016: 0.18). The Group-wide AIFR was 2.02 (2016: 1.93).

Gem Diamonds 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 was 74 666 (2016: 74 110).

Attracting and retaining qualified people

Skills shortages in the mining sector highlight the importance of attracting and retaining staff.

At year end, the Group employed 412 (2016: 446) employees and 1 581 (2016: 1 739) contractor employees. The average

number of own employees was 408 (2016: 481), while the average number of contractor employees was 1 682 (2016: 1 650).

The Group-wide absenteeism rate decreased to 2.1 (2016: 3.9) days per person in 2017.

High staff turnover can affect productivity and result in a loss of intellectual capital. Monitoring staff turnover helps manage this risk and gives an indication of employee satisfaction. The Group-wide staff turnover has increased to 8.76% (2016: 8.6%). This percentage takes into consideration voluntary turnover and does not include retrenchments. Although voluntary turnover increased marginally during the year, this is taken to be a normal occurrence in organisations undergoing change. The Group will, however, monitor these turnover rates and employee satisfaction indicators to ensure, to the best of its ability, that quality people are retained.

During 2017, as part of the Business Transformation process, the Tsoelopele organisational health campaign was launched. A critical part of ensuring that the business is operating effectively lies within business well-being and the Tsoelopele campaign is aimed at understanding where business well-being should be improved. An organisational health index survey was conducted, and 12 priority practices were identified and grouped under the title CARE, an acronym that stands for Clarity, Achievement, Respect and Engagement. Following the survey, several initiatives were implemented to address priority practices and these initiatives will run over an 18-month process, after which the Group will conduct another survey to measure whether it achieved its campaign goals.

Group-wide hours per capita vocational training in 2017 decreased by four hours per employee when compared to 2016. This decrease can be attributed to a Group-wide focus on transitioning training from long-term training programmes through external service providers to short-term, internally provided training programmes.

Employees at all the Group's operations are remunerated in line with market-related rates. Gem Diamonds has a policy of remunerating male and female employees in the same grade at the same level. The lowest graded employees continue to receive higher remuneration than the respective host country's minimum wage standards.

In Lesotho and Botswana, there is no prescribed minimum wage in the mining sector. Therefore, the construction industry minimum wage is used as a standard. In 2017, the lowest graded permanent employees at Letšeng and Ghaghoo were remunerated at 212% and 475% above this minimum wage respectively. In total, 2% (2016: 2%) of the workforce at Ghaghoo and 0.2% (2016: 0.2%) at Letšeng were compensated at the operation's minimum wage. Labour rates are determined in line with market-related rates, with external factors such as availability of skills, qualification, seniority and work experience being taken into consideration. Minimum requirements regarding remuneration are contractually stipulated with principal labour contractors.

In addition to basic remuneration, benefits and incentives are offered to employees. In 2017, US$36.3 million (2016: US$36.5 million) was spent on employee wages, benefits and incentives, including contractor employees.

Due to the change in the operational requirements at Ghaghoo, the Company had no alternative but to reduce its workforce size. During this process, the Company followed the provisions as set out in the Botswana Employment Act, which related to, among others, consultation with staff and payment of severance packages in line with legislated requirements.

In total, 100% (2016: 100%) of Basotho nationals employed at Letšeng subscribe to the mandatory government retirement provision scheme, to which Letšeng contributes 7.5% (2016: 7.5%) of annual salary per employee. Employees at Ghaghoo receive a gratuity payment upon completion of their contract, which is equal to 15% of their monthly basic salary for each month of employment. Employees at our Belgian operations form part of a mandatory government retirement scheme, 32% (2016: 32%) of the annual salary per employee is contributed to this scheme by the Belgian operations.

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

Letšeng operates continuously, with shift configurations determined by local legislative requirements, as well as operational and market demands.

Group staff demographics (%)

Employee level	% male	% female	% local citizens	% age <30	% age 31 to 50	% age >50
2017						
Governance Committee Board*	**100**	**0**	**26**	**0**	**41**	**59**
Senior management	**92**	**8**	**69**	**0**	**46**	**54**
Middle management	**78**	**22**	**84**	**1**	**81**	**18**
Total workforce	**81**	**19**	**97**	**14**	**74**	**12**
2016						
Governance Committee Board*	93	7	36	0	39	61
Senior management	88	12	25	0	66	34
Middle management	81	19	96	6	82	12
Total workforce	81	19	96	13	75	12

** Includes subsidiaries.*

Sustainable development continued

Providing skills development opportunities for employees
By investing in developing employees' skills through the provision of training opportunities throughout the Group, employees develop personally and professionally.

The total hours of training provided to employees during 2017 were:
- senior management: 379 (2016: 1 086 hours);
- middle management: 457 (2016: 3 122 hours); and
- non-management: 15 989 (2016: 21 062 hours).

Performing annual career reviews at all its operations remains a goal across the Group. There was an increase in the percentage of career reviews performed during the year from 22% in 2016 to 26% in 2017. In total, 72% (2016: 26%) of female employees received reviews, and 20% (2016: 21%) of male employees received reviews. The increase in the percentage of female employees receiving reviews can be attributed to some of our contractor partners conducting reviews for the first time.

Ensuring employees remain healthy
Gem Diamonds is committed to providing an environment that actively promotes and supports employee health and well-being.

Part of the Group's comprehensive induction programme at the mining operations for new employees includes a complete medical examination, further promoting its approach to employee well-being and care.

In 2017, Letšeng and Ghaghoo achieved a 100% (2016: 100%) pre-employment medical rate.

The Group has implemented a standard process at the mining operations for exiting employees, which includes exit medical examinations. This further supports Gem Diamonds' stance on complete employee care and is necessary to reduce the Group's long-term exposure to any future health claims. In 2017, Letšeng and Ghaghoo achieved 100% (2016: 100%) exit medical rates.

In 2017, 8 437 (2016: 7 102) medical cases were recorded across the Group. Of the cases reported in 2017 (2016: 7.7%) only 7.9% were related to occupational or environmental diseases. The majority of cases treated at the mining operations were primary healthcare issues, rather than occupational ones.

The minor increase in the number of occupational health cases in 2017 reflects an increase in the number of typhoid cases reported at Letšeng. However, this increase does not reflect an increase in symptomatic cases presented on site. Instead it reflects the Group's new approach to typhoid management, which involves proactive screening for asymptomatic carriers of the disease.

Serious disease prevention and management programmes continue to expand and mature, resulting in a decreasing number of interventions required by the Group's operations. A total of 6 464 (2016: 5 769) serious disease prevention and management interventions were carried out during the year. The interventions consisted of educational interventions and counselling, as well as prevention and risk control measures.

Social

The Group aims to contribute positively and sustainably to the social and economic state of the PACs and its host countries.

Safeguarding our communities
Gem Diamonds is committed to ensuring its mining operations do not negatively impact the health and safety of its communities. One of the most significant risks posed to the communities and receiving environments surrounding a mine is the potential for dam wall failure.

Gem Diamonds ensures that the strictest management plans are put in place to ensure complete stability and conformity to the established system. The Group takes a proactive approach to ensuring the safety and integrity of dams, with dam walls undergoing stringent safety checks in the form of inspections and audits. Facility risk assessments, resistivity surveys and flow-model studies are also regularly carried out to ensure responsible management of the facilities.

An early warning system, involving radio and alarm systems together with community training and awareness programmes, is used to ensure the emergency readiness of potentially affected communities.

During the year, zero incidents of compromised dam integrity were recorded and the rehabilitation of Mothusi Dam at Letšeng was successfully completed.

Ensuring positive stakeholder engagement with our local communities
Gem Diamonds recognises that trust is hard earned and easily destroyed. Understanding this, the Group strives to foster mutually beneficial partnerships with its stakeholders. This is primarily achieved through active dialogue with stakeholders, focusing on listening and participation at all business levels.

Each operation has developed a framework for stakeholder consultation. These plans are put in place to ensure that all stakeholders are engaged and that the PACs are consulted on a regular basis. Recognising the cultural and traditional individualities of each of the Group's operational communities is essential, and the aim is to function in a manner which is transparent and respectful.

During 2017, no major or significant stakeholder incidents occurred at any of Gem Diamonds' operations (2016: none). There were also no incidents involving any violation of the rights of the indigenous people on whose land the Group operates.

Minimising potential negative social impact
Gem Diamonds undertakes social and environmental impact assessments (SEIAs) in line with international best practice including the Equator Principles, which are based on World Bank guidelines and the International Finance Corporation's Performance Standards on Environmental and Social Standards, while meeting local requirements. These assessments include comprehensive public participation to ensure the Group understands the surrounding communities and their concerns to ensure any negative impacts are minimised while also identifying opportunities for positive outcomes.

The SEIAs involve plant and wildlife surveys; soil, water and air quality studies; archaeological surveys; visual and socio-economic impact assessments and an extensive public participation process. The communities affected by our mines are closely involved from inception.

Working with communities to understand and meet their needs
Gem Diamonds' goal is to comply with legal requirements in meeting community needs to leave a positive legacy.

The Group-wide corporate social investment (CSI) expenditure amounted to US$0.5 million (2016: US$0.5 million). 2017 saw a shift in focus at Ghaghoo from proactive intervention to project maintenance, in line with our objective of honouring our commitments to communities while managing the pressures of strained market conditions.

The CSI expenditure at Letšeng amounted to US$0.3 million (2016: US$0.3 million). The majority of this expenditure was allocated to infrastructure and small and medium enterprise development related to the Butha Buthe vegetable project and the Mokhotlong dairy farm project.

The CSI expenditure at Ghaghoo was approximately US$80 000 (2016: approximately US$50 000). The majority of expenditure related to the construction of a house with handicapped facilities for an employee who was injured at Ghaghoo in 2015.

Supporting communities through localisation to create shared value
Localisation of the workforce is a priority across the Group. Where operations are able to match available skills in the PACs with on-site requirements, local recruitment takes place. By employing members of its PACs or by engaging local businesses in the Group's supply chain, a significant positive contribution can be made to local communities. These practices assist Gem Diamonds in maintaining its social licence to operate through job creation and skills development.

In 2017, 97% (2016: 97%) of the Letšeng workforce comprised Basotho nationals.

During 2017 the total Group in-country procurement amounted to US$189.7 million (2016: US$141.2 million). Total in-country procurement at Letšeng was US$174.3 million (2016: US$121.6 million). PAC local procurement at Letšeng increased to US$2.0 million (2016: US$1.1 million). The procurement from regional communities increased to US$27.9 million (2016: US$24.9 million). Due to the remoteness of the Ghaghoo operation, the majority of procurement takes place at a national level, rather than on a PAC or regional level. Procurement expenditure on a national level decreased to US$9.8 million (2016: US$13.5 million). These decreases in local procurement spend were in line with a Group-wide focus on cost reduction as well as Ghaghoo being placed on care and maintenance.

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

Environmental

To safeguard the natural environments in which it operates, Gem Diamonds invests in various protection measures. The Group invested a total of US$4.7 million (2016: US$0.8 million) in environmental training, specialist consultation, research and development, green purchases, and other environmental protection measures.

For the eighth consecutive year, Gem Diamonds recorded zero major environmental incidents. This was also the seventh consecutive year that no fines were incurred for environmental transgressions or non-compliance.

During 2017 zero major or significant environmental incidents were reported for the operations (2016: zero). There were 966 (2016: 481) minor environmental incidents reported. This increase can be attributed to an improvement in both education on site and a drive to ensure issues, however small, are reported as soon as they are identified.

Water supply and quality
Corporate water stewardship has allowed the Group to identify and manage its water-related business risks, find ways to mitigate its water impacts, and contribute to the sustainable management of the catchment areas in which it operates. Water footprint studies provide an integrated understanding of water abstraction and water use. A water footprint can be defined as a measure of freshwater appropriation underlying a certain product, including fresh surface water, groundwater incorporated into the product, or lost during the manufacturing of the product. The Group's total water footprint was $42.91m^3$/carat (2016: $37.8m^3$/carat). The increase was directly related to a 20% decrease in recovered carats.

The stress water footprint of the Group, that is, the stress placed on the water system by mining activity consumption, was calculated and water usage at the operations was found to be sustainable.

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, with the bioremediation proving to be a potential successful treatment option.

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

Sustainable development continued

Managing waste remains a priority for the Group. Careful waste management can lower operational costs and reduce the risk of regulatory action for non-compliance with environmental regulation, as well as protect our social licence to operate. Gem Diamonds' operations produce various types of waste, including domestic and general waste, medical waste, mineral waste and small volumes of hazardous waste. In 2017 a key priority for the Group was to identify the waste streams and sources that could be reduced or replaced with less wasteful alternatives.

Ghaghoo implemented a waste-separation-at-source initiative and assisted the Lephephe community with waste management where possible. Mineral waste at Letšeng is retained on site in structures designed for this purpose. These structures are operated in compliance with the host country's requirements, as well as international best practice standards.

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

The total carbon footprint for the Group was 155 106tCO_2e (2016: 184 765tCO_2e), primarily driven by electricity consumption and mobile and stationary fuel combustion. This figure includes the direct GHG emissions (Scope 1), energy indirect GHG (Scope 2) emissions, and material (Scope 3) emissions, and was calculated with boundaries clearly defined by the GHG Protocol Corporate Accounting and Reporting Standard.

The total Group footprint signifies a decrease of 16% from 2016, and 15% decrease for Scope 1 and 2, on which the intensity reporting is based. This observed decrease is the result of the Letšeng operation that had a significant reduction in mobile combustion and transport usage as well as the placement of Ghaghoo on care and maintenance.

Dealing with extreme natural events at mining sites

Both mining operations operate in severe weather conditions, including extremes of temperature and precipitation, and may be exposed to extreme natural events such as earthquakes at Ghaghoo and blizzards at Letšeng. This necessitates that the Group plans and adapts operations to remain resilient under these circumstances, and to ensure that the effects of extreme weather or natural events do not pose unnecessary risks to employees or to the environment.

In addition to the challenges posed by natural weather conditions, Gem Diamonds is cognisant of the potential risks that climate change could pose to its operations. Impacts include flooding or inadequate water supplies, as well as changes in temperature associated with climate change. Climate risks could also impact access to food supplies, water scarcity and the prevalence of disease, which would affect employees and relationships with the communities in which Gem Diamonds operates.

At Letšeng, generators have been installed to assist during energy interruptions and the operation maintains a two-week supply of diesel for the generators. Furthermore, a two-week supply of food is kept on hand. Medical teams have been equipped to deal with extreme weather conditions, including extensive training in high-altitude rescues and providing medical treatment under extreme conditions.

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

In 2017, the Ghaghoo mine was affected by a rare, large earthquake with an epicentre 25km from the mine. The earthquake caused flooding in the mine, which was successfully drained. No injuries and no material infrastructure damage were recorded as a result of the earthquake.

Ensuring consistent electricity supply and minimising energy usage

Current global energy usage trends, particularly the use of environmentally inefficient fossil fuels, are not sustainable. At Gem Diamonds, monitoring and managing energy usage is a priority.

Understanding consumption patterns enables the Group to identify opportunities to exercise energy-efficient initiatives. The Group believes that by continually searching for opportunities to reduce this consumption in new and innovative ways, it is protecting its long-term viability. Gem Diamonds has appointed a dedicated energy manager in 2017.

Letšeng is currently developing an ISO 50001 Energy Management System. ISO 50001 provides organisations with a structured framework to manage energy. At Ghaghoo, energy usage has been minimised while the operation is on care and maintenance. Two generators remain in use for essential services.

In total, the Group consumed 1 140 784 gigajoules (GJ) of energy (2016:1 397 540GJ) and the Group-wide energy intensity was recorded as 9.51GJ per carat in 2017 (2016: 9.3GJ). Letšeng saw a 12% decrease in total energy consumption. The operation reported a minor 2% increase in grid-supplied electricity consumption. During 2017, the Group recorded a decrease in energy consumption of 18% due to a reduction in petrol and diesel usage at the Letšeng mine as well as the placement of Ghaghoo on care and maintenance.

Planning for mine closure

Every mine has a finite life span, and the complete rehabilitation of the mine land in the future is required. As such, project lifecycles are focused on the eventual restoration of the land.

The continuous development and review of comprehensive rehabilitation plans remained a focus during 2017. The Group once again conducted an annual rehabilitation liability assessment and the 2017 Group rehabilitation provision amounted to US$17.3 million (2016: US$16.6 million).

The Group leases 6 174ha (2016: 6 174ha) of land, of which 12.45ha (2016: 6.8ha) were newly disturbed by mining activities during the year, bringing the total disturbed land leased by Gem Diamonds to 577ha (2016: 565ha). The Group continued with the annual review and improvement of comprehensive rehabilitation plans for its mining operations.

Sign off of strategic report

Our strategic report, as set out on pages 2 to 41, has been reviewed and approved by the Board of Directors on 13 March 2018.

Harry Kenyon-Stanley
Non-Executive Chairman

13 March 2018

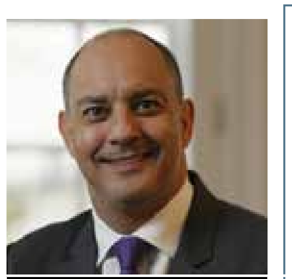
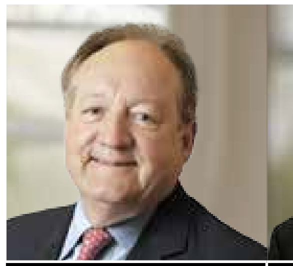
Directorate

Non-Executive Directors | Executive Directors

- Audit Committee
- Remuneration Committee
- Nominations Committee
- HSSE Committee

	 HARRY KENYON-SLANEY	 MICHAEL LYNCH-BELL	 MIKE BROWN	 CLIFFORD ELPHICK
Age	56	64	57	57
Title	Non-Executive Chairman	Senior Independent Director	Non-Executive Director	Chief Executive Officer
Qualifications	BSc Geology (Southampton University) International Executive Programme (INSEAD France)	BA Hons (Economics and Accountancy) (University of Sheffield); FCA of the ICAEW	BSc Eng, Mining PR Eng (ECSA) (University of Witwatersrand), Strategic Executive Programme (London Business School)	BCom (University of Cape Town); BCompt Hons (University of South Africa)
Appointment date	June 2017	Non-Executive Director in December 2015; Senior Independent Director in November 2017	January 2018	Formed Gem Diamonds in July 2005
Key skills and experience	Commercial and capital markets, public company board governance and government stakeholder engagement and public company board governance	Finance and capital markets, oil and gas and mining and metals	Operational, resource performance, project growth and finance	Diamond and mining industries, commercial and capital markets
Relevant past experience	Harry Kenyon-Slaney is currently a senior adviser to McKinsey & Co and has over 33 years' experience in the mining industry, principally with Rio Tinto. He is a Geologist by training and his experience spans operations, marketing, projects, finance and business development. He has worked in South Africa, Australia and the UK. Harry is also a Partner at Audley Capital Advisors LLP, a member of the Boards of Directors of Bridon Bekaert Ropes Group and Schenck Process AG, and a non-Executive Director of several private companies. Until 2015, Harry was a member of the Group Executive Committee of Rio Tinto where he held the roles of CEO of Energy, and before that CEO of Diamonds and Minerals. Prior to this he variously led Rio Tinto's global titanium dioxide business, was CEO of Rio Tinto's listed subsidiary, Energy Resources of Australia Limited, was GM operations at Palabora Mining Company in South Africa and held senior marketing roles in copper, uranium and industrial minerals. He began his career as an underground Geologist with Anglo American on the gold mines in South Africa.	Michael spent a 38-year career with Ernst & Young (EY) having led its Global Oil and Gas, UK IPO and Global Oil and Gas and Mining transaction advisory practices. He was a member of the assurance practice from 1974 to 1996 when he transferred to the transaction advisory practice. He was also UK Alumni sponsor and a member of the firm's EMEIA and Global Advisory Councils. He retired from EY as a partner in 2012 and continued as a consultant to the firm until November 2013. Michael is currently Deputy Chair, Senior Independent non-Executive Director and Chair of the Audit Committee at Kaz Minerals Plc, Chair of Seven Energy International, Chair of the Audit Committee of Lenta Limited and non-Executive Director of Barloworld Limited.	Mike has over 35 years' experience in the resources industry in operational, senior management, and director roles. He spent six years in Switzerland as the Managing Director Technical at Pala where he oversaw all technical aspects of the investments, including the risks associated with resource performance, project management, ramp up, operations, and the associated working capital and financial controls. Prior to joining Pala, Mike spent 21 years with De Beers in southern Africa in various roles culminating in the post of Chief Operating Officer where he was accountable for five operating mines, including greenfield and brownfield growth projects. He also managed the restructuring at De Beers Consolidated Mines (DBCM) in 2005/2006 and again in 2009. Mike has overseen growth projects and building of mines in Namibia, South Africa, Sierra Leone, Vietnam and USA.	Clifford joined Anglo American Corporation in 1986 and was seconded to E. Oppenheimer and Son as Harry Oppenheimer's personal assistant in 1988. In 1990, he was appointed Managing Director of E. Oppenheimer and Son, a position he held until leaving in December 2004. During that time, Clifford was also a Director of Central Holdings, Anglo American and DB Investments. Following the privatisation of De Beers in 2000, Clifford served on the De Beers Executive Committee. Clifford is also the non-Executive Chairman of Zanaga Iron Ore Co. Limited.
Board committee membership	Audit Committee, Nominations Committee, Remuneration Committee, HSSE Committee	Audit Committee, Nominations Committee, Remuneration Committee, HSSE Committee	HSSE Committee, Audit Committee	Nominations Committee
Attendance at Board meetings	5/7	7/7	–	7/7

Directors who served during the year

	 MICHAEL MICHAEL	 ROGER DAVIS	 MIKE SALAMON	 GAVIN BEEVERS	 GLENN TURNER
Age	47	61	61	68	57
Title	Chief Financial Officer	Non-Executive Chairman	Senior Independent Director	Non-Executive Director	Chief Legal and Commercial Officer and Company Secretary
Qualifications	BCom Hons (Rand Afrikaans University); CA(SA)	MA (Oxon)	Deceased in October 2017	BSc Hons (Mechanical Engineering) (Lanchester Polytechnic)	BA LLB (University of Cape Town); LLM (Cambridge)
Appointment date	Joined Gem Diamonds in March 2008; appointed to the Board in April 2013	Appointed to the Board in February 2007; resigned from the Board June 2017	Appointed to the Board in February 2008; deceased in October 2017	Appointed to the Board in February 2007; resigned from the Board 31 December 2017	Joined Gem Diamonds in May 2006; appointed to the Board in April 2008; resigned from the Board in November 2017. Appointed as Company Secretary in January 2015
Key skills and experience	Finance and capital markets and diamond industry	Commercial and capital markets and public company board governance	Operational mining, projects, health and safety, sustainability and corporate social responsibility and capital markets	Operational mining, health and safety, sustainability and corporate social responsibility	Diamond industry and legal
Relevant past experience	Michael has over 20 years' experience in financial management. He joined RSM Betty & Dickson, an audit firm in Johannesburg, South Africa in January 1993 and became Audit Partner at the firm in March 2000. From August 2006 to February 2008 Michael was seconded to Gem Diamonds to assist with the financial aspects of the Main London Listing including the financial reporting, management accounting and tax relating to the IPO. In March 2008 Michael joined Gem Diamonds on a full-time basis and on 2 April 2013 he was promoted to the position of Chief Financial Officer.	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 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.	Mike Salamon had served on the Board since 2008 until he passed away in October 2017. He was a founding Director of Billiton and was instrumental in Billiton's initial public offering (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.	Gavin spent most of his career at various De Beers operations in the positions of Assistant General Manager at De Beers Marine in Cape Town, General Manager at the Orapa and Lethlakane Mines, Deputy Managing Director of Debswana Diamond Company and Director of Operations of the De Beers group from April 2000 until his retirement in 2004. His unique tenure in mining brought a specialist oversight to the Group, with a particular focus on operational mining and health, safety and sustainability responsibility.	Glenn was called to the Johannesburg Bar in 1987 where he spent 14 years practicing as an advocate specialising in general commercial and competition law, and took silk in 2002. Glenn was appointed De Beers' first General Counsel in 2002 and was also a member of the Executive Committee. Glenn was responsible for a number of key initiatives during his tenure, including overseeing De Beers' re-entry into the USA.
Board committee membership	n/a	Audit Committee, Nominations Committee, Remuneration Committee	Nominations Committee, HSSE Committee, Remuneration Committee	Audit Committee, HSSE Committee	HSSE Committee
Attendance at Board meetings	7/7	2/7	4/7	7/7	6/7

Chairman's introduction to corporate governance

Maintaining a high standard of corporate governance is vital in ensuring our future as a successful and sustainable company.

At the outset I would like to acknowledge the contribution of my predecessor, Roger Davis, who led the Board for 10 years. I would like to thank Roger for his outstanding service to the Board and Gem Diamonds during his tenure and his commitment to good governance and best practice principles.

I would also like to commemorate Mike Salamon, our Senior Independent Director, who sadly passed away in October 2017. Mike had been on the Board since 2008 and we are indebted to him for his wealth of knowledge and expertise not only in the area of corporate governance, where he always provided exemplary guidance, but also on technical and operational matters where he was able to draw on a long and distinguished career to support the Board and management on a wide range of issues.

In my first six months I have visited the Group's mining operation in Lesotho, the Company's offices in Johannesburg and London and the marketing offices in Antwerp. The purpose of these visits has been to meet staff and to build an understanding of how the Company operates and what its approach to corporate governance is. While of course we can always improve, it was very heartening to see and hear the culture, systems and processes discussed at the Board being put into practice daily across the Company's operations.

Since joining as your Chairman, I have met a number of significant shareholders and have heard a wide range of views on issues as diverse as corporate governance, operational and cost improvement opportunities, diamond damage and the Company's long-term strategy. These ideas are tremendously valuable, and the Board and management will work hard to use them as a basis for improving the governance and performance of the Company.

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 company. As the Chairman, I am ultimately accountable for the application of the various provisions of the UK Corporate Governance Code.

Corporate governance is embedded in the way we organise our business, with local boards and sub-committees taking responsibility for our operations in local jurisdictions. As a Board, we are committed to maintaining regular open dialogue and effective communication with all our shareholders, customers, employees, suppliers and local communities.

To maintain the best governance system, the Board remains committed to encouraging integrity and transparency at all levels across all aspects of the Group. We believe our governance framework and our company policies support effective decision-making that contributes to the success of the Group in the long term. We also continue to ensure the Board and its committees function effectively and that they provide strong and valuable contributions to our deliberations and that no individual or group dominates the Board's decision-making process.

This section, together with the reports from the Audit, Nomination, HSSE and Remuneration Committees beginning on pages 54, 59, 61 and 63 respectively provide a description of how the Group has applied the main principles and complied with the UK Corporate Governance Code.

The Directors possess a range of skill sets, capabilities and experience gained from different geographic and cultural backgrounds, thereby enhancing the Board by bringing a wide spectrum of knowledge and expertise to the business. We acknowledge the importance of diversity and inclusion in all forms, particularly those of gender and culture, to the effective functioning of every aspect of the Company right up to Board level. More information about our Board diversity policy can be found under the UK Corporate Governance Code Compliance Report on page 46.

At present, our Board comprises two Executive Directors and three non-Executive Directors representing different nationalities and disciplines (the details of which you will find in the biography for each individual on the directorate pages 42 and 43).

As announced in December, we welcome Mike Brown to the Board with effect from 1 January 2018. Mike has over 35 years' experience in the resources industry, a large part of which has been in diamonds, and has overseen the development, construction and operation of mines and processing plants in multiple commodities in Africa, Asia and North America. His experience will be invaluable, and we very much look forward to his contribution.

Gavin Beevers retired from the Board on 31 December 2017 after over 10 years of service. Gavin brought deep insight of the industry and played an important role particularly in the areas of health and safety management and sustainability. I would like to thank Gavin for the tremendous support he has provided to Gem Diamonds.

As part of our Board succession planning, Glenn Turner, an Executive Director, resigned from the Board in November 2017. Glenn continues to be a key executive within the Group, as Company Secretary and as Chief Legal and Commercial Officer, and remains responsible for all legal matters and investor relations activities.

All the current Directors will be offering themselves for re-election and Mike Brown and I will be standing for election by the shareholders at the 2018 AGM.

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. We conduct ongoing formal and informal training in order that we remain appraised of all legislative and regulatory updates that affect how we conduct our business. In 2017 we updated the Directors' Remuneration Policy to ensure it reflected the requirements set out by institutional investors and it was in line with market practice guidelines. We also approved and published our slavery and human trafficking statement.

We undertake annual Board evaluations to assess the Board's approach to strategy, the ongoing effectiveness of the committees and risk management. The 2017 evaluation was carried out by way of a questionnaire. A detailed description of the evaluation process is set out on pages 49 and 50. Next year, once the new Board members have settled into their roles, we plan to undertake a more extensive external Board evaluation to ensure that the structure of the new Board and the composition of the Committees are effective and that we have the correct size, skills, experience and attributes required to continue to effectively govern and manage risk within the Group.

The Board is responsible for determining the nature and extent of the principal risks it is willing to take to achieve its strategic objectives while maintaining sound risk management and internal control systems. We have a robust framework of risk management and internal controls which are reviewed quarterly by the Audit Committee.

Another 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. Suspected wrongdoings, which are reported through our whistleblowing hotline, are brought to the attention of the Audit Committee through our internal audit function, with any irregularities and actions taken being highlighted. Following investigation, I am pleased to report that none of the cases reported in 2017 were significant and they were resolved without serious consequences.

In 2017 the Remuneration Committee reviewed and revised the Directors' Remuneration Policy to ensure that the Company's Remuneration Policy and practices are in line with best market practice and properly linked to corporate and individual performance and to deliver the Group's strategy on behalf of our investors. The revised policy was approved by shareholders at the 2017 AGM.

The Nominations Committee's main focus for the year was Board composition, with a number of changes being introduced. It is now felt the size and structure of the Board is in line with governance guidelines on independence and includes Directors with a good range of skills, expertise and knowledge that we believe are essential to move forward in the current environment.

The HSSE Committee continues to ensure health, safety, social and environmental policies and practices are assessed and reviewed periodically to maintain a high level of relevance and appropriateness throughout the Group.

As part of the UK Government's initiative in 2016 to extend the scope of corporate governance and a new UK Corporate Governance Code due to come into effect by January 2019, the Investment Association published a Public Register detailing resolutions of All Share FTSE companies that received over 20% votes against. Two of our resolutions at the 2017 AGM fell into this category. We identified the dissenting shareholders and one of my priorities as Chairman has been to engage with these investors to understand their grievances and articulate any actions taken or proposed.

I would like to take this opportunity to thank you for your continued support. The Board and I will be available at the 2018 AGM to respond to any questions you may have on this report or any of the Committees' activities and I looking forward to welcoming those of you who are able to attend.

Harry Kenyon-Slaney
Non-Executive Chairman

13 March 2018

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 UK Corporate Governance Code (the Code). It includes details of the key policies, processes and structures that apply to the Company. It incorporates sections on the role and work of the Audit, Nominations, HSSE and Remuneration Committees in line with the Disclosure Guidance and Transparency Rules (DTR).

The Board continues to review and assess all policies and practices throughout the organisation considering changes to the Code and best practice principles. It also looks at forthcoming legislative and regulatory changes that may affect the governance and compliance of the structure and functions of the Board and its Committees. With the introduction of a new Code planned for 1 January 2019, the Board will be holding training seminars with its remuneration and legal advisers to plan for the implementation of the changes being introduced.

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

The Company has remained below the FTSE 350 for the past five consecutive financial years and, therefore, is subject to the provisions applicable to the Smaller Company Regime. Notwithstanding, the Company considers that it is compliant with all provisions of the Code, unless highlighted otherwise in this report.

Board of directors

The role of the Board

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

- setting the Group's strategy and for the management, direction and performance of the business;
- monitoring and understanding the risk environment in which the Group operates;
- providing accountability to shareholders for the proper conduct of the business;
- safeguarding the long-term success of the Group and taking into consideration the interests of all stakeholders; and
- ensuring the effectiveness of and reporting on the structure of corporate governance.

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

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

The Board sets standards of conduct, which provide an ethical framework for the Group's business functions. While the Board focuses on strategic issues, such as financial performance, risk management, and other critical business concerns, it also has a formal schedule of reserved matters. These reserved matters, which are documented in a comprehensive list of authorisation levels and prior approval requirements for key corporate decisions and actions, are reviewed and approved by the Board regularly. The matters reserved were last reviewed in March 2017.

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

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

Board composition during 2017

Name	Title	Held appointment during 2017	Committee chairmen and number of members
Executive Board members			
CT Elphick	Chief Executive Officer	√	
M Michael	Chief Financial Officer	√	
GE Turner[1]	Chief Legal and Commercial Officer	Resigned 15 November 2017	
Non-Executive Board members			
RW Davis[2]	Chairman	Resigned 6 June 2017	Nominations (1)
H Kenyon-Slaney[3]	Chairman	Appointed 6 June 2017	Nominations (3)
GA Beevers[4]		Resigned 31 December 2017	HSSE (3)
M Salamon[5]		Deceased 18 October 2017	
MD Lynch-Bell	Senior Independent Director	√	Audit (3) Remuneration (2)

[1] G Turner resigned on 15 November 2017.
[2] R Davis was Chairman of the Nominations Committee until he stepped down in June 2017.
[3] H Kenyon-Slaney was appointed Chairman of the Nomination Committee in June 2017.
[4] G Beevers held appointment throughout 2017 but retired from the Board on 31 December 2017.
[5] M Salamon passed away in October 2017.

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. Gavin Beevers who had served as a non-Executive Director for over 10 years resigned on 31 December 2017.

All the current non-Executive Directors, including the Chairman, are regarded as independent by the Board as defined in the Code.

Board and Committee meetings

Five scheduled Board meetings and two special meetings of the Board were held during 2017, 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, Nominations, HSSE and Remuneration Committees can be viewed on the Group's website together with the matters reserved for the Board. The remaining two Committees (Standing and Share Scheme) facilitate the administration of the Board's delegated authority.

In the event that Board approval is required between Board meetings, Board members are emailed the details, including supporting information in order to make a decision. The decision of each Board member is communicated and recorded at the following Board meeting.

Attendance at Board and Committee meetings during 2017

Director	Board 7 held	Audit 4 held	Remuneration 4 held	Nominations 3 held	HSSE 4 held
Executive Board members					
CT Elphick	7	–	–	3	–
M Michael	7	–	–	–	–
GE Turner	6	–	–	–	4
Non-Executive Board members					
RW Davis	2	1	1	1	–
H Kenyon-Slaney	5	3	3	2	–
GA Beevers	7	4	–	–	4
M Salamon	4	–	2	2	–
MD Lynch-Bell	7	4	4	1	–

UK Corporate Governance Code Compliance continued

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

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

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

Roles of the Chairman and Chief Executive Officer

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

Roles of the Senior Independent Director and non-Executive Directors

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

Board skills, balance and independence

The Board annually reviews the composition and chairmanship of its primary Committees, namely the Audit, Nominations, HSSE and Remuneration Committees. The Company complies with the requirement of the Code that there should be a balance of Executive and non-Executive Directors so that no individual or group can dominate the Board's decision-making.

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

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

Knowledge of financial markets is also necessary to ensure fulfilment of the Group's strategy. The biographies, which can be found on pages 42 and 43, provide more information on each Director's competencies. All Directors allocate sufficient time to the Group to fulfil their responsibilities effectively.

Non-Executive Directors should be independent in character and judgement. With the resignation of Gavin Beevers on 31 December 2017 and the appointment of Mike Brown on 1 January 2018, all 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 executive 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.

Appointments and re-elections to the Board (see also Board diversity on page 50)

The Code requires there to be a formal, rigorous and transparent procedure for the appointment of new Directors, which should be made on merit, against objective criteria and with due regard to the benefits of diversity on the Board. Since 2007, recruitment to the Board has been based on recommendation; therefore, no outside consultants have been engaged. The Board currently comprises a broad and highly relevant skill set, and the Nominations Committee will continue to make appointments based on merit while considering diversity and the specialist skill set which is required by the business.

The Nominations Committee's section of this report is set out on pages 59 and 60.

It is required that all Directors retire at the AGM 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

Board evaluation

Aim

The 2017 Board evaluation exercise was designed to build on the findings from the previous year's evaluation.

Approach

In November 2017 the Board appointed Bruce Wallace Associates to undertake an independent review of Board effectiveness. The scope of the review was agreed with the Chairman and Company Secretary and implemented by means of a questionnaire. The responses were collated and the analysis, findings and recommendations were presented to the Board.

UK Corporate Governance Code Compliance continued

Analysis
The report concluded that considerable progress had been made addressing recommendations in the 2016 Board evaluation. In 2017 the Board underwent a resizing exercise and now has a smaller, more independent Board with a majority number of non-Executive Directors. It was acknowledged that there is still further work to be done on succession planning both to improve diversity and to continuously refine the composition of the Board to ensure it includes the appropriate skills set, experience and competencies needed to discharge its duties and responsibilities effectively. Management reporting and internal communications are to be improved in order for the Board to understand and learn from its peers. Additional matters identified for consideration and improvement identified include more time to be dedicated to strategy and improving shareholder communication.

Next step
It has been agreed that a continued focus on developing succession plans is important and that the Company will actively work to enhance shareholder relationships and engagement.

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

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

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

Conflicts of interest
The UK Companies Act requires Directors to avoid any situation where they may have a direct or indirect interest that conflicts, or may conflict, with the Group's interests, unless approved by the non-interested Directors. In accordance with this Act, the Company operates a procedure to ensure the disclosure of conflicts and, if appropriate, for the consideration and authorisation of them by non-conflicted Directors. The Board maintains a register of 'conflicts of interest' that it reviews annually (most recently in March 2018). The Company voluntarily complies with this requirement.

Dealings in shares and the EU market abuse regime
The Company updated its Share Dealing Policy and reporting procedures in line with the EU Market Abuse Regulations implemented in July 2016 (Regulations).

Directors' remuneration
While the Board is ultimately responsible for Directors' remuneration, the Remuneration Committee, consisting of independent non-Executive Directors, is responsible for determining the remuneration and conditions of employment of Executive Directors, as well as the Chairman. The Directors' Remuneration Policy was updated in 2017 in line with market practice and approved by the shareholders at the 2017 AGM. The details of all Directors' remuneration are covered in the Directors' Remuneration Report and the Annual Report on Remuneration on pages 72 to 81.

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

The Group's Anti-Bribery and Corruption Policy approved and adopted by the Board in June 2016 has been rolled out and adopted by all operations within the Group. A formal review of this policy is carried out on a bi-annual basis thereby ensuring the policy remains robust regarding compliance and diligence procedures. In 2017, Group internal audit carried out a review of the Group's Anti-Bribery and Corruption Policy to ensure continued compliance with the UK Bribery Act requirements.

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

Board diversity
The Board is mindful of the Hampton-Alexander Review on improving gender balance in FTSE leadership and the call to action to all CEOs of FTSE 350 companies to improve the under-representation of women on the Executive Committee and those reporting directly to the Executive Committee. The Board continues to support diversity and strives to improve the gender balance within the Group. Throughout the Group succession planning is considered a key priority with a focus on the development of women into leading roles, which drives a diverse pipeline of talent.

More information on gender-based employment is contained in the Sustainable Development Review on pages 35 and 40.

Communication of business development during the year
Detailed information on the Group's business developments and projects can be found on the Company's website in the investors section, where all published information and shareholder communication is available. This includes trading updates; year-end and half-year results; resource and reserve statements; and all other announcements.

Accountability and audit
Information and financial reporting systems
The Board is conscious of its responsibility to present a fair, balanced and understandable assessment of the Group's position and prospects and is satisfied that the Strategic Report on pages 2 to 41 has met this obligation. The Responsibility Statement of the Directors in respect of the Annual Report and Accounts is set out on page 86.

The Board is supplied in a timely manner with information in the form and of a quality appropriate to enable it to discharge its duties. Financial reporting to the Board is continuously modified and enhanced to cater for changing circumstances. The Group's comprehensive planning and financial reporting procedures include detailed operational business plans for the year ahead and a three-year rolling plan. The Board reviews and approves the Group's annual business plan. These are prepared in co-operation with all Group functions based on specified economic assumptions. Performance is monitored, and relevant action taken throughout the year through monthly reporting of KPIs and updated forecasts for the year, together with information on key risk areas.

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

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

The principal aim of the system of internal control is the management of business risks that significantly threaten the fulfilment of the Group's business and strategic objectives, with a view to enhance the value of shareholders' investments and safeguarding assets. The internal control systems have been designed to manage, rather than eliminate, the risk of failure, to achieve business objectives and to provide reasonable but not absolute assurance that the Group's business objectives will be achieved within the risk tolerance levels identified by the Board. The Directors have reviewed the effectiveness of the system of internal control. For the review, the Audit Committee considered reports dealing with internal audit plans and outcomes, as well as risk logs and sign-off from external audit and management representations. These did not reveal any significant findings or weaknesses. A full report of the work carried out by the Audit Committee on behalf of the Board is set out in the Audit Committee Report on pages 54 to 58.

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.

The Group internal audit function is provided through an in-house audit department supplemented by external industry experts when required. Group internal audit, reporting directly to the Audit Committee, is responsible for co-ordinating the Group's risk-based audit approach and to evaluate the effectiveness and contribute to the improvement of the risk management process, control environment and governance systems. Various ad hoc assignments are also performed during the year at the request of management.

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

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

UK Corporate Governance Code Compliance continued

discharged by the Audit Committee, whose role is defined on pages 54 to 58.

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 how these are managed and/or mitigated can be found on pages 11 to 15 of the Strategic Report.

The Group's operations perform regular risk assessment reviews and maintain risk registers. Objectives in the business plan are aligned with risks and a summary of the key risks, related internal controls, accountabilities and further mitigating actions are tabled and approved by the Audit Committee. The Committee at times delegates its authority to the Board for completeness. The Audit Committee and the Board, where appropriate, are kept informed on progress against the plans and any significant changes to review the risk profile. This enables the suitable management and non-Executive Directors to holistically review the risk, mitigate and implement controls as necessary.

Investment appraisal

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

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

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

Whistleblowing programme

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

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

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

The Board 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. Understanding the views of 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.

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

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

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

The shareholder base comprises 138.6 million issued ordinary shares of US$0.01 each. There are 208 institutional shareholders that hold 127.2 million shares (92%) and private shareholders who hold 11.5 million shares (8%).

Constructive use of the AGM

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

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.

The 2018 AGM will be held on Tuesday, 5 June 2018. Details of the resolutions to be proposed at the AGM can be found in the Notice of AGM which will be published on the Company's website (www.gemdiamonds.com), or sent to shareholders who requested to continue to receive paper copies, a minimum of 20 business days before the meeting. This year the Company introduced electronic communications with its shareholders. Therefore shareholders who consented to this method of publication can access the Annual Report and the AGM documentation through the Company's website.

Shareholders

Majority interest in shares

On 15 February 2018, the Company was notified of the following major interests (at or above 3%) in the issued ordinary shares of the Company in accordance with the DTR 5:

Majority interests in shares

Shareholders	Number of ordinary shares	% shareholding
Graff Diamonds International	20 906 699	15.1
Lansdowne Partners	20 721 413	15.0
Majedie Asset Management	11 546 311	8.3
Aberforth Partners	10 263 096	7.4
Gem Diamonds Holdings	9 325 000	6.7
Sustainable Capital Limited	8 634 237	6.2
Lazard Asset Management	7 528 075	5.4
Hosking Partners	5 669 268	4.1
Dimensional Fund Advisors	4 420 982	3.2

Audit Committee

The skill set of the Audit Committee manages that all accounting, risk and internal control issues are addressed to ensure high standards of corporate governance.

Michael Lynch-Bell Chairman

The Committee comprises:

- **MD Lynch-Bell – Chairman**
- **H Kenyon-Slaney (appointed 6 June 2017)**
- **M Brown (appointed 1 January 2018)**
- **RW Davis (resigned 6 June 2017)**
- **GA Beevers (retired 31 December 2017)**

Composition, experience, and skill set

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

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

Michael Lynch-Bell has recent and relevant financial experience for the purpose of the Code, having spent 27 years as a partner at Ernst & Young (EY) of which six years were spent leading its Global Oil and Gas and Mining transaction advisory practices. For more information about Michael's experience, refer to the directorate on pages 42 and 43.

In June and December 2017, Roger Davis and Gavin Beevers stepped down as members of the Committee, respectively.

In June 2017 Harry Kenyon-Slaney was appointed as a member of the Committee. Upon Gavin's retirement, Mike Brown was appointed as a member of the Committee in January 2018. Both Committee members possess a wealth of financial and operating experience in the mining industry and meet the requirements of the updated FRC Guidance. For more information about each member's experience, refer to the directorate on pages 42 and 43.

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

Terms of Reference

The Audit Committee's Terms of Reference are reviewed annually in March and subsequently considered and approved by the Board to ensure they continue to be fit for purpose and in line with best practice and governance principles. The last review was performed in March 2018. They can be viewed on the Company's corporate website.

Meetings

Four meetings of the Audit Committee were held in 2017. The Chief Executive Officer, the Chief Financial Officer, the Group's internal auditor, and a representative of the Group's external auditors attend each meeting by invitation. Other Directors of the Company and Senior Executives may also attend by invitation to speak at a meeting. Only members of the Committee vote on resolutions. The full Committee also met with the Audit Partner and the Group's internal auditor without the Executive Directors present during the year.

The Chairman of the Committee allocates a significant amount of time to this role. In addition to chairing formal meetings of the Committee and attending sessions with the external auditors, he travelled to the Group's mining operation in Lesotho and the Company's offices in Johannesburg in February 2017 where he was able to meet with the Group's internal auditor, Chief Financial Officer and the financial team.

Gavin Beevers also carried out site visits to the Group's operation in Lesotho in March and October 2017. Similarly, site visits to Johannesburg, Lesotho and Belgium were undertaken by Harry Kenyon-Slaney during July 2017. After his appointment to the Board in January 2018, Mike Brown carried out site visits into the Group's operations in Lesotho and to Johannesburg where he

met with the Chief Financial Officer and the financial team. Such meetings and site visits enable the Chairman and the Committee members to uphold a comprehensive understanding of corporate and finance developments and activities, any associated risks, as well as the controls in place at the operations.

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

Role and activities

The principal functions, in line with the Committee's Terms of Reference, are listed below, along with the corresponding activity and performance during 2017.

Role	Activities in 2017
To provide advice to the Board on whether the Half-year Report and Annual Report and Accounts are fair, balanced and understandable and to monitor the integrity of the published financial information of the Company and review and report to the Board on the significant financial reporting issues and judgements made in connection with the preparation of the published financial information of the Company	The Committee formally reviewed the Group's Annual Report and Accounts and Half-year Report and considered that they present a fair, balanced and understandable assessment of the Group's performance and prospects and provide information necessary for shareholders to assess the Company's performance, business model and strategy. The Committee reviewed the key auditing and financial reporting matters which typically focused on areas of significant judgement, estimation or accounting policy selection. These areas of focus were assessed through discussions with the Group's Audit Partner and Group Chief Financial Officer, ahead of and/or during Committee meetings, in which the Committee, where appropriate, challenged the basis for such judgements and estimates. Details of the significant matters considered by the Committee in respect of the 2017 Half-year and the 2016 and 2017 Annual Report and Accounts are set out on pages 56 and 57. The Committee reviewed and assessed the systems and processes in place required to formulate the Viability Statement and support its conclusions and recommended the statement issued in the Annual Report and Accounts to the Board for approval. The Committee considered institutional comments raised on previous Annual Reports and Accounts for relevance and incorporation into subsequent reports. Further published information which was reviewed by members of the Committee included the following: – quarterly trading announcements published; and – report on payments to governments for the year ended 31 December 2016, satisfying the requirements of the Disclosure and Transparency Rules of the Financial Conduct Authority in the United Kingdom.
To review the effectiveness of the internal control and risk management processes and provide input to the Board's consideration of risk and risk appetite	The Committee assesses the Company's risk management systems and internal controls on an ongoing basis. As part of this, the Group internal auditor attends all meetings. The Committee received reports from the external auditors and the Group's internal auditor on their assessment of the control environment. The Committee was provided with updates on the Group's risk management activities and the members considered the risk and control implications on an ongoing basis. Additionally, the Board received quarterly presentations and reports by management on operational and financial performance that allowed for assessment of risk and internal controls. Presentations by EY regarding planning and outcomes of the annual audits and interim review were included in the Committee meetings during the year.
To review the adequacy of the Company's whistleblowing system, controls for ethical behaviour and prevention of bribery, and procedures to detect fraud	The Committee reviewed matters reported to the external whistleblowing hotline and reports on the findings of the investigations. There were no matters reported which were considered significant. There were no significant bribery matters reported during the year. All incidences of fraud and irregularities together with any reports on investigations were reviewed and the Committee monitored the implementation of corrective controls where appropriate.
To give consideration to relevant laws and regulations, the provisions of the Code and the requirements of the UK Listing Rules	The Committee received adequate timely information from EY relating to significant audit, accounting and governance developments during the year. The Company Secretary provided assurance with regard to compliance with the London Stock Exchange, the UK Listing Authority and other regulatory requirements in the preparation of the Annual Report and Accounts and Regulatory News Services announcements.

Audit Committee continued

Role	Activities in 2017
To monitor and review the effectiveness and independence of the internal audit function	The Group's internal auditor meets with the Chairman before each Audit Committee meeting held. The Group's internal auditor also attends all meetings and reports directly to the Committee. After every meeting, the Committee meets with the Group internal auditor independently. At the end of the previous year the Committee considered and approved the internal audit plan that included audits of an operational, financial and governance compliance nature across the Group. During the year the Committee reviewed findings from these internal audits, the actions taken to implement the recommendations made in the reports and the status of progress against previously agreed actions. In November 2017, the Committee reviewed and approved the 2018 internal audit plan.
To consider the appointment and reappointment of the external auditors, to recommend the remuneration and terms of engagement of the external auditors and to assess the external auditors' independence and objectivity	During the year the Committee considered the performance and audit fees of the external auditors, and the level of non-audit work undertaken, and recommended to the Board that a resolution for the reappointment of EY for a further year as the Company's auditor be proposed to shareholders at the AGM in June 2018. In advance of the 2017 audit, the Committee reviewed and approved the external auditors' audit plan and assessed the appropriateness of the audit strategy, scoping, materiality and audit risks. As part of audit planning process, the Committee considered and approved the audit fees. The effectiveness of the external auditors was assessed and the details thereof are provided on page 58.
To review the engagement of the external auditors to ensure the provision of non-audit services by the external audit firm does not impair their independence and objectivity	The Committee regularly monitors non-audit services performed by the external auditor in line with the Group's policy and the details thereof are provided on page 58. As part of the cost efficiencies and business optimisation through the Business Transformation process, the Committee has considered the requirement to perform a review by EY on the Half-year Report, considering legislative requirements, best practice and cost benefits.

Significant issues considered by the Committee relating to the 2016 and 2017 financial years

The Committee considers the following to be the significant issues in respect of the Group's 2017 Annual Report and Accounts, based on its interaction with management. These areas also represent significant audit risk areas for EY and, accordingly, the Committee was provided with detailed reports and conclusions on these areas to ensure there are no inconsistencies or misstatements of the financial statements.

Role	Activities in 2017
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 received detailed verbal and written reports from EY regarding management's appropriate application of its revenue recognition policy.
Assessing the Ghaghoo asset for impairment	The judgements in relation to asset impairment largely relate to the assessment of whether impairment indicators exist and key assumptions used in determining recoverable amounts. The Committee addressed these matters through receiving reports from management outlining the basis for the assumptions used, of which the business plan is the most significant, which is approved by the Board. In 2017, following the declining market conditions for Ghaghoo's production, strengthening of the Botswana pula against the US dollar and the challenges in the operation reaching its targeted production, the Board made the decision to place the mining operation on care and maintenance in February 2017, which resulted in an impairment charge of US$170.8 million being recognised in the 2016 results.

Role	Activities in 2017
Impairment testing of property, plant, equipment and goodwill	The judgements in relation to asset impairment largely relate to the assessment of whether indicators of impairment exist and the key assumptions used in the impairment review. For both impairment and going concern, the achievement of the long-term business plan and macro-economic assumptions underlying the valuation process and going concern assumptions are primary judgements. The Committee addressed these matters through receiving reports from management outlining the basis for the assumptions used, of which the business plan is the most significant, which is approved by the Board. In addition, this area is a primary source of audit focus and accordingly EY provides detailed reporting to the Committee.
Going concern and viability statement	The Committee considered the appropriateness to continue to adopt the going concern basis of accounting in preparing the financial statements for the year ended 31 December 2017. In addition, the Committee considered and approved the underlying assumptions used in the preparation of the viability statement. In reaching these conclusions, the Committee considered the financial position of the Group, its cash flows and liquidity position and the assumptions and judgements made by management. Refer Note 1.2.2, Going concern on page 104 and Note 24, Financial risk management. The Committee considered the viability statement and going concern statement and approved management's disclosures. The 2017 Annual Report and Accounts includes the viability statement in compliance with the UK Corporate Governance Code as set out on page 10.

Annual review

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

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

Risk management and internal controls

Risk management

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

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

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

Further information on the strategic risks and uncertainties and risk management process is included within the Strategic Report on pages 2 to 41.

Internal controls

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

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

For 2017, the Committee remained satisfied that no material weaknesses in internal control systems were identified. While being satisfied that controls and risk management remain appropriate for the Group's activities, the Committee continues to undertake a thorough review and to challenge internal controls, risk management procedures and internal audit strategy to ensure that its practices develop and remain appropriate. When internal control reviews identified necessary or beneficial improvements, appropriate steps have been taken to ensure the control environment is effective. This includes systems to track management's responses to the areas for improvement and follow-up internal audits to test the implementation.

Whistleblowing

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

Audit Committee continued

Our auditors

Internal

The Group's established internal audit function is staffed by a Group internal auditor who reports directly to the Committee. On approval of the internal audit plan for the year, the Committee reviews findings from internal audit reports, the actions taken to implement the recommendations made in the reports and the status of progress against previously agreed actions. All internal audit reports are available to the Committee. At the end of every Committee meeting, the Committee meets with the internal auditor independently to obtain assurance that management is adequately addressing the internal audit report findings.

External auditor

Engagement

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

Effectiveness and quality

Audit quality is reviewed throughout the year and in 2017 the Committee considered the effectiveness, objectivity, skills, capacity and independence of EY as part of their reappointment and was satisfied that all these criteria were met.

The effectiveness of the external auditors was deliberated, giving consideration to recent FRC guidance on assessing audit quality. In forming its assessment of the effectiveness of the audit, the Committee considered the FRC's Audit Quality Review report in developing a questionnaire which was completed by the financial management team across the Group with specific input from the Committee members. The results of this review were assessed by the Committee who concluded that EY provides an effective and independent audit. Feedback on the outcome, together with recommendations, were provided to the external auditors.

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

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

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

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

Independence, objectivity and fees

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

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

The Senior Audit Partner, Steven Dobson, was appointed in 2016 and will serve no more than five years continuously. The independent review partner serves no more than seven years continuously. Other key partners serve for no longer than seven consecutive years. The Committee monitors the tenure of partners and senior staff.

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

The provision of these services requires Committee pre-approval above specified limits as set out in the policy and is subject to careful consideration, focused on the extent to which provision of such service may impact the independence or perceived independence of the auditors.

Other than in exceptional circumstances, management and the Committee do not expect non-audit fees to be in excess of fees for audit and audit-related services. The fees for such work amounted to US$0.1 million in total. This was against external audit fees of US$0.6 million representing c. 17% of external audit fees. The significant non-audit engagements relate mainly to the half-year interim review (US$0.1 million) and to a lesser extent corporate tax services. Full details are set out in Note 3 of the financial statements. A report on the level of non-audit work provided by the auditor is given to the Committee half-yearly.

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

Reappointment

EY has been the Group's external auditors for 11 years since the year ended 31 December 2006. The Company recognises the importance of audit independence and the requirements of audit rotation through tender. A full assessment was carried out during 2016 in relation to the tender of audit firms and EY were re-appointed.

Resolutions allowing the Board to reappoint and determine the external auditor's remuneration will therefore be proposed at the Company's AGM on Tuesday, 5 June 2018.

Nominations Committee

Succession planning was a key focus for the Committee in 2017.

Harry Kenyon-Slaney Chairman

The Committee comprises:

- **H Kenyon-Slaney – Chairman (appointed 6 June 2017)**
- **M Lynch-Bell (appointed 14 November 2017)**
- **CT Elphick**
- **RW Davis – Chairman (resigned 6 June 2017)**
- **M Salamon (deceased 18 October 2017)**

Composition and meetings

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 are reviewed annually in March and subsequently reviewed and approved by the Board to ensure they continue to be fit for purpose and in line with best practice and governance principles. The last review was performed in March 2018.

Three meetings were held in 2017 with succession planning being the key focus for the Committee.

There have been several changes to the composition of the Board during the year. After having served 10 years as Chairman, Roger Davis stepped down at the 2017 AGM held on 6 June. Roger Davis was replaced by Harry Kenyon-Slaney who was appointed Chairman after the AGM. Mike Salamon sadly passed away in October, following which Glenn Turner agreed to resign as an Executive Director in order to maintain the balance of non-Executive and Executive Directors on the Board. Glenn Turner resigned as an Executive Director on 15 November 2017 but continues to be a key executive, the Company Secretary and Legal and Compliance Officer.

Gavin Beevers, who had served as a non-Executive Director on the Board for over 10 years, retired with effect from 31 December 2017 and Mike Brown replaced him with effect from 1 January 2018.

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

Role and activities

The principal functions, in line with the Committee's Terms of Reference, are listed below, along with the corresponding activity and performance during 2017.

Role	Activities in 2017
To review the structure, size and composition of the Board (including appropriate skills, knowledge, experience and diversity), and to make recommendations to the Board with regard to any changes that are deemed necessary	Roger Davis was replaced as Chairman by Harry Kenyon-Slaney in June 2017. Following the passing of Mike Salamon, the Committee reviewed the structure and size of the Board and it was agreed that the Company's primary focus was to ensure that there is an optimum balance of skills and independence on the Board. To maintain the appropriate balance between Executive and non-Executive Directors, in November 2017, Glenn Turner stepped down as Executive Director. Gavin Beevers, the longest serving non-Executive Director retired on 31 December 2017 and Mike Brown was appointed a non-Executive Director from 1 January 2018 replacing Gavin Beevers. Michael Lynch-Bell was appointed as the Senior Independent Director. For more detail on each member's experience, refer to the directorate on pages 42 and 43.

Nominations Committee continued

Role	Activities in 2017
To satisfy itself, with regard to succession planning, that plans are in place for Board and Senior Management positions	Short and long-term succession planning was again a key focus for the Committee during the year. For the short term, an emergency succession plan is in place to ensure that suitably qualified and experienced executives and senior members of the management team would step in to fill vacancies arising from unforeseen circumstances and thereby provide business continuity. For the long term, the Committee considered suitable replacements for Gavin Beevers who had exceeded his 10-year tenure as a non-Executive Director and for Mike Salamon who passed away in October 2017.
To identify, nominate and recommend, for the approval of the Board, appropriate candidates to fill Board and Committee vacancies as and when they arise	In appointing Harry Kenyon-Slaney and Mike Brown, the Committee carried out an extensive search and interviewed a range of potential candidates with the appropriate skills, knowledge and experience to ensure suitable replacements for the outgoing Chairman and non-Executive Director respectively, ensuring that they had both the requisite skills and experience and attributes which complemented the current Board composition and structure. Harry Kenyon-Slaney and Mike Brown were both appointed during the year and therefore they will be standing for election at the 2018 AGM.
To recommend to the Board the re-election by shareholders at the AGM of any Director under the retirement and re-election provisions of the Company's by-laws	The Committee recommended all other Directors for re-election to the Board at the 2018 AGM.
To ensure all new Directors undertake appropriate training and induction to ensure that they are fully informed about strategic and commercial issues affecting the Company and the markets in which it operates as well as their duties and responsibilities as a Director	Harry Kenyon-Slaney visited the Letšeng mining operation in Lesotho, the Company's offices in Johannesburg and London and the marketing offices in Antwerp to meet staff and build an understanding of the Company's operations as well as the Company's approach to corporate governance. Following his appointment in January 2018, Mike Brown also visited the Letšeng mining operation as part of his induction process.
To keep under review potential conflicts of interests of Directors disclosed to the Company and develop appropriate processes for managing such conflicts if considered necessary	The Committee was satisfied with the process of disclosure of any conflicts of interest. In June 2017, Harry Kenyon-Slaney declared his interest in the Business Transformation process of the Group being conducted by a third-party consultant. It was noted that the Board's decision to appoint a third-party consultant had been considered and agreed prior to Harry Kenyon-Slaney's appointment and therefore there was no conflict. There were no other instances of any conflicts during the year.
To assist the Chairman of the Board with the implementation of an annual evaluation process to assess the overall and individual performance and effectiveness of the Board and its Committees	A questionnaire-based Board evaluation was conducted by an external adviser to assess the performance and effectiveness of the Board and the Committees. The Committee reviewed the results to ascertain if there were any issues that needed to be addressed. A full summary of the evaluation process can be found on pages 49 and 50. It was agreed that following the change in Board composition, a more comprehensive interview-based Board evaluation would be conducted in 2018.

EXPERIENCE AND SKILLS OF THE DIRECTORS

The Committee is satisfied that the Directors add the relevant skills to the Board that is required for the Company to succeed in achieving its strategy of growth, value creation and sustainability through diamond mining. All the Directors worked in the mining and/or financial and capital market sector prior to joining the Group and their key skills and experience can be found in the directorate section, pages 42 and 43.

DIVERSITY

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 performed. The Committee recognises that to further enhance the effectiveness of the Board there must be a combination of available qualities, capabilities and skill sets gained from different geographical and cultural backgrounds. The Nominations Committee continues to encourage and support diversity of business skills and experience. Details including the proportion of women in Senior Management, can be found in the Sustainable Development Review on pages 37 and 38.

HSSE Committee

The Group continues to pursue its goal of zero harm.

Mike Brown Incoming Chairman **Gavin Beevers Outgoing** Chairman

The Committee comprises:

- **M Brown – Chairman (appointed 1 January 2018)**
- **GE Turner**
- **H Kenyon-Slaney (appointed 20 February 2018)**
- **M Lynch-Bell (appointed 20 February 2018)**
- **JA Velloza (appointed 14 November 2017)**
- **GA Beevers – Chairman (retired 31 December 2017)**
- **M Salamon (deceased 18 October 2017)**

Composition, experience and skill set

The Committee members have a wealth of knowledge which supports the objectives of ensuring HSSE risks are mitigated and best practice is attained.

After having served a decade of dedicated support and assistance, Gavin Beevers retired as Chairman of the Committee on 31 December 2017. Mike Brown was appointed as Chairman of the Committee and brings with him more than 35 years' experience in the resources industry. Glenn Turner, with his legal expertise, has in-depth knowledge and understanding of local and international law, enabling the Company to have the relevant policies and agreements in place in respect of HSSE.

Following the sad passing of Mike Salamon in October 2017, Johnny Velloza was appointed to the Committee in November for an interim period until the appointment of Harry Kenyon-Slaney and Michael Lynch-Bell in February 2018.

Both Harry and Mike bring a wealth of operating and financial experience in the mining industry. For more information about each member's experience, refer to the directorate on pages 42 and 43.

Terms of Reference

The Terms of Reference for the HSSE Committee are reviewed annually in March and subsequently considered and approved by the Board to ensure they continue to be fit for purpose and in line with best practice and governance principles. The last review was performed in March 2018. They can be viewed on the Company's corporate website.

Meetings

Four meetings of the HSSE Committee were held in 2017. The Chief Operating Officer and the Group's HSSE Superintendent attend and present at the meetings upon invitation.

During his tenure as Chairman, Gavin Beevers visited the Group's operations in March and October 2017 to obtain first-hand knowledge of current practices. The HSSE management team ensures policies and procedures remain current, effective and in line with industry practice.

Role and activities

The principal functions, in line with the Committee's Terms of Reference, are listed below, along with the corresponding activity and performance during 2017.

HSSE Committee continued

Role	Activities in 2017
To evaluate the effectiveness of the Group's policies and systems in identifying and managing HSSE risks as well as ensuring compliance with applicable legal and regulatory requirements	The Committee evaluated the effectiveness of the Group's HSSE management policies following which new Group HSSE policies were drawn up, and can be found on the Company website. The Committee reviewed reports on Group HSSE performance as well as legal and regulatory compliance on a quarterly basis. HSSE performance reports were based on the findings of internal and external audits. In addition to the legal compliance audits, the Chairman and Committee members requested quarterly updates on the management of critical HSSE features. Critical HSSE features were identified by the Committee following discussions ahead of and/or during Committee meetings and took into consideration activities within the Group as well as the global mining environment. Some of the critical features monitored by the Committee during 2017 included: – injury reporting, investigation and management; – tailings and water storage facility management; and – water management.
To assess the impact of HSSE decisions and actions on the Group's employees, project affected communities (PACs) and other stakeholders as well as the reputation of the Group	The Committee considers reports on any significant or major HSSE incidents during meetings. There were no significant or major environmental or social incidents recorded, eight significant safety incidents were reported. The Committee assesses the impact of HSSE decisions on the Group's reputation on an ongoing basis, with specific attention being given to the Group's social licence to operate. HSSE decisions and/or actions that have the potential to impact the Group's relationship with its stakeholders, or its reputation are proactively identified by the Committee and monitored during or outside the Committee meetings, depending on the potential severity of the impact. Social upliftment projects are closely monitored by the Committee to ensure the correct process is followed and stakeholder relationships are safeguarded.
To review reports from management concerning all fatalities and serious accidents within the Group and actions taken by management because of such serious accidents	No fatalities occurred during the year, but the Committee received reports on all eight significant safety incidents that occurred in the Group. The Committee reviewed incident investigation reports on the lost time injury and restricted work injuries and found the reports to adequately identify the causes of the incidents and recommend appropriate corrective actions. The Committee received reports on the implementation of corrective actions and health and safety system reviews to mitigate against the reoccurrence of such accidents in future.
To evaluate and oversee the quality and integrity of any reporting to external stakeholders concerning HSSE issues and review the Group's HSSE performance indicators	The Committee evaluates HSSE data presented in reports on a quarterly basis. In addition to the HSSE issues reported in the half-year reports, the Committee also reviews the annual sustainable development reporting process, which details the Group's HSSE performance throughout the year. The Committee approved the migration from a Sustainable Development Report to a digital Sustainable Development Platform on the Company website. The Committee reviewed the Group's HSSE performance indicators and trends for both current and forward-looking periods to ensure relevance and appropriateness. The performance indicators are heavily influenced by the Group's past performance as well as the Global Reporting Initiative's Sustainability Guidelines.
To review the results of independent audits of the Group's performance in respect of HSSE matters	During the year the Committee considered external audit reports regarding the performance of the operational HSSE systems, management as well as legal compliance. The Committee received feedback on the following independent audits: – HSE systems and management; – HSSE legal compliance; – Social and environmental management plan (SEMP) compliance; – ISO 14001 environmental management system; and – OHSAS 18001 occupational health and safety management. The Committee monitored the close out of HSSE-related findings resulting from these independent audits through quarterly status reports.
To review any strategies and action plans developed by management in response to issues raised in terms of HSSE and where appropriate, make recommendations to the Board	The Committee assessed the appropriateness of HSSE action plans and strategies developed by operational management to address HSSE matters and reviewed the effectiveness of these strategies in addressing HSSE trends or shortfalls. During the year the Committee monitored, among others, the following action plans and strategies: – nitrate management action plan; – surface water management strategy; – tailings and water storage facility management; and – incident management strategy. The Committee also recommended further actions to the Board where appropriate.

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.

Michael Lynch-Bell Chairman

The Committee comprises:

- **MD Lynch-Bell – Chairman (appointed 14 November 2017)**
- **H Kenyon-Slaney (appointed 6 June 2017)**
- **RW Davis (resigned 6 June 2017)**
- **M Salamon – Chairman (deceased 18 October 2017)**

Dear shareholder

On behalf of the Board I am pleased to present the Remuneration Committee's Directors' Remuneration Report for 2017. This is the first report I have prepared in my capacity as the new Remuneration Committee Chairman, a role I assumed on 14 November 2017.

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

During 2017, the Remuneration Committee reviewed the appropriateness and effectiveness of the existing Remuneration Policy and put a revised Policy to a shareholder vote at the 2017 Annual General Meeting (AGM). The revised Policy remained broadly unchanged from the 2014 Policy but included a few updates to reflect best practice, including the introduction of malus and clawback provisions and share ownership and retention guidelines. The Committee is pleased to note that the revised Policy received 90% support from our shareholders at the AGM held on 6 June 2017, and took effect from that date.

Remuneration decisions for 2017

In February 2017, the Group identified the need to embark on a business review process in order to rigorously interrogate all aspects of the business due to increased pressure on revenue and squeezed margins. Across the Group, annual and once-off savings were identified and significant progress has been made to date through the Business Transformation process against the target achievement for 2018. At Letšeng, a number of improvements were made during the course of the year which contributed to the improved performance of the Group during H2 2017, which saw a move from a net debt position in H1 2017 of US$14.2 million to a net cash position of US$1.4 million in H2 2017, representing an improvement of US$15.6 million. The placing of Ghaghoo onto care and maintenance was delivered on time, on plan and within cost, with no resulting stakeholder complications.

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

Annual bonus

For 2017, the formulaic annual bonus outcome for the business scorecard was 39%. However, the Executive Directors and Remuneration Committee jointly agreed to override the determination of the 2017 annual bonus to be more closely aligned with the shareholder experience over 2017. Executive Directors will receive a reduced annual bonus for 2017 equal to 20% of their annual salary, which will be paid in March 2018.

ESOP

Based on performance to 31 December 2017, 14.54% of the share awards made under the 2015 ESOP will vest in April 2018. In respect of the relative Total Shareholder Return (TSR) element (25% of the award), the Company's performance over the period was below that of the FTSE 350 Mining Index, and as such, 0% of the element will vest. In respect of the production element (37.5% of the award), 4.47% will vest and for the profit element (37.5% of the award), 10.07% will vest.

Annual Statement on Directors' Remuneration continued

In July 2017, Executive Directors were granted awards under the ESOP which will vest based on performance over the three financial years to 31 December 2019. In line with the prior year, these awards will vest to the extent that challenging relative TSR, production and profit targets are achieved over the period.

Implementation of the remuneration policy in 2018

The Executive Directors' salaries were reviewed in March 2018, and following careful consideration of market conditions no increases were awarded.

The Committee considers it essential to ensure that executive pay arrangements are fully aligned with the ambition and achievement of the business strategy which includes the Business Transformation process that commenced during 2017. The Business Transformation process is set out in more detail on pages 25 to 27 of the Annual Report. For 2018, the annual bonus opportunity will remain 100% of salary in line with the current Remuneration Policy. Group performance will continue to be measured with reference to a business scorecard linked to three key priorities: Preparing for Our Future (previously Growth); Extracting Maximum Value from Our Operations (previously Value Creation); and Working Responsibly and Maintaining Our Social Licence (previously Sustainability). Group performance will be weighted 80% of maximum and personal performance will be weighted 20% of maximum. KPIs linked to the Business Transformation are encapsulated within the priority area of Extracting Maximum Value from Our Operations. Malus and clawback provisions will apply during the performance period and for a period of two years following payment.

In terms of the long-term incentive, Executive Directors will be granted awards under the ESOP in 2018 of between 38% and 42% of salary. Awards will vest on performance over the three financial years to 31 December 2020. In previous years, TSR was measured against the FTSE 350 Mining Index. However, the Committee is currently considering the appropriate TSR benchmark and will disclose it in the next Directors' Remuneration Report. The performance conditions will remain 25% on relative TSR with the remainder of 75% based on business efficiencies. This has been updated to include delivery of the Business Transformation strategy which will be measured over a three-year period and weighted at 25%. As a result, the target on operational performance (profit and production) has been revised to a total weighting of 50%. Malus and clawback provisions will apply during the vesting period and for a period of two years following vesting.

Further details on the implementation of the Policy for 2018 are included on pages 65 to 71.

Directorate change

During the course of the year, the Board underwent some changes. Harry Kenyon-Slaney was appointed as the new Chairman at the 2017 AGM, following the resignation of Roger Davis after serving his fourth term. Mike Salamon sadly passed away in October 2017 and a decision was made not to replace his position. Glenn Turner resigned from the Board effective 15 November 2017 in order to satisfy the composition requirements as it relates to the ratio of Executive Directors to non-Executive Directors. Glenn Turner remains the Company Secretary and a key executive of the Company. Gavin Beevers retired from the Board effective 31 December 2017 after having served on the Board for 10 years and Mike Brown was appointed to take up this position from 1 January 2018.

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

Michael Lynch-Bell
Chairman of the Remuneration Committee

13 March 2018

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 87 to 93 and we have clearly marked the audited sections of the report.

The Company's Remuneration Policy was approved by the shareholders at the AGM on 6 June 2017 and became effective from this date. The report is as originally disclosed in the 2016 Directors' Remuneration Report save for some non-significant changes as follows:

- References to financial years have been updated where appropriate;
- New non-Executive Directors' appointment and expiry dates have been updated;
- References to performance measures have been updated for the latest business strategy, as appropriate; and
- Pay-for-performance charts have been updated to reflect 2018 salaries.

The Company's Remuneration Policy

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

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

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

Policy table for Executive Directors

Element	Purpose and link to strategy	Operation	Opportunity	Performance measures
Salary	To offer a market competitive base salary to recruit and retain individuals of the necessary calibre to execute the Company's business strategy.	Base salaries are reviewed annually with changes effective from 1 April. Salaries are typically set after considering the salary levels in companies of a similar size, complexity and risk profile, the responsibilities of each individual role, progression within the role, and individual performance. In setting salaries for Executive Directors, the Committee takes note of the overall approach to salary reviews for the wider workforce.	No prescribed maximum annual increase. It is expected that salary increases for Executive Directors will ordinarily be (in percentage of salary terms) in line with those of the wider workforce in countries of a similar inflationary environment. In certain circumstances (for example where there is a change in responsibility, role size or complexity, or progression in the role), the Committee has discretion to award a higher increase to ensure salary levels remain competitive.	N/A

Directors' Remuneration Policy continued

Element	Purpose and link to strategy	Operation	Opportunity	Performance measures
Benefits	To provide competitive benefits taking into account market value of role and benefits offered to the wider UK management population, in line with the Company's strategy to keep remuneration simple and consistent.	Executive Directors receive a cash allowance in lieu of non-cash benefits.	Benefit value may vary by role to reflect market practice. It is not anticipated that the current cost of benefits (as set out in the Annual Report on Remuneration) will increase materially over the term of this Policy, though the Committee retains discretion to approve a higher cost in exceptional circumstances (for example relocation or increase in insurance premiums).	N/A
Pension	To provide retirement benefits that are appropriately competitive.	No formal pension provision is made by the Company.	Executive Directors receive a cash allowance in lieu of pension which is currently equal to 14.5% and 13.0% of base salary for the CEO and other Executive Directors, respectively. It is not anticipated that the cash allowance in lieu of pension will exceed this level over the term of this Policy, though the Committee retains discretion to approve a higher cost if deemed appropriate.	N/A
Annual bonus	To drive and reward performance against personal objectives and selected financial and operational KPIs which are directly linked to business strategy.	The executive incentive scheme is reviewed annually by the Committee at the start of the year to ensure the opportunity and performance measures are appropriate and continue to support business strategy. The Committee has discretion to adjust the formulaic outcome of the bonus to more accurately reflect business and personal performance during the year. The annual bonus is paid entirely in cash. Malus and clawback provisions may be applied for a period of two years following payment in exceptional circumstances, including but not limited to misstatement, misconduct or error.	Maximum opportunity of up to 100% of base salary. For threshold level and target level performance, the bonus earned is 50% and up to 68% of maximum opportunity, respectively.	Performance is determined by the Committee on an annual basis by reference to a scorecard of Group targets as detailed in the Group's business plan and encapsulated in specific key performance indicators (KPIs), as well as a discretionary assessment of personal performance. Group scorecard targets may include one or more of the three key priority areas of Preparing for Our Future, Extracting Maximum Value from Our Operations, and Working Responsibly and Maintaining Our Social Licence. The Group scorecard will typically be weighted at least 70% in any one year. Details of the measures and weightings for the current year are provided in the Annual Report on Remuneration.

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. Malus and clawback provisions may be applied for a period of two years post-vesting in exceptional circumstances, including but not limited to misstatement, misconduct or error. For future awards, the Committee may introduce a holding period of up to two years (or such other period the Committee may determine) for vested awards, during which time Executive Directors may not sell shares save to cover tax.	Maximum opportunity is up to 125% of salary in performance shares and 250% in performance options (subject to overall maximum with fair value equivalent to 125% of salary in performance shares). For threshold performance, 20% of the maximum award vests.	Awards vest based on continued employment and the Company's performance measured over a minimum of three years. It is the Committee's current intention that the performance measures be based on relative TSR, profit and production, but may for future awards include additional measures such as HSSE or strategic objectives, as determined by the Committee. Vesting is ultimately also subject to the Committee's assessment of the Company's underlying performance.

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 2017 Policy, or prior to the individual becoming a Director. Details of any such awards or payments are disclosed in the Annual Report on Remuneration.

Selection of performance measures (annual bonus and ESOP)
The performance measures used in the Company's executive incentive scheme have been selected to ensure incentives reinforce the Company strategy and align executive interests closely with those of shareholders. The Committee considers that the financial and operational measures used in the annual bonus support the strategic priorities of Preparing for Our Future, Extracting Maximum Value from Operations, and Working Responsibly and Maintaining Our Social Licence, and are well accepted measures for the mining sector. In the ESOP, the use of profit and production targets as well as the delivery of the Business Transformation targets are consistent with the Company's KPIs, and the use of relative TSR is strongly aligned with shareholders and ensures that executives are rewarded only if they exceed the returns which a shareholder could achieve elsewhere in the sector.

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

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

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

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

Pay for performance: scenario analysis
The graph on the following page provides an estimate of the potential future remuneration for the Executive Directors and the potential split between the different elements of pay under three performance scenarios: 'fixed', 'at target' and 'maximum'. Potential remuneration is based on incentive opportunities as set out in the 2017 Policy, applied to the salaries effective 1 April 2018. For the annual bonus, the maximum is 100% of salary. ESOP values are based on the proposed number of shares to be awarded in 2018 and the three-month average share price to 31 December 2017 of 77 pence (equivalent to 38% to 42% of salary). Note that the projected values exclude the impact of any share price movements.

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

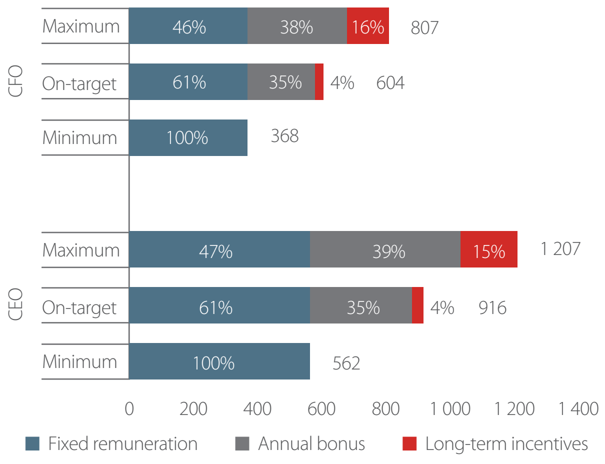
The 'at target' scenario includes fixed remuneration as above, plus target pay-out of annual bonus, and threshold vesting for the ESOP.

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

The assumptions are summarised in the table below.

Component	Fixed	At target	Maximum
Salary	Base salary for 2018		
Benefits	Taxable value of annual benefits provided		
Pension	14.5% and 13% of salary for the CEO and other Executive Directors, respectively		
Annual bonus	0% of maximum	68% of maximum	100% of maximum
ESOP	0% of maximum	20% of maximum	100% of maximum

Performance



Approach to remuneration on executive recruitment
In recruiting new Executive Directors, the Committee will follow the Remuneration Policy as set out in the Policy Table. On appointment of an external Executive Director, any arrangement specifically established to recruit an individual would be capped at the limits described in the Policy Table. The Committee does not envisage a payment such as a 'golden hello' would be offered, although the Committee may consider it appropriate to compensate for incentive arrangements the Director forfeits on leaving their current employer. Any such buy-out compensation would be on a comparable basis taking into account factors including the performance conditions attached to these awards, the likelihood of conditions being met, and the remaining vesting period of these awards. The Committee would normally use the remuneration components under the regular Policy to make such buy-out awards but may also exercise its discretion under Listing Rule 9.4.2 if an alternative incentive structure were required.

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

Service contracts

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

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

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

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

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

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

Directors' Remuneration Policy continued

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

Incentive plan	Scenario	Time of payment/vesting	Calculation of payment/vesting
Annual bonus	Death, disability, ill health, redundancy, retirement, or any other reasons the Committee may determine (normally not including resignation or where there are concerns as to performance).	Normal payment date, although the Committee has discretion to accelerate (eg in relation to death).	Performance against targets will normally be assessed by the Committee at the end of the year and any resulting bonus is normally pro-rated for proportion of the year worked.
	Change of control (whether or not employment is terminated as a result).	Immediately, on change of control.	Performance against targets will normally be assessed by the Committee up to the date of change of control and any resulting bonus is normally pro-rated for time.
	All other reasons.	Not applicable.	No bonus is paid.
ESOP	Death, disability, ill health, redundancy, retirement, or any other reasons the Committee may determine (normally not including resignation or where there are concerns as to performance).	Normal vesting date, although the Committee has discretion to accelerate.	Unvested awards will normally be pro-rated for time unless the Committee decides otherwise and based on performance.
	Change of control (whether or not employment is terminated as a result).	Immediately, on change of control.	Unvested awards will normally be pro-rated for time unless the Committee decides otherwise and based on performance up to the date of change of control. Executive Directors can elect to exchange ESOP awards for those of the acquiring company, if offered.
	All other reasons.	Not applicable.	Awards lapse.

GOVERNANCE

Non-Executive Directors

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

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

Element	Purpose and link to strategy	Operation	Opportunity
Directors' fees	To attract and retain a high-calibre Chairman and non-Executive Directors with experience relevant to the Company.	Fees are reviewed annually, with any changes effective from 1 April. Fees are typically set after considering current market levels and taking into account time commitment and responsibilities involved. All non-Executive Directors, including the Chairman, are each paid an all-inclusive fee. No additional fees are paid for chairmanship of Committees. All fees are payable in cash in arrears. The non-Executive Directors do not participate in any of the Group's incentive plans. No other benefits or remuneration are provided to non-Executive Directors.	No prescribed maximum annual increase. It is expected that fee increases will typically be in line with market levels of fee inflation. In certain circumstances (for example where there is a change in time commitment required or a material misalignment with market), the Committee has the discretion to make adjustments to fee levels to ensure they remain competitive. The maximum aggregate annual fee for all non-Executive Directors, including the Chairman, allowed by the Company's Articles of Association is £750 000.

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

Considerations of conditions elsewhere in the Group

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

Considerations of shareholder views

When determining remuneration, the Committee considers shareholder views and the guidelines of investor bodies. The Committee always welcomes feedback from shareholders on the Company's Remuneration Policy and commits to undergoing shareholder consultation in advance of any significant changes to Policy. Details on the votes received on the Directors' Remuneration Report at the prior AGM is provided in the Annual Report on Remuneration.

External directorships

Executive Directors are permitted to accept external directorships with prior approval of the Chairman. Approval will only be given where the appointment does not present a conflict of interest with the Group's activities and the experience gained will be beneficial to the development of the individual. Where fees are payable in respect of such appointments, these would be retained by the Executive Director. Refer to page 81 for further details.

The Annual Report on Remuneration

The following section provides details of how the Company's 2017 Remuneration Policy was implemented during the financial year ended 31 December 2017, and how the Remuneration Committee intends to implement the proposed Policy in 2018.

Composition and role of the Remuneration Committee

Committee member	Member throughout 2017	Number of meetings
MD Lynch-Bell[1]	✓	4/4
RW Davis	Resigned June 2017	1/4
H Kenyon-Slaney	Appointed June 2017	3/4
M Salamon[1]	Deceased October 2017	2/4

[1] *Chairman.*

After serving his fourth term as Company Chairman, Roger Davies resigned at the June 2017 AGM and was replaced by Harry Kenyon-Slaney. Michael Lynch-Bell was appointed as Chairman of the Remuneration Committee on 14 November 2017, following the passing of his predecessor, Mike Salamon.

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

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

The Committee's main responsibilities 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;
- 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 2017

During the year, activities undertaken by the Committee included:
- review and approval of the Directors' Remuneration Report for 2016, and preparation of the Directors' Remuneration Report for 2017;
- review and approval of incentive outcomes for Executive Directors for 2016;
- determination of the Executive Directors' annual bonus and ESOP opportunities and performance targets for 2017;
- review of recent developments in remuneration market trends and best practice;
- review of the Chairman's fee;
- review and approval of base salaries and total remuneration for the Executive Directors and the Company Secretary; and
- review and approval of the Transformation Incentive Plan (TIP) for employees across the Group (Executive Directors are excluded from the TIP).

Advisers to the Remuneration Committee

Mercer Kepler was appointed by the Committee in February 2010 and provided independent remuneration advice to the Committee and attended Committee meetings during 2017. Mercer Kepler provides remuneration advice to a large portfolio of clients including many in the FTSE 350 and FTSE Small Cap; this gives the Committee comfort that the advice provided is appropriate and relevant. Mercer Kepler is a signatory to, and abides by, the Remuneration Consultants Group Code of Conduct. Further details can be found at www.remunerationconsultantsgroup.com.

Neither Mercer Kepler nor Mercer Kepler's parent company, the MMC Group, provides non-remuneration services to the Group or is in any other way connected to the Group, and Mercer Kepler is therefore considered to be independent. The fees payable in relation to work for the Committee in 2017 were £43 102 (US$46 650) excluding VAT.

Summary of shareholder voting at the 2017 AGM

The table below shows the results of the binding vote on the 2017 Remuneration Policy and the advisory vote on the 2016 Annual Report on Remuneration at the 6 June 2017 AGM.

		For	Against	Total votes cast	Withheld
2017 Remuneration Policy	Total number of votes	85 580 439	9 354 785	94 935 224	6 000
	Percentage of votes cast	90.2%	9.8%	–	–
2016 Annual Report on Remuneration	Total number of votes	86 996 053	5 714 020	92 710 073	2 231 151
	Percentage of votes cast	93.8%	6.2%	–	–

Audited.

Total single figure of remuneration for Directors

The table below sets out the total single figure remuneration received by each Director for 2017 and the prior year. Although the Group's reporting currency is US dollar, these figures are stated in sterling as the Directors' emoluments are paid in sterling.

	Salary and fees[1]		Benefits[2]		Pension[2]		Annual bonuses[3]		Long-term incentives[4]		Total	
	2017 £	2016 £	2017 £	2016 £	2017 £	2016 £	2017 £	2016 £	2017 £	2016 £	2017 £	2016 £
Executive Directors as at 31 December 2017												
CT Elphick	**468 211**	464 802	**25 752**	25 564	**67 891**	67 396	**93 642**	–	**25 695**	53 552	**681 191**	611 314
M Michael	**309 000**	306 750	**18 540**	18 405	**40 170**	39 878	**61 800**	–	**18 992**	29 116	**448 502**	394 149
Total	**777 211**	771 552	**44 292**	43 969	**108 061**	107 274	**155 442**	–	**44 687**	82 668	**1 129 693**	1 005 463
Non-Executive Directors at 31 December 2017												
H Kenyon-Slaney[5]	**63 037**	–	**–**	–	**–**	–	**–**	–	**–**	–	**63 037**	–
MD Lynch-Bell	**55 000**	55 000	**–**	–	**–**	–	**–**	–	**–**	–	**55 000**	55 000
Total	**118 037**	55 000	**–**	–	**–**	–	**–**	–	**–**	–	**118 037**	55 000
Executive and non-Executive Directors retired/resigned												
AR Ashworth[6]	**–**	170 826	**–**	10 250	**–**	22 207	**–**	78 892	**7 902**	27 254	**7 902**	309 429
GE Turner[7]	**273 443**	311 373	**16 407**	18 682	**35 548**	40 478	**54 689**	–	**18 992**	35 875	**399 079**	406 408
RW Davis[8]	**47 525**	110 000	**–**	–	**–**	–	**–**	–	**–**	–	**47 525**	110 000
M Salamon[9]	**45 833**	55 000	**–**	–	**–**	–	**–**	–	**–**	–	**45 833**	55 000
GA Beevers[10]	**55 000**	55 000	**–**	–	**–**	–	**–**	–	**–**	–	**55 000**	55 000
Total	**421 801**	702 199	**16 407**	28 932	**35 548**	62 685	**54 689**	78 892	**26 894**	63 129	**555 339**	935 837
Total of all Directors	**1 317 049**	1 528 751	**60 699**	72 901	**143 609**	169 959	**210 131**	78 892	**71 581**	145 797	**1 803 069**	1 996 300

Audited.

[1] *Salary and fees: amount earned for the year.*

[2] *Benefits and pension: cash payments in lieu earned for the year.*

[3] *Annual bonus: payments in relation to performance for the year.*

[4] *ESOP: the 2017 figures relate to the values at vesting of awards vesting on performance over the three-year period ended 31 December 2017. The share price on the vesting date is currently unknown, therefore the awards are valued using the three-month average share price to 31 December 2017 of 77 pence. The 2016 figures have been trued up for the share price on the vesting date of 0.92 pence.*

[5] *H Kenyon-Slaney was appointed Chairman on 6 June 2017. The 2017 remuneration reported in the table relates to the period 6 June 2017 to 31 December 2017.*

[6] *AR Ashworth retired from the Board on 30 June 2016. The 2016 remuneration reported in the table relates to the period 1 January 2016 to 30 June 2016.*

[7] *GE Turner resigned from the Board on 15 November 2017. The 2017 remuneration reported in the table relates to the period 1 January 2017 to 15 November 2017.*

[8] *RW Davis stepped down from the Board on 6 June 2017. The 2017 remuneration reported in the table relates to the period 1 January 2017 to 6 June 2017.*

[9] *M Salamon passed away in October. The 2017 remuneration reported in the table relates to the period 1 January 2017 to 30 October 2017.*

[10] *G Beevers retired from the Board on 31 December 2017. The 2017 remuneration reported in the table relates to the period 1 January 2017 to 31 December 2017.*

The Annual Report on Remuneration continued

Pension and other benefits

No formal pension provision is made by the Company. Instead, Executive Directors receive a cash allowance in lieu of pension which was equivalent to 14.5% and 13% of base salary for the Chief Executive Officer and other Executive Directors, respectively. Executive Directors received a cash allowance in lieu of other non-cash benefits, the value of which ranged between 5.5% and 6% of base salary during 2017.

Incentive outcomes for the financial year ended 31 December 2017

Annual bonus in respect of 2017 performance

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

In 2017, the maximum bonus opportunity for Executive Directors was 100% of base salary, with 80% linked to a business scorecard and 20% linked to a discretionary assessment of personal performance.

The performance measures, targets and actual outturn in respect of 2017 are disclosed in full in the table below.

		Weighting (% of max)	Threshold target	Stretch targets	Actual performance	Payout (% of max)
Growth		30%	Judged by Committee on a discretionary basis			0%
Operating performance	Underlying EBITDA (US million)	10%	55.1	82.7	48.6	0%
	EPS (US cents)	10%	6.23	9.35	6.56	4%
	Waste tonnes mined (millions)	10%	28.9	30.5	29.7	8%
	Ore tonnes treated (millions)	10%	6.7	7.4	6.4	0%
	Carats recovered	10%	100 320	135 728	111 811	7%
HSSE performance	Fatalities	5%	0	0	0	5%
	All injury frequency rate	5%	4.56	3.80	2.02	5%
	Major environmental or community incidents	5%	0	0	0	5%
	HSSE legal compliance	5%	Judged by Committee on a discretionary basis			5%
					Overall business scorecard outcome	39% (out of 100%)

Growth

The growth component of the bonus is assessed at the discretion of the Committee. This element was historically considered against targets relating to mostly M&A and growth within existing operations. Following a business review process which was undertaken in February 2017, the Group's key priorities were revised to focus on enhancing the efficiency of the operations by improving day-to-day performance, stringent cost control and capital discipline as well as the sale of non-core assets.

The revised key priorities informed initiatives which are in various stages of implementation, and which will ultimately impact the operating performance component of the bonus. As part of these initiatives, a revision of the mine plan at Letšeng resulted in resequencing of the waste depletion profile, which led to reduced waste and capex, with significant costs being removed from the 2017 Business Plan. The placing of Ghaghoo onto care and maintenance was delivered on time, on plan and within cost, with no resulting stakeholder complications. Further to this, the Group moved from a net debt position in H1 2017 of US$14.2 million to a net cash position of US$1.4 million in H2 2017, signifying an improvement of US$15.6 million. The detailed application for Letšeng's mining lease renewal under the 2005 Mines and Minerals Act were far advanced at year end with an application being lodged in March 2018. The area of innovation made good progress in technologies which will address revenue enhancement and cost reduction, as a result of minimising the impact of diamond damage.

HSSE legal compliance

Letšeng retained its OHSAS 18001 and ISO 14001 accreditation for environmental and occupational health and safety management for a second year in a row. No major findings were raised, and minor findings were addressed quickly and effectively.

Personal performance

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

In light of the decision that overall bonuses for 2017 will be less than that directly warranted by performance against the business scorecard, the personal performance of the Executive Directors was not assessed for purposes of annual bonus calculations.

Actual bonuses awarded for 2017

Based on the business scorecard, the formulaic outcome for Group performance was 39%; the mechanical application of the Group score triggers a payment of 31% out of 80%, with the assessment of personal performance ranging from a possible 0% to 20%. However, the Executive Directors and Remuneration Committee jointly agreed to override the determination of the 2017 annual bonus to be more closely aligned with the shareholder experience over 2017. Consequently, Executive Directors will receive a reduced annual bonus for 2017 equal to 20% of their annual salary, which will be paid in March 2018.

Employee Share Option Plan (ESOP): 2015 awards vesting in 2018

The Executive Directors were granted awards of performance shares in April 2015, which are set out in the table below.

Directors as at 31 December 2017

Executive Director	Date of grant	Awards made during 2015	Share price on date of award (£)	Face value on date of award (£)	Face value as % of salary	Vesting date
CT Elphick	1 April 2015	230 000	1.41	324 300	71	1 April 2018
M Michael		170 000		239 700	80	

Directors retired/resigned from Board

Executive Director	Date of grant	Awards made during 2015	Share price on date of award (£)	Face value on date of award (£)	Face value as % of salary	Vesting date
AR Ashworth[1]	1 April 2015	170 000	1.41	239 700	71	1 April 2018
GE Turner[2]		170 000		239 700	79	

[1] *Retired from Board 30 June 2016.*
[2] *Resigned from Board 15 November 2017.*

Vesting of the awards was dependent on relative TSR versus the constituents of the FTSE 350 Mining Index (25% of the award), profit (37.5%) and production (37.5%), measured over the three-year performance period ended 31 December 2017. Relative TSR was measured over the period 1 January 2015 to 31 December 2017. Profit and production were measured on an annual basis with respect to the business plan for the year, with final vesting based on the average achievement of targets over the three years. The performance conditions that applied to these awards are summarised in the table on the following page.

The Annual Report on Remuneration continued

ESOP scorecard

Annual performance	Profit		Production		
	Underlying EBITDA 25%	Earnings per share 25%	Ore tonnes treated 25%	Carats recovered 25%	Total vesting 100%
2015	11.18%	23.13%	8.00%	0.00%	42.31%
2016	0.00%	0.00%	0.00%	0.00%	0.00%
2017	0.00%	5.95%	0.00%	9.87%	15.82%
Average vesting outcome					19.38%

Annual performance		Performance measure Weighting (% of max)	Performance period	Threshold (20% vesting)	Stretch (80% vesting)	Super-stretch (100% vesting)	Actual performance	Vesting outcome (% of max)
TSR versus FTSE 350 Miners		25%		Median	75th percentile	85th percentile	46th percentile	0.00%
Profit	Underlying EBITDA (US million)	18.75%		80% of business plan	120% of business plan	132% of business plan		
			2015	85.5	128.3	141.1	103.5	8.39%
			2016	84.2	126.3	139.0	62.8	0.00%
			2017	55.1	82.7	91.0	48.6	0.00%
			Average					2.80%
	EPS (US cents)	18.75%		80% of business plan	120% of business plan	132% of business plan		
			2015	18.94	28.4	31.24	30.21	17.35%
			2016	14.65	21.97	24.17	12.80	0.00%
			2017	6.23	9.35	10.28	6.56	4.46%
			Average					7.27%
Production	Ore tonnes treated (millions)	18.75%		95% of business plan	105% of business plan	115.5% of business plan		
			2015	6.9	7.6	8.3	7.0	6.00%
			2016	6.9	7.6	9.6	6.9	0.00%
			2017	6.7	7.4	8.1	6.4	0.00%
			Average					2.00%
	Carats recovered	18.75%		85% of business plan	115% of business plan	126.5% of business plan		
			2015	232 057	313 959	345 355	200 079	0.00%
			2016	164 937	223 149	248 036	149 182	0.00%
			2017	100 320	135 728	149 300	111 811	7.40%
			Average					2.47%
Total award		100%						14.54%

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

Based on performance to 31 December 2017, 14.54% of the maximum award will vest for CT Elphick and M Michael in April 2018, subject to continued employment. AR Ashworth retired from the Board and ceased to be employed on 30 June 2016, and therefore his 2015 ESOP award was reduced on a time pro-rata basis to reflect the period served. Details on treatment of AR Ashworth's outstanding incentives were reported in full in the 2016 Annual Report on Remuneration.

ESOP awards granted in 2017

On 4 July 2017, performance shares with a face value of between 47% and 53% of salary were awarded to the Executive Directors, as summarised in the table below.

Executive Directors as at 31 December 2017

Executive Director	Date of grant	Awards made during 2017	Share price on date of award (£)	Face value on date of award (£)[1]	Face value as % of salary
CT Elphick	4 July 2017	230 000	0.96	219 949	47
M Michael		170 000		162 571	53

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

Executive Directors resigned/retired during 2017

Executive Director	Date of grant	Awards made during 2017	Share price on date of award (£)	Face value on date of award (£)[1]	Face value as % of salary
GE Turner[2]	4 July 2017	170 000	0.96	162 571	52

[1] *The face values of awards as a percentage of salary are based on the actual share price on the date of award.*
[2] *GE Turner resigned from the Board on 15 November 2017. He remains an employee of the Company, therefore the award will not be pro-rated.*

The performance conditions that apply to these awards remain the same as those for the 2016 awards and are summarised in the table below.

Performance measure	Weighting (% of award)	Threshold (20% vesting)	Stretch (80% vesting)	Super-stretch (100% vesting)
TSR versus FTSE 350 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

For each measure, for achievement in between threshold and stretch, and stretch and super-stretch, the award will vest on a straight-line basis. For achievement of less than threshold, vesting will be nil. As before, TSR will be measured over three years, from 1 January 2017 to 31 December 2019. Profit and production will be measured on an annual basis with respect to the business plan for the year, with final vesting based on the average achievement of targets over the three years. The profit and production targets are considered commercially sensitive as they relate to the Company's business plan and strategy and will therefore be disclosed in full after the performance period has ended.

The Annual Report on Remuneration continued

Implementation of Remuneration Policy for 2018

The Committee approved the following salary increases from 1 April 2018:

Executive Director	2017 salary (£)	2018 salary (£)	% increase
CT Elphick	**468 211**	468 211	0
M Michael	**309 000**	309 000	0

Audited.

Pension and benefits

The Executive Directors will continue to receive cash supplements in lieu of pension and benefits in 2018. The values will remain unchanged from 2017.

Annual bonus

For 2018, the maximum annual bonus opportunity will remain 100% of salary. Performance measures will continue to include a range of financial, operational and personal objectives that support the delivery of the Group's key strategic priorities, with 80% linked to business performance and 20% to personal performance. For the Group performance element, performance will be linked to the Group's three key priorities of Preparing for Our Future, Extracting Maximum Value from Our Operations, and Working Responsibly and Maintaining Our Social Licence. Business Transformation has been included as a KPI weighted accordingly within the element of Extracting Maximum Value from Our Operations. Performance measures and targets will be disclosed in full on a retrospective basis in next year's report.

ESOP

In advance of each ESOP cycle, the Committee reviews the performance measures and corresponding targets to ensure they are appropriately stretching over the performance period. For 2018 the ESOP will continue to operate on the same basis as in 2017, save for Business Transformation which will now be weighted within the element of Extracting Maximum Value from Our Operations and will be tracked against a three-year target. The Chief Executive Officer will receive an award of 230 000 performance shares (equivalent to 42% of salary) and the Chief Financial Officer will receive an award of 170 000 performance shares (equivalent to 38% of salary).

The performance conditions remain 25% on relative TSR. In previous years, TSR was measured against the FTSE 350 Mining Index. However, the Committee is currently considering the appropriate TSR benchmark for the 2018 awards and will disclose it in the next Directors' Remuneration Report. There will be consideration for the achievement of the Business Transformation target with 25% of the award weighted against this element. The balance of 50% will be weighted towards operational performance which includes profit and production elements. Achievement against target will be measured over the three-year performance period ending on 31 December 2020. The relative TSR targets remain unchanged from 2017 and further detail on the Business Transformation target can be found in page 25 to page 27 of the Annual Report. 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 are therefore considered commercially sensitive. Malus and clawback provisions will apply during the vesting period and for a period of two years following vesting, respectively.

Shareholding guidelines

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

Chairman and non-Executive Director fees

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

The percentage increase in Chief Executive Officer remuneration compared with other employee pay

The table below shows the percentage change in the Chief Executive Officer's remuneration from 2016 compared with the average percentage change in remuneration for all other 'own employees' (ie excluding contractors). It is important to note that due to a change in operational requirements throughout various companies in the Group, the average number of own employees has decreased by 15% from 481 in 2016 to 408 in 2017.

	CT Elphick			Other employees		
	2017 £	2016 £	% change	2017 £	2016 £	% change
Base salaries	**468 211**	464 802	0.7%	**14 406 585**	13 295 170	8%
Benefits	**93 642**	92 960	0.7%	**1 544 784**	1 798 858	(14%)
Annual bonuses	**93 642**	0	100%	**660 892**	386 331	71%
Total	**655 495**	557 762	17.5%	**16 612 261**	15 480 359	7%

Audited.

Relative importance of spend on pay

The table below shows the percentage change in total employee pay expenditure and shareholder distributions (ie dividends, share buy-backs and return of capital) from the financial year ended 31 December 2016 to the financial year ended 31 December 2017.

	2017 US$	2016 US$	% change
Distribution to shareholders	**–**	–	–
Employee remuneration[1]	**24 017 414**	23 689 173	1
Return of capital	**n/a**	n/a	n/a

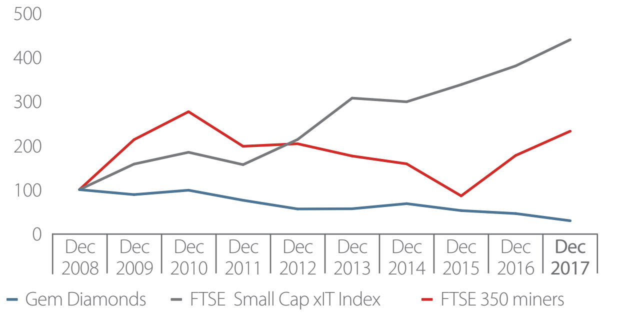
Audited.

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

Pay for performance

The graph shows the Company's TSR performance compared with the performance of the FTSE 250 (excluding investment trusts) and the FTSE 350 Mining Index over the eight-year period to 31 December 2017. The FTSE 250 has been selected to provide a broad market comparator group, and the FTSE 350 Mining Index has been selected because the Group and the constituents of the index are affected by similar commercial and economic factors. The table below the graph details the Chief Executive Officer's single figure of remuneration and actual variable pay outcomes over the same period.

Value of £100 invested on 1 January 2009
(Gem Diamonds versus FTSE 350 Mining Index and FTSE Small Cap xIT Index) (£)



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

Audited.

The Annual Report on Remuneration continued

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 2017, a total of 13 862 016 shares (10% of issued share capital) may be issued pursuant to all current awards outstanding over the last 10 years.

Details of outstanding awards of performance shares to Directors

Directors as at 31 December 2017

Director	Date of grant	Performance shares[1] as at 1 January 2017	Granted in the year	Vested in the year	Lapsed in the year	Exercised in the year	Exercise price (US$)	Market value at date of grant (US$)	Earliest normal exercise date	Expiry date	Performance shares outstanding as at 31 December 2017
CT Elphick	10 June 2014	206 000	–	58 209	(147 791)	–	0.01	556 200	10 June 2017	10 June 2024	**58 209**
	1 April 2015	230 000	–	–	–	–	0.01	453 100	1 April 2018	1 April 2025	**230 000**
	15 March 2016	230 000	–	–	–	–	0.01	322 000	15 March 2019	15 March 2026	**230 000**
	4 July 2017		230 000				0.01	253 000	4 July 2020	4 July 2027	**230 000**
Total		**666 000**	**230 000**	**58 209**	**(147 791)**	**–**					**748 209**
M Michael	11 September 2012	18 544	–	–	–	–	0.01	68 400	1 January 2016	31 December 2023	**18 544**
	10 June 2014	112 000	–	31 648	(80 353)	–	0.01	302 400	10 June 2017	10 June 2024	**31 648**
	1 April 2015	170 000	–	–	–	–	0.01	334 900	1 April 2018	1 April 2025	**170 000**
	15 March 2016	170 000	–	–	–	–	0.01	238 000	15 March 2019	15 March 2026	**170 000**
	4 July 2017		170 000				0.01	187 000	4 July 2020	4 July 2027	**170 000**
Total		**470 544**	**170 000**	**31 648**	**(80 353)**	–					**560 192**

[1] Conditional right to acquire shares.

Directors resigned/retired during 2017

Director	Date of grant	Performance shares[1] as at 1 January 2017	Granted in the year	Vested in the year	Lapsed in the year	Exercised in the year	Exercise price (US$)	Market value at date of grant (US$)	Earliest normal exercise date	Expiry date	Performance shares outstanding as at 31 December 2017
GE Turner[2]	10 June 2014	138 000	–	38 994	(99 006)	–	0.01	372 600	10 June 2017	10 June 2024	**38 994**
	1 April 2015	170 000	–	–	–	–	0.01	334 900	1 April 2018	1 April 2025	**170 000**
	15 March 2016	170 000	–	–	–	–	0.01	238 000	15 March 2019	15 March 2026	**170 000**
	4 July 2017		170 000				0.01	187 000	4 July 2020	4 July 2027	**170 000**
Total		**478 000**	**170 000**	**38 994**	**(99 006)**	**–**					**548 994**

Audited.
[1] Conditional right to acquire shares.
[2] GE Turner remains an employee of the Company, the award is not subject to pro-rata leaver provisions.

Details of outstanding awards of performance options to Directors

Director	Performance options as at 1 January 2017[1]	Granted in the year	Vested in the year	Vested in the year	Lapsed in the year	Exercise price GB pence	Date of grant	Earliest normal exercise date	Expiry date	Performance options outstanding at 31 December 2017
M Michael	**37 088[2]**	–	–	–	–	177.60	11 September 2012	1 January 2016	31 December 2023	**37 088**

Audited.
[1] Option is a right to acquire shares granted under the plan including, unless indicated otherwise, a nil-cost option. The three-month average share price to December 2017 was 77 pence. The highest and lowest closing prices in the year were 123.75 pence and 68.75 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] These awards were granted to M Michael before he became a Director.

Directors' shareholdings and interests in shares

Details of interests in the share capital of the Company of those Directors in office as at 31 December 2017 are given below. It is confirmed that there were no changes to the Directors' holdings between 31 December 2017 and up to the date of this report. No Director held an interest in the shares of any subsidiary company.

Executive Director	Shares owned outright as at 31 December 2017	Performance shares held			Performance options held		Total shareholding as a % of salary	Shareholding guideline met
		Subject to performance conditions	Unvested and subject to continued employment only	Vested but not exercised	Subject to performance conditions	Vested but not exercised		
CT Elphick	**9 325 000[1]**	**460 000**	**33 424**	**58 209**	**–**	**–**	**1 543%**	✓
M Michael	**10 000**	**340 000**	**24 704**	**50 192**	**–**	**37 088**	**24%**	[2]

Audited.
[1] CT Elphick is interested in these ordinary shares by virtue of his interest as a potential beneficiary in a discretionary trust which has an indirect interest in those ordinary shares.
[2] In terms of the shareholding guidelines, M Michael is required to retain at least 50% of his vested awards until the guideline has been met. Year-on-year shareholding has increased with 8%.

Currently none of the non-Executive Directors have shareholding in the Company.

Directors' external appointments

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

By order of the Board

Michael Lynch-Bell
Chairman of the Remuneration Committee

13 March 2018

Directors' Report

The Directors take pleasure in submitting the financial statements of the Group for the year ended 31 December 2017.

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 can be found on pages 2 to 41 and has been prepared to provide the Company's shareholders with a fair review of the business of the Company and a description of the principal risks and uncertainties facing it. It may not be relied upon by anyone, including the Company's shareholders, for any other purpose.

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

Corporate governance

The UK Financial Conduct Authority's Disclosure Guidance and Transparency Rules (DTR 7.2) require that certain information be included in a corporate governance statement set out in the Directors' Report. The Group has an existing practice of issuing a separate Corporate Governance Code Compliance Report as part of its Annual Report. The information required by the Disclosure Guidance and Transparency Rules and the UK Financial Conduct Authority's Listing Rules (LR 9.8.6) is located on pages 46 to 53.

Directors

The Directors, as at the date of this report, are listed on pages 42 and 43 together with their biographical details. Details of the Directors' interests in shares and share options of the Company can be found on page 81.

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

	Appointment	Resignation
Executive Directors		
CT Elphick	20 January 2006	
M Michael	22 April 2013	
GE Turner	22 April 2008	15 November 2017
Non-Executive Directors		
H Kenyon-Slaney	6 June 2017	
MD Lynch-Bell	15 December 2015	
RW Davis	1 February 2007	6 June 2017
GA Beevers	1 February 2007	31 December 2017
M Salamon	3 February 2008	18 October 2017

There have been a number of changes to the Board composition this year: Roger Davis stepped down as Chairman at the 2017 AGM and Harry Kenyon-Slaney was appointed at the Board meeting held on 6 June 2017. Mike Salamon passed away in October 2017 and Michael Lynch-Bell was appointed Senior Independent Director on 14 November 2017. Glenn Turner resigned from the Board on 15 November 2017, retaining an executive management position. Gavin Beevers resigned on 31 December 2017 and was replaced by Mike Brown who was appointed as an independent non-Executive Director on 1 January 2018.

Re-election of Directors

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

Protection available to Directors

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

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 UK Listing Authority.

Directors' interests

No Director had, at any time during the year, a material interest in any contract of significance in relation to the Company's business. The interest of Directors in the shares of the Company is included on page 81.

Related-party transactions

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.

Results and dividends

The Group's attributable profit after taxation (before exceptional items) amounted to US$9.1 million (2016: US$17.7 million). Post-exceptional items, the Group's attributable profit was US$5.5 million (2016: loss of US$158.8 million).

The Group's detailed financial results are set out in the financial statements section on pages 94 to 140.

The Board has adopted a dividend policy that determines the appropriate dividend each year, based on consideration of the Company's cash resources; the level of free cash flow and earnings generated during the year; and expected funding commitments for capital projects relating to the Group's operational requirements. In current market and operational constraints, Gem Diamonds has remained focused on cost discipline, extracting maximum value from its operations and strengthening the statement of financial position for long-term shareholder value creation. The Board believes it is important to strike a balance between preserving the statement of financial position, investing in the future and making returns to shareholders. It is the firm intention for Gem Diamonds to remain a dividend paying company; however, it is believed that it would not be prudent to pay a normal dividend in 2018 for 2017, while the recovery of the business continues.

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 41. The financial position of the Company, its cash flows and liquidity position are described in the Strategic Report on pages 20 to 24. In addition, Note 24 and Note 26 to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit and liquidity risk.

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

Viability statement

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

Business development

The Group has initiated a Business Transformation process in July 2017 with the focus on enhancing the efficiency of our operations by improving day-to-day performance, stringent cost control, capital discipline and the sale of non-core assets. Further detail relating to the Business Transformation is set out on pages 25 to 27.

The Group continues to explore and evaluate new technologies to enhance diamond recovery and extract maximum value. During 2017 progress was made on the development of innovative technologies designed to identify diamonds within kimberlite prior to the crushing process and liberating these diamonds through electric pulse technologies. Further detail on these innovative technologies is set out on page 28.

Subsequent events

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

Annual general meeting

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

Share capital and voting rights

Details of the authorised and issued share capital of the Company, including the rights pertaining to each share class, are set out in Note 16 to the financial statements.

As at 13 March 2018, there were 138.6 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

Directors' Report continued

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 2017, shareholders authorised the Company to make on-market purchases of up to 13 840 576 of its ordinary shares, representing approximately 10% of the Company issued share capital at that time. During 2017, the Company's 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 2018 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 2018 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 53.

Resource development

The core drilling project started in 2017 and is scheduled for completion in H2 of 2018. Resource development activities were concentrated on improving the understanding of existing resources at Letšeng, and no additional resources and reserves were added. For more information on the Resources and Reserves statement refer to the Company's website (www.gemdiamonds.com).

Letšeng continued with the reassessment of historical geological studies, detailed pit floor mapping and the updating of geological models. This important field work will be augmented by the information gained from the core that was recovered in 2017. The analysis of this core has started and this information will be used to update the geological model and the reserve and resource statement during the course of 2018.

Corporate social responsibility and sustainability

A review of health, safety, corporate social responsibility, environmental performance and community participation is presented in the Sustainable Development Review on pages 35 to 40.

Corporate social investment (CSI) expenditure

The Group's CSI expenditure supports initiatives that benefit its PACs in the areas of health, education, infrastructure development, development of small to medium enterprises and general donations to relevant causes in the Group's PACs. In 2017, the Group contributed US$0.5 million to social initiatives, in line with the contribution of US$0.5 million in 2016. The majority of 2017 CSI expenditure went towards infrastructure and small and medium enterprise development.

Political donations

The Group made no political donations during 2017.

Greenhouse gas (GHG) emissions

Carbon Footprint Assessment (CFA) summary

In 2017, the total carbon footprint for the Group was 155 106tCO_2e (compared to 184 765tCO_2e in 2016), primarily driven by electricity consumption and mobile and stationary fuel combustion. This figure includes the direct GHG emissions (Scope 1), energy indirect GHG (Scope 2) emissions, and material Scope 3 emissions, and was calculated with boundaries clearly defined by the GHG Protocol Corporate Accounting and Reporting Standard. The total carbon footprint for Scope 1 and Scope 2 emissions combined, is 131 752tCO_2e, compared to 155 040tCO_2e in 2016.

The total Group footprint signifies a decrease of 16% from 2016, and 15% decrease for Scope 1 and 2, on which the intensity reporting is based. This observed decrease is the result of the Letšeng operation that had a significant reduction in mobile combustion and transport usage as well as the placement of the Ghaghoo operation on care and maintenance. The combined decrease was observed in Scope 1 reduction of 72 282tCO_2e (2016) to 54 775tCO_2e (2017) and Scope 3 reduction of 23 112tCO_2e (2016) to 21 075tCO_2e (2017). The Scope 2 electricity consumption accounted for 69 571tCO_2e (45%) of the carbon footprint, up from 68 306tCO_2e (47%) in 2016.

The Group also tracks the tonnes of CO_2e emitted per employee and per carat recovered (calculations are based on total Scope 1 and 2 emissions). The ratio of 369.58tCO_2e in 2016 per employee has decreased to 347.77tCO_2e per employee in 2017 and the ratio of 1.1tCO_2/carat in 2016 has increased to 1.29tCO_2e per carat in 2017.

The decrease of the carbon footprint per employee is based on the reduction of Scope 1 and 2 observed in the intensity report. The increase of the carbon footprint per carat is as a result of a decrease in production at Ghaghoo mine, which had an effect on the number of carats recovered during the year.

Water footprint

Fresh water is one of the most important, and increasingly scarce, commodities on earth. As water stewards Gem Diamonds aims to understand the risks related to water scarcity and pollution and undertakes to ensure that water is managed sustainably. Management of the Group's water liability increases understanding of the Group's water uses, the risks associated with water use and the impacts within the catchments in which the Group operates. As such, caring for water sources and monitoring water usage is crucial practices in both a commercial and moral respect and helps the Group maintain its social licence to operate.

The mining sector has long been synonymous with the perception of negative impacts on land and water resources. Corporate water stewardship has allowed Gem Diamonds to identify and manage water-related business risks, find ways to mitigate water impacts and contribute to the sustainable management of catchment areas in which the Group operates. A water footprint can be defined as a measure of freshwater appropriation underlying a certain product, including fresh surface water, groundwater incorporated in the product or lost during the manufacturing of the product. Water footprint studies provide an integrated understanding of water abstraction and water use.

The total water footprint for Gem Diamonds during the 2017 technical year was 8 496 384m^3, 3% down from 2016's reported footprint of 8 701 984m^3. The water sources included municipal supplies, groundwater, surface water and direct rainfall. The total water recycled and reused by Gem Diamonds over the reporting period equates to 5 334 786m^3 (68%), down from 5 643 403m^3 in 2016 and the net water usage related to evaporation (92%), entrainment (6%), consumption (2%) and dust suppression (0.2%). The amount of water that finds its way back into the environment through discharge and seepage accounted for 2 598 339m^3 (3 023 034m^3 reported in 2016).

In 2017, the Group's water footprint in relation to carats mined and ore tonnes treated was 42.91m^3/carat (37.91m^3/carat in 2016) and 1.31m^3/tonne (1.22m^3/tonne in 2016) treated ore. The increases were directly related to a 20% decrease in the number of carats recovered during the year.

The stress water footprint of the Group, that is the stress placed on the water system by mining activity consumption, was calculated and water usage at the operations was found to be sustainable.

Employee policies and involvement

To gain a fuller understanding of matters related to employee policies and involvement, this segment should be read in conjunction with the information on employment matters contained in the Sustainable Development Review in this report on pages 35 to 40 together with the information contained on the Sustainable Development Platform, 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 maintaining 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.

The Company strives 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 practical, 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.

Disclosure of information and auditor re-election

The Lead Audit Partner is based in London, UK. Further information regarding audit firm rotation and re-election requirements are detailed in the Audit Committee Report on pages 54 and 58.

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 2018 AGM.

The Strategic Report, the Directors' Report and the Directors' Remuneration Report were approved by the Board on 13 March 2018.

By order of the Board

Glenn Turner
Company Secretary

13 March 2018

Responsibility Statement of the Directors in respect of the Annual Report and Financial Statements

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

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

Preparation of the financial statements

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS;
- state whether applicable IFRS have been followed, subject to any material departures disclosed and explained in the Group financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

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

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

The Directors of the Company have elected to comply with the Companies Act 2006, in particular the requirements of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 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

13 March 2018

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

Opinion

In our opinion:

- Gem Diamonds Limited's Group financial statements (the financial statements) give a true and fair view of the state of the Group's affairs as at 31 December 2017 and of the Group's profit or loss for the year then ended; and
- the Group financial statements have been properly prepared in accordance with IFRS.

We have audited the financial statements of Gem Diamonds Limited which comprise:

Group

- Consolidated statement of financial position as at 31 December 2017;
- 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; and
- Related notes 1 to 29 to the financial statements

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISA (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (FRC) Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

This report is made solely to the Company's Directors, as a body, in accordance with our engagement letter. Our audit work has been undertaken so that we might state to the Company's Directors 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 Directors as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require us to report to the Group whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report and accounts (set out on pages 11 to 19) that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation (set out on page 10) in the Strategic 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 Directors' Statement (set out on page 10) 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;
- whether the Directors' Statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' Explanation (set out on page 10) in the Strategic 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.

Overview of our audit approach

Key audit matters	– Revenue recognition – Assessing property, plant and equipment and goodwill for impairment
Audit scope	– We performed an audit of the complete financial information of two components and audit procedures on specific balances for a further five components. – The components where we performed full or specific audit procedures accounted for 94% of adjusted profit before tax, 100% of revenue and 97% of total assets.
Materiality	– Overall Group materiality was US$2.5 million which represents 5% of adjusted profit before tax.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Revenue recognition Refer to the Audit Committee Report (page 54); Accounting policies (page 113); and Note 2 of the Annual Financial Statements (page 117). The Group recognised revenue of US$214.3 million in the year (2016: US$189.8 million). Diamonds are sold through the following revenue streams: – Rough diamonds sold on tender; – Selected diamonds sold through partnership arrangements; – Diamonds extracted for purposes of manufacturing and sold thereafter in polished form; and – Diamonds sold through joint operation arrangements. 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 manufacturing (cutting and polishing). For partnership arrangements, revenue is earned on the sale of the rough diamond, with an additional uplift recognised on the polished margin achieved. Judgement is involved in determining when the risks and rewards of ownership transfer on the sale of the rough diamond. For diamonds extracted for purposes of manufacturing, no revenue is recognised by the Group until the diamonds are sold to third parties; as a result, there are a number of intercompany transactions that must be eliminated in the consolidated financial statements. There is a risk relating to the completeness of sales recognised through the extraction process in light of the polishing losses that result from the manufacturing process.	– Identified and observed the design effectiveness of controls around the revenue process in understanding management's internal process and the control environments; – Tested management's recognition of revenue, covering all diamond revenue streams of the Group. This involved agreeing revenue transactions to underlying agreements, invoices and supporting uplift calculations; – For partnership arrangements, we corroborated the appropriateness of management's judgement in determining when risks and rewards are transferred by reviewing correspondence between management and the partner that confirms no managerial involvement after the sale of the rough diamonds; – Verified the accounting treatment of all diamonds sold into joint operation arrangements have been recognised in line with IFRS and Group accounting policy, with only Gem's interest in the sale to the joint arrangements eliminated, and only its interest in the joint arrangement's on-sales to third parties (polished margin) being recognised as revenue; – Confirmed that intercompany sales transactions were properly eliminated upon consolidation; – Performed cut off testing at year end by selecting transactions close to the year end, ensuring revenue was recognised in the correct period. We reviewed management's reconciliation of inventory movements, from diamonds recovered and exported from Letšeng to those sold during the year and the remaining inventory on hand at GDMS at year end to validate completeness of revenue; – Obtained management representations; and – Verified that all required disclosures are made in the consolidated financial statements.	We concluded that revenue recognised has been measured reliably, recognised in the correct period and appropriately disclosed in the financial statements.
Assessing property, plant and equipment and goodwill for impairment As at 31 December 2017 the carrying value of the goodwill and property, plant and equipment was US$15.4 million (2016: US$13.3 million) and US$305.5 million (2016: US$257.2 million) respectively. We have focused on this area due the significance of the carrying value of the assets being assessed and because the assessment of the recoverable amount involves significant judgements and estimates about the future results of the business and the discount rates applied to future cash flow forecasts. Some of the key assumptions used in determining the recoverable amount, to which the discounted cash flow model is most sensitive, are: – Diamond prices; – Discount rates, affected by exchange rates; and – Period over which the cash flows are forecast.	– Assessed management's approach to identifying indicators of impairment for completeness, focusing on changes in diamond prices; changes in reserves and resources and market capitalisation; – Tested the reasonableness of management's estimate of recoverable amount and forecast cash flows by considering evidence available to support assumptions and the reliability of past forecasts; – We tested the methodology applied in the value-in-use calculations relative to the requirements of International Accounting Standards (IAS) 36 Impairment of assets and validated the mathematical accuracy of managements cash flow forecasts; – Confirming the period over which the impairment test is performed, including the assumptions in the mine plan, and the current stage of the process of the renewal of the Letšeng mine lease; – With the use of EY internal valuations specialists, corroborated management's price and discount rate assumptions used by benchmarking against industry peers; and – Verified that all required disclosures in relation to impairment review and estimates are made.	We consider management's estimates to be reasonable with assumptions used being within an acceptable range. Corroborated through our sensitivities performed we concur with management that no reasonably plausible change would result in an impairment. We believe management's disclosures in the financial statements adequately reflect the key judgements and estimates made in determining that no impairment of goodwill is required.

In the prior year, our Auditor's Report included a key audit matter in relation to 'assessing the Ghaghoo development asset for impairment.' Management fully impaired the non-current assets and placed the mine on care and maintenance, therefore the risk is not applicable in the current year.

An overview of 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.

The Group has 12 reporting components covering entities within Belgium, Botswana, Lesotho, South Africa, United Arab Emirates and the United Kingdom, which represent the principal business units within the Group.

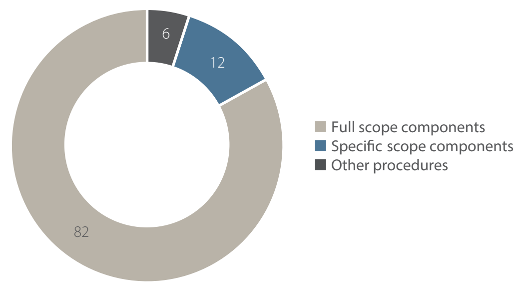
In assessing the risk of material misstatement to the financial statements, and to ensure we had adequate quantitative coverage of significant accounts we performed an audit of the complete financial information of two components ("full scope components") which were selected based on their size or risk characteristics, and for five components ("specific scope components"), we performed audit procedures on specific amounts 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 full and specific scope audit procedures accounted for 94% (2016: 99%) of the Group's adjusted profit before tax (PBT), 100% (2016: 100%) of the Group's revenue and 97% (2016: 99%) of the Group's total assets. For the current year, the full scope components contributed 82% (2016: 90%) of the Group's adjusted PBT, 97% (2016: 98%) of the Group's revenue and 84% (2016: 86%) of the Group's total assets. The specific scope component contributed 12% (2016: 1%) of the Group's adjusted PBT, 3% (2016: 13%) of the Group's revenue and 13% (2016: 13%) 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 tested for the Group.

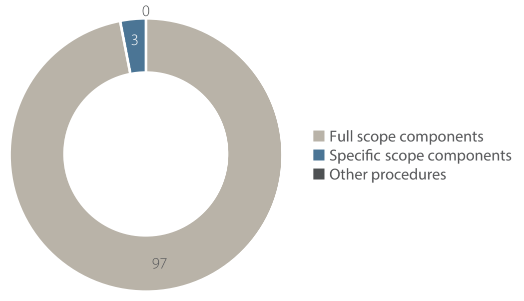
Of the remaining five components that together represent 6% of the Group's adjusted PBT, none are individually greater than 5% of the Group's adjusted PBT. For these components, we performed other procedures, including analytical reviews, testing of consolidation journals and intercompany eliminations, and assessing the effectiveness of the control environment to respond to any potential risks of material misstatement to the Group financial statements.

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

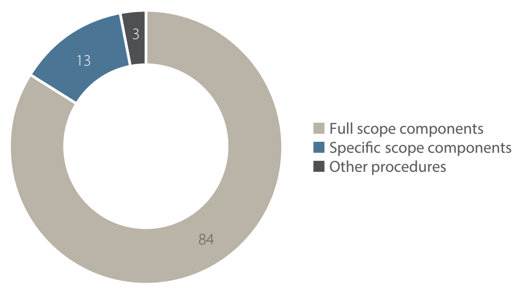
Adjusted profit before tax (%)



Revenue (%)



Total assets (%)



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

Changes from the prior year

Our scope allocation in the current year is broadly consistent with 2016 in terms of overall coverage of the Group. However, we did make some changes in the identifying of components subject to full and specific scope procedures. Changes in our scope since the 2016 audit included moving the audit of Gem Diamonds Botswana (Ghaghoo) from a full scope to a specific scope component. Following management's decision to place the mine on care and maintenance and impairing all non-current assets to nil, only specific accounts are considered to have a potential material impact on the significant accounts in the financial statements.

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. Of the two full scope components, audit procedures were performed on one of these directly by the primary audit team and the other by our component audit team in Bloemfontein. 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 full scope location at least once every second year. During the current year's audit cycle, visits were undertaken by the primary audit team to the component teams in South Africa. The Global Team Planning Event was held in Johannesburg with representatives of components joining via video conference from Botswana and Bloemfontein. The primary audit team also held separate team planning events 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 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

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$2.5 million (2016: US$2.6 million), which is 5% (2016: 5%) of adjusted profit before tax. Adjusted profit before tax represents profit before tax for 2017 adjusted for once-off exceptional items and lower diamond prices. Once-off exceptional items relate to costs incurred at the Ghaghoo mine which was placed on care and maintenance in February 2017. These costs included development costs, retrenchment costs, once-off costs to renegotiate contracts and once-off costs associated with additional water pumping and sealing of the fissure as a result of the earthquake in April 2017. Additionally, pre-tax profit was adjusted for the lower than normal diamond prices achieved for the first half of 2017. We believe that 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 remained consistent with 2016.

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 75% (2016: 50%) of our planning materiality, namely US$1.9 million (2016: US$1.3 million). We have set performance materiality at this percentage due to our expectation of misstatements identified based on prior experience. The increase to 75% is attributable to there being no corrected or uncorrected misstatements identified in the prior years including the latest interim results.

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$1.4 million to US$0.4 million (2016: US$1.0 million to US$0.2 million).

Reporting threshold

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

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of US$0.1 million (2016: US$0.1 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.

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.

Other information

The other information comprises the information included in the Annual Report set out on pages 1 to 85 other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained during the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable (set out on page 86) – the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit Committee reporting (set out on pages 54 to 58) – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- Directors' Statement of Compliance with the UK Corporate Governance Code (set out on pages 46 to 53) – the parts of the Directors' Statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

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

Opinions on other matters, as agreed in our engagement letter

- in our opinion, based on the work undertaken in the course of the audit, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act, 2006;
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements;
- the information given in the Corporate Governance Statement about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with Rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by the Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- information given in the Corporate Governance Statement about the Company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with Rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules.

Matters on which we report by exception, as agreed in our engagement letter

In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, the Company has instructed us to report by exception whether we have identified material misstatements in:

- the Strategic Report or the Directors' Report; or
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with Rules 7.2.5 and 7.2.6 of the FCA Rules.

We have nothing to report in respect of the following matters:

- adequate accounting records have not been kept (and returns adequate for our audit have not been received from branches not visited by us); or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; 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.

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement (set out on page 86), the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at https://www.frc.org.uk/auditors responsibilities. This description forms part of our auditor's report.

Steven Dobson (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP
London

13 March 2018

Notes

1. The maintenance and integrity of the Gem Diamonds Limited website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Income Statement

for the year ended 31 December 2017

	Notes	2017 US$'000 Before exceptional items	2017 US$'000 Exceptional items[1]	2017 US$'000 Total	2016 US$'000 Before exceptional items	2016 US$'000 Exceptional items	2016 US$'000 Total
Revenue	2	214 296	–	214 296	189 815	–	189 815
Cost of sales		(146 177)	(3 605)	(149 782)	(109 063)	–	(109 063)
Gross profit		68 119	(3 605)	64 514	80 752	–	80 752
Other operating income	3	793	–	793	306	–	306
Royalties and selling costs		(18 828)	–	(18 828)	(17 170)	–	(17 170)
Corporate expenses		(9 496)	–	(9 496)	(11 234)	–	(11 234)
Share-based payments	25	(1 526)	–	(1 526)	(1 790)	–	(1 790)
Foreign exchange (loss)/gain	3	(1 347)	–	(1 347)	1 715	–	1 715
Impairment of assets	4	–	–	–	–	(172 932)	(172 932)
Recycling of foreign currency translation reserve on abandonment of operation	4	–	–	–	–	(3 546)	(3 546)
Operating profit/(loss)	3	37 715	(3 605)	34 110	52 579	(176 478)	(123 899)
Net finance costs	5	(3 801)	–	(3 801)	(209)	–	(209)
Finance income		630	–	630	2 411	–	2 411
Finance costs		(4 431)	–	(4 431)	(2 620)	–	(2 620)
Profit/(loss) before tax for the year		33 914	(3 605)	30 309	52 370	(176 478)	(124 108)
Income tax expense	6	(13 075)	–	(13 075)	(19 966)	–	(19 966)
Profit/(loss) for the year		20 839	(3 605)	17 234	32 404	(176 478)	(144 074)
Attributable to:							
Equity holders of parent		9 083	(3 605)	5 478	17 668	(176 478)	(158 810)
Non-controlling interests		11 756	–	11 756	14 736	–	14 736
Earnings/(loss) per share (cents)	7						
– Basic earnings for the year attributable to ordinary equity holders of the parent		6.6	–	4.0	12.8	–	(114.9)
– Diluted earnings for the year attributable to ordinary equity holders of the parent		6.4	–	3.9	12.8	–	(114.9)

[1] *Refer to Note 4, Exceptional items.*

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2017

	Note	2017 US$'000	2016 US$'000
Profit/(loss) for the year		17 234	(144 074)
Other comprehensive income that could be reclassified to the income statement in subsequent periods			
Exchange differences on translation of foreign operations		21 565	24 398
Recycling of exchange differences on abandoned and discontinued operations	4	–	3 546
Other comprehensive income for the year, net of tax		21 565	27 944
Total comprehensive income/(expense) for the year, net of tax		38 799	(116 130)
Attributable to:			
Equity holders of the parent		23 640	(140 793)
Non-controlling interests		15 159	24 663

Consolidated Statement of Financial Position

as at 31 December 2017

	Notes	2017 US$'000	2016 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	8	**305 542**	257 199
Investment property	9	**–**	615
Intangible assets	10	**15 422**	14 014
Receivables and other assets	12	**22**	31
		320 986	271 859
Current assets			
Inventories	13	**34 065**	30 911
Receivables and other assets	12	**7 777**	6 557
Income tax receivable		**–**	4 636
Cash and short-term deposits	14	**47 704**	30 787
		89 546	72 891
Assets held for sale	15	**2 097**	–
Total assets		**412 629**	344 750
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	16	**1 387**	1 384
Share premium		**885 648**	885 648
Treasury shares[1]		**–**	(1)
Other reserves	16	**(123 811)**	(143 498)
Accumulated losses[2]		**(604 851)**	(610 329)
		158 373	133 204
Non-controlling interests		**85 783**	70 623
Total equity		**244 156**	203 827
Non-current liabilities			
Interest-bearing loans and borrowings	17	**33 279**	–
Trade and other payables	18	**1 609**	1 409
Provisions	19	**17 306**	16 630
Deferred tax liabilities	20	**78 579**	65 676
		130 773	83 715
Current liabilities			
Interest-bearing loans and borrowings	17	**13 064**	27 757
Trade and other payables	18	**23 360**	29 012
Income tax payable		**1 276**	439
		37 700	57 208
Total liabilities		**168 473**	140 923
Total equity and liabilities		**412 629**	344 750

[1] *Shares previously held by the Gem Diamonds Limited Employee Share Trust. During the year the shares were transferred to the Company and the Share Trust was wound up.*
[2] *Included in other comprehensive income and accumulated in equity are amounts relating to assets held for sale. Refer to Note 9, Investment property and Note 15, Assets held for sale.*

Approved by the Board of Directors on 13 March 2018 and signed on its behalf by:

CT Elphick
Director

M Michael
Director

Consolidated Statement of Changes in Equity

for the year ended 31 December 2017

				Attributable to the equity holders of the parent				
	Issued capital[1] US$'000	Share premium[1] US$'000	Own shares 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
Balance at 1 January 2017	**1 384**	**885 648**	**(1)**	**(143 498)**	**(610 329)**	**133 204**	**70 623**	**203 827**
Total comprehensive income	**–**	**–**	**–**	**18 161**	**5 478**	**23 639**	**15 160**	**38 799**
Profit for the year	**–**	**–**	**–**	**–**	**5 478**	**5 478**	**11 756**	**17 234**
Other comprehensive income	**–**	**–**	**–**	**18 161**	**–**	**18 161**	**3 404**	**21 565**
Share capital issued	**3**	**–**	**–**	**–**	**–**	**3**	**–**	**3**
Treasury shares	**–**	**–**	**1**	**–**	**–**	**1**	**–**	**1**
Share-based payments (Note 25)	**–**	**–**	**–**	**1 526**	**–**	**1 526**	**–**	**1 526**
Balance at 31 December 2017	**1 387**	**885 648**	**–**	**(123 811)**	**(604 851)**	**158 373**	**85 783**	**244 156**
Balance at 1 January 2016	1 383	885 648	(1)	(163 420)	(439 764)	283 846	59 923	343 769
Total comprehensive income/ (expense)	–	–	–	18 017	(158 810)	(140 793)	24 663	(116 130)
(Loss)/profit for the year	–	–	–	–	(158 810)	(158 810)	14 736	(144 074)
Other comprehensive income	–	–	–	18 017	–	18 017	9 927	27 944
Share capital issued	1	–	–	–	–	1	–	1
Share-based payments (Note 25)	–	–	–	1 905	–	1 905	–	1 905
Dividends paid	–	–	–	–	(11 755)	(11 755)	(13 963)	(25 718)
Balance at 31 December 2016	1 384	885 648	(1)	(143 498)	(610 329)	133 204	70 623	203 827

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

Consolidated Statement of Cash Flows

for the year ended 31 December 2017

	Notes	2017 US$'000	2016 US$'000
Cash flows from operating activities		**97 395**	70 675
Cash generated by operations	21.1	**110 795**	93 518
Working capital adjustments	21.2	**(9 892)**	446
		100 903	93 964
Interest received		**630**	1 253
Interest paid		**(3 210)**	(2 671)
Income tax paid		**(928)**	(21 871)
Cash flows used in investing activities		**(101 158)**	(98 988)
Purchase of property, plant and equipment		**(17 787)**	(10 624)
Ghaghoo development costs capitalised		**–**	(3 642)
Ghaghoo commissioning costs capitalised (net of revenue)		**–**	(14 374)
Waste stripping costs capitalised		**(84 009)**	(70 378)
Proceeds from sale of property, plant and equipment		**638**	30
Cash flows generated by/(used in) financing activities		**17 469**	(29 624)
Financial liabilities raised/(repaid)	21.3	**17 469**	(3 906)
– Financial liabilities repaid		**(46 601)**	(3 906)
– Financial liabilities raised		**64 070**	–
Dividends paid to holders of the parent		**–**	(11 755)
Dividends paid to non-controlling interests		**–**	(13 963)
Net increase/(decrease) in cash and cash equivalents		**13 706**	(57 937)
Cash and cash equivalents at beginning of year		**30 787**	85 719
Foreign exchange differences		**3 211**	3 005
Cash and cash equivalents at end of year held at banks		**47 531**	27 730
Restricted cash at end of year		**173**	3 057
Cash and cash equivalents at end of year	14	**47 704**	30 787

Notes to the Annual Financial Statements

for the year ended 31 December 2017

1. NOTES TO THE FINANCIAL STATEMENTS

1.1 Corporate information

1.1.1 *Incorporation*

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

These financial statements were authorised for issue by the Board on 13 March 2018.

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

1.1.2 *Operational information*

During the year, the Company deregistered its dormant investment companies, BDI Mining Corp and Gem Diamonds Australia Holdings.

The Company has the following investments directly and indirectly in subsidiaries at 31 December 2017:

Name and registered address of company	Shareholding	Cost of investment[1]	Country of incorporation	Nature of business
Subsidiaries				
Gem Diamond Technical Services (Proprietary) Limited[2] Illovo Corner 24 Fricker Road Illovo Boulevard Illovo 2196	100%	US$17	RSA	Technical, financial and management consulting services.
Gem Equity Group Limited[2] Ground Floor, Coastal Building Wickhams Cay II Roadtown Tortola VG 1130 British Virgin Islands	100%	US$52 277	BVI	Dormant investment company holding 1% in Gem Diamonds Botswana (Proprietary) Limited, 2% in Gem Diamonds Marketing Services BVBA, 1% in Baobab Technologies BVBA and 0.1% in Gem Diamonds Marketing Botswana (Proprietary) Limited.
Letšeng Diamonds (Proprietary) Limited[2] Letšeng Diamonds House Corner Kingway and Old School Roads Maseru Lesotho	70%	US$126 000 303	Lesotho	Diamond mining and holder of mining rights. Letšeng Diamonds (Proprietary) Limited holds 100% of the A class shares and 70% of the B class shares in Letšeng Diamonds Manufacturing (Proprietary) Limited, which is a company established in Lesotho to operate the in-country diamond cutting and polishing. The company is currently dormant.
Gem Diamonds Botswana (Proprietary) Limited[2] Suite 103, GIA Centre Diamond Technology Park Plot 67782, Block 8 Gaborone Botswana	100%	US$27 752 144	Botswana	Diamond mining; evaluation and development; and holder of mining licences and concessions.
Gem Diamonds Investments Limited[2] 20 – 22 Bedford Row London WC1R 4JS United Kingdom	100%	US$17 531 316	UK	Investment holding company holding 100% in each of Gem Diamonds Technology DMCC, Calibrated Diamonds Investment Holdings (Proprietary) Limited and Gem Diamonds Innovation Solutions CY Limited[3]; 99.9% in Gem Diamonds Marketing Botswana (Proprietary) Limited; 99% in Baobab Technologies BVBA; and 98% in Gem Diamonds Marketing Services BVBA, a marketing company that sells the Group's diamonds on tender in Antwerp.

[1] *The cost of investment represents original cost of investments at acquisition dates.*
[2] *No change in the shareholding since the prior year.*
[3] *Gem Diamonds Innovation Solutions CY Limited was incorporated during the year as an intellectual property holding company.*

Notes to the Annual Financial Statements continued

for the year ended 31 December 2017

1. NOTES TO THE FINANCIAL STATEMENTS (continued)

1.1 Corporate information (continued)

1.1.3 Segment information

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

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

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

Segment performance is evaluated based on operating profit or loss. Intersegment transactions are entered into under normal arm's length terms in a manner similar to transactions with third parties. Segment revenue, segment expenses and segment results include transactions between segments. Those transactions are eliminated on consolidation.

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

During the year, the Ghaghoo mine, forming part of the Botswana segment, was placed on care and maintenance. Revenue was derived from the sale of Ghaghoo's remaining diamond inventory on hand.

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

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

[1] *No revenue was generated in BVI.*
[2] *Capital expenditure includes non-cash movements in rehabilitation assets relating to changes in rehabilitation estimates for the Lesotho segment.*

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$29.0 million arising from sales reported in the Lesotho and Belgium segments.

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

Total sales for the current year are higher than that of the prior year mainly as a result of the higher frequency of exceptional large diamonds being recovered at the Lesotho segment, resulting in higher diamond prices achieved.

Year ended 31 December 2016	Lesotho US$'000	Botswana US$'000	Belgium US$'000	BVI, RSA and UK US$'000	Total US$'000
Revenue					
Total revenue	184 864	–	194 387	9 719	388 970
Intersegment	(182 258)	–	(7 404)	(9 493)	(199 155)
External customers	2 606	–	186 983	226[1]	189 815
Recycling of foreign currency translation reserve on abandonment of operation	–	–	3 546	–	3 546
– Depreciation and amortisation	44 416	–	752	304	45 472
– Depreciation and mining asset amortisation	9 704	–	752	304	10 760
Waste stripping cost amortisation	34 712	–	–	–	34 712
Share based equity transactions	461	–	2	1 327	1 790
Impairment	–	170 778	2 154	–	172 932
Segment operating profit/(loss)	64 409	(169 685)	(6 529)	(12 094)	(123 899)
Net finance costs	702	7	–	(918)	(209)
Profit/(loss) before tax	65 111	(169 678)	(6 529)	(13 012)	(124 108)
Income tax expense					(19 966)
Loss for the year					(144 074)
Segment assets	309 469	6 001	6 185	23 095	344 750
Segment liabilities	39 677	33 164	609	1 797	75 247
Other segment information					
Capital expenditure					
– Property, plant and equipment[2]	7 612	7 602	408	152	15 774
– Waste cost capitalised	70 378	–	–	–	70 378
– Operating and development costs capitalised	–	18 016	–	–	18 016
Total capital expenditure	77 990	25 618	408	152	104 168

[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.*

Included in annual revenue for the 2016 year is revenue from a single customer which amounted to US$31.3 million arising from sales reported in the Lesotho and Belgium segments.

Segment liabilities do not include net deferred tax liabilities of US$65.6 million.

Notes to the Annual Financial Statements continued

for the year ended 31 December 2017

1. NOTES TO THE FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies

1.2.1 Basis of preparation

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

The functional currency of the Company and certain of its subsidiaries is US dollar, which is the currency of the primary economic environment in which the entities operate. All amounts are expressed in US dollar. The financial statements of subsidiaries whose functional and reporting currency is in currencies other than US dollar have been converted into US dollar on the basis as set out in Note 1.2.17, 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 1.2.27, Critical accounting estimates and judgement.

The Group adopted the standards and interpretations that were effective from 1 January 2017. The application of these new standards and interpretations had no impact on the Group's financial position and performance.

Standards issued but not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning after 1 January 2018 or in later periods, which the Group has decided not to adopt early.

Standard, amendment or interpretation			Effective period commencing on or after
IFRS 2	*Classification and Measurement of Share-based Payment Transactions*	Amendments to IFRS 2 in relation to the classification and measurement of share-based payment transactions. The Group will assess the impact prior to the effective date.	1 January 2018
IFRS 9	*Financial Instruments*	Classification and measurement of financial assets and financial liabilities that replaces IAS 39. Overall, the Group expects no significant impact on its financial position and performance due to there not being significant items which fall within the scope of these changes. The Group will continue to review the potential impact of IFRS 9.	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 currently reviewing the potential impact of IFRS 15.	1 January 2018
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 the effective date.	1 January 2019

IFRS 15 *Revenue from Contracts with Customers*

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

Work to date has focused on understanding the standard contractual arrangements across the Group's principal revenue streams, particularly key terms and conditions which may impact revenue recognition. To date, no significant measurement differences have been identified. The Group has made good progress in training staff and identifying areas of divergence with current practice and, based on this assessment, believes that IFRS 15 will not have a significant impact on the timing and recognition of revenue, operating profit margin or net assets.

1. NOTES TO THE FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

1.2.1 Basis of preparation (continued)

IFRS 15 *Revenue from Contracts with Customers (continued)*

The indicative impacts of implementing IFRS 15 on the Group results are as follows:

- Under IFRS 15 the revenue recognition model will change from one based on the transfer of risk and reward of ownership to the transfer of control of ownership. The Group's revenue is predominantly derived from the sale of rough diamonds. Diamond sales are made through a competitive tender process and are recognised when significant risks and rewards of ownership are transferred to the buyer, costs can be reliably measured and receipt of tender proceeds are probable – recognition is deemed to be at the point at which the tender is awarded. The Group has reviewed the terms and conditions of the current tender contract entered into with each of the buyers and as the transfer of risks and rewards generally coincides with the transfer of control at a point in time, is satisfied that, based on the terms of the current contracts, there is no change to the timing of revenue on tender sales under IFRS 15.
- IFRS 15 introduces the concept of performance obligations that are defined as a 'distinct' promised good or service. This will have an impact on the timing of revenue recognised where the Group enters into partnership arrangements, whereby there is rough diamond revenue and an additional uplift revenue recognised on polished margin received. Both these revenue streams will be recorded when all performance obligations are met, being at the time of the sale of the rough diamond to the partner. Previously, the additional uplift was recognised on final sale of the polished diamond by the partner to a third party. It is anticipated that there will be some impact on the Group on the timing and value of the recognition of this revenue. In addition, the Group believes that there are variable consideration constraints which are being assessed. As these revenue streams have represented between 1.4% and 2.6% of total revenue generated in the past five years, it is not anticipated to have a significant impact on the results. In the current reporting period, these revenue streams represent less than 1% of total reported revenue.

The Group expects to apply the cumulative retrospective transition approach at the time that this standard becomes effective.

IFRS 16 *Leases*

Under the new standard, a lessee is in essence required to:

- recognise all right of use assets and lease liabilities, with the exception of short-term (under 12 months) and low-value leases, on the balance sheet. The liability is initially measured at the present value of future lease payments for the lease term. This includes variable lease payments that depend on an index or rate but excludes other variable lease payments. The right of use asset reflects the lease liability, initial direct costs, any lease payments made before the commencement date of the lease, less any lease incentives and, where applicable, provision for dismantling and restoration;
- recognise depreciation of right of use assets and interest on lease liabilities in the income statement over the lease term; and
- separate the total amount of cash paid into a principal portion (presented within financing activities) and interest portion (which the Group presents in operating activities) in the cash flow statement.

This standard will have an impact on the Group's earnings and it must be implemented retrospectively, either with the restatement of comparatives or with the cumulative impact of application recognised as at 1 January 2019 under the modified retrospective approach.

Under IFRS 16 the present value of the Group's operating lease commitments as defined under the new standard, excluding low-value leases and short-term leases, will be shown as right of use assets and as lease liabilities on the balance sheet. Information on the undiscounted amount of the Group's operating lease commitments under IAS 17, the current leasing standard, is disclosed in Note 22, Commitments and contingencies. The Group is considering the available options for transition.

The Group is still assessing the standard and cannot make a reasonable estimate of the impact at this stage.

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.

Notes to the Annual Financial Statements continued

for the year ended 31 December 2017

1. NOTES TO THE FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

1.2.2 Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Review on pages (30 to 32) and pages (33 to 34) in the Annual Report and Accounts. The financial position of the Company, its cash flows and liquidity position are described in the Strategic Review on pages (20 to 24) in the Annual Report and Accounts. 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.

1.2.3 Basis of consolidation

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

Subsidiaries

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

(a) an investor has power over an investee;
(b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and
(c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns.

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

Non-controlling interests

Non-controlling interests represent the equity in a subsidiary not attributable, directly or indirectly, to the parent company and is presented separately within equity in the consolidated statement of financial position, separately from equity attributable to owners of the parent. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

1.2.4 Exploration and evaluation expenditure

Exploration and evaluation activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Exploration and evaluation activity includes:

- acquisition of rights to explore;
- researching and analysing historical exploration data;
- gathering exploration data through topographical, geochemical and geophysical studies;
- exploratory drilling, trenching and sampling;
- determining and examining the volume and grade of the resource;
- surveying transportation and infrastructure requirements; and
- conducting market and finance studies.

Administration costs that are not directly attributable to a specific exploration area are charged to the income statement. Licence costs paid in connection with a right to explore in an existing exploration area are capitalised and amortised over the term of the permit.

Exploration and evaluation expenditure is capitalised as incurred. Capitalised exploration expenditure is recorded as a component of property, plant and equipment at cost less accumulated impairment charges. As the asset is not available for use, it is not depreciated.

1. NOTES TO THE FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

1.2.4 Exploration and evaluation expenditure (continued)

All capitalised exploration and evaluation expenditure is monitored for indications of impairment. Where a potential impairment is indicated, assessments are performed for each area of interest in conjunction with the group of operating assets (representing a cash-generating unit (CGU)) to which the exploration is attributed. To the extent that exploration expenditure is not expected to be recovered, it is charged to the income statement. Exploration areas where reserves have been discovered, but require major capital expenditure before production can begin, are continually evaluated to ensure that commercial quantities of reserves exist or to ensure that additional exploration work is under way as planned.

1.2.5 Development expenditure

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

All development expenditure is monitored for indicators of impairment annually.

1.2.6 Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition and construction of the items, among others, professional fees, and for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policies.

Subsequent costs to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalised when the cost of the item can be measured reliably, with the carrying amount of the original component being written off. All repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation commences when an asset is available for use. Depreciation is charged so as to write off the depreciable amount of the asset to its residual value over its estimated useful life, using a method that reflects the pattern in which the asset's future economic benefits are expected to be consumed by the Group.

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

Pre-production stripping costs

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

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

(a) future economic benefits (being improved access to the orebody) are probable;
(b) the component of the orebody for which access will be improved can be accurately identified; and
(c) the costs associated with the improved access can be reliably measured.

Notes to the Annual Financial Statements continued

for the year ended 31 December 2017

1. NOTES TO THE FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

1.2.6 Property, plant and equipment (continued)

Pre-production stripping costs (continued)

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.

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

1.2.7 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	Straight line	
Initial direct costs capitalised to investment property	Straight line	Five years

1.2.8 Non-current assets held for sale

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

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

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

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

1. NOTES TO THE FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

1.2.9 Goodwill and other intangible assets

Goodwill

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

If the aggregate of the acquisition date fair value of the consideration transferred and the amount recognised for the non-controlling interest (and where the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree) is lower than the fair value of the assets, liabilities and contingent liabilities, and the fair value of any pre-existing interest held in the business acquired, the difference is recognised in profit and loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs (or groups of CGUs) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which goodwill is allocated shall represent the lowest level within the entity at which the goodwill is monitored for internal management purposes, and shall not be larger than an operating segment before aggregation.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

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.

1.2.10 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 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.

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.

Notes to the Annual Financial Statements continued

for the year ended 31 December 2017

1. NOTES TO THE FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

1.2.11 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 1.2.25, Finance costs, over the period of the borrowings, using the effective interest rate method.

Bank overdrafts are recognised at amortised cost.

1.2.12 Fair value measurement

The Group measures financial instruments at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

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

1.2.13 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.

1. NOTES TO THE FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

1.2.13 Impairments (continued)

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.

1.2.14 Inventories

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

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

1.2.15 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.

1.2.16 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.

1.2.17 Foreign currency translations

Presentation currency

The results and financial position of the Group's subsidiaries which have a functional currency different from the presentation currency are translated into the presentation currency as follows:
- Statement of financial position items are translated at the closing rate at the reporting date;
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- Resulting exchange differences are recognised as a separate component of equity.

Details of the rates applied at the respective reporting dates and for the income statement transactions are detailed in Note 16, Issued capital and reserves.

Notes to the Annual Financial Statements continued

for the year ended 31 December 2017

1. NOTES TO THE FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

1.2.17 Foreign currency translations (continued)

Transactions and balances

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

1.2.18 Share-based payments

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

Equity-settled transactions

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

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

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

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

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

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

Management applies judgement when determining whether share options relating to employees who resigned before the end of the service condition period are cancelled or forfeited as referred under policy 1.2.27, Critical accounting estimates and judgements.

1.2.19 Provisions

Provisions are recognised when:

- the Group has a present legal or constructive obligation as a result of a past event; and
- a reliable estimate can be made of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation, using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as a finance cost.

1. NOTES TO THE FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

1.2.20 Restoration and rehabilitation

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

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

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

1.2.21 Taxation

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

Deferred tax is provided using the statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on the tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

In respect of taxable temporary differences associated with investments in subsidiaries, associates and jointly controlled entities, deferred tax is provided except where the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

In respect of deductible temporary differences associated with investments in subsidiaries, associates and jointly controlled entities, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Withholding tax is recognised in the income statement when dividends or other services which give rise to that withholding tax are declared or accrued respectively. Withholding tax is disclosed as part of current tax.

Royalties

Royalties incurred by the Group comprise mineral extraction costs based on a percentage of sales paid to the local revenue authorities. These obligations arising from royalty arrangements are recognised as current payables and disclosed as part of royalty and selling costs in the income statement.

Royalties and revenue-based taxes are accounted for under IAS 12 when they have the characteristics of an income tax. This is considered to be the case when they are imposed under government authority and the amount payable is based on taxable income – rather than based on quantity produced or as a percentage of revenue. For such arrangements, current and deferred tax is provided on the same basis as described above for other forms of taxation. The royalties incurred by the Group are considered not to meet the criteria to be treated as part of income tax.

Notes to the Annual Financial Statements continued

for the year ended 31 December 2017

1. NOTES TO THE FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

1.2.22 Employee benefits

Provision is made in the financial statements for all short-term employee benefits. Liabilities for wages and salaries, including non-monetary benefits, benefits required by legislation, annual leave, retirement benefits and accumulating sick leave obliged to be settled within 12 months of the reporting date, are recognised in trade and other payables and are measured at the amounts expected to be paid when the liabilities are settled. Benefits falling due more than 12 months after the reporting date are discounted to present value. The Group recognises an expense for contributions to the defined contribution pension fund in the period in which the employees render the related service.

Bonus plans

The Group recognises a liability and an expense for bonuses. The Group recognises a liability where contractually obliged or where there is a past practice that has created a constructive obligation. These liabilities are recognised in trade and other payables and are measured at the amounts expected to be paid when the liabilities are settled.

1.2.23 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. NOTES TO THE FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

1.2.24 Revenue

Revenue comprises net invoiced diamond sales to customers excluding VAT. Diamond sales are made through a competitive tender process and recognised when significant risks and rewards of ownership are transferred to the buyer, costs can be measured reliably, and receipt of future economic benefits is probable. This is deemed to be the point at which the tender is awarded. Where the Group makes rough diamonds sales to customers and retains a right to an interest in their future sale as polished diamonds, the Group records the sale of the rough diamonds but such contingent revenue on the onward sale is only recognised at the date when the polished diamonds are sold.

The following revenue streams are recognised:

- Rough diamonds which are 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 on joint operation arrangements.

Revenue through joint operation arrangements is recognised for the sale of the rough diamond according to the other party's 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 the joint operation arrangement. For more detail on how these arrangements have been included in the financial statements refer to Note 2, Revenue. The Group portion of inventories related to these transactions is included in the total inventories balance, refer to Note 13, Inventories.

Revenue through partnership arrangements is recognised for the sale of the rough diamond, with an additional uplift based on the polished margin achieved. Management recognises the revenue on the sale of the rough diamond when it is sold to a third party, as there is no continuing involvement by management in the cutting and polishing process and 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 1.2.27, Critical accounting estimates and judgements.

Rendering of service

Revenue from services relating to third-party diamond manufacturing is 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.

1.2.25 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.

1.2.26 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.

Notes to the Annual Financial Statements continued

for the year ended 31 December 2017

1. NOTES TO THE FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

1.2.27 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.

Estimates

Ore reserves and associated life of mine (LoM)

There are numerous uncertainties inherent in estimating ore reserves and the associated LoM. Therefore, the Group must make a number of assumptions in making those estimations, including assumptions as to the prices of commodities, exchange rates, production costs and recovery rates. Assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of ore reserves and may, ultimately, result in the ore reserves being restated. Where assumptions change the LoM estimates, the associated depreciation rates, residual values, waste stripping and amortisation ratios, and environmental provisions are reassessed to take into account the revised LoM estimate. Refer to Note 8, Property, plant and equipment.

Impairment reviews

The Group determines if goodwill is impaired at least on an annual basis, while all other significant operations are tested for impairment when there are potential indicators which may require impairment review. This requires an estimation of the recoverable amount of the relevant cash-generating unit under review. Recoverable amount is the higher of fair value less costs to sell and value in use.

While conducting an impairment review of its assets using value-in-use impairment models, the Group exercises judgement in making assumptions about future rough diamond prices, exchange rates, volumes of production, ore reserves and resources included in the current LoM plans, production costs and macro-economic factors such as inflation and discount rates. Changes in estimates used can result in significant changes to the consolidated income statement and consolidated statement of financial position.

The results of the impairment testing performed did not indicate any impairments.

The key assumptions used in the recoverable amount calculations, determined on a value-in-use basis, are listed below:

Valuation basis

Discounted present value of future cash flows.

LoM and recoverable value of reserves and resources

Economically recoverable reserves and resources, carats recoverable and grades achievable are based on management's expectations of the availability of reserves and resources at mine sites and technical studies undertaken by in-house and third-party specialists. Reserves remaining after the current LoM plan have not been included in determining the value in use of the operations.

1. NOTES TO THE FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

1.2.27 Critical accounting estimates and judgements (continued)

Cost and inflation rate

These costs for Letšeng are determined on management's experience and the use of contractors over a period of time whose costs are fairly reasonably determinable. Mining costs have been based on the mining contract. Costs of extracting and processing which are reasonably determinable are based on management's experience. Long-term local inflation rates of 4% to 6% were used for operating costs and capital cost escalators.

Exchange rates

Exchange rates are estimated based on an assessment at current market fundamentals and long-term expectations. The US dollar/Lesotho loti (ISL) exchange rate used was determined with reference to the closing rate at 31 December 2017 of LSL12.38.

Diamond prices

The diamond prices used in the impairment test have been set with reference to recent prices achieved, the Group's medium-term forecast and market trends. Long-term diamond price escalation reflects the Group's assessment of market supply/demand fundamentals.

Discount rate

The discount rate of 11.9% for revenue (2016: 10.5%) and 16.0% for costs (2016: 14.7%) used for Letšeng represents the before-tax risk-free rate adjusted for market risk, volatility and risks specific to the asset and its operating jurisdiction.

Market capitalisation

In the instance where the Group's asset carrying values exceed market capitalisation, this results in an indicator of impairment. The Group believes that this position does not represent an impairment as all significant operations were assessed for impairment during the year and no impairments were recognised.

Sensitivity

The value in use for Letšeng indicated sufficient headroom, and no reasonable change in the key assumptions will result in an impairment.

Refer to Note 11, Impairment testing, for further detail.

Notes to the Annual Financial Statements continued

for the year ended 31 December 2017

1. NOTES TO THE FINANCIAL STATEMENTS (continued)

1.2 Summary of significant accounting policies (continued)

1.2.27 Critical accounting estimates and judgements (continued)

Judgements

Capitalised stripping costs (deferred waste)

Waste removal costs (stripping costs) are incurred during the development and production phases at surface mining operations. Furthermore, during the production phase, stripping costs are incurred in the production of inventory as well as in the creation of future benefits by improving access and mining flexibility in respect of the ore to be mined, the latter being referred to as a 'stripping activity asset'. Judgement is required to distinguish between these two activities at Letšeng. The orebody needs to be identified in its various separately identifiable components. An identifiable component is a specific volume of the orebody that is made more accessible by the stripping activity. Judgement is required to identify and define these components (referred to as 'cuts'), and also to determine the expected volumes (tonnes) of waste to be stripped and ore to be mined in each of these components. These assessments are based on a combination of information available in the mine plans, specific characteristics of the orebody and the milestones relating to major capital investment decisions.

Judgement is also required to identify a suitable production measure that can be applied in the calculation and allocation of production stripping costs between inventory and the stripping activity asset. The ratio of expected volume (tonnes) of waste to be stripped for an expected volume (tonnes) of ore to be mined for a specific component of the orebody, compared to the current period ratio of actual volume (tonnes) of waste to the volume (tonnes) of ore is considered to determine the most suitable production measure.

These judgements and estimates are used to calculate and allocate the production stripping costs to inventory and/or the stripping activity asset(s). Furthermore, judgements and estimates are also used to apply the stripping ratio calculation in determining the amortisation of the stripping activity asset. Refer to Note 8, Property, plant and equipment, for further detail.

1.2.28 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 4, Exceptional items, for further detail.

FINANCIAL STATEMENTS

2. REVENUE

	2017 US$'000	2016 US$'000
Sale of goods	**213 517**	189 355
Rendering of services	**779**	460
	214 296	189 815

Included in revenue are sales of diamonds which are sold through joint operation arrangements totalling US$0.4 million (2016: US$0.2 million).

Finance income is reflected in Note 5, Net finance costs.

3. OPERATING PROFIT/(LOSS) BEFORE EXCEPTIONAL ITEMS

Operating profit includes the following:

	2017 US$'000	2016 US$'000
Other operating income		
Profit on disposal of property, plant and equipment	**638**	16
Depreciation and amortisation		
Depreciation and mining asset amortisation	**(8 813)**	(14 899)
Waste stripping costs amortised	**(67 901)**	(34 712)
	(76 714)	(49 611)
Less: Depreciation capitalised to development asset	**–**	4 545
Less/(add): Depreciation and mining asset amortisation capitalised to inventory	**307**	(249)
	(76 407)	(45 315)
Amortisation of intangible assets	**(52)**	(157)
	(76 459)	(45 472)
Inventories		
Cost of inventories recognised as an expense	**(136 847)**	(98 896)
Write-down of inventory to net realisable value	**–**	(466)
	(136 847)	(99 362)
Foreign exchange (loss)/gain		
Foreign exchange (loss)/gain	**(1 347)**	1 715
	(1 347)	1 715
Operating lease expenses as a lessee		
Mine site property	**(137)**	(126)
Equipment and service leases	**(59 932)**	(54 279)
Contingent rental – Alluvial Ventures	**(7 421)**	(10 716)
Leased premises	**(2 168)**	(2 197)
	(69 658)	(67 318)
Auditor's remuneration – EY		
Group financial statements	**(432)**	(441)
Statutory	**(161)**	(146)
	(593)	(587)
Auditor's remuneration – other audit firms		
Statutory	**(15)**	(20)
	(15)	(20)

Notes to the Annual Financial Statements continued

for the year ended 31 December 2017

3. OPERATING PROFIT/(LOSS) BEFORE EXCEPTIONAL ITEMS (continued)

	2017 US$'000	2016 US$'000
Other non-audit fees – EY		
Tax services advisory and consultancy	(31)	(63)
Tax compliance services	–	(18)
Other services	–	(10)
Other audit-related services[1]	(52)	(149)
	(83)	(240)
Other non-audit fees – other audit firms		
Internal audit	(1)	(1)
Tax services advisory and consultancy	(9)	(6)
	(10)	(7)
Employee benefits expense		
Salaries and wages[2]	(17 732)	(16 673)
Underlying earnings before interest, tax, depreciation and mining asset amortisation (underlying EBITDA) before exceptional items		
Underlying EBITDA is shown, as the Directors consider this measure to be a relevant guide to the operational performance of the Group and excludes such non-operating costs as listed below. The reconciliation from operating profit to underlying EBITDA is as follows:		
Operating profit before exceptional items	37 715	52 579
Other operating income	(793)	(306)
Foreign exchange loss/(gain)	1 347	(1 715)
Share-based payments	1 526	1 790
Depreciation and mining asset amortisation (excluding waste stripping cost amortised)	8 783	10 469
Underlying EBITDA before exceptional items	48 578	62 817

[1] *Other assurance services by EY relate to the interim review on the half-year results for the six months ended 30 June.*
[2] *Includes contributions to defined contribution plan of US$0.6 million (31 December 2016: US$0.6 million).*

4. EXCEPTIONAL ITEMS

	2017 US$'000	2016 US$'000
Ghaghoo[1]	(3 605)	–
Impairment of assets[2]	–	(172 932)
Recycling of foreign currency translation reserve on abandonment of operation	–	(3 546)
	(3 605)	(176 478)

[1] *The Ghaghoo mine was placed on care and maintenance on 31 March 2017. Costs incurred during the year which were not considered to be costs under normal care and maintenance status or were once-off in nature, were classified as exceptional items. These included development costs, retrenchment costs, once-off costs to renegotiate contracts on a care and maintenance basis and once-off costs associated with the additional dewatering and sealing of the fissure as a result of an earthquake. No impairment charge was recognised during the year.*
[2] *In the prior year the impairment charge related mainly to the impairment of the Ghaghoo asset.*

5. NET FINANCE COSTS

	2017 US$'000	2016 US$'000
Finance income		
Bank deposits	630	1 232
Other	–	1 179
Total finance income	630	2 411
Finance costs		
Bank overdraft	(1 247)	(815)
Finance costs on borrowings	(1 963)	(1 064)
Finance costs on unwinding of rehabilitation provision	(1 221)	(741)
Total finance costs	(4 431)	(2 620)
	(3 801)	(209)

6. INCOME TAX

	2017 US$'000	2016 US$'000
Income tax expense		
Income statement		
Current		
– Overseas	(6 032)	(7 138)
Withholding tax		
– Overseas	(140)	(3 379)
Deferred		
– Overseas	(6 903)	(9 449)
	(13 075)	(19 966)
Profit/(loss) before taxation	30 309	(124 108)

	%	%
Reconciliation of tax rate		
Applicable income tax rate	25.0	25.0
Permanent differences	10.9	(27.0)
Unrecognised deferred tax assets	10.5	(6.9)
Effect of overseas tax at different rates	(3.8)	(4.5)
Withholding tax	0.5	(2.7)
Effective income tax rate	43.1	(16.1)

The tax rate reconciles to the statutory Lesotho corporation tax rate of 25.0% rather than the statutory UK corporation tax rate of 19.25% performed in previous years, as this is now the jurisdiction in which the majority of the Group's taxes are incurred, following the Ghaghoo mine being placed on care and maintenance. As a result, the prior year tax rate reconciliation has been restated to reconcile to the revised tax rate of 25.0%.

Notes to the Annual Financial Statements continued

for the year ended 31 December 2017

7. EARNINGS PER SHARE

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

	2017 US$'000	2016 US$'000
Profit/(loss) for the year after exceptional items	17 234	(144 074)
Less: Non-controlling interests	(11 756)	(14 736)
Net profit attributable to equity holders of the parent for basic and diluted earnings	**5 478**	(158 810)
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)	138 482	138 266

Earnings per share are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year after taking into account future potential conversion and issue rights associated with the ordinary shares.

	2017 Number of shares	2016 Number of shares
Weighted average number of ordinary shares outstanding during the year	138 482	138 266
Effect of dilution:		
– Future share awards under the Employee Share Option Plan	2 860	1 729
Weighted average number of ordinary shares outstanding during the year adjusted for the effect of dilution	141 342	139 995

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.

8. PROPERTY, PLANT AND EQUIPMENT

	Stripping activity asset[1] US$'000	Mining asset US$'000	Exploration and develop-ment assets US$'000	Decommis-sioning assets US$'000	Lease-hold improve-ment US$'000	Plant and equip-ment US$'000	Other assets[2] US$'000	Total US$'000
As at 31 December 2017								
Cost								
Balance at 1 January 2017	339 404	119 146	148 034	6 009	35 404	86 149	23 133	757 279
Additions	84 009	–	44	–	51	15 499	690	100 293
Net movement in rehabilitation provision	–	–	1 503	(2 157)	–	–	–	(654)
Disposals	–	–	–	–	–	–	(2)	(2)
Reclassifications	–	226	–	–	3 104	(3 593)	263	–
Assets held for sale (Note 15)	–	–	–	–	–	–	(1 962)	(1 962)
Foreign exchange differences	41 793	4 641	12 152	495	3 748	10 110	2 251	75 190
Balance at 31 December 2017	465 206	124 013	161 733	4 347	42 307	108 165	24 373	930 144
Accumulated depreciation/ amortisation								
Balance at 1 January 2017	199 389	48 089	148 034	3 573	19 614	62 517	18 864	500 080
Charge for the year	67 901	2 080	–	305	3 192	2 102	1 134	76 714
Disposals	–	–	–	–	–	–	(2)	(2)
Assets held for sale (Note 15)	–	–	–	–	–	–	(480)	(480)
Foreign exchange differences	24 246	915	12 073	424	2 122	6 674	1 836	48 290
Balance at 31 December 2017	291 536	51 084	160 107	4 302	24 928	71 293	21 352	624 602
Net book value at 31 December 2017	173 670	72 929	1 626	45	17 379	36 872	3 021	305 542

[1] *Borrowing costs of US$1.3 million incurred in respect of the LSL215.0 million facility at Letšeng (refer to Note 17, Interest-bearing loans and borrowings) were capitalised to the stripping activity asset. The weighted average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 12.11%.*

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

Notes to the Annual Financial Statements continued

for the year ended 31 December 2017

8. PROPERTY, PLANT AND EQUIPMENT (continued)

	Stripping activity asset US$'000	Mining asset US$'000	Exploration and develop- ment assets[1] US$'000	Decommis- sioning assets US$'000	Lease- hold improve- ment US$'000	Plant and equip- ment US$'000	Other assets[2] US$'000	Total US$'000
As at 31 December 2016								
Cost								
Balance at 1 January 2016	232 779	111 879	129 493	3 941	28 205	61 743	19 401	587 441
Additions	70 378	–	23 611	–	261	7 623	2 295	104 168
Net movement in rehabilitation provision	–	–	511	1 403	–	–	–	1 914
Disposals						–	(567)	(567)
Reclassifications	–	1 458	(12 721)	–	3 415	7 534	314	–
Foreign exchange differences	36 247	5 809	7 140	665	3 523	9 249	1 690	64 323
Balance at 31 December 2016	339 404	119 146	148 034	6 009	35 404	86 149	23 133	757 279
Accumulated depreciation/ amortisation								
Balance at 1 January 2016	144 495	44 624	–	3 017	8 815	37 942	9 181	248 074
Charge for the year	34 712	1 786	–	111	3 622	5 617	3 763	49 611
Disposals	–	–	–	–	–	–	(548)	(548)
Reclassifications	–	809	–	–	(28)	(2)	(779)	–
Impairment	–	–	147 251	–	5 790	13 100	6 340	172 481
Foreign exchange differences	20 182	870	783	445	1 415	5 860	907	30 462
Balance at 31 December 2016	199 389	48 089	148 034	3 573	19 614	62 517	18 864	500 080
Net book value at 31 December 2016	140 015	71 057	–	2 436	15 790	23 632	4 269	257 199

[1] *Borrowing costs of US$1.6 million (31 December 2015: US$1.6 million) incurred in respect of the US$25.0 million facility at Ghaghoo (refer to Note 17, 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] *Other assets comprise motor vehicles, computer equipment, furniture and fittings, and office equipment.*

9. INVESTMENT PROPERTY

	2017 US$'000	2016 US$'000
Balance at 1 January	**615**	615
Assets held for sale[1]	**(615)**	–
Net book value at 31 December	**–**	615
Amounts recognised in profit or loss	**–**	–
Rental income	**63**	60
Direct operating expenses	**(22)**	(20)
The future minimum rental income under the rental agreement in aggregate and for each of the following periods are as follows:		
– Within one year	**47**	63
– After one year but not more than five years	**–**	47
– More than five years	**–**	–
	47	110

[1] *As part of the Business Transformation, the investment property in Dubai has been identified as a non-core asset to be sold. On 18 September 2017, the Directors of the Company resolved to dispose of this property. A real estate agent was appointed to actively market the property. It is highly likely that a sale will be concluded within 12 months after year end and therefore it has been reclassified as an asset held for sale (refer to Note 15, Assets held for sale) at the lower of its carrying value and fair value less costs to sell. The fair value has been determined based on the selling prices of similar properties within the same building which were sold during the year.*

10. INTANGIBLE ASSETS

	Intangibles US$'000	Goodwill US$'000	Total US$'000
As at 31 December 2017			
Cost			
Balance at 1 January 2017	**783**	**13 970**	**14 753**
Foreign exchange difference	**8**	**1 452**	**1 460**
Balance at 31 December 2017	**791**	**15 422**	**16 213**
Accumulated amortisation			
Balance at 1 January 2017	**739**	**–**	**739**
Amortisation	**52**	**–**	**52**
Balance at 31 December 2017	**791**	**–**	**791**
Net book value at 31 December 2017	**–**	**15 422**	**15 422**
As at 31 December 2016			
Cost			
Balance at 1 January 2016	783	13 305	14 088
Foreign exchange difference	–	665	665
Balance at 31 December 2016	783	13 970	14 753
Accumulated amortisation			
Balance at 1 January 2016	578	–	578
Amortisation	157	–	157
Impairment	4	–	4
Balance at 31 December 2016	739	–	739
Net book value at 31 December 2016	44	13 970	14 014

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

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11. IMPAIRMENT TESTING

	2017 US$'000	2016 US$'000
Impairment		
Ghaghoo	–	170 778[1]
CDIH Group	–	2 154[2]
Total impairment	–	172 932

[1] In the prior year a consolidated income statement impairment charge of US$170.8 million (post-tax) was recognised for the Ghaghoo asset. The mine was subsequently placed on care and maintenance during 2017.
[2] In the prior year, the Group abandoned the CDIH Group, which developed and maintained laser diamond shaping and cutting technology and machinery. The impairment on CDIH included US$0.3 million write-down of inventory and US$1.9 million write-down of other assets.

	2017 US$'000	2016 US$'000
Goodwill		
Letšeng Diamonds	15 422	13 305
Balance at end of year	15 422	13 305

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

The discount rate is outlined below, and represents the nominal pre-tax rate. This rate is based on the weighted average cost of capital (WACC) of the Group and adjusted accordingly at a risk premium for the Letšeng Diamonds cash-generating unit, taking into account risks associated therein.

	2017 %	2016 %
Discount rate – applied to revenue		
Letšeng Diamonds	11.9	10.5
Discount rate – applied to costs		
Letšeng Diamonds	16.0	14.7

Goodwill impairment testing is undertaken annually and whenever there are indications of impairment. The most recent test was undertaken at 31 December 2017. 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 2017, the recoverable amount for Letšeng Diamonds has been determined based on a value-in-use model, similar to that adopted in the past.

Value in use

Cash flows are projected for a period up to the date that the open pit mining is expected to cease, based on the optimised life of mine plan implemented during the year. This mine plan takes into account the available reserves based on relevant inputs such as diamond pricing, costs and geotechnical parameters.

Sensitivity to changes in assumptions

It was assessed that no reasonably possible change in any of the key assumptions would cause Letšeng's carrying amount to exceed its recoverable amount.

The Group will continue to test its assets for impairment where indications are identified and may, in future, record additional impairment charges or reverse any impairment charges to the extent that market conditions improve and to the extent permitted by accounting standards.

Refer to Note 1.2.27, Critical accounting estimates and judgements, for further details on impairment testing policies.

12. RECEIVABLES AND OTHER ASSETS

	2017 US$'000	2016 US$'000
Non-current		
Other receivables	22	31
	22	31
Current		
Trade receivables	91	1 187
Prepayments[1]	2 537	756
Deposits	151	135
Other receivables[2]	973	334
VAT receivable	4 025	4 145
	7 777	6 557

The carrying amounts above approximate their fair value.

Terms and conditions of the receivables:

	2017 US$'000	2016 US$'000
Analysis of trade receivables		
Neither past due nor impaired	57	1 154
Past due but not impaired:		
Less than 30 days	34	33
30 to 60 days	–	–
60 to 90 days	–	–
90 to 120 days	–	–
	91	1 187

[1] Included in prepayments are facility restructuring costs of US$1.0 million relating to the Company's US$45.0 million bank loan facility, which will be amortised over the period of the loan and consultant costs of US$0.7 million that have been incurred for the Business Transformation and will be amortised in line with the timing of the implementation of the cost-saving benefits.
[2] Included in other receivables is a receivable of US$0.5 million relating to the sale of certain moveable equipment at Ghaghoo to a third party in piecemeal.

13. INVENTORIES

	2017 US$'000	2016 US$'000
Diamonds on hand	16 190	17 278
Ore stockpiles	5 149	1 909
Consumable stores	12 726	11 724
	34 065	30 911
Net realisable value write-down	–	466

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14. CASH AND SHORT-TERM DEPOSITS

	2017 US$'000	2016 US$'000
Cash on hand	**2**	2
Bank balances	**24 423**	15 762
Short-term bank deposits	**23 279**	15 023
	47 704	30 787

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 2017, the Group had restricted cash of US$0.2 million (31 December 2016: US$3.1 million).

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

At 31 December 2017, the Group had US$36.2 million (31 December 2016: US$53.3 million) of undrawn facilities, representing the LSL250.0 million (US$20.2 million) three-year unsecured revolving working capital facility at Letšeng, the remaining LSL26.6 million (US$2.1 million) at Letšeng (of the total LSL215.0 million project debt facility) and the US$13.9 million three-year unsecured revolving credit facility at the Company.

For further details on these facilities, refer to Note 17, Interest-bearing loans and borrowings.

15. ASSETS HELD FOR SALE

	2017 US$'000	2016 US$'000
Investment property[1]	**615**	–
Property, plant and equipment[2]	**1 482**	–
	2 097	–

[1] As part of the Business Transformation, the investment property in Dubai has been identified as a non-core asset to be sold. On 18 September 2017, the Directors of the Company resolved to dispose of this property. A real estate agent was appointed to actively market the property. It is likely that a sale will be concluded within 12 months after year end and therefore it has been reclassified as a non-current asset held for sale at the lower of its carrying value and fair value less costs to sell. The fair value has been determined based on the selling prices of similar properties within the same building which were sold during the year. Fair value less costs to sell was US$0.8 million.

[2] On 2 July 2017, the Directors of the Company resolved to dispose of the aircraft which serviced the Ghaghoo mine. An offer to purchase was received from an interested party on 28 September 2017 and a formal agreement was entered into on 20 December 2017. Included in other comprehensive income and accumulated in equity is revenue from external charters of US$0.2 million and cost of sales of US$0.4 million relating to the aircraft. The sale was finalised post-year end in January 2018, with the purchaser taking ownership of the aircraft on 10 January 2018. The proceeds received for the sale was US$1.7 million. Refer to Note 29, Events after the reporting period.

16. ISSUED CAPITAL AND RESERVES

Issued capital

	31 December 2017 Number of shares '000	31 December 2017 US$'000	31 December 2016 Number of shares '000	31 December 2016 US$'000
Authorised – ordinary shares of US$0.01 each				
As at year end	**200 000**	**2 000**	200 000	2 000
Issued and fully paid				
Balance at beginning of year	**138 361**	**1 384**	138 296	1 383
Allotments during the year	**259**	**3**	65	1
Balance at end of year	**138 620**	**1 387**	138 361	1 384

Share premium

Share premium comprises the excess value recognised from the issue of ordinary shares at par value.

16. ISSUED CAPITAL AND RESERVES (continued)

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, 6 000 shares were exercised (31 December 2016: 5 000) and no shares lapsed (31 December 2016: nil). During the year, the trust was wound up and the remaining balance of shares of 47 200 were awarded to certain key employees involved in the Business Transformation of the Group.

	Foreign currency translation reserve US$'000	Share-based equity reserve US$'000	Total US$'000
Other reserves			
Balance at 1 January 2017	**(196 145)**	**52 647**	(143 498)
Other comprehensive expense	**18 161**	**–**	18 161
Total comprehensive expense	**18 161**	**–**	18 161
Share-based payments	**–**	**1 526**	1 526
Balance at 31 December 2017	**(177 984)**	**54 173**	(123 811)
Balance at 1 January 2016	(214 162)	50 742	(163 420)
Other comprehensive expense	18 017	–	18 017
Total comprehensive expense	18 017	–	18 017
Share-based payments	–	1 905	1 905
Balance at 31 December 2016	(196 145)	52 647	(143 498)

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of foreign entities. The South African, Lesotho, Botswana and United Arab Emirate subsidiaries' functional currencies are different to the Group's functional currency of US dollar. The rates used to convert the operating functional currency into US dollar are as follows:

	Currency	2017	2016
Average rate	ZAR/LSL to US$1	**13.31**	14.70
Period end	ZAR/LSL to US$1	**12.38**	13.68
Average rate	Pula to US$1	**10.34**	10.89
Period end	Pula to US$1	**9.83**	10.68
Average rate	Dirham to US$1	**3.67**	3.68
Period end	Dirham to US$1	**3.67**	3.68

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.

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for the year ended 31 December 2017

17. INTEREST-BEARING LOANS AND BORROWINGS

	Effective interest rate (%)	Maturity	2017 US$'000	2016 US$'000
Non-current				
LSL215.0 million bank loan facility[1]				
Tranche 1	South African JIBAR + 3.15%	31 March 2022	**12 391**	–
Tranche 2	South African JIBAR + 6.75%	30 September 2022	**888**	–
US$45.0 million bank loan facility[2]				
Tranche 1	London US$ three-month LIBOR + 4.5%	31 December 2020	**20 000**	–
			33 279	–
Current				
LSL215.0 million bank loan facility[1]				
Tranche 2	South African JIBAR + 6.75%	30 September 2022	**1 939**	–
US$25.0 million bank loan facility[2]	London US$ three-month LIBOR + 5.5%	31 January 2019	**–**	25 710
US$45.0 million bank loan facility[2]				
Tranche 1	London US$ three-month LIBOR + 4.5%	31 December 2020	**5 000**	–
Tranche 2	London US$ three-month LIBOR + 4.5%	31 December 2020	**6 125**	–
LSL140.0 million bank loan facility[3]	South African JIBAR + 4.95%	30 June 2017	**–**	2 047
			13 064	27 757

[1] ***LSL215.0 million (US$17.3 million) bank loan facility at Letšeng Diamonds***

This loan comprises two tranches of debt as follows:

- *Tranche 1: South African rand denominated ZAR180.0 million (US$14.5 million) debt facility supported by the Export Credit Insurance Corporation (ECIC) (five years tenure); and*
- *Tranche 2: Lesotho loti and denominated LSL35.0 million (US$2.8 million) term loan facility without ECIC support (five years and six months tenure).*

The loan is an unsecured project debt facility which was signed jointly with Nedbank and the ECIC on 22 March 2017 for the total funding of the construction of the Letšeng mining support services complex. The loan is repayable in equal quarterly payments commencing in September 2018.

At year end LSL188.4 million (US$15.2 million) had been drawn down, resulting in LSL26.6 million (US$2.1 million) available to be drawn down under this facility.

The South African rand-based interest rates for the facility at 31 December 2017 are:

- *Tranche 1: 10.31%; and*
- *Tranche 2: 13.91%.*

Total interest for the year on this interest-bearing loan was US$0.6 million, and has been capitalised to the cost of the project.

[2] ***US$45.0 million bank loan facility at Gem Diamonds Limited***

This facility is a three-year revolving credit facility (RCF) with Nedbank Capital which was renewed on 29 January 2016 for a further three years. The facility was accessed in order to settle the Ghaghoo US$25.0 million loan. This bank loan facility, previously US$35.0 million, was restructured during the year to increase the facility to US$45.0 million. This restructured facility consists of two tranches:

- *Tranche 1: relates to the Ghaghoo US$25.0 million debt whereby capital repayments have been rescheduled to commence in September 2018 with a final repayment due on 31 December 2020; and*
- *Tranche 2: this tranche of US$20.0 million relates to an RCF and includes an upsize mechanism whereby this tranche will increase by a ratio of 0.6:1 for every repayment made under Tranche 1. This will result in the available facility increasing to US$35.0 million once Tranche 1 is fully repaid.*

At year end US$25.0 million had been drawn down relating to Tranche 1 and US$6.1 million relating to Tranche 2. This resulted in US$13.9 million remaining undrawn under Tranche 2. The US$-based interest rate for this facility at 31 December 2017 is 6.19%.

[3] ***LSL140.0 million bank loan facility at Letšeng Diamonds***

This loan was a three-year unsecured project debt facility which was signed jointly with Standard Lesotho Bank and Nedbank Limited for the total funding of the Coarse Recovery Plant. Final repayment was made on 10 February 2017 and the facility was closed on that date.

Other facilities

In addition, at 31 December 2017, the Group through its subsidiary Letšeng Diamonds, has a LSL250.0 million (US$20.2 million) three-year unsecured revolving working capital facility jointly with Standard Lesotho Bank and Nedbank Capital, which was renewed in July 2015. There was no draw down of this facility at year end.

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18. TRADE AND OTHER PAYABLES

	2017 US$'000	2016 US$'000
Non-current		
Severance pay benefits[1]	**1 609**	1 409
	1 609	1 409
Current		
Trade payables[2]	**14 764**	15 599
Accrued expenses[2]	**5 580**	8 430
Leave benefits	**672**	1 011
Royalties and withholding taxes[2]	**376**	2 024
Operating lease	**1 668**	1 260
Other	**300**	688
	23 360	29 012
Total trade and other payables	**24 969**	30 421

Terms and conditions of the trade and other payables:

[1] *The severance pay benefits arise due to legislation within the Lesotho jurisdiction, requiring that two weeks of severance pay be provided for every completed year of service, payable on retirement.*

[2] *These amounts are mainly non-interest-bearing and are settled in accordance with terms agreed between the parties.*

The carrying amounts above approximate fair value.

19. PROVISIONS

	2017 US$'000	2016 US$'000
Rehabilitation provisions	**17 306**	16 630
Reconciliation of movement in rehabilitation provisions		
Balance at beginning of year	**16 630**	12 473
(Decrease)/increase during the year	**(2 157)**	1 631
Unwinding of discount rate	**1 221**	899
Foreign exchange differences	**1 612**	1 627
Balance at end of year	**17 306**	16 630

Rehabilitation provisions

The provisions have been recognised as the Group has an obligation for rehabilitation of the mining areas. The provisions have been calculated based on total estimated rehabilitation costs, discounted back to their present values over the life of mine at the mining operations. The pre-tax discount rates are adjusted annually and reflect current market assessments.

In determining the amounts attributable to the rehabilitation provision at the Lesotho mining area, management used a discount rate of 6.9% (31 December 2016: 7.4%), estimated rehabilitation timing of eight years (31 December 2016: nine years) and an inflation rate of 5.2% (31 December 2016: 6.7%). At the Botswana mining area, management used the latest estimated costs to rehabilitate, considering its care and maintenance state. In addition to the changes in the discount rates, inflation and rehabilitation timing, the decrease in the provision is attributable to the annual reassessment of the estimated closure costs performed at the operations together with the ongoing rehabilitation spend during the year at Letšeng.

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20. DEFERRED TAXATION

	2017 US$'000	2016 US$'000
Deferred tax assets		
Accrued leave	581	702
Operating lease liability	382	288
Provisions	4 188	3 610
	5 151	4 600
Deferred tax liabilities		
Property, plant and equipment	(79 323)	(65 870)
Prepayments	(369)	(367)
Unremitted earnings	(4 038)	(4 039)
	(83 730)	(70 276)
Net deferred tax liability	(78 579)	(65 676)
Reconciliation of deferred tax liability		
Balance at beginning of year	(65 676)	(50 385)
Movement in current period:		
– Accelerated depreciation for tax purposes	(6 348)	(9 851)
– Accrued leave	(181)	52
– Operating lease liability	61	72
– Prepayments	35	208
– Provisions	(170)	287
– Tax losses utilised in the year	(35)	(217)
– Foreign exchange differences	(6 265)	(5 842)
Balance at end of year	(78 579)	(65 676)

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$87.9 million (31 December 2016: US$49.3 million).

The Group has estimated tax losses of US$207.6 million (31 December 2016: US$340.5 million). Entities with significant tax losses were deregistered during the year and the tax losses were therefore forfeited. All tax losses are generated in jurisdictions where tax losses do not expire.

21. CASH FLOW NOTES

		Notes	2017 US$'000	2016 US$'000
21.1	**Cash generated by operations**			
	Profit/(loss) before tax for the year		30 309	(124 108)
	Adjustments for:			
	Depreciation and amortisation on property, plant and equipment	3	8 558	10 760
	Waste stripping cost amortised	3	67 901	34 712
	Impairment on assets	4	–	172 932
	Finance income	5	(630)	(2 411)
	Finance costs	5	4 431	2 620
	Unrealised foreign exchange differences		(1 773)	(4 718)
	Profit on disposal of property, plant and equipment		(638)	(16)
	Movement in prepayment		(116)	254
	Other non-cash movements		1 227	1 703
	Share-based equity transaction		1 526	1 790
			110 795	93 518
21.2	**Working capital adjustment**			
	Decrease in inventory		97	1 579
	(Increase)/decrease in receivables		(369)	5 259
	Decrease in trade and other payables		(9 620)	(6 392)
			(9 892)	446
21.3	**Cash flows from financing activities**			
	Balance at beginning of year		27 757	30 421
	Net cash generated by/(used in) financing activities		17 469	(3 906)
	– financial liabilities repaid		(46 601)	(3 906)
	– financial liabilities raised		64 070	–
	Non cash movement – FCTR		1 117	437
	Non cash movement – interest accrued		–	805
	Balance at year end		46 643	27 757

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 remaining periods of between one and eight 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.

	2017 US$'000	2016 US$'000
Future minimum rentals payable under non-cancellable operating leases:		
– Within one year	1 548	1 753
– After one year but not more than five years	5 667	5 087
– More than five years	4 680	5 797
	11 895	12 637

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22. COMMITMENTS AND CONTINGENCIES (continued)

	2017 US$'000	2016 US$'000
Mining leases		
Mining lease commitments represent the Group's future obligation arising from agreements entered into with local authorities in the mining areas that the Group operates.		
The period of these commitments is determined as the lesser of the term of the agreement, including renewable periods, or the life of the mine. The estimated lease obligation regarding the future lease period, accepting stable inflation and exchange rates, is as follows:		
– Within one year	**163**	112
– After one year but not more than five years	**788**	593
– More than five years	**940**	1 283
	1 891	1 988
Moveable equipment lease		
The Group has entered into commercial lease arrangements which include the provision of loading, hauling and other transportation services payable at a fixed rate per tonne of ore and waste mined; power generator equipment payable based on a consumption basis; and rental agreements for various mining equipment based on a fixed monthly fee. The terms will be negotiated during the extension option periods catered for in the agreements or at any time sooner if agreed by both parties.		
– Within one year	**47 475**	41 749
– After one year but not more than five years	**146 460**	175 704
– More than five years	**–**	–
	193 935	217 453
Capital expenditure		
Approved but not contracted for	**14 760**	19 927
Approved and contracted for	**6 438**	3 315

The main capital expenditure approved but not contracted for relates the extension of the footprint of the Patiseng tailings storage facility of LSL170.0 million (US$13.7 million) which will provide deposition space until 2024. The expenditure will be incurred over the next three years.

Contingent rentals – Alluvial Ventures

The contingent rentals represent the Group's obligation to a third party (Alluvial Ventures) for operating one of the plants 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 2016: 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$0.5 million (December 2016: US$0.5 million) and tax claims within the various jurisdictions in which the Group operates approximating US$0.7 million (December 2016: US$1.0 million). There are no possible disputes relating to Ghaghoo's care and maintenance status included in these contingencies.

There remains a risk that further tax liabilities may potentially arise. While it is difficult to predict the ultimate outcome in some cases, the Group does not anticipate that there will be any material impact on the Group's results, financial position or liquidity.

23. RELATED PARTIES

Related party	Relationship
Jemax Management (Proprietary) Limited	Common director
Jemax Aviation (Proprietary) Limited (until November 2017)[1]	Common director
Gem Diamond Holdings Limited	Common director
Government of Lesotho	Non-controlling interest

[1] The common director disposed of his investment in this company and at year end is no longer considered to be a related party. Fees and sales reported below are up to November 2017.

Refer to Note 1.1.2, Operational information, for information regarding shareholding in subsidiaries.

Refer to the Directors' Report for information regarding the Directors.

	2017 US$'000	2016 US$'000
Compensation to key management personnel (including Directors)		
Share-based equity transactions	**1 099**	1 396
Short-term employee benefits	**3 066**	3 907
	4 165	5 303
Fees paid to related parties		
Jemax Aviation (Proprietary) Limited	**(122)**	(96)
Jemax Management (Proprietary) Limited	**(102)**	(75)
Royalties paid to related parties		
Government of Lesotho	**(16 200)**	(14 624)
Lease and licence payments to related parties		
Government of Lesotho	**(137)**	(126)
Sales to/(purchases from) related parties		
Jemax Aviation (Proprietary) Limited	**364**	(97)
Jemax Management (Proprietary) Limited	**(8)**	(82)
Amount included in trade receivables owing by/(to) related parties		
Jemax Aviation (Proprietary) Limited	**–**	4
Jemax Management (Proprietary) Limited	**(10)**	(8)
Amounts owing to related party		
Government of Lesotho	**(325)**	(1 966)
Dividends paid		
Government of Lesotho	**–**	(13 963)

Jemax Management (Proprietary) Limited and Jemax Aviation (Proprietary) Limited provided administrative and aviation services with regard to the mining activities undertaken by the Group. The above transactions were made on terms agreed between the parties and were made on terms that prevail in arm's length transactions.

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for the year ended 31 December 2017

24. FINANCIAL RISK MANAGEMENT

Financial risk factors

The Group's activities expose it to a variety of financial risks:

- market risk (including commodity price risk and foreign exchange risk);
- credit risk; and
- liquidity risk.

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out under policies approved by the Board of Directors. The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investing excess liquidity.

There have been no changes to the financial risk management policy since the prior year.

Capital management

For the purpose of the Group's capital management, capital includes the issued share capital, share premium and liabilities on the Group's statement of financial position. The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may issue new shares or restructure its debts facilities. The management of the Group's capital is performed by the Board.

The Group's capital management, among other things, aims to ensure that it meets financial covenants attached to its interest-bearing loans and borrowings. Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. There have been no breaches of the financial covenants in the current year.

At 31 December 2017, the Group has US$36.2 million (31 December 2016: US$53.3 million) debt facilities available and continues to have the flexibility to manage the capital structure more efficiently by the use of these debt facilities, thus ensuring that an appropriate gearing ratio is achieved.

The debt facilities in the Group are as follows:

Unsecured – Standard Lesotho Bank and Nedbank Capital (a division of Nedbank Limited) – three-year unsecured revolving credit facility – LSL250.0 million (US$20.2 million)

The Group, through its subsidiary, Letšeng Diamonds, has an LSL250.0 million (US$20.2 million), three-year unsecured revolving working capital facility which was last renewed in June 2015. The facility bears interest at the Lesotho prime rate.

At year end, there is no drawdown on this facility.

Unsecured – Nedbank Limited and Export Credit Insurance Corporation (ECIC) – five years and six months project debt facility – LSL215.0 million (US$17.3 million)

The Group, through its subsidiary, Letšeng Diamonds, has an unsecured project debt loan facility consisting of two tranches as follows:

- Tranche 1: South African rand denominated ZAR180.0 million (US$14.5 million) debt facility supported ECIC (five years tenure); and
- Tranche 2: Lesotho loti denominated LSL35.0 million (US$2.8 million) term loan facility without ECIC support (five years and six months tenure).

The facility is repayable in equal quarterly payments commencing in September 2018 and bears interest as follows:

- Tranche 1: Johannesburg ZAR interbank three-month JIBAR + 3.15%; and
- Tranche 2: Johannesburg ZAR interbank three-month JIBAR + 6.75%.

At year end LSL188.4 million (US$15.2 million) had been drawn down, resulting in LSL26.6 million (US$2.1 million) still available to be drawn down under this facility.

Secured – Nedbank Capital (a division of Nedbank Limited) – three years and six months secured debt facility – US$45.0 million

The Company had a three-year revolving credit facility (RCF) US$35.0 million loan with Nedbank Capital which was renewed on 29 January 2016 for a further three years. This facility was accessed in order to settle the Ghaghoo US$25.0 million loan. This RCF was restructured during the year to increase the facility to US$45.0 million. This restructured facility consists of two tranches:

- Tranche 1: relates to the Ghaghoo US$25.0 million debt whereby capital repayments commence in September 2018 with a final repayment due on 31 December 2020; and
- Tranche 2: this tranche of US$20.0 million is a RCF and includes an upsize mechanism whereby it will increase by a ratio of 0.6:1 for every repayment made under Tranche 1. This will result in the available facility increasing to US$35.0 million once Tranche 1 is fully repaid.

This RCF bears interest at London USD Interbank three-month LIBOR + 4.5%.

At year end, US$31.1 million was drawn down on this facility, of which US$25.0 million relates to the Ghaghoo portion and US$6.1 million of the RCF.

24. FINANCIAL RISK MANAGEMENT (continued)

Capital management (continued)

(a) Market risk

(i) Commodity price risk

The Group is subject to diamond price risk. Diamonds are not homogeneous products and the price of rough diamonds is not monitored on a public index system. The fluctuation of prices is related to certain features of diamonds such as quality and size. Diamond prices are marketed in US dollar and long-term US dollar per carat prices are based on external market consensus forecasts and contracted sales arrangements adjusted for the Group's specific operations. The Group does not have any financial instruments that may fluctuate as a result of commodity price movements.

(ii) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Lesotho loti, South African rand and Botswana pula. Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group's sales are denominated in US dollar which is the functional currency of the Company, but not the functional currency of the operations.

The currency sensitivity analysis below is based on the following assumptions:

Differences resulting from the translation of the financial statements of the subsidiaries into the Group's presentation currency of US dollar, are not taken into consideration.

The major currency exposures for the Group relate to the US dollar and local currencies of subsidiaries. Foreign currency exposures between two currencies where one is not the US dollar are deemed insignificant to the Group and have therefore been excluded from the sensitivity analysis.

The analysis of the currency risk arises because of financial instruments denominated in a currency that is not the functional currency of the relevant Group entity. The sensitivity has been based on financial assets and liabilities at 31 December 2017. There has been no change in the assumptions or method applied from the prior year.

Sensitivity analysis

There were no material financial assets or financial liabilities denominated in a currency that is not the functional currency of the relevant Group entity, and therefore if the US dollar had appreciated/(depreciated) by 10% against currencies significant to the Group at 31 December 2017, income before taxation would not have been materially impacted (31 December 2016: US$2.6 million). There would be no effect on equity reserves other than those directly related to income statement movements.

(iii) Forward exchange contracts

The Group enters into forward exchange contracts to hedge the exposure to changes in foreign currency of future sales of diamonds at Letšeng Diamonds. The Group performs no hedge accounting. At 31 December 2017, the Group had no forward exchange contracts outstanding (31 December 2016: US$nil).

(iv) Cash flow interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's cash flow interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. At the time of taking new loans or borrowings, management uses its judgement to decide whether it believes that a fixed or variable rate borrowing would be more favourable to the Group over the expected period until maturity.

Sensitivity analysis

If the interest rates on the interest-bearing loans and borrowings (increased)/decreased by 60 basis points during the year, profit before tax would have been US$0.3 million (lower)/higher (31 December 2016: US$0.2 million). The assumed movement in basis points is based on the currently observable market environment, which remained consistent with the prior year.

(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.

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24. FINANCIAL RISK MANAGEMENT (continued)

Capital management (continued)

(c) Liquidity risk

Liquidity risk arises from the Group's inability to obtain the funds it requires to comply with its commitments including the inability to sell a financial asset quickly at a price close to its fair value. Management manages the risk by maintaining sufficient cash, marketable securities and ensuring access to financial institutions and shareholding funding. This ensures flexibility in maintaining business operations and maximises opportunities. The Group has available debt facilities of US$36.2 million at year end.

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

	2017 US$'000	2016 US$'000
Floating interest rates		
Interest-bearing loans and borrowings		
– Within one year	**16 835**	28 689
– After one year but not more than five years	**40 374**	1 587
Total	**57 209**	30 276
Trade and other payables		
– Within one year	**23 360**	29 012
– After one year but not more than five years	**1 609**	1 409
Total	**24 969**	30 421

25. SHARE-BASED PAYMENTS

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

	2017 US$'000	2016 US$'000
Equity-settled share-based payment transactions charged to the income statement	**1 526**	1 790
Equity-settled share-based payment transactions capitalised	**–**	116
	1 526	1 906

The long-term incentive plans are described below:

Long-term incentive plan (LTIP)

Certain key employees are entitled to a grant of options, under the LTIP of the Company. The vesting of the options is dependent on employees remaining in service for a prescribed period (normally three years) from the date of grant. The fair value of share options granted is estimated at the date of the grant using an appropriate simulation model, taking into account the terms and conditions upon which the options were granted. It takes into account projected dividends and share price fluctuation co-variances of the Company.

There is a nil or nominal exercise price for the options granted. The contractual life of the options is 10 years and there are no cash settlement alternatives. The Company has no past practice of cash settlement.

LTIP 2007 Award – September 2012

In September 2012, 936 000 nil-cost options were granted to certain key employees (excluding Executive Directors) under the LTIP of the Company. Of the total number of shares, 312 000 were nil value options and 624 000 were market value options. The exercise price of the market value options is £1.78 (US$2.85), which was equal to the market price of the shares on the date of grant. The awards which vest over a three-year period in tranches of a third of the award each year, dependent on the performance targets for the 2013, 2014 and 2015 financial years being met, are exercisable between 1 January 2016 and 31 December 2023. This award became exercisable on 1 January 2016. Of the 936 000 options originally granted, 118 535 are still outstanding following the resignation of a number of employees and the exercising of these options.

25. SHARE-BASED PAYMENTS (continued)

LTIP 2007 Award – March 2014

In March 2014, 625 000 nil-cost options were granted to certain key employees under the LTIP of the Company. The vesting of the options will be subject to the satisfaction of certain performance as well as service conditions classified as non-market conditions. The options which vest over a three-year period in tranches of a third of the award each year are exercisable between 19 March 2017 and 18 March 2024. If the performance or service conditions are not met, the options lapse. As the performance conditions are non-market-based they are not reflected in the fair value of the award at grant date, and therefore the Company will assess the likelihood of these conditions being met with a relevant adjustment to the cumulative charge as required at each financial year end. The fair value of the nil-cost options is £1.74 (US$2.87). This award became exercisable on 19 March 2017. Of the 625 000 options originally granted, 63 838 are still outstanding following the resignation of a number of employees and the exercising of these options.

LTIP 2007 Award – June 2014

In June 2014, 609 000 nil-cost options were granted to the Executive Directors under the LTIP of the Company. The vesting of the options will be subject to the satisfaction of certain market and non-market performance conditions over a three-year period. Of the 609 000 nil-cost options, 152 250 relates to market conditions with the remaining 456 750 relating to non-market conditions. The options which vest are exercisable between 10 June 2017 and 9 June 2024. If the performance or service conditions are not met, the options lapse. The performance conditions relating to the non-market conditions are not reflected in the fair value of the award at grant date. At each financial year end, the Company will assess the likelihood of these conditions being met with a relevant adjustment to the cumulative charge as required. The fair value of the nil-cost options relating to non-market conditions is £1.61 (US$2.70). The fair value of the options granted, relating to the market conditions, is estimated at the date of the grant using a Monte Carlo simulation model, taking into account the terms and conditions upon which the options were granted, projected dividends, share price fluctuations, the expected volatility, the risk-free interest rate, expected life of the options in years and the weighted average share price of the Company. This award became exercisable on 10 June 2017. Of the 609 000 options originally granted, 128 850 are still outstanding following the resignation of an Executive Director during the previous year and the exercising of these options.

LTIP 2007 Award – April 2015

In April 2015, 660 000 nil-cost options were granted to certain key employees under the LTIP of the Company. The vesting of the options will be subject to the satisfaction of certain performance as well as service conditions classified as non-market conditions. The options which vest after a three-year period are exercisable between 1 April 2018 and 31 March 2025. If the performance or service conditions are not met, the options lapse. As the performance conditions are non-market-based they are not reflected in the fair value of the award at grant date, and therefore the Company will assess the likelihood of these conditions being met with a relevant adjustment to the cumulative charge as required at each financial year end. The fair value of the nil-cost options is £1.33 (US$1.97). Of the 660 000 options originally granted, 272 104 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 relate to market conditions with the remaining 555 000 relating to non-market conditions. The options which vest are exercisable between 1 April 2018 and 31 March 2025. If the performance or service conditions are not met, the options lapse. The performance conditions relating to the non-market conditions are not reflected in the fair value of the award at grant date. At each financial year end, the Company will assess the likelihood of these conditions being met with a relevant adjustment to the cumulative charge as required. The fair value of the nil-cost options relating to the market conditions is £1.33 (US$1.97). The fair value of these options is estimated in a similar manner as the June 2014 LTIP. Of the 740 000 options originally granted, 640 730 are still outstanding following the resignation of an Executive Director during the previous year.

LTIP 2007 Award – March 2016

In March 2016, 1 400 000 nil-cost options were approved to be granted to certain key employees and Executive Directors under the LTIP of the Company. The vesting of the options will be subject to the satisfaction of certain market and non-market performance conditions over a three-year period. The satisfaction of certain performance as well as service conditions are classified as non-market conditions. A total of 185 000 of the options granted relate to market conditions. The options vest after a three-year period and are exercisable between 15 March 2019 and 14 March 2026. If the performance or service conditions are not met, the options lapse. The performance conditions relating to the non-market conditions are not reflected in the fair value of the award at grant date, and therefore the Company will assess the likelihood of these conditions being met with a relevant adjustment to the cumulative charge as required at each financial year end. The fair value of the nil-cost options is £0.99 (US$1.40). The fair value of the options relating to market conditions is estimated in a similar manner as the June 2014 and April 2015 LTIP. Of the total options originally granted, 1 072 188 are still outstanding following the resignation of a number of employees.

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25. SHARE-BASED PAYMENTS (continued)

LTIP 2017 Award – July 2017

In July 2017, 595 000 nil-cost options were granted to certain key employees under the renewed LTIP 2017 rules of the Company. The vesting of the options will be subject to the satisfaction of certain performance as well as service conditions classified as non-market conditions. The options which vest after a three-year period are exercisable between 4 July 2020 and 3 July 2027. If the performance or service conditions are not met, the options lapse. As the performance conditions are non-market-based they are not reflected in the fair value of the award at grant date, and therefore the Company will assess the likelihood of these conditions being met with a relevant adjustment to the cumulative charge as required at each financial year end. The fair value of the nil-cost options is £0.86 (US$1.11). Of the 595 000 options originally granted, 575 000 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 relate to market conditions with the remaining 555 000 relating to non-market conditions. The options which vest are exercisable between 4 July 2020 and 3 July 2027. If the performance or service conditions are not met, the options lapse. The performance conditions relating to the non-market conditions are not reflected in the fair value of the award at grant date. At each financial year end, the Company will assess the likelihood of these conditions being met with a relevant adjustment to the cumulative charge as required. The fair value of the nil-cost options relating to the market conditions is £0.86 (US$1.11). The fair value of these options is estimated in a similar manner as the June 2014, April 2015 and March 2016 LTIP. All 740 000 options originally granted are still outstanding.

Movements in the year

ESOP

During September, 47 200 shares which were previously held in the Company Employee Share Trust were granted to certain key employees involved in the Business Transformation of the Group. The fair value of the award was valued at the share price of the Company at the date of the award of £0.71 (US$0.96).

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

	2017 '000	2016 '000
Outstanding at beginning of year	6	11
Granted during the year	47	
Exercised during the year	(6)	(5)
Balance at end of year	47	6
Exercisable at end of year	–	–

ESOP for July 2017, March 2016, April 2015, June 2014, March 2014 and September 2012 (LTIP)

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

	2017 '000	2016 '000
Outstanding at beginning of year	3 529	2 726
Granted during the year	1 335	1 400
Exercised during the year	(246)	(61)
Forfeited	(1 006)	(536)
Balance at end of year	3 612	3 529

25. SHARE-BASED PAYMENTS (continued)

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

	LTIP July 2017	LTIP March 2016	LTIP April 2015	LTIP June 2014	LTIP September 2012
Dividend yield (%)	2.00	2.00	2.00	–	–
Expected volatility (%)	40.21	39.71	37.18	37.25	42.10
Risk-free interest rate (%)	0.67	0.97	1.16	1.94	0.33
Expected life of option (years)	3.00	3.00	3.00	3.00	3.00
Weighted average share price (US$)	1.24	1.56	2.10	2.70	2.85
Fair value of nil value options (US$)	1.11	1.40	1.97	1.83	2.85
Fair value of market value options (US$)	–	–	–	–	1.66
Model used	Monte Carlo	Monte Carlo	Monte Carlo	Monte Carlo	Monte Carlo

The fair value of share options granted is estimated at the date of the grant using a Monte Carlo simulation model, taking into account the terms and conditions upon which the options were granted, projected dividends, share price fluctuations, the expected volatility, the risk-free interest rate, expected life of the option in years and the weighted average share price of the Company.

26. FINANCIAL INSTRUMENTS

Set out below is an overview of financial instruments, other than the non-current and current portions of the prepayment disclosed in Note 12, Receivables and other assets, which do not meet the criteria of a financial asset. These prepayments are carried at amortised cost.

	2017 US$'000	2016 US$'000
Financial assets		
Cash (net of overdraft)	47 704	30 787
Receivables and other assets	5 889	5 832
Other financial assets	–	–
Total	53 593	36 619
Total non-current	22	31
Total current	53 571	36 588
Financial liabilities		
Interest-bearing loans and borrowings	46 343	27 757
Trade and other payables	24 969	30 421
Total	71 312	58 178
Total non-current	34 888	1 409
Total current	36 424	56 769

The carrying amounts of the Group's financial instruments held approximate their fair value.

Fair value hierarchy

All financial instruments for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

There were no transfers between Level 1 and Level 2 fair value measurements or any transfers into or out of Level 3 fair value measurements during the period.

Other risk management activities

The Group is exposed to foreign currency risk on future sales of diamonds at Letšeng Diamonds. In order to reduce this risk, the Group enters into forward exchange contracts to hedge this exposure. The Group performs no hedge accounting.

27. DIVIDENDS PAID AND PROPOSED

There were no dividends proposed for the 2017 or 2016 financial years.

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for the year ended 31 December 2017

28. MATERIAL PARTLY OWNED SUBSIDIARY

Financial information of Letšeng Diamonds, a subsidiary which has a material non-controlling interest, is provided below.

Proportion of equity interest held by non-controlling interests

Name	Country of incorporation and operation	2017 US$'000	2016 US$'000
Letšeng Diamonds (Proprietary) Limited	Lesotho		
Accumulated balances of material non-controlling interest		80 842	63 522
Profit allocated to material non-controlling interest		11 599	14 739
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			
Revenue		203 924	184 864
Cost of sales		(133 608)	(105 398)
Gross profit		70 316	79 466
Royalties and selling costs		(16 374)	(14 827)
Other costs		(1 438)	(217)
Operating profit		52 504	64 422
Net finance income		(1 486)	702
Profit before tax		51 018	65 124
Income tax expense		(12 354)	(15 996)
Profit for the year		38 664	49 128
Total comprehensive income		38 664	49 128
Attributable to non-controlling interest		11 599	14 739
Dividends paid to non-controlling interest		–	13 963
Summarised statement of financial position as at 31 December			
Assets			
Non-current assets			
Property, plant and equipment and intangible assets		317 002	267 433
Current assets			
Inventories, receivables and other assets, and cash and short-term deposits		78 408	45 438
Total assets		395 410	312 871
Non-current liabilities			
Trade and other payables, provisions and deferred tax liabilities		102 850	76 304
Current liabilities			
Interest-bearing loans and borrowings and trade and other payables		23 088	24 827
Total liabilities		125 938	101 131
Total equity		269 472	211 740
Attributable to:			
Equity holders of parent		188 630	148 218
Non-controlling interest		80 842	63 522
Summarised cash flow information for the year ended 31 December			
Operating		121 334	55 582
Investing		(99 508)	(77 967)
Financing		12 054	(11 915)
Net increase/(decrease) in cash and cash equivalents		33 880	(34 300)

29. EVENTS AFTER THE REPORTING PERIOD

On 10 January 2018, the aircraft which has been disclosed as an asset held for sale, was sold for US$1.7 million. Refer to Note 15, Assets held for sale. No other fact or circumstance has taken place between the end of the reporting period and the approval of the financial statements which, in our opinion, is of significance in assessing the state of the Group's affairs.

Abbreviations and Definitions

AGM	Annual general meeting
AIFR	All injury frequency rate
Basotho	Lesotho nationals
BCP	Business continuity plan
BT	Business Transformation
BVI	British Virgin Islands
BWP	Botswana pula
CAGR	Compound annual growth rate
CEO	Chief Executive Officer
CGU	Cash-generating unit
CO_2e	Carbon dioxide equivalent
cpht	Carats per hundred tonnes
CSI	Corporate social investment
DTR	Disclosure Guidance and Transparency Rules
EBITDA	Earnings before interest, tax, depreciation and amortisation
ECIC	Export Credit Insurance Corporation
EPS	Earnings per share
ESOP	Employee Share Option Plan
EU	European Union
EY	Ernst & Young

Abbreviations and Definitions continued

FCA	Financial Conduct Authority
FRC	Financial Reporting Council
FTSE	Financial Times Stock Exchange
GDP	Gross domestic product
GHG	Greenhouse gas
GIA	Gemological Institute of America
GJ	Gigajoules
GRI	Global Reporting Initiative
ha	Hectare
HSSE	Health, safety, social and environment
IAS	International Accounting Standards
ICAEW	Institute of Chartered Accountants in England and Wales
IFRS	International Financial Reporting Standards
ISA	International Standards on Auditing
ISO	International Organisation for Standardisation
JIBAR	Johannesburg Interbank Agreed Rate
KPI	Key performance indicator
LIBOR	London Interbank Offered Rate
LoM	Life of mine
LSL	Lesotho loti

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LTI	Lost time injury
LTIFR	Lost time injury frequency rate
LTIP	Long-term incentive plan
MCF	Mine call factor
OHI	Organisational health index
OHSAS	Organisational Health and Safety Assessment Series
PAC	Project affected community
PBT	Profit before tax
PET	Positron emission tomography
RCF	Revolving credit facility
ROACE	Return on average capital employed
RSA	Republic of South Africa
SAMREC	South African Mineral Resource Committee
Scope 1 emissions	Direct greenhouse gas emissions
Scope 2 emissions	Energy-indirect greenhouse gas emissions from the generation of purchased energy
Scope 3 emissions	Energy-indirect greenhouse gas emissions (not included in Scope 2)
SEIAs	Social and environmental impact assessments
SID	Senior Independent Director
STIBS	Short-term incentive bonus scheme

Abbreviations and Definitions continued

The Board	The Gem Diamonds Board of Directors
The Group	The Gem Diamonds Company and its subsidiaries
TSR	Total shareholder return
UK	United Kingdom
US$	United States dollar
USA/US	United Stated of America
VAT	Value added tax
WACC	Weighted average cost of capital
WF	Water footprint

Contact Details and Advisers

Gem Diamonds Limited

Registered office
Coastal Building, Ground Floor
Wickham's Cay II
Road Town, Tortola
British Virgin Islands

Head office
2 Eaton Gate
London SW1W 9BJ
United Kingdom

T: +44 (0) 203 043 0280
F: +44 (0) 203 043 0281

Financial adviser and sponsor

JPMorgan Casenove Limited
20 Moorgate
London EC2R 6DA
United Kingdom

T: +44 (0) 20 7588 2828
F: +44 (0) 20 7155 9000

Auditors

Ernst & Young LLP
1 More London Place
London SE1 2AF
United Kingdom

T: +44 (0) 20 7951 2000
F: +44 (0) 20 7951 1345

Legal adviser

Linklaters
One Silk Street
London EC2Y 8HQ
United Kingdom
T: +44 (0) 20 7456 2000
F: +44 (0) 20 7456 2222

Financial advisers

Liberum Capital Limited
Ropemaker Place, Level 12
25 Ropemaker Street
London EC2Y 9LY
United Kingdom

T: +44 (0) 20 3100 2000
F: +44 (0) 20 3100 2099

Panmure Gordon & Co.
One New Change
London EUM 9AF
United Kingdom

T: +44 20 7886 2500

Financial PR adviser

Celicourt Communications
Adam House
7-10 Adam Street, The Strand
London WC2N 6AA
United Kingdom

T: +44 (0) 20 7520 9265

Feedback
Gem Diamonds Limited
Glenn Turner
T: +44 (0) 203 043 0280
IR@gemdiamonds.com

Celicourt Communications
Joanna Boon/Mark Antelme
T: +44 (0) 207 520 9265

Bastion