12 March 2013

GEM DIAMONDS FULL YEAR 2012 RESULTS

STRONG OPERATIONAL PERFORMANCE AND RECORD CARAT PRODUCTION

Gem Diamonds Limited (the Company) is pleased to announce its Full Year results for the period ending 31 December 2012.

The Company has demonstrated strong operational performance with record carat production and increased recovered grade at Letšeng as Gem Diamonds strives towards realising maximum value from its portfolio of assets.

The Company remains focused on optimising and streamlining its core operations and has undergone a restructuring of its asset base to refocus capital and management resources on its key assets. Gem Diamonds will continue to monitor its cash flow and will focus on lower capex opportunities to deliver improved returns to shareholders.

FINANCIAL RESULTS

2012 financial performance was impacted by substantially lower realised diamond price during the period:

- Revenue of US$202 million (US$306 million in 2011)*
- Underlying EBITDA of US$66 million (US$167 million in 2011)*
- Attributable net profit of US$17 million (before exceptional items) (US$62 million in 2011)*
- Basic EPS of 12US cents (before exceptional items) (44 US cents in 2011)
- Cash on hand of US$68 million (net after debt) (US$159 million as at 31 December 2011)

*Restated for the impact of the disposal of Kimberley Diamonds which has been disclosed under Discontinued Operations in Exceptional Items

OPERATIONAL HIGHLIGHTS

Robust operational performance and record carat production at Letšeng underpins the quality of the asset and supports near and long term plans to optimise this asset and grow production:

- Letšeng's second successive record carat production of 114 350 carats, an increase of 2% from the record production of 2011
- Letšeng recovered grade of 1.75 carats per hundred tonnes, up from 1.65 carats per hundred tonnes in 2011
- 134 diamonds were sold or valued at greater than US$20 000 per carat. These diamonds, which comprise 3% of the carats exported, averaged US$35 400 per carat and included an 11 carat blue diamond sold in September 2012 for US$2.17 million (US$186 943 per carat.) highlighting the quality of Letšeng as a producer of exceptional high value diamonds
- 647 rough diamonds greater than 10.8 carats in size were recovered in 2012
- Development of Phase 1 of Ghaghoo continues as planned with the surface infrastructure complete and with the processing plant substantially complete

CORPORATE HIGHLIGHTS

2012 was a year of transformation for Gem Diamonds as the Company refocused its management and cash resources through a consolidation of its asset portfolio and revision of the investment programme to target high value accretive and disciplined capex opportunities:

- Disposal of the Ellendale mine to Goodrich Resources for US$15.4 million

- Formal exit from the Company's participation in the Chiri project in Angola

- Revision of capital expenditure on Project Kholo to focus on key workstreams to streamline and optimise operations:
  - Four new crushing units ordered and to be installed at Letseng to reduce diamond damage
  - 3 new CAT 777 trucks brought to site at Letseng which will add to the overall mining capacity and in particular to waste stripping in 2013

- The sales and marketing and manufacturing strategies continue to return positive results

OUTLOOK

- Focussed on enhancing cash flows in 2013 through the streamlined implementation of Project Kholo, effective cost management and improved margins in a rising rough market

- Begin to realise initial value and benefits from Project Kholo during 2013 through the implementation of key work-streams

- Continue to progress Ghaghoo Phase One, targeting first ore in H2 2014

  2013 started positively with strong improvements in rough prices as demand increased on fears of short term rough supply shortages.
- Long term outlook for the diamond industry remains robust with growth forecast expected to continue in the Asian markets accompanied with expected improvements in the US market. Long term supply constraints anticipated to exert further upward pressure on diamond prices

Commenting on the results today, Clifford Elphick, Chief Executive Officer of Gem Diamonds, said:
"Although 2012 was a challenging year for the diamond mining industry and for Gem Diamonds, it is pleasing to see that 2012 was a strong operational year for the Group, with a second successive record carat production at Letšeng, our flagship asset. Moreover, the disposal of underperforming assets will result in a more focused management team, confident on improving returns to shareholders in the coming years."

The Company will be hosting an analyst presentation on its full year results today, which will take place at 9.30am at Holborn Bars. A live audio webcast of the presentation will be available on the Company's website: *www.gemdiamonds.com*

For further information:

Gem Diamonds Limited
Clifford Elphick, Chief Executive Officer
Glenn Turner, Chief Commercial Officer
Tel: +44 (0) 203 043 0280

Sherryn Tedder, Investor Relations
Tel: +27 (0) 11 560 9600
Mob: +27 83 943 4505

Pelham Bell Pottinger
Charles Vivian / James MacFarlane
Tel: +44 (0) 207 337 1500861 3232

About Gem Diamonds:

Gem Diamonds is a leading producer of high value diamonds. The Company owns 70% of the Letšeng mine in Lesotho as well as the Ghaghoo mine, currently in development in Botswana. The Letšeng mine is famous for the production of large, top colour, exceptional white diamonds, making it the highest dollar per carat kimberlite diamond mine in the world. Since Gem Diamonds' acquisition of Letšeng in 2006, the mine has produced four of the top twenty largest white gem quality diamonds recorded.

Gem Diamonds has a growth strategy based on the expansion of the Letšeng mine and the development of the Ghaghoo mine, while maintaining its strong balance sheet. The Company seeks to maximise revenue and margin from its rough diamond production by pursuing cutting, polishing and sales and marketing initiatives further along the diamond value chain. With favourable supply/demand dynamics expected to benefit the diamond industry over the medium to long term, particularly at the high end of the market, this strategy positions the Company well to generate attractive returns for shareholders in the coming years.

www.gemdiamonds.com

CHAIRMAN'S OVERVIEW

Record carat production and refocusing of strategy to generate greater returns for shareholders

INTRODUCTION

2012 was underpinned by an excellent operational performance and record carat production for Gem Diamonds, as the Company worked to maximise value from its portfolio of assets. The Company's flagship Letšeng mine delivered its second successive record carat performance in 2012, by producing 114 350 carats (compared to the previous record in 2011 with 112 367 carats produced). The Ellendale mine achieved a 30% increase in carats recovered to 155 996 carats. Gem Diamonds strives for zero harm at each of its operations and regretfully, in spite of a year of strong operational performance, we have to report three fatalities for the year – one at Letšeng and two at Ghaghoo. The Board and management of the Company offers our sincere condolences to the families of the deceased employees.

In keeping with the Company's stated strategy for focused delivery of value through the enhancement of key assets, the Company's asset base has been restructured through the disposal of those projects which did not meet the requirements for value return. This consolidation and optimisation of the Company's asset portfolio has enabled the Company to refocus its resources and management time on those core assets that the Company believes offer the most potential to deliver substantial returns to shareholders. The disposal of 100% interest in its wholly owned subsidiary, Kimberley Diamond Company NL in Australia was concluded during the year and the transaction was duly completed on 31 January 2013. In addition, the Company's participation in the Chiri project in Angola terminated in November 2012.

The sharp fall in diamond prices, which had commenced in the third quarter of 2011, continued to be felt throughout 2012 as the Eurozone crisis and global financial uncertainty persisted. As a result, the prices realised for the Company's Letšeng diamonds were approximately 15% lower in 2012 than for the previous year, with even sharper falls experienced in some categories of rough goods in the market. This contributed to a decline in the Group's revenues (excluding Kimberley Diamond Company) in 2012 to US$202.1 million and the underlying EBITDA falling to US$65.5 million, down from the record profit achieved in 2011.

As a result of the impact of weaker diamond prices on revenues and cash flows during the year, the Company acted swiftly to scale back the capex earmarked for Project Kholo and for the development of Phase 1 at the Ghaghoo mine. Accordingly, at Letšeng, those elements of Project Kholo which are more capital efficient and offer near-term returns, have continued to be implemented. For example, work is already underway to replace four crushing units in both of Letšeng's existing processing plants with crushers designed for project Kholo, with the aim of reducing diamond damage and thus minimising the loss of revenues. These crushers will be installed by June 2013. Effective delivery and implementation of these key workstreams should provide a stronger operating platform for the Company, enabling Gem Diamonds to expand carat production and significantly enhance profit margins, even in the current uncertain economic environment, and to increase the positive effect of any strengthening in diamond prices. This should enable Gem Diamonds to emerge a far stronger, leaner and more focused company in 2013, capable of capturing better value in the diamond market and well placed to extract value from its assets for shareholders.

DIAMOND MARKET

2012 was a volatile and challenging year for the diamond industry. The Eurozone crisis, reduced liquidity from the lending banks, high stock levels in the manufacturing sector and low demand from the emerging markets in the East resulted in downward pressure on diamond prices in 2012.

Following the more than 30% correction in rough diamond prices experienced after September 2011 the year started positively for rough diamond prices, with prices for rough diamonds increasing by approximately 6% to May 2012. However, from May 2012 through to August 2012, trading conditions were again extremely challenging. The continued low levels of polished trading as a result of the slowing demand in the emerging markets of the East and the major US market, coupled with sustained high levels of rough supply into the market by the major producers, resulted in an overstocking of both rough and polished in the manufacturing sector. This overstocked situation and the tightening of liquidity by the lending banks saw demand for rough diamonds reducing considerably and rough diamond prices decreased by approximately 20% from June to August 2012. After August, polished trading began to improve, with a resulting increase in demand for rough diamonds.

In the longer term, the prospect for diamonds remains excellent. Rough diamond production is unlikely to reach previous peaks and, with growing Asian consumer demand for diamond jewellery supporting the improving major US market, demand for rough and polished diamonds should begin to outpace supply, sustaining a longer term price growth trend.

OPERATIONAL OVERVIEW

Operationally, Gem Diamonds has had a strong year, with Letšeng delivering its second successive record in terms of carats produced. This was largely driven by an increase in Letšeng's recovered grade as a result of mining in the higher grade K6 facies in the main pipe. 114 350 carats were produced in 2012 which was an improvement on the record performance of 112 367 carats in 2011. This record was achieved despite two very heavy snowfalls during the winter of 2012 which caused the loss of four days of production. Great credit must go to management and the Letšeng technical team for this successive record achievement.

As previously communicated, in light of the challenging global economic climate, the Board took the decision to focus on greater capital discipline and to preserve balance sheet strength. This has seen a refocusing and scaling back of capital expenditure on Project Kholo at Letšeng, in order to focus on those components of Project Kholo which were value accretive but less capital intense. By way of example, installing four new crushing units on plants one and two as envisaged by the initial Project Kholo plans, in order to reduce the adverse effects of the older crushers on diamond damage. This work will be completed by mid-2013.

The exploration drilling programme at Letšeng was completed during 2012 and has resulted in very encouraging results which have confirmed and extended the resource in both pipes and which will be included in an updated resource model to be completed shortly.

The focus for 2013 will be on implementing and delivering value accretive workstreams at Letšeng, focused on enhancing revenue generation and improving margins through the reduction of diamond damage and by an effective cost reduction programme aimed at optimising treatment and mining unit costs. The upgrading of the existing mining fleet, in order to meet future production requirements, will continue. The Company will continue to assess opportunities to upgrade technology within its operations to improve efficiencies, safety and enhance profitability.

At Ghaghoo, the development of Phase 1 of the underground project has continued as planned. The camp and surface infrastructure is complete and the plant has been installed on schedule. The access decline is proceeding well, albeit at a slower rate than originally planned due to encountering unforeseen ground conditions. It is anticipated that the first kimberlite will be processed through the plant in the second half of 2014.

HEALTH AND SAFETY

The Company continues to strive towards setting the highest standards of health and safety across the Group's operations and the highest priority is given to ensuring the health and safety of our employees in the workplace. In furtherance of this goal, a number of key managers attended a course on health and safety run by Du Pont in the USA and on site in the Company's technical offices. Although there was a good deal of learning and interaction, it was also satisfying to note that management had already been performing at a very high level in this key area.

During 2012 Letšeng achieved a creditable 13 consecutive months without a lost time injury. However, in December 2012, a non-mining fatality occurred at Letšeng when a casual employee was fatally injured by a wall which collapsed onto her. The Board and management of the Company once again offer our sincere condolences to the family of the deceased employee.

At Ghaghoo, a sound safety record was marred by the tragic collapse of sand in the access decline in which two contractor employees lost their lives. After a full investigation, remedial steps were taken to prevent any such similar occurrence. The Board and management of the Company again extend their heartfelt condolences to the families of the deceased employees.

STAKEHOLDER RELATIONSHIPS AND ENVIRONMENTAL

The Company places great emphasis on its relations with the governments and communities in the areas where it operates.

In Lesotho, a number of community projects were completed and new ones initiated. A third woolshed was opened in October 2012 at Libibing in the Mokhotlong district, close to where the Letšeng mine is situated. These woolsheds have made a dramatic impact upon the livelihood of the wool and mohair farmers in this impoverished district, who are now able to shear and bale wool in modern sheds with access to electricity and transport routes to ports in South Africa. It is pleasing that the Minister of Agriculture made a congratulatory speech at the opening of the third woolshed and this highlights the sound relationship which is enjoyed with government and the Project Affected Communities.

The Letšeng scholarships programme is well regarded throughout Lesotho and continues to subsidise the education of Lesotho born students at local and regional universities and technikons, followed in many cases by an internship on the Letšeng mine and eventual employment there. In 2012 a new project, working in partnership with government, was initiated by the Company to establish a mountain search and rescue facility in the Lesotho highlands in order to encourage tourism and reduce the number of fatalities from adverse weather conditions experienced during the severe winter weather. In March of this year, the first trainees will be sent to Scotland to attend a practical training course run by the Scottish mountain search and rescue facility in the Scottish Highlands.

In Botswana, 2012 saw the installation of borehole water points in the Central Kalahari Game Reserve where the local Basarwa communities are now able to access water. The community which is situated close to the Ghaghoo mine has water piped to their village and have received emergency medical attention from the Ghaghoo medical station. Almost 150 members of the community have been employed at the mine in either permanent or temporary capacities. The positive interaction with the project affected communities is ongoing and is coordinated by a community liaison officer at the mine.

At Ellendale, a community needs analysis was conducted during late 2011 in order to improve the appropriateness and sustainability of the Company's CSI investments in Australia and the Bunuba Peoples Trust was created. During 2012, the Company paid US$1.9 million in lieu of share options into this community trust. These funds are now available for community motivated projects to be undertaken.

There have been no major environmental incidents at any of the Company's operations during the period and further details of the Company's commitment to the environment is to be found in the Sustainability report below or in the 2012 Sustainable Development report available on the Gem Diamonds website, www.gemdiamonds.com

STRATEGIC FOCUS

Further to the review of the Company's assets communicated to shareholders in 2011, management has implemented the stringent process of disposing of those assets which do not meet the criteria of generating shareholder returns. Accordingly, the Ellendale mine in Australia was disposed of to Goodrich Resources for a cash consideration of US$15.4 million. This disposal was made taking into consideration the relatively short remaining mine life and a potentially substantial environmental liability upon closure.

In addition, the Company terminated its involvement in the Chiri project in Angola once it had become clear that the development of this deposit, on the terms available to it, would not meet the stringent financial returns requirements set by the Company review.

The Company has implemented measures to reduce cost overheads in line with the strategic focus on its remaining core assets.

Despite a difficult 2012 for the diamond mining sector, the Company is now well positioned to focus upon the key mining and development assets of Letšeng and Ghaghoo as well as its successful sales and marketing division which, it is anticipated, will maximise shareholder returns over the coming years. Set against the slowly recovering global economy and the emerging constrained supply in the rough diamond market, I am confident that the Company is very well placed to take advantage of a recovery in the diamond mining industry.

Roger Davis
Non-executive Chairman

11 March 2013

CHIEF EXECUTIVE OFFICER'S OVERVIEW

INTRODUCTION

Gem Diamonds has achieved record operational results during 2012 with a second successive record carat production year at Letšeng of 114 350 carats (versus 112 367 carats in 2011) and a significantly improved grade of 1.75 carats per hundred tonnes (cpht). This success has been mirrored by improved carat production at Ellendale and credit must go to the management teams at both the mines and at the Company's technical support office for these impressive operational achievements.

After a record financial year in 2011, the sharp fall in diamond prices which began in the third quarter of 2011 and again in 2012, led to the Company taking quick action to implement capital discipline at Letšeng and Ghaghoo in order to preserve the Company's strong balance sheet. The ongoing Eurozone crisis in 2012 and the persistent global financial uncertainty led to a fall of some 15% in rough diamond prices for equivalent Letšeng type goods over the year. This contributed to a decline in the Group's revenue to US$202.1 million and an underlying EBITDA of US$65.5 million for the year.

2012 was a key year for Gem Diamonds, which saw a consolidation of the Company's asset portfolio to strengthen the position of the Company going forward, as well as the continued implementation of the Company's strategic plan for the focused delivery of value to shareholders through the enhancement of key assets. Accordingly, a number of assets which did not meet the stringent requirements for value creation have been sold or terminated over the past two years. This year saw the conclusion of a sale agreement in respect of the Ellendale mine which was sold to Goodrich Resources for US$15.4 million, with the transaction having been completed at the end of January 2013. Given the very short remaining life of mine, low margin operation and the significant environmental rehabilitation liability of Ellendale, the Board considered this to be in the best interests of shareholders and this disposal will allow management to focus on the remaining core assets of Letšeng and Ghaghoo.

In addition, the Company terminated its participation in the Chiri project in Angola when it became clear that the terms upon which ongoing participation in this deposit could be secured, did not meet the requirements of the Company for value creation.

Project Kholo at Letšeng has been scaled back, however, strong progress has been made and with key work-streams ongoing, it is pleasing to report that four new secondary crushers will be installed in Letšeng's existing processing plants by mid-2013. It is anticipated that these crushers will have a significant effect in reducing diamond breakage, thereby increasing average per carat values – an important component of Project Kholo.

The development of Phase 1 at Ghaghoo continues unabated and the camp and ground level infrastructure is complete, with the processing plant over 90% installed. Progress in the access decline has been slower than anticipated due to unforeseen adverse ground conditions and tunnel development has since been slow but steady. It is anticipated that the first ore will be put through the plant by mid-2014.

The implementation of the Company's sales and manufacturing strategy continued throughout 2012 and resulted in a number of diamonds which were either cut and polished by the Company itself at its facilities in Antwerp, or were manufactured in partnership arrangements with some of the world's leading diamantaires. Gem Diamonds' sales and manufacturing strategy continues to extract additional value from the diamond value chain for the Company and the Group is focused on further developing and enhancing this strategy to ensure increased exposure to value chain.

HSSE

Health and safety has been an area of continuing focus throughout the Group and it is pleasing to report that Letšeng achieved 13 months of zero lost time injuries during 2012. This achievement was undermined by a tragic non-mining accident in December when a casual employee had a wall collapse upon her in the laundry courtyard.

After being stabilised and receiving medical treatment at the mine clinic, the employee was transferred to the local hospital where she passed away the following day. At Ghaghoo, the adverse ground conditions encountered in the access decline resulted in the collapse of ground which tragically resulted in two fatalities in May 2012. Remedial action was taken after a full investigation was undertaken into the cause of both of these incidents. The Board and management again extend their sincere condolences to the families of the deceased employees.

OUTLOOK

The outlook for the diamond industry is showing signs of an improvement, and the initial Letšeng tender for 2013 realised US$27.9 million for 16 188 carats – an encouraging result for production sourced entirely from the lower value main pipe. Other rough diamond sellers are reporting similarly promising results at the outset of 2013. Moreover, the longer term prospects for the diamond mining industry remain excellent, with production well off the peaks and with rapid growth forecast in the Asian markets and continued improvement in the key US market, which is expected to outstrip supply, with no significant supply scheduled to come on-stream in the medium term.

Clifford Elphick
Chief Executive Officer

11 March 2013

OPERATIONAL OVERVIEW

LETŠENG

The Letšeng mine is famous for its large, top quality diamonds and achieves the highest average dollar per carat of any kimberlite diamond mine in the world. Gem Diamonds owns 70% of Letšeng Diamonds (Letšeng) in partnership with the Government of the Kingdom of Lesotho, who owns the remaining 30%. Letšeng was acquired in July 2006 and has continued to deliver exceptional returns for its shareholders.

Since Gem Diamonds took control, Letšeng's annual production has risen from 55 000 carats in 2006 to 114 350 carats in 2012, with an investment programme in place focused on further expanding production going forward. During this period, it has produced four of the 20 largest white gem diamonds ever recovered: the 603 carat Lesotho Promise in 2006; the 493 carat Letšeng Legacy in 2007; the 478 carat Light of Letšeng in 2008; and the 550 carat Letšeng Star in 2011.

DIAMOND SALES

	Year ended 31 December 2012	Year ended 31 December 2011
Number of carats sold	107 617	107 700
Average US$ per carat	1 932	2 776

FREQUENCY OF RECOVERIES OF LARGE DIAMONDS AT LETŠENG

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

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

OPERATIONAL HIGHLIGHTS

Carats recovered: 114 350
Average US$ per carat: US$1 932
Tonnes treated: 6.6 million
Waste tonnes mined: 17.4 million

SUSTAINABILITY PERFORMANCE:

LTIFR 0.11
AIFR 2.36
Zero major environmental incidents recorded in 2012
On schedule execution of corporate social investment projects
Letšeng achieved a 4 Star rating in the annual external SHE audit
Regrettably Letšeng recorded 1 fatality in the year

Letšeng continued to recover high value diamonds during the year, most notably the recovery of an 11 carat blue diamond which sold in September 2012 for us$2.17 million (us$186 943 per carat).

Letšeng produced a record of 114 350 carats in 2012, mainly driven by a higher recovered grade as a result of mining entering the high grade Main pipe K6 facies for the first time during the year. This achievement increased Letšeng's recovered grade for the second year in succession to 1.75 cpht compared to 1.65 cpht in the prior year. Tonnes treated for the year were 6.6 million tonnes compared to 6.8 million tonnes in 2011. Heavy snowfalls caused two power outages in the recovery plants which lasted for a total of four days, due to the difficulty in repair crews accessing the site. Tonnes treated also reduced in December in order to allow the mine to investigate whether the plant feed rate may have any impact on diamond damage. Analysis of the results from this test is still on going. Of the total ore treated for the year, 72% was sourced from the Main pipe, 24% from the Satellite pipe and 4% from Main pipe stockpiles. Production for the year resulted in underlying EBITDA of US$ 91.0 million.

Waste tonnes moved in 2012 was 17.4 million tonnes, 27% higher than the prior year (based on the revised 2011 waste tonnes moved of 13.7 million tonnes). During the year three new CAT 777 trucks were brought to site joining the CAT 773's that were added to the mining fleet during 2010 and 2011. These new, larger units will add capacity to the waste stripping fleet as the stripping requirement begins to increase with the deepening of both the Main and Satellite pipes over time.

The quantification of the shortfall of waste tonnes mined compared to that reported (due to the issue with surveying techniques which was reported in the H1 2012 trading update) has been finalised. Reporting has been revised and mine plans for future years have taken full account of the shortfall. The updated planning and the current stripping capacity indicate that no problems are foreseen in ensuring the required future ore exposure.

In late 2012, after considering the existing and expected global economic outlook, the Board decided that Project Kholo should be scaled back with a focus towards a lower, more capital efficient project. A number of less capital intensive opportunities to add significant value at Letšeng have been identified. These are based around the upgrading of the current processing plants by installing the improved recovery technologies that had been planned for the new Project Kholo plant, as well as potentially increasing throughput capacity. Studies are underway to determine the most optimal plan and timing.

Work is already underway to replace four crushing units in the two existing processing plants, with crushers previously designed for Project Kholo. These crushers are expected to reduce diamond damage and the project is expected to be completed by mid-2013.

The resource drilling programme that was started in late 2011 was completed during the year. The objectives were to increase geological and geotechnical knowledge on the existing resource at Letšeng, as well as to define additional resources below the current limits. A total of 19 holes were drilled during the programme. In terms of the resource extension, approximately 230 metres of additional depth was delineated below the Satellite pipe and 320 metres below the Main pipe. This extends confirmation that the two pipes exist at 828 metres and 793 metres below surface respectively (current mining in both pipes is at approximately 160 metres below surface). An updated resource model is expected to be completed by the end of the first quarter in 2013 based on the results of the drilling campaign. More detail on this drilling programme is provided in the Mineral Resource section of the Annual Report.

During the year a pre-feasibility study on converting the Satellite pipe to an underground operation prior to the completion of the planned open-pit was completed. The results indicate that commencing an underground operation sooner has a very similar value proposition compared to completing the current economic open-pit, and then continuing with underground mining. Studies on underground mining will continue however, and post the completion of the updated resource model mentioned above, the study will be revised, taking into account all relevant operational updates, including the revision to Project Kholo and the latest economic forecasts. Should the outcome indicate that the early-start underground option still shows potential, a full feasibility study will then commence.

SALES AND MARKETING STRATEGY

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

Gem Diamonds Marketing generally holds ten tenders annually for the Letšeng rough production, two in each of the first and third quarters and three in each of the second and fourth quarters. In addition to the rough tenders, Gem

Diamonds Marketing extracts select diamonds for manufacturing and sale as polished and/ or for sale into Letšeng's high-end manufacturing partnerships.

DIAMOND SALES

The average value for Letšeng's rough diamond exports (including diamonds extracted for manufacture) of unique diamonds for the year was US$1 932 per carat, compared to the average price of US$2 776 per carat achieved in 2011, representing a decrease in the average price of 30%.

In 2012, 647 rough diamonds greater than 10.8 carats in size (+10.8 carats) compared to approximately 591 diamonds in 2011, were recovered at Letšeng, totalling 13 554 carats and contributing to 73% of total rough diamond value at Letšeng (14 104 carats, contributing 77% of Letšeng's revenue in 2011). A total of 134 diamonds recorded prices greater than US$20 000 per carat, contributing rough value of US$117.6 million (57% of Letšeng's revenue), compared to 187 diamonds in 2011, which contributed US$202.6 million (67% of Letšeng's revenue) in 2011.

MANUFACTURING AND PARTNERSHIP

Continuing the Company's stated strategy to access margin further downstream by cutting and polishing diamonds and/or partnering on select diamonds, for the full year 2012, a total of 946 carats (1 624 carats in 2011) were extracted at a rough market value of US$31.6 million (US$68.6 million in 2011). Of the diamonds extracted for manufacture, US$10.4 million (US$1.2 million in 2011) remains on hand in inventory at year end and is unrecognised in revenue for the Group. Despite the volatile and challenging trading conditions experienced during 2012 and the lower volume of diamonds manufactured in 2012, the revenue uplift achieved on those goods manufactured and sold was US$2.8 million.

FINANCIAL PERFORMANCE

Amidst difficult market conditions during 2012, which started with the downturn in late 2011, Letšeng Diamonds continued to deliver strong operational results with record carats recovered, generating revenue of US$207.7 million from diamond sales and underlying EBITDA of US$91.0 million. However, as a result of the 30% decrease in average US$ per carat achieved in the current year compared to 2011, there was a decrease of 50% in underlying EBITDA over the prior year.

US$ (millions)	**Year ended 31 December 2012[1]**	Year ended 31 December 2011[1]
Sales	207.7	300.6
Cost of sales*	(100.1)	(95.4)
Royalty and selling costs	(16.7)	(24.5)
Underlying EBITDA	91.0	180.7

Physicals		
Tonnes treated	6 551 434	6 805 152
Waste tonnes mined	17 396 233	13 652 730[2]
Carats recovered	114 350	112 367
Carats sold[3]	107 617	107 700

US$ (per unit)		
Exchange rate (average)	8.21	7.26
Average price per carat (rough)	1 932	2 776
Direct cash cost (before waste) per tonne treated[4]	13.18	12.24
Operating cost per tonne treated[5]	15.29	14.07
Waste cash cost per waste tonne mined	2.97	2.91

Local currency (per unit) Lesotho loti		
Direct cash cost (before waste) per tonne treated[4]	108.24	88.84
Operating cost per tonne treated[5]	125.57	102.15

Waste cash cost per waste tonne mined	24.40	21.13

Other operating information (US$ millions)		
Waste capitalised	60.6	56.5
Waste amortised	26.9	18.6
Depreciation and mining asset amortisation	17.7	19.6
Capital expenditure[6]	22.8	14.2

* Excluding depreciation, mining asset amortisation and waste amortisation.

[1] Included in underlying EBITDA is US$10.4 million profit (31 December 2011: US$1.2 million) generated on the portion of diamonds sold to the Sales and Marketing company in the Group for cutting and polishing and not sold outside of the Group by the end of December. These values have been eliminated in the consolidated Group results.

[2] Revised waste tonnes mined for 2011, due to the survey review which was reported in the H1 2012 Trading Update.

[3] Excludes sales of polished diamonds.

[4] Direct cash costs represents all operating costs, excluding royalty and selling costs, depreciation, mine amortisation and all other non-cash charges.

[5] Operating costs excludes royalty and selling costs and depreciation and mine amortisation, and includes inventory, waste and ore stockpile adjustments.

[6] Capital expenditure excludes movements in rehabilitation assets relating to changes in rehabilitation estimates.

COSTS

Cost management has continued to be a key focus and Letšeng has managed to maintain its costs within expected targets. Local currency direct cash costs (before waste) per tonne treated for the year were Maloti 108.24 relative to the prior year of Maloti 88.84. This increase of 21% is mainly due to local inflation increases, fuel and power increases above local inflation, operational changes to drilling and blasting methodologies and the impact of lower tonnages treated during the year (down 4% from 2011). The lower tonnage treated was mainly due to the planned reduced throughput in the main Letšeng plants in December to assess any impact on diamond damage.

Total operating costs per tonne treated for the year increased to Maloti 125.57 per tonne from Maloti 102.15 per tonne, mainly as a result of an increase in waste amortisation costs (driven by the different waste to ore strip ratios for the particular ore processed) during the year and the lower production volumes. During the current year, Satellite ore contributed 25% of the total ore processed in 2012 compared to 16% in 2011.

HEALTH, SAFETY, SOCIAL AND ENVIRONMENT (HSSE)

Gem Diamonds is committed to meeting international best practise standards with respect to health, safety and social and environmental impacts at Letšeng and across all of its operations. The Company regards this as a key component of its business strategy and a key element of its success going forward. The Company is continually reviewing and enhancing its approach and initiatives in this regard and is pleased with the progress that has been made.

HSSE management at Letšeng showed a significant improvement in performance compared to 2011. This is supported by an improvement in Letšeng's independent SHE audit score from a 3 to a 4 Star rating in 2012. Regrettably in December, a non-mining related fatality occurred at the operation, shortly followed by an LTI. Comprehensive investigations into both incidents were undertaken and appropriate corrective actions implemented to prevent any reoccurrences. The completion of the operation's behaviour-based safety system was achieved in late 2012 and proactive SHE management has been significantly improved.

2012 saw the commencement of the construction of an engineered wetland at Letšeng, which will sustainably treat the mine's effluent prior to release into the ambient environment. Should this prove successful, this approach will be expanded upon.

Letšeng recorded zero major[1] environmental incidents, while recording one significant[2] incident which was immediately remediated. The operation remains on target to complete the update of its Social and Environmental Management Plan in early 2013. This plan will ensure compliance with the International Finance Corporation (IFC) Environmental, Health and Safety guidelines and performance standards, as well as with the Equator Principles.

Corporate Social Investment (CSI) at Letšeng continues to positively impact the lives of the project affected communities. The Company's flagship CSI projects, the Wool & Mohair and the Livelihoods projects, remain on target, with over 1 000 local farmers completing training in a variety of agricultural, entrepreneurial and business skills and in excess of 100 000 goats and sheep sheared during the year. Several other projects remain on-going.

[1] Incident which results in long term, high severity environmental impact.

[2] Short to mid-term, medium severity environmental impact incidents.

2013 AND ONWARDS

The focus for 2013 will be refining the studies around the plant 1 and 2 upgrades, in conjunction with developing long-term mining scenarios to match the anticipated treatment capacity increase. Diamond damage studies will continue to examine all possible areas of influence from blasting in the pit to the relevant operations in the recovery process. Various blasting tests are currently underway and the programme to replace four crushing units in Letšeng's existing processing plants, mentioned above, is expected to result in immediate improvements by mid-year.

Additional exploration drilling is planned to be undertaken during the year to further increase knowledge of the resource. A number of holes are planned around the deeper sections of the Satellite pipe in order to support planning of the potential underground operation. Details of this drilling programme are given in the Mineral Resource section of the Annual Report.

Cost reduction will remain a focus and interventions are being put in place aimed at optimising treatment and mining unit costs, considering expected production profiles. Upgrading of the mining fleet to match future production requirements will continue. Negotiations with the various contractors are underway in order to support cost reduction initiatives considering the long life remaining at Letšeng. Aligned with cost management, the optimisation of medium-term waste stripping profiles will be a priority in order to maximise cashflow especially during periods of the anticipated capital expenditure on the two existing treatment plants.

As part of the development of Letšeng's downstream activities and capabilities, Letšeng is in the process of establishing an in-country manufacturing facility that will manufacture certain categories of its rough diamond production, utilising proprietary diamond processing technology. This facility is planned to be completed in the second half of 2013 and will reach full production capacity in 2014.

ELLENDALE

Ellendale is renowned worldwide for its production of rare fancy yellow diamonds, which comprised approximately 13% of Ellendale's total carats recovered in 2012.These diamonds are sold under an off-take agreement to Tiffany & Co. and accounted for 78% of Ellendale's total revenue for the year.

Gem Diamonds concluded the disposal of its 100% interest in the Ellendale Mine through the disposal of its wholly owned subsidiary, Kimberley Diamond Company NL, to Goodrich Resources Limited, for a consideration of US$15.4 million, effective as at 31 December 2012.

DIAMOND SALES

	Year ended 31 December 2012	Year ended 31 December 2011
Number of carats sold	157 796	121 454
Average US$ per carat	720	731

OPERATIONAL HIGHLIGHTS

Carats recovered: 155 996
Average US$ per carat: US$720
Tonnes treated: 4.2 million
Waste tonnes mined: 6.5 million

SUSTAINABILITY PERFORMANCE

LTIFR 0.51
AIFR 11.64
Achieved 32 months LTI free in May 2012
Zero major environmental incidents
Ellendale retained its 4 Star rating in the annual external SHE audit
Fatality free since the operation commenced operation in 2002
Land use agreement with the Bunuba People was completed in 2012 and US$1.9 million was paid into the Bunuba Peoples Trust

2012 saw a much improved production performance at Ellendale after a difficult 2011. Tonnes treated increased by 34% year-on-year to 4.17 million tonnes and carats recovered increased by 28% to 155 996 carats. A major contributor to the improved volume performance was a number of modifications made to the screening and primary feed arrangements in the treatment plant that commenced towards the end of 2011. This resulted in a greater ability to handle the characteristic wet and sticky ore which had been severely impacting the plant's performance. The increase in tonnes treated was in turn underpinned by higher volumes from the pit as the mining contractor continued operating at a limited capacity through the wet season at the beginning of the year. The contractor, which was appointed in late 2011 as a result of a re-tendering process, performed well throughout the year and ore mined increased to 4.67 million tonnes, up 71% compared to 2011. This performance contributed to a healthy stockpile balance of 1.4 million tonnes at year end.

In terms of ore tonnes mined and treated, 61% was sourced from the East pit and 39% from the West pit. This compares to 53% and 47% respectively in 2011. The increased mix from the higher grade East pit was planned to boost carat production, however recovered grade for the year was 3.74 cpht, 3% lower than the 3.86 cpht reported in 2011. The lower grade resulted primarily from progressing deeper into the East pit where the geology was found to be more complex than originally expected. With depth, the root zone of the pipe was encountered and areas which had been estimated as high grade were found to contain lower grade material.

Waste mining moved 6.5 million tonnes for the year compared to 6.2 million tonnes in the prior year. The year-on-year increase was mainly due to the higher proportion of mining from the deeper East pit with a commensurate increase in waste stripping being needed to access the ore.

Gem Diamonds concluded the disposal of its 100% interest in the Ellendale Mine (held within its wholly owned subsidiary, Kimberley Diamond Company NL ("Kimberley Diamonds")) to ASX listed company Goodrich Resources Limited ("Goodrich"), for a total consideration of US$15.4 million. The consideration comprises a cash payment of AU$3.2 million and the repayment of a secured loan by Kimberley Diamonds of US$11.5 million (payable in instalments over 23 months following completion). The sale was completed on 31 January 2013 and was effective as at 31 December 2012.

SALES AND MARKETING STRATEGY

Kimberley Diamonds sells its fancy yellow diamonds directly under an off-take agreement to Laurelton Diamonds, Inc., the diamond sourcing and manufacturing subsidiary of global high-end jeweller Tiffany & Co. During the year, pricing for the qualifying fancy yellow diamonds sold to Tiffany & Co. was reviewed and a new pricing floor to the existing indexed pricing mechanism was agreed. This new floor price became effective on 1 October 2012.

Kimberley Diamonds sells the remaining commercial rough production through an outsourced electronic diamond auction platform.

PRICES ACHIEVED

In 2012, Kimberley Diamonds achieved an overall average price of US$720 per carat for its production, a decrease of 1.5% from the average price of US$731 per carat achieved in 2011.

Kimberley Diamonds achieved an average of US$4 393 per carat for Ellendale's rare qualifying fancy yellow diamonds that are sold to Tiffany & Co., representing a reduction of 0.3% against the average price per carat of US$4 409 in 2011. The prices in the fourth quarter of 2012 were positively impacted as a result of the new floor price introduced to the indexed pricing mechanism.

In 2012, Ellendale's commercial diamond production achieved an average price of US$181 per carat, which represents a decrease of 4% over the average price achieved in 2011 of US$188 per carat.

FINANCIAL PERFORMANCE

Kimberley Diamonds generated revenue of US$113.6 million compared to US$89.4 million achieved in the prior year. The increased prices achieved on the fancy yellow diamonds sold to Tiffany & Co. and the increase in carats recovered due to improved production, contributed to the 27% increase in revenue and the generation of a positive underlying EBITDA of US$12.4 million, a decrease of 6% from 2011. This decrease was mainly driven by the additional costs associated with increased production and a strong Australian dollar. The results of the operation are set out below. However as the company was disposed of with effect on 31 December 2012, the results of the operation are disclosed as discontinued operations in the Group results.

US$ (millions)	**Year ended 31 December 2012**	Year ended 31 December 2011
Sales	113.6	89.4
Cost of sales*	(94.3)	(70.6)
Royalty and selling costs	(6.9)	(5.6)
Underlying EBITDA	12.4	13.2

Physicals		
Tonnes treated	4 171 291	3 116 017
Waste tonnes mined	6 532 941	6 183 668
Carats recovered	155 996	120 302
Carats sold	157 796	121 454

US$ (per unit)		
Exchange rate (average)	0.97	0.97
Average price per carat (rough)	720	731
Direct cash cost (before waste) per tonne treated[1]	17.49	19.63
Operating cost per tonne treated[2]	21.60	22.67
Waste cash cost per waste tonne mined	4.60	4.16

Local currency (per unit) **Australian dollar (AU$)**		
Direct cash cost (before waste) per tonne treated[1]	16.89	19.02
Operating cost per tonne treated[2]	20.86	21.97
Waste cash cost per waste tonne mined	4.45	4.04

Other operating information (US$ million)		
Waste capitalised	36.1	30.8
Waste amortised	31.3	18.7
Depreciation and mining asset amortisation	18.2	8.8
Capital expenditure[3]	9.4	15.7

* Excluding depreciation, mining asset amortisation and waste amortisation.

[1] Direct cash costs represents all operating costs, excluding royalty and selling costs, depreciation, mine amortisation and all other non-cash charges.

[2] Operating costs excludes royalty and selling costs and depreciation and mine amortisation, and includes inventory, waste and ore stockpile adjustments.

[3] Capital expenditure excludes movements in rehabilitation assets relating to changes in rehabilitation estimates.

COSTS

The improved production performance at Ellendale, which resulted in higher tonnage treated, together with strict cost management, have positively impacted unit costs. A large portion of Ellendale's cost structure constitutes a fixed element resulting in local currency direct cash costs (before waste) per tonne treated for the year amounting to AU$16.89 relative to the prior year of AU$19.02.

Total operating costs per tonne treated for the year also decreased to AU$20.86 per tonne from AU$21.97 per tonne, mainly as a result of the higher production volumes and cost management referred to above.

Waste cash costs per tonne of waste moved was AU$4.45 up from the prior year of AU$4.04.

HSSE

Ellendale continues to achieve a high standard in HSSE management and retained its 4 Star rating in the external SHE audit for a third consecutive year. The operation has remained fatality-free since it commenced operation and achieved 32 months LTI free in May. Ellendale recorded zero major environmental incidents and three significant incidents, which were duly reported to the relevant authorities and appropriate remedial actions implemented. Extensive focus was paid to improving the operations' rehabilitation and closure plan during 2012 to ensure that a practicable, integrated and cost effective rehabilitation plan could be implemented concurrently with mining activities. AU$0.9 million was spent on progressive rehabilitation in 2012.

The Company continued to contribute to the progress of its Project Affected Communities through supporting projects related to education, healthy lifestyles, regional environmental initiatives and a range of several worthy causes. Cross cultural awareness training continued in 2012, facilitated by the Traditional Owners of the Ellendale mine lease, the Bunuba people. The Bunuba Peoples Trust was finalised during late 2012 and US$1.9 million paid to the Trust in early 2013.

GHAGHOO

The Ghaghoo diamond mine in Botswana is currently being developed by the Company's wholly-owned subsidiary, Gem Diamonds Botswana, which holds a 25 year mining licence. 'Ghaghoo' is the name of a locally abundant camel thorn acacia tree, and is the name historically used by locals to refer to the area, before geological exploration teams arrived over 30 years ago.

The Ghaghoo Underground Project is currently underway with Phase 1 development which is intended to provide confirmation of diamond prices, grade and diamond recovery characteristics to enable a more definitive way forward for Ghaghoo to be defined. Progress increased substantially during 2012, however sadly this was marred by a fatal accident where two contractor employees lost their lives. This is set out in more detail in the HSSE section of the Annual Report.

Tunnel development for the access decline commenced in the fourth quarter of 2011 and will reach a depth of approximately 150 metres below surface from whence production will commence. The first 70 metres of vertical depth is through Kalahari Sand and an Open Face Tunnelling Shield is being used to advance through the sand until reaching basalt. From this point on, conventional drill and blast techniques will be used to tunnel down to the 150 metre level and develop into the kimberlite ore-body. Sub-level caving will then be used as the production method which will ramp up to a capacity of approximately 720 000 tonnes per annum.

Difficulties were encountered while tunnelling through the sand and a number of unexpected areas of very hard calcrete have also been encountered. This caused a change to the tunnelling procedure, and drilling and blasting had to be introduced. In conjunction with the accident mentioned above, these events have resulted in a significant delay to the access decline's progress. After reviewing the expected time-line going forward and taking into account what is likely to be slower than planned progress in the remainder of the sand tunnel, the commencement of Phase 1 production has been moved out to mid-2014 from the original planned date of mid-2013.

As at 31 December 2012, the sand portion of the access decline had reached a depth of 43 metres or 218 metres of decline development. A further 298 metres of decline development is required to reach the basalt interface.

Pre-project preparation, including surface works for the commencement of sinking the ventilation shaft is well progressed and it is planned that work on this will commence after the completion of the sand portion of the access decline.

Construction of the treatment plant progressed well throughout the year and was substantially complete at year end. An autogenous grinding mill has been installed and is in the process of being commissioned. The autogenous milling process is expected to improve diamond liberation through a finer grind compared to conventional milling, which therefore increases the recovered grade. This will have a positive effect on revenue and is one of the key result areas for Phase 1 of the project.

The camp-site infrastructure was completed during 2012 and installation of on-site power generation completed which will be used throughout Phase 1. A number of bore-holes have been drilled which will supply water for the processing plant while additional ground-water from the underground workings is expected to supplement bore-hole capacity. Currently, the amount of water being pumped from the boreholes is exceeding expected capacity.

During 2012, US$32.7 million was spent on the project. Due to the delays described above, the total Phase 1 capital budget has been increased to US$96 million from the original US$85 million.

HSSE

The development of the Ghaghoo HSSE system remains ongoing as construction and operational activities expand. The Company has made great strides with its social and community engagement programmes in Botswana, with a focused and comprehensive framework in place to guide future initiatives. The Company successfully completed a community water supply programme for two settlements in the Central Kalahari Game Reserve and is currently assessing options to supply a further two communities with drinking water. At year end, 30% of the Company's employees were recruited from the Project Affected Communities.

Tragically, two fatalities occurred at the operation in a fall of ground incident in May 2012. Extensive remedial actions were implemented in the access decline before mining resumed in September. An additional two Lost Time Injuries were recorded during the year. Zero major and/or significant environmental incidents were recorded in the reporting period.

As a priority, Gem Diamonds is focused on minimising all negative impacts as far as possible and working towards ensuring the best interests of its employees, affected communities and the environment.

2013 ONWARDS

Work will continue on the access decline development with subsequent access to the ore-body to follow. Activities related to the sinking of a ventilation shaft for the underground mine are underway. The remainder of the processing plant will be completed and commissioned. Studies are continuing to asses various long-term mining and processing scenarios which depending on the outcome of Phase 1 and the expected economic outlook will determine the next stage of the Ghaghoo Project.

During 2013, US$40.2 million of the capital budget remains to be spent.

GEM DIAMONDS SALES, MARKETING AND MANUFACTURING

Gem Diamonds' marketing arm was formed in 2010 and is responsible for designing and implementing the sales and marketing and manufacturing strategies as defined by the Group and subsidiary boards. Gem Diamonds maximises revenue from actively marketing its rough and polished diamonds through a combination of channels, including tenders, auctions, direct sales, off-take arrangements and partnerships. In May 2012, Gem Diamonds established a high tech analytical and manufacturing capability in Antwerp as part of the strategic objective to increase revenue for its rough diamonds and access additional margins further along the diamond pipeline.

SALES AND MARKETING

The Group's rough diamond production is marketed primarily in Antwerp through the use of electronic sales (eSales) technology platforms (eTenders and eAuctions) that are designed to enhance engagement with customers more frequently, dynamically and transparently. This helps ensure the achievement of fair market-driven prices for the Group's diamond production. Polished diamonds are sold directly to clients.

The Letšeng diamond production is sold on eTender and is marketed by Gem Diamonds Marketing Services BVBA, a wholly-owned Group subsidiary based in Antwerp, Belgium.

The Kimberley Diamonds ("Kimberley") commercial diamond production was marketed through an outsourced service provider via eAuctions in Antwerp and Kimberley's higher value qualifying fancy yellow diamond production was sold to Tiffany & Co. through the Life of Mine off-take agreement.

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

MANUFACTURING

The Group continued to invest in and build its manufacturing expertise and capacity during 2012. A high tech diamond analysis and manufacturing operation focusing on large, top quality diamonds was established in Antwerp in the second quarter of 2012. The Group also commenced the establishment of an operation in Mauritius in the second half of 2012, which will see the deployment of the Calibrated laser cutting technology. The analytical and manufacturing capability, and the polished sales and partnering arrangements provide the Group with a more complete understanding of the value of the Letšeng high end production as well as access to margins beyond the mine gate.

Continuing the Company's stated strategy to access margin further downstream by cutting and polishing diamonds and/ or partnering on select diamonds, for the full year 2012, a total of 946 (1 624 carats in 2011) were extracted at a rough market value of US$31.6 million (US$68.6 million in 2011). Of the diamonds extracted for manufacture, US$10.4 million (US$1.2 million in 2011) remains on hand in inventory at year end and is unrecognised in revenue for the Group in 2012. Despite the volatile and challenging trading conditions experienced during 2012 and the lower volume of diamonds manufactured in 2012, the overall uplift achieved on those goods manufactured and sold was US$2.8 million.

OTHER ASSETS

Due to the current global market conditions and the resulting impact on diamond prices, Gem Diamonds formally withdrew from the Chiri project in Angola at the end of November 2012.

Since its inception, a total of US$14.8 million has been spent at Chiri as at 31 December 2012. Following the decision to withdraw from Angola, this amount has been written off. Of the total US$14.8 million spent at Chiri, US$5.6 million was advanced as a loan to the project partner and is subject to a continuing right of repayment should the project go ahead at any time in the future (irrespective of Gem Diamonds' involvement). The write-off of this asset has been disclosed as an exceptional item due to its non-recurring nature.

GROUP FINANCIAL PERFORMANCE

2012 was a difficult year in the diamond market with global market conditions impacting diamond revenue. The Group reports* revenue of US$202.1 million, underlying EBITDA of US$65.5 million, and profit for the year before exceptional items of US$32.6 million. The disposal of the Kimberley Diamonds operation was concluded with effect on 31 December 2012. Notwithstanding the difficult trading conditions, the Group generated positive earnings of 12 US cents before exceptional items.

Revenue

US$202.1m

(US$ millions)	**12 months ended 31 December 2012 Before exceptional items**	**Exceptional items**	**12 months ended 31 December 2012 Total**	12 months* ended 31 December 2011
Revenue	202.1		202.1	306.1
Cost of sales[1]	(103.3)		(103.3)	(97.8)
Royalty and selling costs	(19.1)		(19.1)	(26.5)
Corporate expenses	(14.2)		(14.2)	(15.3)
Underlying EBITDA	65.5		65.5	166.5
Depreciation, mining asset amortisation and waste amortisation	(18.6)		(18.6)	(21.6)
Share-based payments	(2.3)		(2.3)	(1.3)
Impairments		(16.2)	(16.2)	-
Other income[2]	1.3		1.3	-
Foreign exchange gain	3.8		3.8	6.8
Net finance income	1.3		1.3	2.1
Profit before tax	51.0	(16.2)	34.7	152.6
Income tax expense	(18.4)		(18.4)	(52.9)
Profit for the year from continuing operations	32.6	(16.2)	16.3	99.7
(Loss)/profit from discontinued operations		(70.3)	(70.3)	6.2
Recycling of foreign currency translation reserve on disposal of subsidiary		(48.4)	(48.4)	
(Loss)/profit for the year	32.6	(134.9)	(102.3)	105.9
Non-controlling interests	(15.5)		(15.5)	(38.2)
Attributable profit/(loss)	17.1		(117.9)	61.5
Earnings per share (US cents)	12.4		(85.0)	49.0
Earnings per share – continuing operations (US cents)			12.4	44.0

* The results of the Kimberley Diamond operation have been included in Discontinued Operations and the prior period's figures have been restated for the reclassification impact of accounting for discontinued operations.

[1] Excluding depreciation, mining asset and waste amortisation.

[2] Included in other income is the gain on revaluation of mark to market financial instruments amounting to US$1.2 million.

As a result of the disposal of the Ellendale mine, the Group's results are reported excluding the Kimberley Diamonds' operation as these are now disclosed as part of discontinued operations. The comparative results have been restated to exclude Kimberley Diamonds in accordance with IFRS.

FINANCIAL PERFORMANCE (BEFORE EXCEPTIONAL ITEMS)

Revenue was generated primarily from the sale of rough diamonds recovered at the Letšeng mine. In addition, the sale and marketing division has contributed to Group profitability through the management of the manufacturing process and downstream initiative, which has resulted in Letšeng generating US$2.8 million in additional revenue. Royalties and selling costs of US$19.1 million mainly comprise mineral extraction costs paid to the Lesotho Revenue Authority of 8% on the sale of diamonds and diamond marketing related expenses. The internal sales and marketing structure formed by the Group in late 2010, has resulted in a reduction in Letšeng's selling costs from 2.5%, to 1.5%. As a result of managing the sales and marketing internally, the Group underlying EBITDA in 2012 is improved by US$3.6 million generated through reduced selling and marketing costs and a strong contribution from that division.

Cost of sales for the period was US$103.3 million before non-cash costs of depreciation of US$16.0 million and amortisation on mining assets of US$2.6 million.

Underlying EBITDA for the year was US$65.5 million, down from the prior year by US$101.0 million from US$166.5 million. This is predominately driven by the lower revenue achieved by the Group which reduced by US$104.0 million from 2011. This is represented by the average US$ per carat achieved at Letšeng of US$1 932 for 2012, compared to US$2 776 in 2011. Profit attributable to shareholders for the year before exceptional items was US$17.1 million, equating to 12 US cents per share on a weighted average number of shares in issue of 138 million. The Group incurred an overall attributable loss of US$117.9 million post the impact of exceptional items, including discontinued operations resulting in a loss per share of 85 US cents per share.

Corporate expenses relate to central costs incurred by the Company and its services subsidiary, Gem Diamond Technical Services. Corporate expenses were US$14.2 million, positively impacted by the stronger US dollar during the period (a large portion of corporate costs are in South African rand), and exclude one-off project costs of US$1.6 million resulting in total corporate costs of US$15.8 million in 2012. Corporate costs do not include the positive financial contribution generated by the Group from the implementation of the sales and marketing structure noted above.

The Lesotho loti (pegged to the South African rand) weakened significantly during the latter part of 2011. This weakened rate together with a further weakening in the latter part of 2012 resulted in the average rate for 2012 being 13% weaker than the average in 2011. The Australian dollar has maintained its strong trading levels during the year resulting in a strong average local currency level similar to that of the prior year.

The following table details the relative exchange rates for 2012 compared to 2011:

	FY 2012	H2 2012	H1 2012	FY 2011	Variance FY 2012 to FY 2011
Lesotho loti per US$1.00					
Average exchange rate for the year/period	8.21	8.48	7.94	7.26	13%
Year/period end exchange rate	8.48	8.78	8.18	8.07	5%
Australian dollar per US$1.00					
Average exchange rate for the year/period	0.97	0.97	0.97	0.97	0%
Year/period end exchange rate	0.96	0.94	0.98	0.98	2%

EXCEPTIONAL ITEMS

On 30 January 2013, the Company concluded the sale of its 100% interest in the Ellendale Mine through the disposal of its wholly owned subsidiary, Kimberley Diamond Company NL, to Goodrich Resources Limited, for a consideration of US$15.4 million, effective as at 31 December 2012. Up until the date of the disposal, Kimberley Diamonds incurred a trading loss in 2012 of US$6.6 million. As a result of the disposal of the operation, an additional loss of US$63.7 million was incurred being the fair value adjustment to bring the carrying value of the operation in line with its fair value of the total consideration of US$14.2 million (net of costs to sell). This consideration receivable has been disclosed in other assets on the Balance Sheet. Due to currency fluctuations of the Australian Dollar since the Groups investment into Kimberley Diamonds up until the disposal, the Group incurred a loss of US$48.4 million which represents recycling of foreign currency translation reserve as a result of the disposal.

Gem Diamonds formally withdrew from the Chiri project in Angola at the end of November 2012 due to the current global market conditions and the resulting impact on diamond prices. Since its inception, a total of US$14.5 million has been spent at Chiri as at 31 December 2012. Following the decision to withdraw from Angola, this amount has been written off. Of the total US$14.8 million spent at Chiri, US$5.6 million was advanced as a loan to the project partner and is subject to a continuing right of repayment should the project go ahead at any time in the future (irrespective of Gem Diamonds' involvement).

Following the review of the current Project Kholo in light of the existing and expected global economic outlook, project was scaled back with a focus towards a lower, more capital efficient project. As a result an amount of US$1.4m of the current project costs incurred were considered impaired as they could not be used in the revised project plans.

These items have all been disclosed as Exceptional Items separately in the Income Statement and amount to a total of US$134.9 million impacting overall earnings per share by 97 US cents.

SHARE-BASED PAYMENTS

Share-based payment costs for the year amount to US$2.3 million, comprising the allocation of the share option award in 2010 which expired in 2012 and for which no vesting took place, and the share option award in 2011 which expires in 2014. On 20 March 2012, the Company announced 1.3 million share options were awarded to Directors and senior employees. On 11 September 2012, a further 0.9 million share options were awarded to senior employees, other than Directors. The share-based payment cost associated with these new awards has impacted the current year's charge by US$1.2 million.

FOREX

Foreign exchange gains relate to gains and losses on the conversion of US dollar revenue into local currency at Letšeng, gains and losses on exchange rate fluctuations on Sterling denominated cash held by the Company and realised hedges entered into by the Group during the period.

NET FINANCE INCOME

Net finance income comprises the net of interest received of US$2.6 million, predominantly generated on surplus cash from the Letšeng operation, against US$1.3 million charged to the Income Statement, representing the impact of unwinding the current environmental provisions.

TAX

The effective tax rate in the year for the Group is 53.0% from continuing operations, above the UK statutory tax rate of 24.5%. The increase over the statutory rate is predominately driven by the dividends declared at Letšeng during the year which result in a 10% withholding tax payable in Lesotho. The tax rate of the Group is driven by tax of 25% on profits generated by Letšeng Diamonds, withholding tax of 10% on dividends, tax impact on exceptional items and deferred tax assets not recognised on losses incurred in non-trading operations.

NON-CONTROLLING INTEREST

Non-controlling interest represents 30% of the profits in Letšeng Diamonds, which is attributable to the Company's partner, the Government of the Kingdom of Lesotho.

CASH AND DEBT

The Group has US$67.8 million (net of facility draw down at Letšeng of US$2.9 million) cash on hand (of which US$62.8 million is attributable and US$0.2 million is restricted).

Group cash was supplemented by a net cash inflow generated from operations for the year of US$143.7 million. Investments in property, plant and equipment amounted to US$165.6 million. The largest component of this investment was US$96.6 million, incurred in waste stripping at both mining operations. For Letšeng US$22.8 million of plant and equipment investment relates to infrastructure costs associated with the Life of Mine extension and initial costs relating to the expansion project and associated infrastructure. For Kimberley Diamonds US$9.7 million relates to infrastructure costs associated with additional slimes capacity, modifications to the primary plant feed section of the processing plant. For Ghaghoo US$32.4 million relates to the development of the underground mine in Phase 1.

During the year total dividends declared by Letšeng was US$31.0 million, which resulted in a net cashflow of US$19.5 million to Gem Diamonds and a cash outflow from the Group as a result of withholding taxes, of US$2.2 million and payments of the Government of Lesotho's portion of the dividend of US$8.8 million . As at 31 December 2012 US$2.9 million of the Letšeng facility was drawn down (this amount was repaid in full in January 2013).

In addition to the M250 million (US$29.5 million) 3-year unsecured revolving credit facility at Letšeng concluded in late 2011, Gem Diamonds has concluded and signed a US$20 million 3-year unsecured revolving credit facility with Nedbank Capital (a division of Nedbank Ltd), which is available for draw-down. As at the date of this report, the Group now has US$50.0 million of working capital facility available.

EVENTS SUBSEQUENT TO THE YEAR END

In January 2013, the Company concluded its facility agreement with Nedbank Capital. The facility is an unsecured, US$20.0 million, 3 year working capital revolving facility and is available for draw down.

On 31 January 2013, the Group concluded the sale of its 100% interest in the Ellendale Mine (through the sale of a wholly owned subsidiary, Kimberley Diamond Company NL ("Kimberley Diamonds")) to ASX listed company Goodrich Resources Limited ("Goodrich") effective 31 December 2012.

No other fact or circumstance has taken place during the period covered by the financial statements and up to the date of this report which in our opinion, is of significance in assessing the state of the Group's affairs.

GOVERNANCE

Gem Diamonds is an independent company which finances its own operations via a decentralised corporate model. It does not rely upon any financial support from the Government of any country in which it operates and complies with, and benefits from, as appropriate and legitimate, all legal and regulatory requirements to operate.

No actions relating to anti-competitive behaviour, anti-trust and/or monopoly practices have been taken against Gem Diamonds.

It is now almost 12 years since the Kimberley Process was introduced to the diamond industry. The process has grown in reputation and has contributed to the virtual eradication of the trade in conflict diamonds. Gem Diamonds is firmly committed to the principles of the Kimberley Process and all diamonds sold by the Group are Kimberley Process certified.

PRINCIPLE RISKS

Risks to the business: The Group's operational and growth performance is influenced and impacted by a number of risks. Although many of these are beyond the control of the Group, a formal risk management process exists to assist in identifying and reviewing potential risks. Mitigating plans are formulated and reviewed regularly to gain an understanding of their effectiveness and progress. The Group is focused on continuously analysing and assessing the risks it faces and improving the risk management process accordingly. The following key risks have been identified by the Group. It is by no means an exhaustive list and may change over a period of time, as the impact and likelihood of the risks is assessed as part of the risk management process.

MARKET RISKS PERTINENT TO THE GROUP

Commentary	Mitigation
The period and stability of the recovery of the financial markets and the impact on consumer preferences post the 2008 global economic crisis impacts the Group and the industry as a whole. The further down turn in the diamond market in late 2011 emphasises the volatility and uncertainty in the recovery periods. This potentially compounds the existing short term imbalance between demand and supply and the impact that this has on the diamond pipeline. Diamond prices remain volatile and sensitive to market uncertainties which have a direct impact on cash flows.	A change in consumer preferences away from diamonds due to negative sentiment towards diamonds and/or diamond mining is a continuing risk. Although the Group cannot materially influence the situation, the market conditions are continually monitored to identify current trends that will pose a threat or create an opportunity for the Group. The Group has flexibility to reassess its capital projects in light of current market conditions to preserve cash balances on its balance sheet.

OPERATIONAL RISKS PERTINENT TO THE GROUP

Commentary	Mitigation
Mineral resource risk The Group's ability to operate profitably in the medium to long term depends heavily on knowledge of the Group's mineral resource, which influences the operational mine plans and the generation	Various bulk sampling programmes combined with geological mapping and modelling methods significantly improve the Group's understanding

of sufficient margins.	of the mineral resources and assist in mining the existing mineral resources profitably.
A major production interruption at Letšeng Diamonds The Group may experience material mine and/or plant shutdowns or periods of decreased production due to a number of different events. Any such events could negatively affect the Group's operations and impact both profitability and cashflows.	The continual review of the likelihood of possible different events and ensuring that the appropriate management controls, processes and business continuity plans are in place to mitigate this risk.
Health, safety, social and environmental responsibility related risks The risk that a major health, safety, social or environmental incident may occur within the Group is inherent in mining operations.	The Group has reviewed and published policies in this regard and significant resources have been allocated to continuously improve, review, recommend, implement and monitor compliance throughout the various operations within the Group. Further to this, the Group engages independent third parties to review and provide assurance on processes currently in place.
Diamond theft Theft is an inherent risk factor in the diamond industry.	All the necessary precautions have been put in place in order to minimise this risk.

POLITICAL RISKS PERTINENT TO THE GROUP

Commentary	Mitigation
The political environments of the various jurisdictions that the Group operates within may adversely impact the ability to operate effectively and profitably.	The Group prioritises workforce localisation and compliance to host country legislation is a minimum compliance standard. Furthermore, changes to the political environment are closely monitored.

FINANCIAL RISKS PERTINENT TO THE GROUP

Commentary	Mitigation
Exchange Rates The Group receives its revenue in US dollars while its cost base arises in local currencies based on the various countries within which the Group operates. The weakening of the US dollar relative to these local currencies and the volatility of these currencies trading against the US dollar will impact the Group's profitability.	The impact of the exchange rates and fluctuations are closely monitored. Where appropriate and at relevant currency levels, the Group enters into exchange rate contracts to protect future cash flows.
Inability to achieve profitability and cash generation in the medium to long term The financial impact of the risks that may affect the Group may individually, or in a combination, affect the ability of the Group to operate profitably and generate positive cash flow in the medium to long term.	The various risk management processes described above provide a substantial base from which to assess, monitor and mitigate this risk.

GROWTH PLANS

Inability to achieve planned growth The Group's growth strategy is based on various studies, cost indications and future market assumptions. Although due process in assessing the viability, costs and implementation of these projects is undertaken, risks with regards to cost overruns and/or delays may impact the effective implementation thereof. The funding of these	Project governance structures have been implemented to ensure that the projects are monitored and risks managed at an appropriate level.

growth plans could also be adversely affected by negative market conditions.	Strict treasury management procedures are also in place to monitor this risk.

Consolidated Income Statement

For the year ended 31 December 2012

	Notes	**2012 US$'000 Before exceptional items**	**2012 US$'000 Exceptional items**	**2012 US$'000 Total**	2011* US$'000 Before exceptional items	2011* US$'000 Exceptional items	2011* US$'000 Total
Revenue	2	**202 118**	**-**	**202 118**	306 142	-	306 142
Cost of sales		**(120 478)**	**-**	**(120 478)**	(117 410)	-	(116 550)
Gross profit		**81 640**	**-**	**81 640**	188 432	-	189 592
Other operating income	3	**1 271**	**-**	**1 271**	40	-	40
Royalties and selling costs		**(19 142)**	**-**	**(19 142)**	(26 527)	-	(26 527)
Corporate expenses		**(15 629)**	**-**	**(15 629)**	(17 291)	-	(17 291)
Share-based payments	31	**(2 281)**	**-**	**(2 281)**	(1 310)	-	(1 310)
Foreign exchange gain	3	**3 815**	**-**	**3 815**	6 882	-	6 882
Impairment of assets	4	**-**	**(16 241)**	**(16 241)**	-	-	-
Operating profit	3	**49 674**	**(16 241)**	**33 433**	150 526	-	150 526
Net finance income	5	**1 312**	**-**	**1 312**	2 108	-	2 108
Finance income		**2 564**	**-**	**2 564**	3 157	-	3 157
Finance costs		**(1 252)**	**-**	**(1 252)**	(1 049)	-	(1 049)
Profit before tax		**50 986**	**(16 241)**	**34 745**	152 634	-	152 634
Income tax expense	6	**(18 407)**	**-**	**(18 407)**	(52 946)	-	(52 946)
Profit for the year		**32 579**	**(16 241)**	**16 338**	99 688	-	99 688
(Loss)/profit after tax for the year from discontinued operations	8	-	(118 686)	(118 686)	-	6 228	6 228
(Loss)/profit after tax		-	(70 297)	(70 297)	-	6 228	6 228
Recycling of foreign currency translation reserve on discontinued operation	8	-	(48 389)	(48 389)	-	-	-
(Loss)/profit for the year		**32 579**	**(134 927)**	**(102 348)**	99 688	6 228	105 916
Attributable to:							
Non-controlling interests		**15 507**	**-**	**15 507**	38 247	-	38 247
Equity holders of parent		**17 072**	**(134 927)**	**(117 855)**	61 441	6 228	67 669
– Profit for the year		**17 072**	**(16 241)**	**831**	61 441	-	61 441
– Profit for the year from discontinued operations		**-**	**(118 686)**	**(118 686)**	-	6 228	6 228
Earnings per share (cents)	10						
– Basic earnings per share		**12**	(86)	(74)	44	5	49
– Diluted earnings per share **		**12**	(85)	(73)	44	4	48

* The prior year figures have been restated for the reclassification impact of accounting for discontinued operations (Refer Note 8, Discontinued Operations).

** Options are dilutive at the profit from continuing operations level and thus in accordance with IAS33 have been treated as dilutive for the purpose of dilutive earnings per share. The diluted loss per share is lower than basic loss per share because of the losses on discontinued operations.

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2012

	Notes	2012 US$'000	2011 US$'000
(Loss)/profit for the year		**(102 348)**	105 916
Loss on valuation of available-for-sale financial asset		**(204)**	(702)
Exchange differences on translation of foreign operations		**(23 237)**	(70 430)
Recycling of exchange differences on discontinued operation	8	**48 389**	-
Impairment of available-for-sale financial asset		**906**	-
Other comprehensive profit/(loss) for the year		**25 854**	(71 132)
Total comprehensive (loss)/income for the year		**(76 494)**	34 784
Attributable to:			
Equity holders of the parent		**(89 378)**	16 042
Non-controlling interests		**12 884**	18 742
Total comprehensive (loss)/income for the year		**(76 494)**	34 784

Consolidated Statement of Financial Position
As of 31 December 2012

	Notes	2012 US$'000	2011 US$'000
Assets			
Non-current assets			
Property, plant and equipment	11	**408 605**	424 937
Investment property	12	**616**	617
Intangible assets	13	**24 973**	25 529
Other financial assets	15	**14**	14 587
		434 208	465 670
Current assets			
Inventories	17	**22 652**	39 222
Receivables	18	**7 273**	10 145
Other financial assets	15	**16 444**	9
Cash and short term deposits	19	**70 842**	158 750
		117 211	208 126
Total assets		**551 419**	673 796
Equity and liabilities			
Equity attributable to equity holders of the parent			
Issued capital	20	**1 383**	1 383
Share premium		**885 648**	885 648
Own shares[1]		**(1)**	(1)
Other reserves	20	**(17 130)**	(48 720)
Accumulated losses		**(539 261)**	(421 406)
		330 639	416 904
Non-controlling interests		**70 993**	66 879
Total equity		**401 632**	483 783
Non-current liabilities			
Trade and other payables	21	**1 007**	667
Provisions	22	**29 496**	43 201
Deferred tax liabilities	16	**71 277**	68 061
		101 780	111 929
Current liabilities			
Interest bearing loans and borrowings	24	**2 947**	-

Trade and other payables	21	**43 775**	57 098
Income tax payable		**1 285**	20 986
		48 007	78 084
Total liabilities		**149 787**	190 013
Total equity and liabilities		**551 419**	673 796

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

Approved by the Board of Directors on 11 March 2013 and signed on their behalf by:

C T Elphick
Director

K M Burford
Director

Consolidated Statement of Changes in Equity

				Attributable to the equity holders of the parent				
	Issued capital[2]	Share premium[2]	Own shares[1]	Other reserves[2]	Accumulated losses)/ retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2012	**1 383**	**885 648**	**(1)**	**(48 720)**	**(421 406)**	**416 904**	**66 879**	**483 783**
Profit for the year	**–**	**–**	**–**	**–**	**(117 855)**	**(117 855)**	**15 507**	**(102 348)**
Other comprehensive income	**–**	**–**	**–**	**28 477**	**–**	**28 477**	**(2 623)**	**25 854**
Total comprehensive income	**–**	**–**	**–**	**28 477**	**(117 855)**	**(89 378)**	**12 884**	**(76 494)**
Share-based payments (Note 30)	**–**	**–**	**–**	**3 113**	**–**	**3 113**	**–**	**3 113**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**–**	**(8 770)**	**(8 770)**
Balance at 31 December 2012	**1 383**	**885 648**	**(1)**	**(17 130)**	**(539 261)**	**330 639**	**70 993**	**401 632**
Balance at 1 January 2011	1 383	885 648	(1)	1 325	(489 075)	399 280	84 791	484 071
Profit for the year	–	–	–	–	67 669	67 669	38 247	105 916
Other comprehensive income	–	–	–	(51 627)	–	(51 627)	(19 505)	(71 132)
Total comprehensive income	–	–	–	(51 627)	67 669	16 042	18 742	34 784
Share-based payments (Note 30)	–	–	–	1 582	–	1 582	–	1 582
Dividends paid	–	–	–	–	–	–	(36 654)	(36 654)
Balance at 31 December 2011	1 383	885 648	(1)	(48 720)	(421 406)	416 904	66 879	483 783

1 Being shares held by Gem Diamonds Limited Employee Share Trust.

2 Refer Note 20, Issued Capital and Reserves for further detail.

Consolidated Statement of Cashflows

As at 31 December 2012

	Notes	2012 US$'000	2011 US$'000
Cashflows from operating activities		**90 199**	203 288
Cash generated by operations	23.1	**143 699**	216 680
Working capital adjustments	23.2	**(25 084)**	3 994
		118 615	220 674
Finance income	23.1	**3 109**	3 766
Finance cost		**(213)**	(36)
Income tax paid		**(31 312)**	(21 116)
Cashflows used in investing activities		**(170 883)**	(125 030)
Purchase of property, plant and equipment		**(69 000)**	(44 913)
Waste cost capitalised		**(96 617)**	(87 314)
Proceeds from sale of property, plant and equipment		**1 144**	2 637
Acquisition of business combination	9	**(786)**	–
Purchase of other financial assets		**(5 015)**	(340)
Cash (disposed of)/received from disposal of subsidiary	23.3	**(609)**	4 900
Cashflows used in financing activities		**(5 728)**	(36 654)
Financial liabilities raised		**3 042**	–
Dividends paid to non-controlling interests	26	**(8 770)**	(36 654)
Net (decrease)/increase in cash and cash equivalents		**(86 412)**	41 604
Cash and cash equivalents at the beginning of the year – continuing operations		**158 750**	129 849
Cash and cash equivalents at the beginning of the year – discontinued operations		**–**	78

Foreign exchange differences		**(1 496)**	(12 781)
Cash and cash equivalents at end of the year held with banks		**70 681**	157 165
Restricted cash at end of the year	19	**161**	1 585
Cash and cash equivalents at end of the year	19	**70 842**	158 750

Notes to the Annual Financial Statements

For the year ended 31 December 2012

1. Notes to the financial statements

1.1 Corporate information

1.1.1 Incorporation

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

These financial statements were authorised for issue by the Board on 11 March 2013.

1.1.2 Operational information

The Company has the following investments directly in subsidiaries at 31 December 2012:

Name of company	Share holding	Cost of investment[1]	Country of incorporation	Nature of business
Subsidiaries				
Gem Diamond Technical Services (Proprietary) Limited[2]	100%	US$17	RSA	Technical, financial and management consulting services.
Gem Equity Group Limited[2]**	100%	US$52 277	BVI	Dormant investment company holding 1% in Gem Diamonds Botswana (Proprietary) Limited, 2% in Gem Diamonds Marketing Services BVBA, 1% in Baobab Technologies BVBA and 0.1% in Calibrated Gem Botswana (Proprietary) Limited.
Letšeng Diamonds (Proprietary) Limited[2]	70%	US$126 000 303	Lesotho	Diamond mining and holder of mining rights.
Gem Diamonds Botswana (Proprietary) Limited[2]	100%	US$27 752 144	Botswana	Diamond mining; evaluation and development; and holder of mining licences and concessions.
BDI Mining Corp[2]	100%	US$82 064 783	BVI	Dormant investment company.
Gem Diamonds Australia Holdings[2] [1]*	100%	US$293 960 521	Australia	Investment company holding 100% in Kimberley Diamonds Company NL.
Gem Diamonds Investments Limited[2]**	100%	US$17 531 316	UK	Investment holding company holding 100% in each of Gem Diamonds Technology (Mauritius) Limited, Gem Diamonds Technology DMCC and Calibrated Diamonds Investment Holdings (Proprietary) Limited; 99.9% in Calibrated Gem Botswana (Proprietary) Limited ;99% in Baobab Technologies BVBA and 98% in Gem Diamonds Marketing Services BVBA.

[1] The cost of investment represents original cost of investments at acquisition dates.

[2] No change in the shareholding since the prior year.

* The Group entered into a sale agreement on 30 November 2012 for the sale of its Australian mining activities, the Ellendale mine (Kimberley Diamonds Company NL), with an effective date of 31 December 2012. As a result of the terms of the agreement entered into, the Group lost control of Kimberley Diamonds Company NL.As a result, the trading results of the operation have been classified as part of discontinued operations and the net assets have been derecognised and an investment was recorded as an available for sale investment at fair value.

**On May 2012 Baobab Technologies BVBA was formed, a 100% held company within Gem Diamonds Investment Limited.

1.1.3 Segment information

For management purposes, the Group is organised into geographical units as the Group's risks and required rates of return are affected predominantly by differences in the geographical regions of the mines and areas in which the Group operates. Other regions where no direct mining activities take place (includes the remaining dormant operations of the Australian region post the sale of the Australian mining operations) are organised into geographical regions in the areas where the operations are managed. The main geographical regions are:

Lesotho (Mining activities)

Australia (Mining activities)

Botswana (Mining activities)

Belgium (Sales, marketing and manufacturing for the sale of diamonds in Antwerp.)

BVI, RSA and UK (Technical and administrative services)

1.1.3 Segment information continued

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. However, Group financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

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

Segment revenue is derived from mining activities and group services.

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

Year ended 31 December 2012	Lesotho (US$'000)	Botswana (US$'000)	Belgium (US$'000)	BVI, RSA and UK (US$'000)	Total Continuing operations (US$'000)	Discontinued operations (US$'000)	Total (US$'000)
Sales							
Total sales	**207 744**	**–**	**201 433**	**10 198**	**419 375**	**113 704**	**533 079**
Inter-segment sales	**(205 492)**	**–**	**(1 729)**	**(10 036)**	**(217 257)**	**–**	**(217 257)**
Sales to external customers	**2 252**	**–**	**199 704**	**162**	**202 118**	**113 704**	**315 822**
Results							
Depreciation and amortisation	**44 618**		**350**	**1 035**	**46 003**	**49 530**	**95 533**
Depreciation and mining asset amortisation	**17 651**	**–**	**350**	**1 035**	**19 036**	**18 278**	**37 314**
Waste amortisation	**26 967**	**–**	**–**	**–**	**26 967**	**31 252**	**58 219**
Share-based equity transactions	**305**	**–**	**–**	**1 976**	**2 281**	**650**	**2 931**
Impairment	**1 428**	**–**	**–**	**14 813**	**16 241**	**4 121**	**20 362**
Segment operating profit/(loss)	**67 683**	**(246)**	**13**	**(34 017)**	**33 433**	**(6 107)**	**27 326**
Net finance income/(cost)					**1 312**	**(493)**	**819**
Profit before tax from operations					**34 745**	**(6 600)**	**28 145**
Income tax expense					**(18 407)**	**–**	**(18 407)**
Re-measurement to fair value					**–**	**(63 697)**	**(63 697)**
Recycling of foreign currency translation reserve on disposal of subsidiary					**–**	**(48 389)**	**(48 389)**
Profit/(loss) for the year					**16 338**	**(118 686)**	**(102 348**
Segment assets	**372 778**	**100 490**	**15 379**	**62 772**	**551 419**	**–**	**551 419**
Segment liabilities	**51 042**	**6 702**	**2 769**	**17 997**	**78 510**	**–**	**78 510**
Other segment information							
Capital expenditure							
– Property, plant and equipment*	**31 677**	**36 731**	**2 124**	**1 687**	**72 219**	**15 457**	**87 676**
– Waste cost capitalised	**60 559**	**–**	**–**	**–**	**60 559**	**36 058**	**96 617**
Total capital expenditure	**92 236**	**36 731**	**2 124**	**1 687**	**132 778**	**51 515**	**184 293**

*Capital expenditure includes movements in rehabilitation assets relating to changes in rehabilitation estimates

Included in total annual revenue is revenue from a customer which amounted to US$88.7 million arising from sales reported in the Australian segment.

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

Total sales for the period are lower than that in the prior period as a result of the current market conditions and lower diamonds prices at both the Lesotho and Australian operations.

Year ended 31 December 2011	Lesotho (US$'000)	Botswana (US$'000)	Belgium (US$'000)	BVI, RSA and UK (US$'000)	Total continuing operations (US$'000)	Discontinued operations (US$'000)	Total (US$'000)
Sales							
Total sales	300 587	–	300 244	13 968	614 799	89 432	704 231
Inter-segment sales	(297 027)	–	(58)	(11 572)	(308 657)	–	(308 657)
Sales to external customers	3 560	–	300 186	2 396	306 142	89 432	395 574
Results							
Depreciation and amortisation	40 594	–	279	1 735	42 608	27 382	69 990
Depreciation and mining asset amortisation	21 970	–	279	1 735	23 984	8 720	32 704
Waste amortisation	18 624	–	–	–	18 624	18 662	37 286
Share-based equity transactions	129	–	–	1 181	1 310	145	1 455
Resource extension development costs	–	–	–	–	–	1 767	1 767
Segment operating profit/(loss)	167 442	161	1 285	(18 362)	150 526	6 198	156 724
Net finance income/(cost)					2 108	(278)	1 830
Share of profit of associate					–	308	308
Profit before tax from continuing operations					152 634	6 228	158 862
Income tax expense					(52 946)	–	(52 946)
Profit for the period					99 688	6 228	105 916
Segment assets	371 503	66 749	3 966	113 682	555 900	117 896	673 796
Segment liabilities	54 620	2 952	2 324	3 042	62 938	59 014	121 952

* Capital expenditure includes movements in rehabilitation assets relating to changes in rehabilitation estimates

Included in the prior year annual revenue, is revenue from two customers which amount to US$134.4 million arising from sales reported in the Lesotho, Belgium and Australian segments.

Other segment information							
Capital expenditure*							
– Property, plant and equipment	18 714	21 791	11	1 091	41 607	19 738	61 345
– Waste cost capitalised	56 486	–	–	–	56 486	30 828	87 314
Total capital expenditure	75 200	21 791	11	1 091	98 093	50 566	148 659

*Capital expenditure includes movements in rehabilitation assets relating to changes in rehabilitation estimates

Segment liabilities do not include deferred tax liabilities of US$68.1 million.

1.2 Summary of significant accounting policies

1.2.1 Basis of presentation

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS). These financial statements have been prepared under the historical cost basis, except as modified by the revaluation for available-for-sale financial assets through other comprehensive income and derivative financial instruments at fair value through profit or loss. The accounting policies have been consistently applied except for the adoption of the new standards and interpretations detailed below.

The functional currency of the Company and certain of its subsidiaries is the US dollar, which is the currency of the primary economic environment in which the entities operate. All amounts are expressed in US dollars. The financial statements of subsidiaries whose functional and reporting currency is in currencies other than the US dollar have been converted into US dollars on the basis as set out in Note 1.2.14. 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 1.2.25. Critical accounting estimates and judgements.

The Group has also adopted the following standards and interpretations from 1 January 2012:

IFRS 7 Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements (Amendment)

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The Group does not have any assets with these characteristics so there has been no effect on the presentation of its financial statements.

IAS 12 Income Taxes – Deferred Taxes: Recovery of Underlying Assets (Amendment)

The IASB has issued an amendment to IAS 12 that introduces a rebuttable presumption that deferred tax on investment properties measured at fair value be recognized on a sale basis. The presumption can be rebutted if the entity applies a business model that would indicate that substantially all of the investment property will be consumed in the business, in which case an own-use basis must be adopted. The Group measures its investment property at cost and therefore this amendment had no effect on the financial position or performance of the Group.

Standards issued but not yet effective

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

Standard or Interpretation			**Effective Date***
IAS 28	Investments in Associates and Joint Ventures	The revised standard caters for joint ventures in addition to prescribing the accounting for investments in associates. The amendment has no impact on the Group.	1 January 2013
IAS 32	Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32	Clarification of the meaning of "currently has a legally enforceable right to set-off" and clarification of offsetting criteria to settlement systems. Based on the preliminary analyses performed it is not expected to have any impact on the currently held investments of the Group.	1 January 2014
IFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7	Disclosure of information about rights to set-off and related arrangements to provide information that is useful to users in evaluating the effect of netting arrangements. Based on the preliminary analyses performed this is not expected to have any impact on the currently held investments of the Group.	1 January 2013
IFRS 9	Financial Instruments: Classification and Measurement	Classification and measurement of financial assets and financial liabilities as defined in IAS 39. Measurement of fair value. Based on preliminary analyses no material impact is expected.	1 January 2015
IFRS 10, IAS 27	Consolidated Financial Statements, Separate Financial Statements	Guidance on accounting for consolidated financial statements and includes a revised definition of control. Based on the preliminary analyses performed this amendment is not expected to have any impact on the currently held investments of the Group.	1 January 2013
IFRS 11	Joint Arrangements	Joint ventures to be accounted for using the equity method therefore eliminating the proportionate consolidation of the joint venture and includes a revised definition of joint control. The application of this new standard will not impact the financial position of the Group.	1 January 2013
IFRS 12	Disclosure of Interests in Other Entities	Includes additional disclosures as well as those disclosures previously in IAS 27, IAS 28 and IAS 31.	1 January

		New disclosures are required but this is not expected to impact on the Group's financial position or performance.	2013
IFRS 13	Fair Value Measurement	Measurement of fair value. Based on preliminary analyses no material impact is expected.	1 January 2013
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	Accounting for the benefit from stripping in surface mining activity. As the Group's application is in line with IFRIC 20 the application of this new standard will not impact the financial position of the Group.	1 January 2013

* Annual periods beginning on or after.

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, Europe and Australia. These risks include matters arising out of the policies of the government, economic conditions, imposition of or changes to taxes and regulations, foreign exchange rate fluctuations and the enforceability of contract rights.

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

1.2.2 Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review. The financial position of the Company, its cashflows and liquidity position are described in the Business Review on. In addition, Note 29, 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 cashflows, borrowing facilities and sensitivity analyses and considering the uncertainties described in this report either directly or by cross reference, the Directors have a reasonable expectation that the Group and the Company have adequate financial resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the annual report and accounts of the Company.

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

Refer to Note 29, Financial Risk Management for statements on the Company's objectives, policies and processes for managing its capital; details of its financial instruments and hedging activities; its exposures to market risk in relation to commodity price and foreign exchange risks; cashflow interest rate risk; credit risk and liquidity risk.

1.2.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Basis of consolidation

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. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities and is achieved through direct or indirect ownership of voting rights; currently exercisable or convertible potential voting rights; or by way of contractual agreement. 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.

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

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

1.2.4 Exploration and evaluation expenditure

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

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

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

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

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

1.2.5 Development expenditure

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

All development expenditure is monitored for indications of impairment annually.

1.2.6 Property, plant and equipment

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

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

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.

Depreciation methods, useful lives and residual values are reviewed, and adjusted if appropriate, at each balance sheet date. The following methods and useful lives were applied during the period:

Item	Method	Useful life
Mining assets	Straight line	Lesser of life of mine and period of lease
Decommissioning assets	Straight line	Lesser of life of mine and period of lease
Leasehold improvements	Straight line	Lesser of 3 years and period of lease
Plant and equipment	Straight line	3 – 10 years

Finance lease assets	Straight line	Lesser of period of lease or 5 years
Other assets	Straight line	2 – 5 years

Pre-production mine stripping costs are capitalised to development costs. Stripping costs incurred during the production phase to remove additional overburden or waste ore are deferred when they give access to future economic benefits and charged to operating costs using the expected average stripping ratio over the average life of the area being mined. The average stripping ratio is calculated as the number of tonnes of waste material expected to be removed during the life of area, per tonne of ore mined.

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

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

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

1.2.7 Investment property

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

Investment property	No depreciation is provided for due to depreciable amount being zero
Initial direct costs capitalised to investment property	5 years

1.2.8 Business combinations, goodwill and other intangible assets

Business combinations and goodwill

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

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it should not be re measured until it is finally settled within equity.

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

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

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

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

1.2.8 Business combinations, goodwill and other intangible assets continued

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

1.2.9 Other financial assets

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

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

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

Financial assets at fair value through profit or loss
This category has two sub-categories: financial assets held-for-trading, and those designated at fair value through profit or loss. Upon initial recognition, a financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held-for-trading unless they are designated as hedges. Gains and losses on investments held for trading are recognised in profit or loss. Assets in this category are classified as current assets if they are either held-for-trading or are expected to be realised within 12 months of the balance sheet date.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except those with maturities greater than 12 months after the balance sheet 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 profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cashflows, discounted at an appropriate interest rate. The amount of the provision is recognised in the income statement.

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

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

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

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

1.2.10 Impairments

Non-financial assets
Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. 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 cashflows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). Non-financial assets that were previously impaired are reviewed for possible reversal of the impairment at each reporting date.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such a reversal is recognised in the income statement. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Financial assets
The Group assesses at each balance sheet date whether a financial asset or group of financial assets are impaired.

Assets carried at amortised cost
If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cashflows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

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 profit or loss.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

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

1.2.11 Inventories

Inventories, which include rough diamonds, ore stock piles and consumables, are measured at the lower of cost and net realisable value. The amount of any write-down of inventories to net realisable value and all losses, are recognised in the period the write-down or loss occurs. Cost is determined as the average cost of production, using the ‘first-in-first-out 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.

1.2.12 Cash and cash equivalents

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

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

1.2.13 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.

1.2.14 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:

- balance sheet items are translated at the closing rate at the date of that balance sheet;
- 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);
- all resulting exchange differences are recognised as a separate component of equity.

Details of the rates applied at the respective balance sheet dates and for the income statement transactions are detailed in Note 20, Issued capital and reserves.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss. 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 balance sheet presented are translated at the closing rate at the date of that balance sheet.

1.2.15 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 re-measured at each reporting date until settlement, with the changes in fair value recognised in profit or loss.

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 balance sheet 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 balance sheet date is recognised in the income statement, with a corresponding entry in equity.

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

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

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

1.2.16 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 1.2.23. Finance costs, over the period of the borrowings, using the effective interest rate method.

Bank overdrafts are recognised at amortised cost.

Fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit and loss.

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

1.2.17 Provisions

Provisions are recognised when:

- the Group has a present legal or constructive obligation as a result of a past event;
- a reliable estimate can be made of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation, using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as finance costs.

1.2.18 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 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 cashflows, 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.

1.2.19 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 balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet 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 balance sheet 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 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. Obligations arising from royalty arrangements that do not satisfy these criteria are recognised as current provisions and disclosed as part of selling and distribution costs. The royalties incurred by the Group are considered not to meet the criteria to be treated as part of income tax.

1.2.20 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 balance sheet 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.

1.2.21 Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

(a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
(b) A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
(c) There is a change in the determination of whether fulfilment is dependent on a specific asset; or
(d) There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) and at the date of renewal or extension period for scenario (b).

Group as a lessee
Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding lease obligations, net of finance charges, are included in financial liabilities.

The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each year. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the lease. When the Group is a party to a lease where there is a contingent rental element associated within the agreement, a cost is recognised as and when the contingency materialises.

Group as a lessor
Assets leased out under operating leases are included in investment property. Rental income is recognised on a straight line basis over the lease term. Refer to Note 1.2.7 Investment property for further information on the treatment of investment property.

1.2.22 Revenue

Revenue is measured at fair value of the consideration received or receivable and comprises the fair value for the sale of goods, net of value-added tax, rebates and discounts and after eliminated sales within the Group. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as principal in all of its revenue arrangements. Revenue is recognised as follows:

Sale of goods
Sales of diamonds and other products are recognised when the significant risks and rewards of ownership have been transferred to the customer and can be measured reliably and receipt of future economic benefits is probable.

Rendering of service
Sales of services are recognised in the accounting period in which the services are rendered, and it is probable that the economic benefits associated with the transaction will flow to the entity, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Interest income
Interest income is recognised on a time-proportion basis using the effective interest rate method.

Dividends
Dividends are recognised when the amount of the dividend can be reliably measured and the Group's right to receive payment is established.

1.2.23 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.

1.2.24 Dividend distribution

Dividend distributions to the Group's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Group's shareholders.

1.2.25 Critical accounting estimates and judgements

The preparation of the consolidated financial statements requires management to make estimates and judgements and form assumptions that affect the reported amounts of the assets and liabilities, the reported revenue and costs during the periods presented therein, and the disclosure of contingent liabilities at the date of the financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future and the resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the financial results or the financial position reported in future periods are discussed below.

Life of mine
There are numerous uncertainties inherent in estimating ore reserves and the associated life of mine. Therefore the Group must make a number of assumptions in making those estimations, including assumptions as to the prices of commodities, exchange rates, production costs and recovery rates. Assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of ore reserves and may, ultimately, result in the ore reserves being restated. Where assumptions change the life of mine estimates, the associated depreciation rates, residual values, waste stripping and amortisation ratios and environmental provisions are re-assessed to take into account the revised life of mine estimate.

Exploration and evaluation expenditure
This policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether economically viable extraction operations are viable where reserves have been discovered and whether indications of impairment exist. Any such estimates and assumptions may change as new information becomes available.

Development expenditure
Judgement is applied by management in determining when a project has reached a stage at which economically recoverable reserves exist and that development may be sanctioned. Management is required to make certain estimates and assumptions similar to those described above for capitalised exploration and evaluation expenditure.

Revenue
Management has entered into arrangements to increase the revenue earned on the sale of rough diamonds. Under these arrangements, revenue is earned for the sale of the rough diamond, with an additional uplift based on the polished margin achieved. These are referred to as partnership arrangements in these financial statements. Management recognises the revenue on the sale of the rough diamond at the point at which it is sold to the third party, as there is no continuing involvement in the cutting and polishing process by management and the significant risks and rewards have passed to the third party. Judgement is applied by management in determining when additional uplift is recognised and measured with regards to rough diamonds sold into partnership arrangements. Management is required to make certain estimates and assumptions based as to when the uplift can be reliably measured.

Property, plant and equipment – recoverable amount
The calculation of the recoverable amount of an asset requires significant judgements, estimates and assumptions, including future demand, technological changes, exchange rates, interest rates and others.

Impairment of goodwill
The Group determines if goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating unit to which the goodwill relates. Recoverable amount is the higher of fair value less costs to sell and value in use. Fair value calculations require the Group to make estimates of the amount for which the cash-generating unit could be sold. Estimating the value in use requires the Group to make an estimate of the expected future cashflows from the cash-generating unit and a market related pre-tax discount rate in order to calculate the present value of those cashflows.

Impairment of assets
The Group assesses each cash generating unit annually to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long term diamond prices, discount rates, future capital requirements, exploration potential and operating performance. Fair value is determined as management's best estimate of the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. Fair value for mine assets is generally determined as the present value of estimated future cashflows arising from the continued use of the asset using assumptions that an independent market participant may take into account. Cashflows are discounted by an appropriate discount rate to determine the net present value.

Provision for restoration and rehabilitation
Significant estimates and assumptions are made in determining the amount of the restoration and rehabilitation provisions. These deal with uncertainties such as changes to the legal and regulatory framework, magnitude of possible contamination, and the timing, extent and costs of required restoration and rehabilitation activity.

Taxation
The determination of the Group's obligations and expense for taxes requires an interpretation of tax law and therefore certain assumptions and estimates are made.

Deferred waste

Management is required to make certain estimates and assumptions regarding the tonnes of waste material expected to be mined during the life of area per tonne of ore mined. The average life of area cost per tonne is calculated as the total expected costs to be incurred to mine the ore body divided by the number of tonnes expected to be mined. The average life of area stripping ratio and the average life of area cost per tonne are recalculated annually in light of additional knowledge and changes in estimates. During the current year there was a change in estimate of waste amortisation rates due to the revision of the surveying method used. This resulted in an additional US$1.9 million cost (after tax) being recognised in the income statement. It is not practicable to disclose the effect for the future periods.

Loss of control of the Australian mining activities

Judgement is applied by management in determining whether the Group lost control and if so, on what date control was lost over its Australian mining activities, the Ellendale mine (Kimberley Diamonds Company NL). The Group entered into a sale agreement on 30 November 2012, with an effective date of 31 December 2012. As a result of the terms of the agreement entered into, the Group lost control of Kimberley Diamonds Company NL.

Share based payments

Management applied judgement in determining that the share options relating to the employees of Kimberley Diamonds Company NL were cancelled in light of their leaving status being assessed as "good leavers". The costs not yet recognised in the income statement for the award have been expensed immediately.

1.2.26 Exceptional items

The Group presents as exceptional items on the face of the income statement, those material items of income and expenses which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better trends in financial performance.

2. Revenue

	2012 **US$'000**	2011* US$'000
Sale of goods	**200 700**	305 633
Rendering of services	**1 418**	509
	202 118	306 142

* The prior year figures have been restated for the reclassification impact of accounting for discontinued operations (Refer Note 8, Discontinued Operations).

Finance revenue is reflected in Note 5, Net finance income.

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

3. Operating profit

	2012 **US$'000**	2011* US$'000
Operating profit includes the following:		
Other operating income		
Profit on disposal of property, plant and equipment – continuing operations	**121**	33
Profit on disposal of property, plant and equipment – discontinued operations	**194**	–
Mark to market revaluations on forward exchange contracts	**1 191**	–
Depreciation, mining asset amortisation and waste amortisation		

Depreciation, mining asset amortisation and waste amortisation – continuing operations	**(47 098)**	(42 848)
Depreciation, mining asset amortisation and waste amortisation – discontinued operations	**(49 984)**	(27 443)
Less: Depreciation capitalised to exploration assets – continuing operations	**1 133**	268
Less: Depreciation and amortisation capitalised to inventory – continuing operations	**416**	33
	(95 533)	(69 990)
Amortisation of intangible assets – continuing operations	**(105)**	–
	(95 638)	(69 990)
Inventories		
Cost of inventories recognised as an expense	**(85 003)**	(97 821)
Foreign exchange gain	**3 815**	6 882
Operating lease expenses as a lessee		
Lease payments recognised in the income statement		
– Mine site property	**(85)**	(87)
– Equipment and service leases	**(45 210)**	(33 178)
– Contingent rental – alluvial deposits	**(7 463)**	(6 153)
– Leased premises	**(792)**	(660)
	(53 550)	(40 078)
Auditor's remuneration – Ernst &Young		
Audit fee		
– Group financial statements	**(1 021)**	(971)
– Continuing operations	**(747)**	(710)
– Discontinued operations	**(274)**	(261)
– Statutory	**(298)**	(249)
– Continuing operations	**(298)**	(249)
	(1 319)	(1 220)
Auditor's remuneration – Other		
– Statutory	**(15)**	–
– Continuing operations	(15)	–
	(15)	–

* The prior year figures have been restated for the reclassification impact of accounting for discontinued operations, unless stated otherwise (Refer Note 8, Discontinued Operations).

	2012 US$'000	2011* US$'000
Other non-audit fees – Ernst & Young		
Tax services advisory and consultancy	**(283)**	(61)
- Continuing operations	(112)	(44)
- Discontinued operations	(171)	(17)
Corporate finance services	**(143)**	
Continuing operations	(143)	–
Tax compliance services	**(16)**	(18)
- Continuing operations	(16)	(18)
Other services	**(150)**	(9)
- Continuing operations	(150)	(6)
- Discontinued operations	-	(3)
	(592)	(88)
Other non-audit fees – Other		
Other services		
– Internal audit	**(134)**	(225)
- Continuing operations	**(134)**	(225)
– Tax services advisory & consultancy	**(164)**	–
- Continuing operations	**(164)**	–

- Discontinued operations	-	–
	(298)	(225)
Employee benefits expense		
Salaries and wages[1]	**(21 124)**	(19 724)

1 Includes contributions to defined contribution plan of US$0.8million (31 December 2011: US$0.6 million).

Underlying earnings before interest, tax, depreciation and mining asset amortisation (EBITDA)

Underlying EBITDA is shown as the Directors consider this measure to be a relevant guide to the performance of the Group. The reconciliation from operating profit to underlying EBITDA is as follows:

Operating profit	**49 674**	150 526
Foreign exchange gain	**(3 815)**	(6 882)
Share-based payments	**2 281**	1 310
Other operating income	**(1 271)**	(40)
Depreciation and mining asset amortisation (excluding waste amortisation)	**18 582**	21 603
Underlying EBITDA before exceptional items	**65 451**	166 517

* The prior year figures have been restated for the reclassification impact of accounting for discontinued operations (Refer Note 8, Discontinued Operations).

Directors' remuneration

Refer to the Directors' Remuneration Report for full details of transactions with Directors.

4. Exceptional items

	2012 US$'000	2011* US$'000
Recognised in arriving at operating profit from continuing operations:		
Impairment - Chiri	**14 813**	860
Impairment – Project Kholo	**1 428**	–
	16 241	860

Impairment – Chiri

During 2007, the Company entered into a Co-operation Agreement and Option Agreement in relation to the Chiri Concession in Angola, which is a diamondiferous kimberlite. During the current year, the Company terminated its participation in the Chiri project in Angola when it became clear that the terms upon which on-going participation in this deposit could be secured, did not meet the requirements of the Company for value creation. This resulted in the total resource and development costs expended on the project to date to be written off. The write off is represented by a loan advanced to the project of US$5.6 million (December 2011: US$5.6 million), costs associated and incurred in securing the option to acquire the indirect interest of US$0.5 million (December 2011: US$0.5 million) and costs associated with the exploration and other associated assets of US$8.7 million (December 2011: US$8.4 million). These costs are not directly related to current operations and are therefore disclosed as exceptional.

Impairment – Project Kholo

During 2011, the Group approved the expansion at the Letšeng mine (Project Kholo). During the current year, Project Kholo as originally envisaged was re-evaluated and as a result certain capital expenditure incurred on items that were assessed as no longer having an enduring benefit to the operation, were written off. As the write off of these assets has arisen from circumstances other than the write off of assets at the end of their usual expected lives, this write off has been classified as exceptional.

5. Net finance income

	2012 US$'000	2011* US$'000
Finance income		
Bank deposits	**2 514**	3 140
Other	**50**	17
Total finance income	**2 564**	3 157
Finance costs		
Bank overdraft	**(123)**	(1)
Interest on debt and borrowings	**(1)**	(1)
Finance costs on unwinding of rehabilitation provision	**(1 128)**	(1 047)
Total finance costs	**(1 252)**	(1 049)
	1 312	2 108

* The prior year figures have been restated for the reclassification impact of accounting for discontinued operations (Refer Note 8, Discontinued Operations).

6. Income tax expense

	Notes	2012 US$'000	2011 US$'000
Income statement			
Current			
– Overseas		**(9 860)**	(34 347)
Withholding tax			
– Overseas		**(2 140)**	(8 636)

Deferred			
– Overseas		**(6 407)**	(9 963)
		(18 407)	(52 946)
Reconciliation of tax rate:			
Profit before taxation from continuing operations		**34 745**	152 634
(Loss)/profit before taxation from discontinued operations	8	**(118 686)**	6 228
(Loss)/profit before taxation		**(83 941)**	158 862

	%	%
	%	%
Applicable income tax rate	**24.5**	26.5
Permanent differences	**9.1**	1.7
Tax impact on exceptional items	**11.5**	–
Unrecognised deferred tax assets	**1.0**	–
Effect of overseas tax at different rates	**0.6**	(1.4)
Effect of deferred tax on unremitted earnings	**–**	1.9
Withholding tax	**6.3**	5.6
Effective income tax rate	**53.0**	34.3
Income tax expense reported in the consolidated income statement	**(18 407)**	(52 946)
Income tax attributable to discontinued operations	**–**	–

* The prior year figures have been restated for the reclassification impact of accounting for discontinued operations (Refer Note 8, Discontinued Operations).

7. Disposal of subsidiary

Australia

Kimberley Diamonds Company NL

The Group entered into a sale agreement on 30 November 2012 for the sale of its Australian mining activities, the Ellendale mine (Kimberley Diamonds Company NL), with an effective date of 31 December 2012. As a result of the terms of the agreement entered into, the Group lost control of Kimberley Diamonds Company NL. As a result, the trading results of the operation have been classified as part of discontinued operations. The net assets have been re-measured to fair value, then derecognised and an investment was recorded as an available for sale investment at fair value. The subsidiary has therefore been de-consolidated from this date.

Blina Minerals NL, previously held as an available for sale asset was held through Kimberley and due to the loss of control of Kimberley, the investment in Blina Minerals NL is considered to be disposed of. Due to the decline in share price which was considered to be other than temporary, the investment was fully impaired through profit and loss.

Subsequent to year end, the Kimberley Diamonds Company NL sale was finalised for the agreed purchase price of US$15.4 million.

Indonesia

Cempaka mine

During the prior year the Group completed the sale of its Indonesian operation for a consideration of US$5.0 million, resulting in the Group realising a gain of US$2.7 million. Refer to Note 23.3, Cash received/(disposed) from disposal of subsidiary for further detail on the disposal.

The results of the transactions are presented as follows:

	2012 US$'000	2011 US$'000
Assets		
Property, plant and equipment	**11 001**	2 486
Inventories	**30 891**	132
Trade and other receivables	**3 049**	76
Other financial assets	**13 492**	-
Cash and cash equivalents	**282**	100

Liabilities		
Trade and other payables	**(12 382)**	(308)
Provisions	**(30 964)**	(139)
Net identifiable assets disposed of	**15 369**	2 347
Recycling of foreign currency translation reserve	**48 389**	-
Consideration received	-	(5 000)
Available for sale investment	**(15 369)**	-
Re-measurement to fair value	**63 697**	-
Loss / (Gain) on disposal of subsidiaries	**112 086**	(2 653)

8. Discontinued operations

The discontinued operations consist of Kimberley Diamonds Company NL (Refer Note 7, Disposal of Subsidiary), for the period up until control was lost and the Cempaka mine in Indonesia (Refer Note 7, Disposal of Subsidiary) for the period up to 28 October 2011.

Australia

Impairment of property, plant and equipment

Immediately before classification as an asset held for sale, the recoverable amount for certain items of property, plant and equipment in Kimberley Diamonds Company NL was estimated and an impairment of US$3.2 million was identified. On reclassification, the carrying value of the assets in the disposal group was re-measured by US$63.7 million to reflect their fair value. The fair value of the asset held for sale was determined from the estimated consideration which has been agreed between the Company and a 3rd party buyer, which is US$15.4 million. The results of the Australian operation for the year ended 31 December 2012 and both the Australian and Indonesian operations for the year ended 31 December 2011 are as follows:

	2012 US$'000	2011 US$'000
Revenue	**113 704**	89 432
Cost of sales and other operating costs[1]	**(108 667)**	(82 731)
Gross loss	**5 037**	6 701
Other operating income	**80**	4 043
Royalties and selling costs	**(6 912)**	(5 570)
Finance costs[2]	**(493)**	(278)
Share-based payments	**(650)**	(148)
Impairments[3]	**(4 121)**	(1 767)
Foreign exchange gain	**459**	286
Share of profit in associate	**–**	308
Gain on disposal of subsidiary	**–**	2 653
(Loss)/gain before re-measurement to fair value	**(6 600)**	6 228
Re-measurement to fair value	**(63 697)**	–
Recycling of foreign currency translation reserve	**(48 389)**	–
(Loss)/profit before tax from discontinued operations	**(118 686)**	6 228
Tax expense	**–**	–
– related to current pre-tax loss	**–**	–
(Loss)/profit after tax from discontinued operations	**(118 686)**	6 228
Earnings per share from discontinued operations (cents)		
– Basic	**(86)**	2
– Diluted	**(85)**	2
The net cashflows attributable to the discontinued operations are as follows:		
Operating	**43 007**	(1 136)
Investing	**(51 217)**	1 527
Financing	**–**	(370)
Net cash (outflow)/inflow	**(8 210)**	21

1 Included in cost of sales is an amount of US$1.7 million relating to write down of inventories (31 December 2011: US$0.4 million).

2 Included in finance costs is unwinding of discount rate of rehabilitation provision of US$0.95 million (31 December 2011: US$0.87 million)

3 Included in impairments is the impairment relating to Blina Minerals NL. The Group considered the investment to be impaired due to the significant decline of the investment's share price.

9. Business combination

On 9 May 2012, Baobab Technologies BVBA (a newly formed 100% held company within Gem Diamonds Investment Limited) acquired certain intellectual property (staff and know-how) from and entered into a short-term lease agreement for the use of equipment and premises with Matrix Diamond Technology BVBA ("Matrix"), an unlisted company based in Belgium, specialising in cutting and polishing of rough diamonds. The cash consideration paid for the intellectual property was US$0.8m. The acquisition was done as part of the Group's sales and marketing strategy and growth in its cutting and polishing business. The final fair value of the assets acquired as at the date of acquisition was:

Final fair value recognition on acquisition	Total (US$'000)
Assets	
Intangible asset	**786**
	786
Purchase consideration in cash transferred	**786**

From the date of acquisition to 31 December 2012, Baobab contributed revenue of US$0.1million and a loss of US$0.4 million to the profit from continuing operations. Had the combination taken place at the beginning of 2012 Baobab would have contributed revenue of US$0.2 and a loss of US$0.6 million.

Transaction costs of US$0.2 million have been expensed and are included in the income statement of the Group.

10. Earnings per share (cents)

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

	2012 US$'000	2011 US$'000
Profit for the year	**32 579**	99 688
Profit/(loss) for the year from discontinued operations	**(70 297)**	6 228
Recycling of foreign currency translation reserve on discontinued operation	**(48 389)**	–
Less: non-controlling interests	**(15 507)**	(38 247)
Net profit attributable to equity holders of the parent for basic and diluted earnings	**(101 614)**	67 669

The weighted average number of shares takes into account the treasury shares at year end.

Weighted average number of ordinary shares in issue during the year ('000)	**138 177**	138 170

Earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year after taking into account future potential conversion and issue rights associated with the ordinary shares.

	Number of shares 2012 ('000)	Number of shares 2011 ('000)
Weighted average number of ordinary shares in issue during the year	**138 177**	138 170
Effect of dilution:		
– Future share awards under the Employee Share Option Programme	**1 350**	2 147

Weighted average number of ordinary shares in issue during the year adjusted for the effect of dilution	**139 527**	140 317

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.

11. Property, plant and equipment

As at 31 December 2012	**Mining assets[1] (US$'000)**	**Exploration & development assets (US$'000)**	**Decom-missioning assets (US$'000)**	**Lease hold improvements (US$'000)**	**Plant and equipment[2] (US$'000)**	**Finance lease assets (US$'000)**	**Other assets[3] (US$'000)**	**Total (US$'000)**
Cost								
Balance at 1 January 2012	**586 246**	**107 004**	**29 259**	**84 203**	**279 916**	**–**	**15 579**	**1 102 207**
Additions	**97 065**	**35 588**	**15 013**	**8 653**	**24 717**	**–**	**3 257**	**184 293**
Disposals	**–**	**(17)**	**–**	**(1 180)**	**(3 251)**	**–**	**(852)**	**(5 300)**
Disposal of subsidiaries	**(253 149)**	**(39 773)**	**(25 111)**	**(78 039)**	**(174 626)**	**–**	**(4 375)**	**(575 073)**
Reclassifications	**–**	**(1 246)**	**–**	**6 291**	**(6 303)**	**–**	**1 258**	**–**
Foreign exchange differences	**(11 135)**	**(2 739)**	**(540)**	**37**	**(3 719)**	**–**	**(479)**	**(18 575)**
Balance at 31 December 2012	**419 027**	**98 817**	**18 621**	**19 965**	**116 734**	**–**	**14 388**	**687 552**
Accumulated depreciation/amortisation								
Balance at 1 January 2012	**370 264**	**38 601**	**12 277**	**69 836**	**176 981**	**–**	**9 311**	**677 270**
Depreciation and amortisation charge	**62 168**	**–**	**4 582**	**6 503**	**20 632**	**–**	**3 197**	**97 082**
Disposals	**–**	**–**	**–**	**(1)**	**(2 009)**	**–**	**(802)**	**(2 812)**
Disposal of subsidiaries	**(227 017)**	**(39 773)**	**(13 979)**	**(66 571)**	**(153 120)**	**–**	**(3 077)**	**(503 537)**
Impairment	**1 040**	**7 800**	**–**	**1 852**	**1 910**	**–**	**–**	**12 602**
Foreign exchange differences	**(1 641)**	**498**	**1**	**285**	**(598)**	**–**	**(203)**	**(1 658)**
Balance at 31 December 2012	**204 814**	**7 126**	**2 881**	**11 904**	**43 796**	**–**	**8 426**	**278 947**
Net book value at 31 December 2012	**214 213**	**91 691**	**15 740**	**8 061**	**72 938**	**–**	**5 962**	**408 605**

As at 31 December 2011	**Mining assets[1] (US$'000)**	**Exploration & development assets (US$'000)**	**Decom-missioning assets (US$'000)**	**Lease hold improvements (US$'000)**	**Plant and equipment[2] (US$'000)**	**Finance lease assets (US$'000)**	**Other assets[3] (US$'000)**	**Total (US$'000)**
Cost								
Balance at 1 January 2011	567 320	94 718	22 298	108 371	242 224	991	14 119	1 050 041
Additions	87 232	21 471	8 879	843	26 364	–	3 870	148 659
Disposals	–	–	–	(18)	(3 867)	(956)	(1 347)	(6 188)
Reclassifications	(15 609)	(473)	–	(19 642)	34 803	–	921	–
Foreign exchange differences	(52 697)	(8 712)	(1 918)	(5 351)	(19 608)	(35)	(1 984)	(90 305)
Balance at 31 December 2011	586 246	107 004	29 259	84 203	279 916	–	15 579	1 102 207
Accumulated depreciation/amortisation								
Balance at 1 January 2011	343 435	36 840	10 477	75 482	160 175	991	8 624	636 024

Depreciation and amortisation charge	44 324	–	2 288	3 874	17 670	–	2 133	70 289
Disposals	–	–	–	(18)	(3 804)	(956)	(1 346)	(6 124)
Reclassifications	(3 739)	–	–	(7 194)	10 130	–	803	–
Impairment	–	1 767	–	–	–	–	–	1 767
Foreign exchange differences	(13 756)	(6)	(488)	(2 308)	(7 190)	(35)	(903)	(24 686)
Balance at 31 December 2011	370 264	38 601	12 277	69 836	176 981	–	9 311	677 270
Net book value at 31 December 2011	215 982	68 403	16 982	14 367	102 935	–	6 268	424 937

1 Included in mining asset is deferred stripping of US$90.9 million (31 December 2011: US$81.3 million)

2 Included in plant and equipment is capital work in progress of US$47.4 million (31 December 2011: US$31.1 million)

3 Other assets comprise motor vehicles, computer equipment, furniture and fittings and office equipment

12. Investment property

The investment property consists of a commercial unit in a building located in Dubai. It comprises of a unit in Almas Towers in Dubai. The unit is being let out in terms of a long term rental agreement entered into with a tenant during 2010. The rental agreement was entered into for a period of five years commencing 23 July 2010.

	2012 US$'000	2011 US$'000
Cost		
At 1 January 2012	**617**	617
Net book value 31 December	**617**	617
Accumulated depreciation/impairment	**–**	–
At 1 January 2012	**–**	–
Depreciation	**1**	–
Balance at 31 December 2012	**1**	–
Net book value at 31 December 2012	**616**	617
Fair value[1]	**879**	703
Amounts recognised in profit or loss		
Rental income	**53**	53
Direct operating expenses	**(11)**	(9)

1 No independent valuation was performed. Fair value was based upon an overview of property sales (units within the same building as the investment property) during 2012, weighted towards the most recent sales activity.

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

	2012 US$'000	2011 US$'000
– Within one year	**56**	54
– After one year but not more than five years	**92**	148
– More than five years	**-**	–
	148	202

13. Intangible assets

As at 31 December 2012	**Intangibles[1] (US$'000)**	**Goodwill (US$'000)**	**Total (US$'000)**
Cost			
Balance at 1 January 2012	**–**	**104 328**	**104 328**
Disposal of subsidiaries[2]	**–**	**(33 604)**	**(33 604)**
Additions	**786**	**–**	**786**
Disposals	**–**	**–**	**–**

Foreign exchange differences	–	(816)	(816)
Balance at 31 December 2012	**786**	**69 908**	**70 694**
Accumulated amortisation/impairment			
Balance at 1 January 2012	–	**78 799**	**78 799**
Disposal of subsidiaries[2]	–	**(33 604)**	**(33 604)**
Amortisation	**105**	–	**105**
Foreign exchange differences	–	**421**	**421**
Balance at 31 December 2012	**105**	**45 616**	**45 721**
Net book value at 31 December 2012	**681**	**24 292**	**24 973**

[1] Intellectual property was acquired as part of the business combination (Refer Note 9, Business Combinations).

[2] The goodwill disposed of related to goodwill in Kimberley which had previously been fully impaired.

As at 31 December 2011	**Goodwill (US$'000)**	**Total (US$'000)**
Cost		
Balance at 1 January 2011	109 948	109 948
Foreign exchange differences	(5 620)	(5 620)
Balance at 31 December 2011	104 328	104 328
Accumulated amortisation/impairment		
Balance at 1 January 2011	78 794	78 794
Foreign exchange differences	5	5
Balance at 31 December 2011	78 799	78 799
Net book value at 31 December 2011	25 529	25 529

Impairment of goodwill within the Group was tested in accordance with the Group's policy. Refer to Note 14, Impairment testing for further details.

14. Impairment testing

	2012 US$'000	2011 US$'000
Goodwill		
Goodwill acquired through business combinations has been allocated to the individual cash-generating units, as follows:		
– Letšeng Diamonds	**22 503**	23 648
– Calibrated Diamonds	**1 790**	1 881
Balance at end of the year	**24 293**	25 529

Discount rates are outlined below, and represent the real pre-tax rates. These rates are based on the weighted average cost of capital of the Group and adjusted accordingly at a risk premium of each cash-generating unit, taking into account risks associated with different cash-generating units.

	2012 US$'000	2011 US$'000
Discount rate for each cash-generating unit		
– Letšeng Diamonds	**13.3%**	14.7%
– Calibrated Diamonds	**14.0%**	13.7%

Goodwill impairment testing is undertaken annually and whenever there are indications of impairment. The most recent test was undertaken at 31 December 2012. In assessing whether goodwill has been impaired, the carrying amount of the cash-generating unit is compared with its recoverable amount. For the purpose of goodwill impairment testing in 2012, recoverable amounts for Letšeng Diamonds and Calibrated Diamonds have been determined based on value in use.

Letšeng Diamonds

Value in use

Cashflows are projected for a period up to the date that mining is expected to cease, based on management's expectations at the time of completing the testing, and is limited to the lesser of the current economic resource or the remaining 12 year mining lease period. This date depends on a number of variables, including recoverable reserves and resources, the forecast selling prices and the treatment costs.

Key assumptions used in the calculations

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

- recoverable reserves and resources
- expected carats recoverable
- expected grades achievable
- expected US$/carat prices
- expected plant throughput
- costs of extracting and processing
- discount rates

Economically recoverable reserves and resources, carats recoverable and grades achievable are based on management's current expectation and mine plan, supported by the evaluation work undertaken by appropriately qualified persons.

Long term US$/carat prices are based on external market consensus forecasts as published by independent marketing consultants adjusted for the Group's specific operations and contracted sales arrangements. Plant throughput is based on current plant facilities and processing capacities. Costs are determined on management's experience and the use of contractors over a period of time whose costs are fairly reasonably determinable.

The foreign exchange rates have been based on current spot exchange rates at the date of the value in use calculations.

Sensitivity to changes in assumptions

Given the current volatility in the market, adverse changes in key assumptions could result in changes to impairment charges. The impairment test is most sensitive to changes in commodity prices and foreign exchange rates. The values assigned to these key assumptions reflect past experience.

For the purposes of testing for impairment of goodwill using the value in use basis for Letšeng, the excess of the recoverable amount (based on the remaining lease period) over the carrying value is US$110.0 million. Based on the life of mine period using current reserves, the excess over the recoverable amount is US$560.0 million, as it is management's intention to extend the lease arrangement.

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

Calibrated Diamonds

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

Sensitivity to changes in assumptions

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

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

Other

Chiri

During the year, the Company terminated its participation in the Chiri project in Angola when it became clear that the terms upon which on-going participation in this deposit could be secured, did not meet the requirements of the Company for value creation. This resulted in the total resource and developments costs expended on the project to date, to be written off. (Refer to Note 8, Discontinued operations). The write off is represented by a loan advanced to the project of US$5.6 million (December 2011: US$5.6 million), costs associated and incurred in securing the option to acquire the indirect interest of US$0.5 million (December 2011: US$0.5 million) and costs associated with the exploration and other associated assets of US$8.7 million (December 2011: US$8.4 million). These costs are not directly related to current operations and are therefore disclosed as exceptional.

Project Kholo

Letšeng initiated an expansion programme (Project Kholo) to double current production capacity. This was approved at the Letšeng and the Company's Boards in November 2011. However during 2012 Project Kholo as originally envisaged was re-evaluated. The project management team is actively investigating the optimal allocation of capital to fund an optimised Project Kholo with a lower capital requirement. As work had already commenced on the Project Kholo, some of the costs incurred have been considered to have no future benefit and the cost related to this work has been written off.

The Group will continue to test its other 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.

	2012 US$'000	2011 US$'000
Other non-current assets		
Impairment – Chiri[1]	**14 457**	–
Impairment – Project Kholo[1]	**1 428**	–

1Refer Note 4, Exceptional items for a breakdown of the amounts included above.

15. Other financial assets

	2012 US$'000	2011 US$'000
Non-current		
Environmental bonds[1]	**–**	7 293
Chiri project loan[2]	**–**	5 626
Chiri option[2]	**–**	536
Available-for-sale investment	**–**	498
Other assets	**14**	634
	14	14 587
Current		
Available-for-sale investment[3]	**15 369**	–
Forward exchange contract	**1 067**	–
Other assets	**8**	9
	16 444	9
	16 458	14 596

1 Environmental bonds in the prior year related to the Kimberley Diamonds Company NL which has been disposed of. These bonds are classified as loans and receivables.

2 The Chiri project loan and option in the prior year related to the Chiri concession in Angola which has been fully written off at year end. Refer Note 14, Impairment Testing.

3 The available for sale investment relating to the Kimberly Diamonds Company NL is classified as a level 3 financial instrument as its fair value is not based on observable market data. Refer Note 8, Discontinued Operations.

The available for sale investment relates to the investment in Ellendale mine. The Group entered into a sale agreement on 30 November 2012 for the sale of its Australian mining activities, the Ellendale mine (Kimberley Diamonds Company NL), with an effective date of 31 December 2012. As a result of the terms of the agreement entered into, the Group lost control of Kimberley Diamonds Company NL. The trading results of the operation have been classified as part of discontinued operations and the net assets have been derecognised and an investment was recorded as an available for sale investment at fair value.
In the prior year, the non- current available for sale investment related to Blina Minerals NL which the Group lost control over on loss of control of Kimberly Diamonds Company NL.

The Group has entered into forward exchange contracts to hedge the exposure to changes in foreign currency of future sales of diamonds at Letšeng Diamonds. The forward exchange contract is the revaluation on the mark to market financial assets at year end. The Group performs no hedge accounting. At December 2012 the Group has Zero Cost Cap Collars in place with a notional cover of US$44.0 million. The zero cost cap collars have a put rate of ZAR8.65 while the call rate starts at ZAR9.17 increasing to ZAR9.52 throughout the year. Of the

US$44.0 million collars in place, US$24.0 million were renegotiated and closed subsequent to year end. These zero cost cap collars have a put rate of ZAR8.85 while the call rate starts at ZAR9.26 increasing to ZAR9.35.

The fair value of these collars at 31 December 2012 was US$1.1 million (31 December 2011 US$nil).

16. Deferred taxation

	2012 US$'000	2011 US$'000
Deferred tax assets		
Accrued leave	**80**	86
Operating lease liability	**–**	5
Provisions	**7 295**	4 730
	7 375	4 821
Deferred tax liabilities		
Property, plant and equipment	**(74 766)**	(68 834)
Prepayments	**(10)**	(10)
Provisions	**162**	–
Unremitted earnings	**(4 038)**	(4 038)
	(78 652)	(72 882)
Net deferred tax liability	**(71 277)**	(68 061)
Reconciliation of deferred tax liability		
Balance at beginning of year	**(68 061)**	(71 012)
Movement in current period:		
– Accelerated depreciation for tax purposes	**(9 447)**	(9 000)
– Accrued leave	**(2)**	25
– Operating lease liability	**(5)**	(15)
– Unremitted earnings	**–**	(2 923)
– Prepayments	**(1)**	(1)
– Provisions	**2 771**	1 750
– Tax losses utilised in the year	**217**	–
– Foreign exchange differences	**3 251**	13 115
Balance at end of year	**(71 277)**	(68 061)

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$44.5 million (31 December 2011: US$34.4 million).

The Group has estimated tax losses of US$310.0 million (31 December 2011: US$313.8million). No deferred tax assets have been recognised in respect of such losses at 31 December 2012 as management considers that it is not probable that the losses in those entities will be utilised against taxable profits in those entities in the foreseeable future.

The Group has not recognised deferred tax assets in respect of other deductible temporary differences of US$122.0 million (31 December 2011: US$134.4 million), since management considers that it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Of the US$310.0 million (31 December 2011: US$313.8million) estimated tax losses, US$1.4 million (31 December 2011: US$0.2 million) losses in various jurisdictions expire as follows:

	31 December 2012 US$'000	31 December 2011 US$'000
2013	**117**	122
2014	**30**	31
2015	**2**	2
2016	**5**	6
2017	**1 224**	–
2018	**–**	–

	1 378	161

17. Inventories

	2012 US$'000	2011* US$'000
Diamonds on hand[1]	**14 247**	21 175
Ore stock piles[1]	**311**	6 197
Consumable stores[1]	**8 094**	11 850
	22 652	39 222

* Significant movement due to the disposal of Kimberley Diamonds Company NL (Refer Note 7, Disposal of subsidiary).

[1] Stated at the lower of cost or net realisable value.

18. Receivables and other assets

	2012 US$'000	2011 US$'000
Trade receivables	**1 858**	1 849
Prepayments	**1 400**	2 620
Deposits	**475**	456
Other receivables	**541**	1 037
VAT receivable	**2 999**	4 183
	7 273	10 145

The carrying amounts above approximate their fair value.

Terms and conditions of the receivables:

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

	2012 US$'000	2011 US$'000
Provision for impairment of receivables*		
Receivables (at nominal value) impaired and fully provided for:	**–**	1 084
Analysis of receivables		
Neither past due nor impaired	**7 183**	9 875
Past due but not impaired:		
< 30 days	**33**	190
30 – 60 days	**18**	79
60 – 90 days	**39**	1
	7 273	10 145
Total receivables	**7 273**	10 145
Movements in the provision against receivables were as follows:		
Balance at beginning of year	**1 084**	1 149
Charge for the year	**–**	218
Utilised during the year	**(1 097)**	(61)
Foreign exchange differences	**13**	(222)
Balance at end of year	**–**	1 084

* The provision for receivables was determined on an individual basis.

19. Cash and short term deposits

	2012 US$'000	2011 US$'000
Cash on hand	**4**	2

Bank balances	**35 754**	62 014
Short term bank deposits	**35 084**	96 734
	70 842	158 750

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 2012, the Group had restricted cash of US$0.2 million (31 December 2011: US$1.6 million).

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

20. Issued capital and reserves

	31 December 2012		31 December 2011	
	Number of shares '000	**US$'000**	Number of shares '000	US$'000
Authorised – ordinary shares of US$0.01 each				
As at year end	**200 000**	**2 000**	200 000	2 000
Issued and fully paid				
Balance at beginning of year	**138 267**	**1 383**	138 267	1 383
Allotments during the year	**–**	**–**	–	–
Balance at end of year	**138 267**	**1 383**	138 267	1 383

There were no share transactions during the year.

Share premium

Share premium comprises the excess value recognised from the issue of ordinary shares at par value.

Treasury shares

The Company established an Employee Share Option Plan (ESOP) on 5 February 2007. Under the terms of the ESOP, the Company granted options to employees of over 376 500 ordinary shares with a nil exercise price upon listing.

At Listing, the Gem Diamonds Limited Employee Share Trust acquired 376 500 ordinary shares by subscription from the Company as part of the Initial Awards under the ESOP arrangement at nominal value of US$0.01.

During the year, 10 500 shares were exercised (31 December 2011: 3 000) and no shares lapsed (31 December 2011: 1 000). At 31 December 2012, 80 217 (31 December 2011: 90 717) shares were held by the trust.

	Foreign currency translation reserve US$'000	**Share-based equity reserve US$'000**	**Other reserves US$'000**	**Total US$'000**
Balance at 1 January 2012	**(90 575)**	**42 557**	**(702)**	**(48 720)**
Other comprehensive loss	**27 775**	**–**	**702**	**28 477**
Total comprehensive loss	**27 775**	**–**	**702**	**28 477**
Share-based payments		**3 113**		**3 113**
Balance at 31 December 2012	**(62 800)**	**45 670**	**–**	**(17 130)**
Balance at 1 January 2011	(39 650)	40 975	–	1 325
Other comprehensive income	(50 925)	–	(702)	(51 627)
Total comprehensive income	(50 925)	–	(702)	(51 627)
Share-based payments	–	1 582	–	1 582
Balance at 31 December 2011	(90 575)	42 557	(702)	(48 720)

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of foreign entities. During the year, the South African, Lesotho, Botswana, Australian, Mauritian and United Arab

Emirate subsidiaries' functional currencies were different to the Groups functional currency of US Dollars. The rates used to convert the operating functional currency into US Dollars are as follows:

	Currency	**2012**	2011
Average rate	Maloti to 1 US$	**8.21**	7.26
Period end	Maloti to 1 US$	**8.48**	8.07
Average rate	ZAR to 1 US$	**8.21**	7.26
Period end	ZAR to 1 US$	**8.48**	8.07
Average rate	AUD to 1 US$	**0.97**	0.97
Period end	AUD to 1 US$	**0.96**	0.98
Average rate	Pula to 1 US$	**7.62**	6.84
Period end	Pula to 1 US$	**7.79**	7.47
Average rate	Rupee to 1US$	**30.13**	28.71
Period end	Rupee to 1US$	**30.55**	29.35
Average rate	Dirham to 1 US$	**3.67**	3.67
Period end	Dirham to 1 US$	**3.67**	3.67

Share-based equity reserves

For detail on the share-based payment reserve refer to Note 30, Share-based payments.

Other reserves

In the prior year, at the date of loss of significant influence, the difference between the carrying value and the fair value of the investment in Blina Minerals NL was recognised in profit or loss and subsequent movements in the fair value gave rise to this reserve through other comprehensive income. During the current year Blina Minerals NL was disposed of due to the loss of control in Kimberley Diamonds Company NL. All relevant movements were recognised through other comprehensive income and subsequently recycled through profit and loss.

Non-controlling interests

No non-controlling interests were acquired during the course of the year.

Capital management

For details on capital management, refer to Note 29, Financial Risk Management.

21. Trade and other payables

	2012 US$'000	2011 US$'000
Non-current		
Accrued expenses[1]	**–**	6
Severance pay benefits[2]	**1 007**	661
	1 007	667
Current		
Trade payables[1]	**15 302**	20 091
Accrued expenses[1]	**24 578**	28 427
Leave benefits	**1 236**	2 439
Royalties[1]	**1 445**	4 046
Operating lease	**6**	20
Other	**1 208**	2 075
	43 775	57 098
Total trade and other payables	**44 782**	57 765

The carrying amounts above approximate fair value.

Terms and conditions of the trade and other payables:

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

2 The severance pay benefits arise due to legislation, within the Lesotho jurisdiction, requiring that two weeks of severance pay be provided for every completed year of service, payable on retirement.

22. Provisions

	2012	2011* US$'000

	US$'000	
Rehabilitation provisions	**29 496**	41 712
Employee provisions	**-**	551
Other	**–**	195
	29 496	42 458

*Significant movement due to the disposal of Kimberley Diamonds Company NL (Refer Note 7, Disposal of subsidiary).

Reconciliation of movement in provisions	**Rehabilitation provisions**	**Employee provisions**	**Other**	**Total**
Balance at beginning of year	**41 712**	**551**	**195**	**42 458**
Arising during the year	**–**	**244**	**–**	**244**
Utilised during the year	**(872)**	**–**	**(190)**	**(1 062)**
Disposal of subsidiaries	**(30 162)**	**(802)**	**–**	**(30 964)**
Increase in rehabilitation provisions	**17 749**	**–**	**–**	**17 749**
Unwinding of discount rate	**2 077**	**–**	**–**	**2 077**
Foreign exchange differences	**(1 008)**	**6**	**(5)**	**(1 007)**
Balance at end of year	**29 496**	**–**	**–**	**29 496**

Rehabilitation provisions

The provisions have been recognised as the Group has an obligation for rehabilitation of the mining areas. The provisions have been calculated based on total estimated rehabilitation costs and discounted back to their present values. The pre-tax discount rates are adjusted annually and reflect current market assessments. These costs are expected to be utilised over a life of mine at the mining operation.

Employee provisions

Employee provisions in the prior year relate predominantly to long service leave entitlements in Australia which were payable upon an employee attaining a certain period of service and other employee benefits.

23. Cashflow notes

23.1 Cash generated by operations

	Notes	**2012 US$'000**	2011 US$'000
Profit before tax for the year from continuing operations		**34 745**	152 634
(Loss)/ profit before tax for the year from discontinued operations		**(118 686)**	6 228
Adjustments for:			
Depreciation, mining asset amortisation and waste amortisation on property, plant and equipment	3	**95 638**	69 990
Impairment		**19 456**	1 767
Write-down of inventory	8	**1 650**	391
Finance income		**(3 109)**	(3 786)
Finance costs		**2 291**	1 956
Movement in provisions		**(1 512)**	(548)
Share of profit in associate		**–**	(308)
Unrealised foreign exchange differences		**41 048**	(3 794)
Profit on disposal of property, plant and equipment		**(315)**	(1 772)
Prepayments		**(627)**	1 059
Other non-cash movements		**6 492**	(5 939)
Loss/(gain) on disposal of subsidiaries		**63 697**	(2 653)
Share-based equity transaction		**2 931**	1 455
		143 699	216 680

23.2 Working capital adjustments

	2012 US$'000	2011 US$'000

Increase in inventories	**(24 945)**	(7 197)
Decrease/(increase) in receivables	**565**	(5 677)
(Decrease)/increase in trade and other payables	**(704)**	16 868
	(25 084)	3 994

23.3 Cash (disposed)/received from disposal of subsidiary

	2012 US$'000	2011 US$'000
Property, plant and equipment	**11 001**	2 486
Inventories	**30 891**	132
Trade and other receivables	**3 049**	76
Other financial assets	**13 492**	-
Cash and cash equivalents	**282**	100
Trade and other payables	**(12 382)**	(308)
Provisions	**(30 964)**	(139)
	15 369	2 347
Gain on disposal of subsidiaries	**–**	2 653
Proceeds on sale of subsidiaries	**–**	5 000
Proceeds on disposal not yet received	**15 369**	–
Net costs incurred	**(327)**	–
Cash equivalents sold	**(282)**	(100)
Net cash (disposed)/received	**(609)**	4 900

This relates to the disposal of the operations in Australia in the current year and Indonesia in the prior year (Refer Note 7, Disposal of subsidiary).

24. Interest bearing loans and borrowings

	2012 US$'000	2011 US$'000
Current		
Working capital facility	**2 947**	–

The carrying values of the liabilities approximate their fair values.

At 31 December 2012, the Group, through its subsidiary Letšeng Diamonds, has a M250.0 million revolving working capital facility amounting to US$29.5 million (31 December 2011: US$31.0 million) which was signed in the prior year. As at 31 December 2012 US$2.9 million had been drawn against this facility (31 December 2011: US$nil). The interest rate on this loan is prime less 0.8%, which equated to 8.95% at year end and interest paid on the outstanding amount was US$0.1 million.

Subsequent to year end the drawn down amount was fully repaid.

25. Commitments and contingencies

Commitments

Operating lease commitments – Group as lessee

The Group has entered into commercial lease arrangements for rental of office premises. These leases have a period of between two and twelve years with an option of renewal at the end of the period. The terms will be negotiated during the extension option periods catered for in the agreements. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases:

	2012 US$'000	2011* US$'000
– Within one year	**1 508**	926
– After one year but not more than five years	**6 406**	799
– More than five years[1]	**16 795**	–
	24 709	1 725

[1] During the year Letšeng Diamonds entered into an operating lease contract for the rental of office space relating to the establishment of an in country manufacturing facility in Lesotho.

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, currently in Lesotho and previously in Lesotho and Australia.

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:

	2012 US$'000	2011* US$'000
– Within one year	**88**	86
– After one year but not more than five years	**403**	400
– More than five years	**957**	1 142
	1 448	1 628

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, and power generator equipment payable based on a consumption basis:

	2012 US$'000	2011* US$'000
– Within one year	**32 774**	34 439
– After one year but not more than five years	**32 767**	68 876
– More than five years	**–**	–
	65 541	103 315

* The prior year figures have been restated for the reclassification impact of accounting for discontinued operations, unless stated otherwise (Refer Note 8, Discontinued Operations).

	2012 US$'000	2011* US$'000
Capital expenditure		
Approved but not contracted for	**35 342**	322 705
Approved and contracted for	**22 002**	29 588

Letšeng initiated an expansion programme (Project Kholo) to double current production capacity. This was approved at the Letšeng and the Company's Boards in November 2011. However during 2012 Project Kholo as originally envisaged was re-evaluated. The project management team is actively investigating the optimal allocation of capital to fund an optimised Project Kholo with a lower capital requirement. As work had already commenced on the Project Kholo, some of the costs incurred have been considered to have no future benefit and the cost related to this work has been written off.

Contingent rentals – alluvial deposits

The contingent rentals on alluvial deposits represents the Group's obligation to third parties for alluvial diamonds mined by such third parties on the Group's mining property. The rental is determined when the actual diamonds mined by such third parties are sold. The rental agreement is based on 40% - 50% of the value of the diamonds recovered by Alluvial Ventures and is limited to US$0.85 million per individual diamond. As at the balance sheet dates, 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 2011: 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 advisors, the Group has identified possible disputes approximating US$4.1 million (December 2011: US$1.0 million) and tax claims within the various jurisdictions in which the Group operates approximating US$1.4 million (December 2011: US$6.6 million).

There remains a risk that further tax liabilities may potentially arise. While it is difficult to predict the ultimate outcome in some cases, the Group does not anticipate that there will be any material impact on the Group's results, financial position or liquidity.

26. Related parties

Related party	**Relationship**
Jemax Management (Proprietary) Limited	Common director
Jemax Aviation (Proprietary) Limited	Common director
Gem Diamond Holdings Limited	Common director
Government of Lesotho	Non-controlling interest
Geneva Management Group (UK) Limited	Common director
Blina Minerals NL	Associate (during prior year)

Refer to Note 1.1.2. Operational information, for information regarding shareholding in subsidiaries.

Refer to the Directors' Report for information regarding the Directors.

	2012 US$'000	2011 US$'000
Compensation to key management personnel (including Directors)		
Share-based equity transactions	**1 719**	1 186
Short term employee benefits	**9 052**	7 989
	10 771	8 336
Fees paid to related parties		
Jemax Aviation (Proprietary) Limited	**(109)**	(650)
Jemax Management (Proprietary) Limited	**(107)**	(96)
Royalties paid to related parties		
Government of Lesotho	**(16 382)**	(23 887)
Lease and licence payments to related parties		
Government of Lesotho	**(85)**	(87)
Sales to/(purchases) from related parties		
Jemax Aviation (Proprietary) Limited	**200**	451
Geneva Management Group (UK) Limited	**(13)**	(10)
Blina Minerals NL	**–**	413
Amount included in trade receivables owing by/(to) related parties		
Jemax Aviation (Proprietary) Limited	**51**	(50)
Jemax Management (Proprietary) Limited	**(9)**	(9)
Amounts owing by/(to) related party		
Government of Lesotho	**(1 062)**	(2 012)
Blina Minerals NL[1]	**372**	366
Dividends paid		
Government of Lesotho	**(8 770)**	(36 654)

[1] The amount owing by Blina Minerals NL has been fully written off. Refer Note 7, Disposal of subsidiary.

Compensation to key management personnel (including Directors) includes compensation relating to Kimberley Diamonds Company which is included as part of discontinued operations.

Jemax Management (Proprietary) Limited and Jemax Aviation (Proprietary) Limited provided administrative and aviation services with regards to the mining and evaluation activities undertaken by the Group. The above transactions were made on terms agreed between the parties.

Geneva Management Group (UK) Limited provided administration, secretarial and accounting services to the Company. The above transactions were made on terms that prevail in arm's length transactions.

27. Post balance sheet events

The following has taken place since the balance sheet date:

- The Company concluded and signed a US$20 million 3-year unsecured revolving credit facility with Nedbank Capital (a division of Nedbank Ltd), which is available for draw-down.
- As at the 31 December 2012 US$2.9 million of the Letšeng facility which was drawn down was repaid in January 2013.
- On 31 January 2013 the Group concluded the sale of Kimberley Diamond Company NL with an effective date of 31 December 2012.

28. Financial instruments

Fair value

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments that are carried in the financial statements:

	Carrying amount		**Fair value**	
	2012 US$'000	2011 US$'000	**2012 US$'000**	2011 US$'000
Financial assets				
Cash	**70 842**	158 750	**70 842**	158 750
Loan notes[1]	**–**	5 626	**–**	5 626
Receivables[1]	**7 273**	10 145	**7 273**	10 145
Environmental bond facilities and bank guarantees	**–**	7 293	**–**	7 293
Other loans[1]	**22**	32	**22**	32
Chiri option[2]	**–**	536	**–**	n/a
Available-for-sale investments[3]	**15 369**	498	**15 369**	498
Forward exchange contract	**1 067**	–	**1 067**	–
Financial liabilities				
Bank overdraft	**29**	–	**29**	–
Interest bearing loans and borrowings	**2 947**	–	**2 947**	–
Trade and other payables[1]	**44 782**	57 765	**44 782**	57 765

1 The fair value approximates carrying value.

2 The option is carried at cost as fair value cannot be determined.

3 The available for sale investment relating to Kimberley Diamonds Company NL is classified as a level 3 financial instrument as the determined fair value is not based on observable market data

The fair values of other financial assets have been calculated using market interest rates where applicable.

29. Financial risk management

Financial risk factors

The Group's activities expose it to a variety of financial risks:

(a) Market risk (including commodity price risk and foreign exchange risk);

(b) Credit risk;

(c) Liquidity risk; and

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out under policies approved by the Board of Directors. The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investing excess liquidity.

There have been no changes in the financial risk management policy since the prior year.

Capital management

The capital of the Company is the issued share capital, share premium and treasury shares on the Group's balance sheet. The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may issue new shares. The management of the Group's capital is performed by the Board. During November 2011, the Group, through its subsidiary Letšeng, signed a M250.0 million (31 December 2012: US$29.5 million, 31 December 2011: US$31.0 million) three year revolving working capital facility of which US$2.9 million had been a drawn down as at year end. In addition to this, and by reference to the Note 27, Post balance sheet events, the Company concluded and signed a US$20 million 3-year unsecured revolving credit facility with Nedbank Capital (a division of Nedbank Ltd), which is available for draw-down. At present, the Group has US$49.5 million (31 December 2011: US$31.0 million) of funding available and has the flexibility to manage the capital structure more efficiently by the introduction of debt into the Group to ensure that an appropriate gearing ratio is achieved.

(a) Market risk

(i) Commodity price risk

The Group is subject to commodity price risk. Diamonds are not a homogenous product and the price of rough diamonds is not monitored on a public index system. The fluctuation of prices is related to certain features of diamonds such as quality and size. Diamond prices are marketed in US$ and long term US$/carat prices are based on external market consensus forecasts and contracted sales arrangements adjusted for the Group's specific operations. The Group does not have any financial instruments that may fluctuate as a result of commodity price movements.

Kimberley Diamonds had an existing supply agreement with a top-end jeweller for its fancy yellow diamond production. This contract, which catered for a monthly price review, was for the life of the mine and provided certainty to the revenue flows (Refer Note 8, Discontinued Operations).

(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 Australian Dollar. 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$ 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$, are not taken into consideration.
- The major currency exposures for the Group relate to the US$ and local currencies of subsidiaries. Foreign currency exposures between two currencies where one is not the US$ 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 2012. There has been no change in the assumptions or method applied from the prior year.

Sensitivity analysis
If the US$ had appreciated (depreciated) 10% against currencies significant to the Group at 31 December 2012, income before taxation would have been US$0.5 million higher (lower) (31 December 2011: US$-). There would be no effect on equity reserves other than those directly related to income statement movements.

(iii) Forward exchange contracts

The Group has entered into forward exchange contracts to hedge the exposure to changes in foreign currency of future sales of diamonds at Letseng. The Group performs no hedge accounting. At December 2012 the Group has zero cost cap collars in place with a notional cover of US$44.0 million. The zero cost cap collars have a put rate of ZAR8.65 while the call rate starts at ZAR9.17 increasing to ZAR9.52 throughout the year. Of the US$44.0 million collars in place, US$24.0 million were renegotiated and closed subsequent to year end. These zero cost cap collars have a put rate of ZAR8.85 while the call rate starts at ZAR9.36 increasing to ZAR9.35.

(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 judgment 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. An analysis has been prepared which demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through impact on floating rate borrowings).

The interest rate sensitivity analysis is based on the following assumptions:

All non-derivative financial instruments with fixed interest rate terms that are carried at amortised cost are excluded from this analysis. This is because a change in market interest rates for such non-derivative financial instruments would only affect income if these are measured at their air value; and

The Group does not have significant cash flow hedges related to interest rate risk. As such, movements that would occur in equity as a result of a hypothetical change in interest rates at reporting date has been excluded from this analysis.

Sensitivity analysis

If interest rates had increased (decreased) by 100 basis points at 31 December 2012 there would have been no material impact on profit in the current year due to the low level of debt of US$2.9 million. There would be no effect on equity reserves other than those directly related to income statement movements.

(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 balance sheet dates. The Group considers the credit standing of counterparties when making deposits to manage the credit risk.

Considering the nature of the Group's ultimate customers and the relevant terms and conditions entered into with such customers, the Group believes that credit risk is limited as customers pay on receipt of goods. No other financial assets are impaired or past due and accordingly, no additional analysis has been provided. No collateral is held in respect of the impaired receivables or receivables that are past due but not impaired.

(c) Liquidity risk

Liquidity risk arises from the Group's inability to obtain the funds it requires to comply with its commitments including the inability to sell a financial asset quickly at a price close to its fair value. Management manages the risk by maintaining sufficient cash, marketable securities and ensuring access to shareholding funding. This ensures flexibility in maintaining business operations and maximises opportunities. Furthermore, subsequent to year end, the Company concluded and signed a US$20 million 3-year unsecured revolving credit facility, which is available for draw-down. This facility, together with the M250 million (US$29.5 million) facility signed by Letšeng in November 2011, provides the Group with a total of US$49.5 million available debt facilities.

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

	2012 US$'000	2011 US$'000
Floating interest rates		
Trade and other payables		
– Within one year	**2 947**	–
– After one year but not more than five years	**–**	–
– More than five years	**–**	–
Total	**2 947**	–
Trade and other payables		
– Within one year	**43 775**	57 098
– After one year but not more than five years	**1 007**	667
– More than five years		–
Total	**44 782**	57 765

30. Share-based payments

The expense recognised for employee services received during the year is shown in the following table (US$'000):

	2012 US$'000	2011* US$'000

Equity-settled share-based payment transactions charged to the Income Statement – continuing operations	**2 281**	1 310
Equity-settled share-based payment transactions charged to the Income Statement – discontinued operations (Refer Note 8, Discontinued operations) [1]	**650**	148
Equity-settled share-based payment transactions capitalised	**182**	124
	3 113	1 582

* The prior year figures have been restated for the reclassification impact of accounting for discontinued operations (Refer Note 8, Discontinued Operations).

1 Included in this expense is the cost of accelerated vesting for the Australian employees. The equity settled awards were forfeited from the scheme which has resulted in the future SBP charges being accelerated from the applicable Employee Share Option Plan ("ESOP"). Excluded from this acceleration is the ESOP awarded on 11 September 2012. This expense is reversed as the vesting relates to an 'employment period' and is not based on market conditions.

The long term incentive plans are described below:

Employee share-option plan

Certain key employees are entitled to a grant of options, under the Employee Share-Option Plan ('ESOP') of the Company. The vesting of the options is dependent on employees remaining in service for a prescribed period (normally three years) from the date of grant. The fair value of share options granted is estimated at the date of the grant using a Black Scholes simulation model, taking into account the terms and conditions upon which the options were granted. It takes into account projected dividends and share price fluctuation co-variances of the Company.

There is a nil or nominal exercise price for the options granted at Admission of Gem Diamonds Limited. The contractual life of the options is ten years and there are no cash settlement alternatives. The Group has no past practice of cash settlement.

Performance shares

No performance shares were granted during the year. During 2008, 437 769 performance shares were granted to certain key employees under the ESOP of the Company in four tranches. The vesting of awards is subject to the satisfaction of performance conditions over a three year period that is considered appropriately stretching. If the performance conditions are not met the options lapse. The fair value of share options granted is estimated at the date of the grant using a Monte Carlo simulation model, taking into account the terms and conditions upon which the options were granted, projected dividends, share price fluctuations, the expected volatility, the risk-free interest rate, expected life of the option in years and the weighted average share price of the Company. The contractual life of each option granted is three years. The performance share awards vested in April 2011. For the purpose of the performance criterion, the conditions were tested and the outcome was that no awards vested as neither the diamond peer group nor the FTSE 250 was outperformed.

Non-executive share awards

In order to align the interests of the Chairman and independent Directors with those of the shareholders, the non-Executive Directors were invited to subscribe for shares at nominal value on terms set out in the prospectus. The non-Executive Directors shall not be eligible to participate in the STIBS, ESOP or ESGP or any other performance-related incentive arrangements which may be introduced by the Company from time to time. There are currently no non-Executive share awards.

Employee share-option plan for 2010 (long term incentive plan (LTIP))

On 23 June 2010, 1 375 200 options were granted to certain key employees under the LTIP of the Company. Of the total number of shares, 458 400 were Nil Value Options and 916 800 were Market Value Options. The exercise price of the Market Value Options is £2.31 (US$3.33), which was equal to the market price of the shares on the date of the grant. The vesting of the options will be subject to the satisfaction of performance conditions over a three year period that is considered appropriately stretching. If the performance conditions are not met the options lapse. The fair value of the options granted is estimated at the date of the grant using a Monte Carlo simulation model, taking into account the terms and conditions upon which the options were granted, projected dividends, share price fluctuations, the expected volatility, the risk-free interest rate, expected life of the options in years and the weighted average share price of the Company. The contractual life of each option granted is three years. There are no cash settlement options.

Employee share-option plan for 2011 (long term incentive plan (LTIP))

On 13 June 2011, 1 314 000 options were granted to certain key employees under the LTIP of the Company. Of the total number of shares, 438 000 were Nil Value Options and 876 000 were Market Value Options. The exercise price of the Market Value Options is £2.63 (US$4.38), which was equal to the market price of the shares on the date of the grant. The vesting of the options will be subject to the same conditions as the LTIP 2010 above.

Employee share-option plan for March 2012 (long term incentive plan (LTIP))

On 20 March 2012, 1 347 000 options were granted to certain key employees under the LTIP of the Company. Of the total number of shares, 449 000 were Nil Value Options and 898 000 were Market Value Options. The exercise price of the Market Value Options is £3.00 (US$ 4.76), which was equal to the market price of the shares on the date of the grant. The vesting of the options will be subject to the same conditions as the LTIP 2010 above.

Employee share-option plan for September 2012 (long term incentive plan (LTIP))

On 11 September 2012, a further 936 000 options were granted to certain key employees 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$2.95), which was equal to the market price of the shares on the date of grant. The vesting of the September 2012 options is subject to performance conditions based on goals relating to company and individual performance which are classified as non-market conditions. The fair value of these options is estimated in a similar manner as the LTIP 2010 above.

Movements in the year

Employee share-option plan

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

	2012	2011
Outstanding at beginning of year	**44**	47
Exercised during the year	**(11)**	(3)
Balance at end of year	**33**	44
Exercisable at end of year	**–**	–

The following table lists the inputs to the model used for the plan for the awards granted in 2008:

Employee share-option plan

Dividend yield (%)	–
Expected volatility (%)	22
Risk-free interest rate (%)	5
Expected life of option (years)	10
Weighted average share price	18.28
Model used	Black Scholes

The fair value of share options granted is estimated at the date of the grant using a Black Scholes simulation model, taking into account the terms and conditions upon which the options were granted, projected dividends, share price fluctuations, the expected volatility, the risk-free interest rate, expected life of the option in years and the weighted average share price of the Company.

The ESOP is an equity-settled plan and the fair value is measured at the grant date.

Performance shares

The performance shares vested in April 2011 without meeting the performance conditions. All share options were forfeited. The following table illustrates the number ('000) and movement in share options during the year:

	2012 US$'000	2011 US$'000
Outstanding at beginning of year	**–**	319
Forfeited during the year	**–**	(319)
Balance at end of year	**–**	–
Exercisable at end of year	**–**	–

The following table lists the inputs to the model used for the four tranches of the performance share awards:

Performance Share Awards	**Tranche 1**	**Tranche 2**	**Tranche 3**	**Tranche 4**
Award date	30/04/2008	09/06/2008	01/07/2008	02/12/2008
Dividend yield (%)	–	–	–	–
Expected volatility (%)	30.58	31.32	31.23	74.18
Risk-free interest rate (%)	2.49	2.98	2.92	1.13
Expected life of option (years)	3.00	3.00	3.00	3.00
Weighted average share price	13.60	20.34	20.51	3.96

Model used	Monte Carlo	Monte Carlo	Monte Carlo	Monte Carlo

The fair value of share options granted is estimated at the date of the grant using a Monte Carlo simulation model, taking into account the terms and conditions upon which the options were granted, projected dividends, share price fluctuations, the expected volatility, the risk-free interest rate, expected life of the option in years and the weighted average share price of the Company.

The ESOP is an equity-settled plan and the fair value is measured at the grant date.

Employee share-option plan for 2012 and 2011 (long term incentive plan (LTIP))

The following table illustrates the number ('000) and movement in the ESOP 2012 and 2011 share options during the year:

	2012	2011
Outstanding at beginning of year	**2 467**	1 375
Granted during the year	**2 283**	1 314
Forfeited	**(249)**	(222)
Balance at end of year	**4 501**	2 467
Exercisable at end of year	**–**	–

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

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

The fair value of share options granted is estimated at the date of the grant using a Monte Carlo simulation model, taking into account the terms and conditions upon which the options were granted, projected dividends, share price fluctuations, the expected volatility, the risk-free interest rate, expected life of the option in years and the weighted average share price of the Company.

Contact details

Gem Diamonds Limited

Registered Office
Coastal Building, 2nd Floor
Wickham's Cay II
Road Town
Tortola
British Virgin Islands

Head Office

2 Eaton Gate
London SW1W 9BJ
United Kingdom

T:+44 20 3043 0280
F:+44 20 3043 0281

Advisors

Financial Advisor and Sponsor

JPMorgan Cazenove Limited
20 Moorgate
London EC2R 6DA
United Kingdom

T:+44 20 7588 2828
F:+44 20 7155 9000

Legal Advisor

Linklaters
One Silk Street
London EC2Y 8HQ
United Kingdom

T:+44 20 7456 2000
F:+44 20 7456 2222

Auditors

Ernst & Young LLP
1 More London Place
London SE1 2AF
United Kingdom

T:+44 20 7951 2000
F:+44 20 7951 1345

Financial PR Advisor

Pelham Bell Pottinger
5th Floor, Holborn Gate
330 High Holborn
London WC1V 7QD

T:+44 20 7861 3232
F:+44 20 7861 3233