**18 March 2014**

# GEM DIAMONDS FULL YEAR 2013 RESULTS

## STRONG OPERATIONAL PERFORMANCE

Gem Diamonds Limited (the Company) is pleased to announce its Full Year results for the period ending 31 December 2013.

Gem Diamonds' focus for 2013 remained on initiatives to reduce diamond damage at its Letšeng mine in Lesotho, and this has resulted in a significant reduction in diamond damage; and the development of the Ghaghoo mine in Botswana, which has made good progress and is on-track for commercial production commencing in the second half of 2014. The technological and strategic investments made during the year, together with a more stable diamond market resulted in revenue of US$213 million generated from the sale of 97 294 carats from Letšeng (an increase of 5% compared to revenue of US$202 million from the sale of 107 617 carats in the prior year) and underlying EBITDA of US$77 million (up 18% from US$66 million in 2012).

The Company remains focused on optimising its core operations and developing the Ghaghoo mine.

## FINANCIAL RESULTS

- Revenue US$213 million, up 5%
- Underlying EBITDA US$77 million, 18%
- Attributable net profit US$21 million, up 23%
- Basic EPS US cents 15.3, up 24%
- Cash on hand US$71 million as at 31 December 2013 (net after debt); (US$63 million attributable to Gem Diamonds)

## OPERATIONAL HIGHLIGHTS

### LETŠENG:

- Carats recovered of  95 053
- Average US$ per carat US$2 043*
- Tonnes treated 6.2 million
- Waste tonnes moved 19.1 million tonnes
- 12.47 carat blue diamond sold for US$7.5 million, a Letšeng record of US$603 047 per carat
- Letšeng achieved a 5 star rating in external HSSE audit

*includes carats extracted for polishing at rough valuation

**GHAGHOO:**

- Construction of the sand portion of the access decline completed
- Extension of the main decline into basalt commenced
- Construction of the processing plant ready for final commissioning.
- Kimberlite intercepted
- US$71.2 million (of a total of US$96 million Phase 1 capital budget) spent as at 31 December 2013
- Ghaghoo maintained its 4 star rating in external HSSE audit

**OUTLOOK**

- Complete development of Ghaghoo, with production commencing H2 2014.
- Mining in Satellite pipe continues in 2014.
- Decreased diamond damage delivers increased revenue
- Coarse recovery plant project commenced
- Strong diamond market with improved prices seen in Q4 2013 continuing into Q1 2014.

Commenting on the results today, Clifford Elphick, Chief Executive Officer of Gem Diamonds, said:

*"I am delighted that the Company is able to report a pleasing set of results for 2013, during which good progress was made on all strategic initiatives, including the reduction of diamond damage at Letšeng. Operations in 2014 have begun well and we are looking forward to bringing the Ghaghoo mine into production in H2.*

*I am pleased to report that the Board of Directors has the intention of paying a maiden dividend to shareholders at the end of the 2014 financial year, based on the Group's strong balance sheet and the anticipated performance of the Company's operations."*

The Company will be hosting an analyst presentation on its full year results today, which will take place at 9.30am at 60 Cannon Street. A copy of the full Annual Report 2013 and a live audio webcast of the presentation will be available on the Company's website: www.gemdiamonds.com

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**ABOUT GEM DIAMONDS**

Gem Diamonds is a leading global producer of high value diamonds. The Group currently has one producing mine, the Letšeng mine in Lesotho, and is developing the Ghaghoo mine in Botswana. The Letšeng mine is renowned for its regular production of large, top colour, exceptional white diamonds, making it the highest average dollar per carat kimberlite diamond mine in the world. Since Gem Diamonds acquired the mine in 2006, Letšeng has produced four of the 20 largest white gem quality diamonds ever recorded.

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

**MANAGEMENT COMMENTARY:**

**CHAIRMAN'S STATEMENT**

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

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

**Strategic review**

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

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

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

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

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

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

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

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

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

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

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

The health and safety of employees is a responsibility that is at the top of management's list of operational priorities.

The Group continues to implement the highest standards of HSSE governance, incorporating relevant international best practice guidelines.

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

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

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

**Corporate governance and the Board**

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

After seven years of service, Kevin Burford retired from the Group. Kevin served as Group Chief Financial Officer from January 2006 to April 2013. On behalf of the Board, I would like to thank Kevin for his contribution to Gem Diamonds. In 2013, Michael Michael was welcomed to the Board as the Group Chief Financial Officer. Michael was previously the Group Financial Manager and we look forward to his continued contribution in the years ahead.

**Appreciation**

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

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

**Outlook**

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

**Roger Davis**

Non-executive chairman

17 March 2014

**CHIEF EXECUTIVE OFFICER'S OVERVIEW**

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

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

**Performance during 2013**

**Letšeng**

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

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

Four new secondary and tertiary cone crushers were installed in Plants 1 and 2 in the first half of 2013. There was anticipated downtime during their installation and this, together with some test work done in the first quarter, which entailed slowing down plant throughput to determine if there was any correlation between production rate and diamond breakage, resulted in ore treated for the year being down to 6.2 million tonnes, compared to 6.6 million tonnes in 2012. There has, however, been a significant reduction in diamond breakage following the installation of these new crushers with 25 diamonds larger than 50 carats recovered through Letšeng's Plants 1 and 2 since installation in May 2013 to 31 December 2013. Work to identify further incremental improvements to throughput and breakage at both plants is ongoing. Results are encouraging and this work will progress during early 2014.

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

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

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

**Ghaghoo**

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

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

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

It is very satisfying to see that the advance of the decline shaft through difficult and dangerous conditions has taken place on time and on budget. This is thanks to the technical expertise and the dedication of all Group and contractor employees who have worked tirelessly to make this exciting project a reality. I wish to express the thanks of our Board and shareholders to all those who have contributed to the success of this project thus far. With the kimberlite now intersected and the development of the mining tunnels taking place, the completion of Phase 1 of the project is in sight. The commencement of commercial production remains on schedule for the second half of 2014; ramping up to the planned Phase 1 steady state annual production rate by the end of the year of approximately 200 000 to 220 000 carats per annum, extracted from 720 000 tonnes of ore. The mining support infrastructure, camp, treatment plant and other services are in place and are operating effectively. As at 31 December 2013, US$71.2 million of the total capital budget of US$96.0 million had been spent and bank finance is in place for the remaining US$25 million to complete Phase 1.

**Sales, marketing and manufacturing**

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

**HSSE**

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

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

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

The well-being and economic prosperity of communities around our operations and the maintenance of the surrounding environment remains a focus for the Group, as we wish to leave a positive legacy for future generations from our activities. Therefore, where our operations are able to match available skills in project affected communities with on-site requirements, local recruitment takes place. During 2013, we participated in various corporate social investment initiatives at both Letšeng and Ghaghoo based on detailed needs assessments. These projects included offering scholarships, assisting our schools, helping develop infrastructure within communities, constructing health posts and treating community members at on-site clinics.

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

**Outlook**

The emphasis for 2014 and beyond remains on positioning the Group to leverage its strengths and invest responsibly in future value creation. We are focused on bringing Ghaghoo into production, as well as concentrating on the continued development and expansion of our Letšeng operation. We remain confident in our ability to deliver returns to our shareholders.

In this regard, I am pleased to report that the Board of Directors has the intention of paying a maiden dividend to shareholders at the end of 2014 financial year, based on continued strong performance of the Company's operations.

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

**Clifford Elphick**

Chief Executive Officer

17 March 2014

**OPERATING REVIEW**

**Focus for 2014**

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

**Letšeng**

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

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

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

**Highlights summary**

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

**Diamond sales**

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

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

**Frequency of recoveries of large diamonds at Letšeng**

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

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

**Operational performance**

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

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

*Addressing diamond damage*

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

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

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

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

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

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

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

**Sales and marketing strategy**

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

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

**Diamond sales**

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

In 2013, 566 rough diamonds greater than 10.8 carats in size were recovered at Letšeng, totalling 12 125 carats and contributing US$149.0 million or 75% of total rough diamond value (compared with 647 rough diamonds greater than 10.8 carats totalling 13 554 carats and contributing US$151.2 million or 73% of Letšeng's total rough revenue in 2012).

A total of 96 diamonds recorded prices greater than US$20 000 per carat, contributing rough value of US$114.1 million or 57% of Letšeng's rough revenue, compared with 134 diamonds in 2012, which contributed US$117.6 million or 57% of Letšeng's rough revenue in 2012.

**HSSE**

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

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

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

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

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

**2014 and onwards**

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

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

**OPERATING REVIEW**

**Ghaghoo**

**Focus for 2014**

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

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

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

**Highlights summary**

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

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

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

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

The processing plant will be fully commissioned well ahead of a sustainable feed of run of mine ore becoming available from underground. A build-up to a steady state production rate of 60 000 tonnes per month is planned by the end of 2014. It is anticipated that approximately 200 000 to 220 000 carats will be extracted from 720 000 tonnes of ore per annum. Production readiness preparation is progressing well and will be in place before the end of the first quarter of 2014.

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

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

**HSSE**

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

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

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

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

**2014 onwards**

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

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

**SALES, MARKETING AND MANUFACTURING**

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

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

**Highlights summary**

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

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

**Sales and marketing**

Letšeng's rough diamond production is sold on an electronic tender platform and is marketed by Gem Diamonds Marketing Services. The tender platform is designed to enhance engagement with customers by allowing continuous access, flexibility and communication, as well as ensuring transparency during the tender process. Although viewings of the diamonds take place in Antwerp over 10 tenders annually, the electronic tender platform allows customers the flexibility to participate in each tender from anywhere in the world. This contributes to the achievement of highest market-driven prices for the Group's rough diamond production.

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

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

**Analysis and manufacturing**

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

In order to access the highest value for its top-quality diamonds, the Group also selectively manufactures some of its own high-value rough diamonds through the Baobab operation and places other exceptional diamonds into strategic manufacturing and partnership arrangements with select clients.

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

## GROUP FINANCIAL PERFORMANCE

**Focus for 2014**

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

**Highlights summary**

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

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

| | | |
|---|---|---|
| **Attributable profit/(loss) after exceptional items** | **21.1** | (117.8) |
| Earnings per share (US cents) before exceptional items | **15.2** | 12.4 |

**Revenue**

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

***Mining operations***

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

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

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

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

*[2] Represents all goods sold to Gem Diamonds Marketing Services in the year.*

*[3] Including waste amortisation but excluding depreciation and mining asset amortisation.*

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

***Sales, marketing and manufacturing***

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

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

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

***Costs***

Operational excellence through cost reductions and enhancing production efficiency remained a key focus area for 2013. The Lesotho loti (LSL) (pegged to the South African rand) and the Botswana pula (BWP) were significantly weaker than the prior year, positively impacting US dollar reported costs during the year.

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

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

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

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

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

| **Letšeng costs** | **Year ended 31 December 2013** | Year ended 31 December 2012 |
|---|---|---|
| **US$ (per unit)** | | |
| Direct cash cost (before waste) per tonne treated[1] | **13.34** | 13.18 |
| Operating cost per tonne treated[2] | **15.85** | 15.29 |
| Waste cash cost per waste tonne mined | **2.71** | 2.97 |
| **Local currency (per unit) LSL** | | |
| Direct cash cost (before waste) per tonne treated[1] | **128.68** | 108.24 |
| Operating cost per tonne treated[2] | **152.92** | 125.57 |
| Waste cash cost per waste tonne mined | **26.12** | 24.40 |
| **Other operating information (US$ millions)** | | |
| Waste capitalised | **59.3** | 60.6 |
| Waste amortised | **34.9** | 26.9 |
| Depreciation and mining asset amortisation | **16.0** | 17.7 |
| Capital expenditure[3] | **9.9** | 22.8 |

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

*[2] Operating costs exclude royalty and selling costs and depreciation and mine amortisation, and include inventory, waste amortisation and ore stockpile adjustments.*

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

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

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

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

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

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

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

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

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

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

**Financial position and funding review**

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

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

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

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

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

**Looking ahead**

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

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

**PRINCIPAL RISKS AND UNCERTAINTIES**

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

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

The Group has identified the following key risks. This is not an exhaustive list, but rather a list of the most material risks facing the Group. The impact of these risks individually or collectively, could potentially affect the ability of the Group to operate profitably and generate positive cash flows in the medium to long term. As a result, these risks are actively monitored and managed, as detailed below.

| Commentary | Mitigation | 2013 actions and outcomes |
|---|---|---|
| **Market risks** | | |
| Numerous factors may affect the price and demand of diamonds which are beyond the control of the Group. These factors include international economic and political trends, as well as consumer trends.<br>The funding of growth plans could also be adversely affected by negative market conditions. | Market conditions are continually monitored to identify current trends that will pose a threat or create an opportunity for the Group. The Group has flexibility in its sales processes and the ability to reassess its capital projects and operational strategies in light of current market conditions to preserve cash balances.<br>Strict treasury management procedures are also in place to monitor cash and capital projects expenditure. | During the year, diamond prices outperformed the mineral reserve prices.<br>Capital expenditure was deferred without materially affecting the execution and timeline of projects.<br>As part of the operational strategy to improve the quality of diamonds produced, in order to access higher revenues, increased investment in waste stripping occurred at Letšeng to access higher-grade, higher-value Satellite pipe ore in the latter part of the year.<br>The Group has a strong balance sheet with cash reserves of US$71 million plus existing undrawn facilities of US$44 million* with sufficient funding to conclude the development of Ghaghoo. |

**Operational risks**

| | | |
|---|---|---|
| ***Mineral resource risk*** | | |
| The Group's mineral resources influence the operational mine plans and affect the generation of sufficient margins. Underperformance of its mineral resources could affect the Group's ability to operate profitably in the medium to long term. | Various bulk sampling programmes combined with geological mapping and modelling methods significantly improve the Group's understanding of the mineral resources and assist in mining the existing mineral resources profitably. | Letšeng drilling programmes and discreet sampling were undertaken to improve confidence in geology and resource volume and the understanding of grade and revenue estimates.<br>World renowned kimberlite geology experts were engaged to improve the understanding of the geology at Letšeng. |
| ***A major production interruption*** | | |
| The Group may experience material mine and/or plant shutdowns or periods of decreased production due to a number of different events. Any such event could negatively affect the Group's operations and impact both profitability and cash flows. | The continual review of the likelihood of possible different events and ensuring that the appropriate management controls, processes and business continuity plans are in place to mitigate this risk. | A review of the business continuity plan was undertaken at Letšeng during the year and is in the process of internal audit review.<br>Improvements in power monitoring and backup power supply were undertaken at Letšeng, reducing the risk of lengthy outages. |
| ***HSSE-related risks*** | | |
| The risk that a major health, safety, social or environmental incident may occur within the Group is inherent in mining operations. | The Group has reviewed and published policies in this regard and significant resources have been allocated to continuously improve, review, recommend, implement and monitor compliance throughout the various operations within the Group. This is overseen by the HSSE Committee of the Board.<br>Further to this, the Group engages independent third parties to review and provide assurance on processes currently in place. | Due to continuous focus on best practice, an excellent safety and environmental record was achieved during the year.<br>The five-star rating awarded to Letšeng in its external 2013 HSSE audit supports this.<br>Corporate social investment into the Group's project affected communities continued throughout the year. |

** As at 31 December 2013.*

| Commentary | Mitigation | 2013 actions and outcomes |
|---|---|---|
| **Operational risks** continued | | |
| ***Diamond theft*** | | |
| Theft is an inherent risk factor in the diamond industry. | Security measures are constantly reviewed and implemented in order to minimise this risk. | A new coarse recovery plant project was approved during the year which incorporates enhanced security features.<br>Upgrades to the existing security systems and facilities were implemented at Letšeng. |
| ***Diamond damage*** | | |
| Damage to large stones may occur during the mining and recovery processes which could negatively impact the pricing, affecting both profitability and cash flows. | Diamond damage is regularly monitored and analysed. Continuous studies are conducted to further implement modifications and identify opportunities to reduce such damage. | New crushers were installed at Letšeng during the year. Reduced diamond damage was evident following their commissioning. In addition, other projects are being reviewed which will further reduce diamond damage.<br>Blasting techniques were refined to improve liberation of large diamonds. |
| ***Political risks*** | | |
| The political environments of the various jurisdictions that the Group operates within may adversely impact the ability to operate effectively and profitably. Emerging market economies are generally subject to greater risks, including regulatory and political risk, and are potentially subject to rapid change. | Changes to the political environment and regulatory developments are closely monitored. Where necessary, the Group engages in dialogue with relevant government representatives in order to keep well informed of all legal and regulatory developments impacting its operations and to build relationships. | The Group actively managed and monitored its political risk exposure during 2013.<br>Ongoing dialogues with representative stakeholders were held.<br>There were no strikes or lockouts during the year.<br>No matters of non-compliance were identified as all necessary legal requirements were met. |

**Financial risks**

| | | |
|---|---|---|
| ***Exchange rates*** | | |
| The Group receives its revenue in US dollars, while its cost base arises in local currencies of the various countries within which the Group operates. The weakening of the US dollar relative to these local currencies and the volatility of these currencies trading against the US dollar will impact the Group's profitability. | The impact of the exchange rates and fluctuations are closely monitored. Where appropriate and at relevant currency levels, the Group enters into exchange rate contracts to protect future cash flows. | Local currencies in the jurisdictions in which the Group operates have weakened against the US dollar during the year, in favour of the Group's results.<br>Numerous hedges were taken out to take advantage of the weakened currencies. |

**Growth risks**

| | | |
|---|---|---|
| ***Expansion and project delivery*** | | |
| The Group's growth strategy is based on delivery of expansion projects, premised on various studies, cost indications and future market assumptions. In assessing the viability, costs and implementation of these projects, risks concerning cost overruns and/or delays may affect the effective implementation and execution thereof. | Project governance structures have been implemented to ensure that the projects are monitored and risks managed at an appropriate level. Flexibility in the execution of projects allows the Group to react quickly to changes in market and operational conditions. | Active management of project risks resulted in the following:<br>• Studies on the Letšeng expansion projects have advanced well during the year. The new crushers were successfully installed on time and within budget.<br>• The development of Ghaghoo is still on track and within budget for delivery in the second half of 2014. |

**Strategic risks**

| | | |
|---|---|---|
| ***Retention of key personnel*** | | |
| The successful achievement of the Group's objectives and sustainable growth depends on its ability to attract and retain key personnel. | The Group's remuneration policies and human resources practices are designed to attract, incentivise and retain individuals of the right calibre through performance- based bonus schemes and long-term reward and retention schemes, such as the Employee Share Option Plan (ESOP). | A review and amendment of the remuneration policies were undertaken during the year to retain key skills within the Group. |

## FINANCIAL STATEMENTS

## RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL REPORT AND FINANCIAL STATEMENTS

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

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

**Preparation of the financial statements**

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

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

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

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

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

The Directors of the Company have elected to comply with certain Companies Act and Listing Rules (LR) which would otherwise only apply to companies incorporated in the UK – namely:

(a) the Directors' statement under LR 9.8.6R(3) (statement by the Directors that the business is a going concern);

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

(c) the requirements of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 of the United Kingdom pertaining to Directors' remuneration that UK quoted companies are required to comply with.

**Michael Michael**

Chief Financial Officer

17 March 2014

**CONSOLIDATED INCOME STATEMENT**

for the year ended 31 December 2013

| | Notes | **2013 US$'000 Before exceptional items** | **2013 US$'000 Exceptional items** | **2013 US$'000 Total** | 2012 US$'000 Before exceptional items | 2012 US$'000 Exceptional items | 2012 US$'000 Total |
|---|---|---|---|---|---|---|---|
| Revenue | 2 | **212 828** | **–** | **212 828** | 202 118 | – | 202 118 |
| Cost of sales | | **(120 136)** | **–** | **(120 136)** | (120 478) | – | (120 478) |
| **Gross profit** | | **92 692** | **–** | **92 692** | 81 640 | – | 81 640 |
| Other operating income | | **746** | **–** | **746** | 1 271 | – | 1 271 |
| Royalties and selling costs | | **(18 485)** | **–** | **(18 485)** | (19 142) | – | (19 142) |
| Corporate expenses | | **(14 124)** | **–** | **(14 124)** | (15 629) | – | (15 629) |
| Share-based payments | 27 | **(932)** | **–** | **(932)** | (2 281) | – | (2 281) |
| Foreign exchange gain | 3 | **606** | **–** | **606** | 3 815 | – | 3 815 |
| Reversal of impairment/(impairment) of assets | 4 | **–** | **155** | **155** | – | (16 241) | (16 241) |
| **Operating profit** | 3 | **60 503** | **155** | **60 658** | 49 674 | (16 241) | 33 433 |
| Finance (cost)/income | 5 | **(1 639)** | **–** | **(1 639)** | 1 312 | – | 1 312 |
| Finance income | | **1 218** | **–** | **1 218** | 2 564 | – | 2 564 |
| Finance costs | | **(2 857)** | **–** | **(2 857)** | (1 252) | – | (1 252) |
| **Profit before tax for the year from continuing operations** | | **58 864** | **155** | **59 019** | 50 986 | (16 241) | 34 745 |
| Income tax expense | 6 | **(20 855)** | **–** | **(20 855)** | (18 407) | – | (18 407) |
| **Profit for the year from continuing operations** | | **38 009** | **155** | **38 164** | 32 579 | (16 241) | 16 338 |
| **Loss after tax for the year from discontinued operations** | 7 | **–** | **–** | **–** | – | (118 686) | (118 686) |
| Loss after tax | | **–** | **–** | **–** | – | (70 297) | (70 297) |
| Recycling of foreign currency translation reserve on disposal of subsidiary | | **–** | **–** | **–** | – | (48 389) | (48 389) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Profit/(loss) for the year** | | **38 009** | **155** | **38 164** | 32 579 | (134 927) | (102 348) |
| *Attributable to:* | | | | | | | |
| Equity holders of parent | | **21 015** | **155** | **21 170** | 17 072 | (134 927) | (117 855) |
| Profit for the year | | **21 015** | **155** | **21 170** | 17 072 | (16 241) | 831 |
| Loss for the year from discontinued operations | | **–** | **–** | **–** | – | (118 686) | (118 686) |
| Non-controlling interests | | **16 994** | **–** | **16 994** | 15 507 | – | 15 507 |
| **Earnings per share (cents)** | 8 | | | | | | |
| Basic earnings per share | | **15.2** | **0.1** | **15.3** | 12.4 | (85.9) | (73.5) |
| Diluted earnings per share* | | **15.1** | **0.1** | **15.2** | 12.2 | (85.1) | (72.9) |

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

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

for the year ended 31 December 2013

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

as at 31 December 2013

| | Notes | **2013 US$'000** | 2012 US$'000 |
|---|---|---|---|
| **Assets** | | | |
| Non-current assets | | | |
| Property, plant and equipment | 9 | **373 625** | 408 605 |
| Investment property | 10 | **615** | 616 |
| Intangible assets | 11 | **20 202** | 24 973 |
| Other financial assets | 13 | **28** | 14 |
| | | **394 470** | 434 208 |
| **Current assets** | | | |
| Inventories | 15 | **29 326** | 22 652 |
| Receivables and other assets | 16 | **6 749** | 7 273 |
| Other financial assets | 13 | **13** | 16 444 |
| Cash and short-term deposits | 17 | **71 178** | 70 842 |
| | | **107 266** | 117 211 |
| **Total assets** | | **501 736** | 551 419 |
| **Equity and liabilities** | | | |
| **Equity attributable to equity holders of the parent** | | | |
| Issued capital | 18 | **1 383** | 1 383 |
| Share premium | | **885 648** | 885 648 |
| Treasury shares[1] | | **(1)** | (1) |
| Other reserves | 18 | **(69 408)** | (17 130) |
| Accumulated losses | | **(518 091)** | (539 261) |
| | | **299 531** | 330 639 |
| **Non-controlling interests** | | **70 879** | 70 993 |
| **Total equity** | | **370 410** | 401 632 |

| | | | |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Trade and other payables | 19 | **1 109** | 1 007 |
| Provisions | 20 | **23 186** | 29 496 |
| Deferred tax liabilities | 14 | **64 824** | 71 277 |
| | | **89 119** | 101 780 |
| **Current liabilities** | | | |
| Interest-bearing loans and borrowings | 22 | **–** | 2 947 |
| Trade and other payables | 19 | **37 086** | 43 775 |
| Income tax payable | | **5 121** | 1 285 |
| | | **42 207** | 48 007 |
| **Total liabilities** | | **131 326** | 149 787 |
| **Total equity and liabilities** | | **501 736** | 551 419 |

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

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

**C T Elphick** Director

**M Michael** Director

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

for the year ended 31 December 2013

| | Issued capital[2] | Share premium[2] | Own shares[1] | Other reserves[2] | Accumulated (losses)/ retained earnings | Total | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| | Attributable to the equity holders of the parent | | | | | | | |
| **Balance at 1 January 2013** | **1 383** | **885 648** | **(1)** | **(17 130)** | **(539 261)** | **330 639** | **70 993** | **401 632** |
| Profit for the year | **–** | **–** | **–** | **–** | **21 170** | **21 170** | **16 994** | **38 164** |
| Other comprehensive income | **–** | **–** | **–** | **(53 442)** | | **(53 442)** | **(11 170)** | **(64 612)** |
| **Total comprehensive income** | **1 383** | **885 648** | **(1)** | **(53 442)** | **21 170** | **(32 272)** | **5 824** | **(26 448)** |
| Share-based payments (Note 27) | **–** | **–** | **–** | **1 164** | **–** | **1 164** | **–** | **1 164** |
| Dividends paid | **–** | **–** | **–** | **–** | **–** | **–** | **(5 938)** | **(5 938)** |
| **Balance at 31 December 2013** | **1 383** | **885 648** | **(1)** | **(69 408)** | **(518 091)** | **299 531** | **70 879** | **370 410** |
| **Balance at 1 January 2012** | 1 383 | 885 648 | (1) | (48 720) | (421 406) | 416 904 | 66 879 | 483 783 |
| Loss for the year | – | – | – | – | (117 855) | (117 855) | 15 507 | (102 348) |
| Other comprehensive income | – | – | – | 28 477 | – | 28 477 | (2 623) | 25 854 |
| **Total comprehensive income** | – | – | – | 28 477 | (117 855) | (89 378) | 12 884 | (76 494) |
| Share-based payments (Note 27) | – | – | – | 3 113 | – | 3 113 | – | 3 113 |
| Dividends paid | – | – | – | – | – | – | (8 770) | (8 770) |
| **Balance at 31 December 2012** | 1 383 | 885 648 | (1) | (17 130) | (539 261) | 330 639 | 70 993 | 401 632 |

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

[2] *Refer to Note 18, Issued capital and reserves, for further detail.*

**CONSOLIDATED STATEMENT OF CASH FLOWS**

as at 31 December 2013

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

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

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

for the year ended 31 December 2013

## 1. Notes to the financial statements

### *1.1 Corporate information*

#### *1.1.1 Incorporation*

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

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

#### *1.1.2 Operational information*

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

| Name of company | Share-holding | Cost of investment[1] | Country of incorporation | Nature of business |
|---|---|---|---|---|
| Subsidiaries | | | | |
| Gem Diamond Technical Services (Proprietary) Limited[2] | 100% | US$17 | RSA | Technical, financial and management consulting services. |
| Gem Equity Group Limited[2] | 100% | US$52 277 | BVI | Dormant investment company holding 1% in Gem Diamonds Botswana (Proprietary) Limited, 2% in Gem Diamonds Marketing Services BVBA, 1% in Baobab Technologies BVBA and 0.1% in Calibrated Gem Botswana (Proprietary) Limited. |
| Letšeng Diamonds (Proprietary) Limited[2] | 70% | US$126 000 303 | Lesotho | Diamond mining and holder of mining rights. |
| Gem Diamonds Botswana (Proprietary) Limited[2] | 100% | US$27 752 144 | Botswana | Diamond mining; evaluation and development; and holder of mining licences and concessions. |
| BDI Mining Corp[2] | 100% | US$82 064 783 | BVI | Dormant investment company. |

| | | | | |
|---|---|---|---|---|
| Gem Diamonds Australia Holdings[2] | 100% | US$293 960 521 | Australia | Dormant investment company. |
| Gem Diamonds Investments Limited[2] | 100% | US$17 531 316 | UK | Investment holding company holding 100% in each of Gem Diamonds Technology (Mauritius) Limited, Gem Diamonds Technology DMCC and Calibrated Diamonds Investment Holdings (Proprietary) Limited; 99.9% in Calibrated Gem Botswana (Proprietary) Limited; 99% in Baobab Technologies BVBA and 98% in Gem Diamonds Marketing Services BVBA, a marketing company that sells the Group's diamonds on tender in Antwerp. |

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

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

*1.1.3 Segment information*

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

- Lesotho (diamond mining activities)
- Botswana (diamond mining activities)
- Belgium (sales, marketing and manufacturing of diamonds)
- Mauritius (manufacturing of diamonds)
- BVI, RSA and UK (technical and administrative services)

The Mauritius and Belgium operations have been aggregated into one operating segment, as management monitors these two operations as one, due to the similarity of their services provided.

Management monitors the operating results of the geographical units separately (except for Belgium and Mauritius) for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss.

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

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

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

| Year ended 31 December 2013 | Lesotho US$'000 | Botswana US$'000 | Belgium and Mauritius US$'000 | BVI, RSA and UK US$'000 | Total continuing operations US$'000 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Total revenue | **201 310** | **–** | **212 897** | **9 001** | **423 208** |
| Inter-segment | **(199 556)** | **–** | **(2 390)** | **(8 434)** | **(210 380)** |
| **External customers** | **1 754** | **–** | **210 507** | **567** | **212 828** |
| **Results** | | | | | |
| Depreciation and amortisation | **51 067** | **–** | **869** | **415** | **52 351** |
| Depreciation and mining asset amortisation | **16 012** | **–** | **869** | **415** | **17 296** |
| Waste amortisation | **35 055** | **–** | **–** | **–** | **35 055** |
| Share-based equity transactions | **385** | **–** | **–** | **547** | **932** |
| (Reversal of impairment)/impairment of assets | **58** | **–** | **–** | **(213)** | **(155)** |
| **Segment operating profit/(loss)** | **76 605** | **24** | **(2 396)** | **(13 575)** | **60 658** |
| Net finance cost | | | | | **(1 639)** |
| **Profit before tax** | | | | | **59 019** |
| Income tax expense | | | | | **(20 855)** |
| **Profit for the year** | | | | | **38 164** |
| **Segment assets** | **340 853** | **107 004** | **11 209** | **42 670** | **501 736** |
| **Segment liabilities** | **42 922** | **5 632** | **13 694** | **4 254** | **66 502** |
| **Other segment information** | | | | | |
| Capital expenditure | | | | | |
| – Property, plant and equipment* | **7 915** | **20 712** | **566** | **41** | **29 234** |
| – Waste cost capitalised | **59 278** | **–** | **–** | **–** | **59 278** |
| **Total capital expenditure** | **67 193** | **20 712** | **566** | **41** | **88 512** |

** Capital expenditure includes non-cash movements in rehabilitation assets relating to changes in rehabilitation estimates for the Lesotho and Botswana segments and capitalisation of share-based payments for the Botswana segment.*

Included in total annual revenue is revenue from a single customer which amounted to US$22.6 million arising from sales reported in the Lesotho and Belgium segments.

Segment liabilities do not include deferred tax liabilities of US$64.8 million.

| Year ended 31 December 2012 | Lesotho US$'000 | Botswana US$'000 | Belgium and Mauritius US$'000 | BVI, RSA and UK US$'000 | Total continuing operations US$'000 | Discontinued operations US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | |
| Total revenue | 207 744 | – | 201 443 | 10 188 | 419 375 | 113 704 | 533 079 |
| Inter-segment | (205 492) | – | (1 729) | (10 036) | (217 257) | – | (217 257) |
| **External customers** | 2 252 | – | 199 714 | 152 | 202 118 | 113 704 | 315 822 |
| **Results** | | | | | | | |
| Depreciation and amortisation | 44 618 | | 473 | 912 | 46 003 | 49 530 | 95 533 |
| Depreciation and mining asset amortisation | 17 651 | – | 473 | 912 | 19 036 | 18 278 | 37 314 |
| Waste amortisation | 26 967 | – | – | – | 26 967 | 31 252 | 58 219 |
| Share-based equity transactions | 305 | – | – | 1 977 | 2 281 | 650 | 2 931 |
| Impairment | 1 428 | – | – | 14 813 | 16 241 | 4 121 | 20 362 |
| **Segment operating profit/(loss)** | 67 683 | (246) | 1 745 | (35 477) | 33 433 | (6 107) | 27 326 |
| Net finance income/(cost) | | | | | 1 312 | (493) | 819 |
| **Profit/(loss) before tax** | | | | | 34 745 | (6 600) | 28 145 |
| Income tax expense | | | | | (18 407) | – | (18 407) |
| Remeasurement to fair value | | | | | – | (63 697) | (63 697) |
| Recycling of foreign currency translation reserve on disposal of subsidiary | | | | | – | (48 389) | (48 389) |
| **Profit/(loss) for the year** | | | | | 16 338 | (118 686) | (102 348) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Segment assets** | 372 778 | 100 490 | 17 171 | 60 980 | 551 419 | – | 551 419 |
| **Segment liabilities** | 51 042 | 6 702 | 6 402 | 14 365 | 78 510 | – | 78 510 |
| **Other segment information** | | | | | | | |
| Capital expenditure | | | | | | | |
| – Property, plant and equipment* | 31 677 | 36 731 | 3 339 | 474 | 72 219 | 15 457 | 87 676 |
| – Waste cost capitalised | 60 559 | – | – | – | 60 559 | 36 058 | 96 617 |
| **Total capital expenditure** | 92 236 | 36 731 | 3 339 | 474 | 132 778 | 51 515 | 184 293 |

** Capital expenditure includes non-cash movements in rehabilitation assets relating to changes in rehabilitation estimates for the Lesotho and Botswana segments and capitalisation of share-based payments for the Botswana segment.*

Included in the prior year annual revenue is revenue from a single customer which amounted to US$88.7 million arising from sales reported in the discontinued operations segment.

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

## *1.2 Summary of significant accounting policies*

### *1.2.1 Basis of presentation*

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

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

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

The Group has also adopted the following standards and interpretations from 1 January 2013:

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

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

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

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

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

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

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

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

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 Consolidated and Separate Financial Statements that dealt with consolidated financial statements and SIC 12 Consolidation – Special Purpose Entities. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including:

(a) An investor has power over an investee;

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

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

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

IFRS 12 *Disclosure of Interests in Other Entities*

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

IFRS 13 *Fair Value Measurement*

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

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

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

*Standards issued but not effective*

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

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

| | | | |
|---|---|---|---|
| IFRS 9, IFRS 7 | *Financial Instruments: Classification and Measurement* | Classification and measurement of financial assets and financial liabilities as defined in IAS 39. Measurement of fair value. Based on preliminary analyses no material impact is expected. | IFRS 7 – 1 January 2015<br>IFRS 9 – 1 January 2018 |

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

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

*1.2.2 Going concern*

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Review. The financial position of the Company, its cash flows and liquidity position are described in the Strategic Review. In addition, Note 26, Financial risk management, includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and its exposures to credit risk and liquidity risk.

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

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

Refer to Note 26, Financial risk management for statements on the Company's objectives, policies and processes for managing its capital; details of its financial instruments and hedging activities; its exposures to market risk in relation to commodity price and foreign exchange risks; cash flow interest rate risk; credit risk and liquidity risk.

*1.2.3 Basis of consolidation*

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

*Subsidiaries*

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

(a) An investor has power over an investee;

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

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

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

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

*Non-controlling interests*

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

### 1.2.4 *Exploration and evaluation expenditure*

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

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

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

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

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

### *1.2.5 Development expenditure*

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

All development expenditure is monitored for indicators of impairment annually.

### *1.2.6 Property, plant and equipment*

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

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

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

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

*Pre-production stripping costs*

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

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

(b) the component of the orebody for which access will be improved can be accurately identified; and

(c) the costs associated with the improved access can be reliably measured.

The stripping activity asset is accounted for as an addition to, or an enhancement of, an existing asset, being the mine asset included under mining asset and disclosed in Note 9, Property, plant and equipment. If all the criteria are not met, the production stripping costs are charged to the income statement as operating costs. The stripping activity asset is initially measured at cost, which is the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component of ore, plus an allocation of directly attributable overhead costs. If incidental operations are occurring at the same time as the production stripping activity, but are not necessary for the production stripping activity to continue as planned, these costs are not included in the cost of the stripping activity asset. If the costs of the stripping activity asset and the inventory produced are not separately identifiable, a relevant production measure is used to allocate the production stripping costs between the inventory produced and the stripping activity asset. The stripping activity asset is subsequently amortised over the expected useful life of the identified component of the orebody that became more accessible as a result of the stripping activity. Based on proven and probable reserves, the expected average stripping ratio over the average life of the area being mined is used to amortise the stripping activity. As a result, the stripping activity asset is carried at cost less amortisation and any impairment losses.

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

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

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

*1.2.7 Investment property*

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

| | |
|---|---|
| Investment property | No depreciation is provided due to depreciable amount being zero |
| Initial direct costs capitalised to investment property | Five years |

*1.2.8 Business combinations, goodwill and other intangible assets*

*Business combinations and goodwill*

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

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

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

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

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

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

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

*Concessions and licences*

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

### *1.2.9 Other financial assets*

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

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

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

*Financial assets at fair value through profit or loss*

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

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except those with maturities greater than 12 months after the reporting date. These are classified as non-current assets. Such assets are carried at amortised cost using the effective interest rate method, less any allowance for impairment, if the time value of money is significant. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at an appropriate interest rate. The amount of the provision is recognised in the income statement.

*Held-to-maturity investments*

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

*Available-for-sale financial assets*

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

*Cash flow hedges*

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

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

*Fair value*

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

*Amortised cost*

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

*1.2.10 Financial liabilities*

*Interest-bearing borrowings*

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement, unless capitalised in accordance with Note 1.2.24, Finance costs, over the period of the borrowings, using the effective interest rate method.

Bank overdrafts are recognised at amortised cost.

*Fair value through profit or loss*

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

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

*1.2.11 Fair value measurement*

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

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

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

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

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

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement
as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

*1.2.12 Impairments*

*Non-financial assets*

Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill is assessed for impairment on an annual basis. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). Non-financial assets that were previously impaired are reviewed for possible reversal of the impairment at each reporting date.

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

*Financial assets*

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

*Assets carried at amortised cost*

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date, any subsequent reversal of an impairment loss is recognised in the income statement.

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

*Available-for-sale financial investments*

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

*1.2.13 Inventories*

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

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

*1.2.14 Cash and cash equivalents*

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

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

*1.2.15 Issued share capital*

Ordinary shares are classified as equity.

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

*1.2.16 Foreign currency translations*

*Presentation currency*

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

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

Details of the rates applied at the respective reporting dates and for the income statement transactions are detailed in Note 18, Issued capital and reserves.

*Transactions and balances*

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

### *1.2.17 Share-based payments*

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

*Equity-settled transactions*

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

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

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

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

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

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

*1.2.18Provisions*

Provisions are recognised when:

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

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

*1.2.19Restoration and rehabilitation*

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

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

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

*1.2.20 Taxation*

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

Deferred tax is provided using the statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on the tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

In respect of taxable temporary differences associated with investments in subsidiaries, associates and jointly controlled entities, deferred tax is provided except where the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

In respect of deductible temporary differences associated with investments in subsidiaries, associates and jointly controlled entities, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Withholding tax is recognised in the income statement when dividends or other services which give rise to that withholding tax are declared or accrued respectively. Withholding tax is disclosed as part of current tax.

*Royalties*

Royalties incurred by the Group comprise mineral extraction costs based on a percentage of sales paid to the local revenue authorities. These obligations arising from royalty arrangements are recognised as current provisions and disclosed as part of royalty and selling costs in the income statement.

Royalties and revenue-based taxes are accounted for under IAS 12 when they have the characteristics of an income tax. This is considered to be the case when they are imposed under Government authority and the amount payable is based on taxable income – rather than based on quantity produced or as a percentage of revenue. For such arrangements, current and deferred tax is provided on the same basis as described above for other forms of taxation. The royalties incurred by the Group are considered not to meet the criteria to be treated as part of income tax.

*1.2.21 Employee benefits*

Provision is made in the financial statements for all short-term employee benefits. Liabilities for wages and salaries, including non-monetary benefits, benefits required by legislation, annual leave, retirement benefits and accumulating sick leave obliged to be settled within 12 months of the reporting date, are recognised in trade and other payables and are measured at the amounts expected to be paid when the liabilities are settled. Benefits falling due more than 12 months after the reporting date are discounted to present value. The Group recognises an expense for contributions to the defined contribution pension fund in the period in which the employees render the related service.

*Bonus plans*

The Group recognises a liability and an expense for bonuses. The Group recognises a liability where contractually obliged or where there is a past practice that has created a constructive obligation. These liabilities are recognised in trade and other payables and are measured at the amounts expected to be paid when the liabilities are settled.

*1.2.22 Leases*

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

(a) There is a change in contractual terms, other than a renewal or extension of the arrangement;

(b) A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;

(c) There is a change in the determination of whether fulfilment is dependent on a specific asset; or

(d) There is a substantial change to the asset.

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

*Group as a lessee*

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

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.

*1.2.23Revenue*

Revenue is measured at fair value of the consideration received or receivable and comprises the fair value for the sale of goods, net of value added tax, rebates and discounts and after eliminated sales within the Group. Revenue is recognised as follows:

*Sale of goods*

The sale of rough diamonds (which are made through competitive tender processes or through partnership arrangements) and the sale of polished diamonds and other products (which are made through direct sale transactions) are recognised when the significant risks and rewards of ownership have been transferred to the customer and can be measured reliably and receipt of future economic benefits is probable.

*Rendering of service*

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

*Interest income*

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

*Dividends*

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

### *1.2.24 Finance costs*

Finance costs are generally expensed as incurred, except where they relate to the financing of construction or development of qualifying assets requiring a substantial period of time to prepare for their intended future use. Finance costs are capitalised up to the date when the asset is ready for its intended use.

### *1.2.25 Dividend distribution*

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

### *1.2.26 Critical accounting estimates and judgements*

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

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

*Life of mine*

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

*Exploration and evaluation expenditure*

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

*Development expenditure*

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

*Revenue*

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

*Property, plant and equipment – recoverable amount*

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

*Impairment of goodwill*

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

*Impairment of assets*

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

The Group has made a judgement in determining if, in the instance where the Group’s asset carrying values exceed its market capitalisation, this results in an indicator of impairment. The Group believes that the market capitalisation position does not represent an indicator of impairment as all significant operations were assessed during the year and there were no indicators of impairment. The goodwill in the Group which is reported in the Letšeng Diamonds and Calibrated Diamonds operations is tested annually, with no impairment evident in the current year. Refer Note 12, Impairment testing for further detail.

*Provision for restoration and rehabilitation*

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

*Taxation*

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

*Capitalised stripping costs (deferred waste)*

Waste removal costs (stripping costs) are incurred during the development and production phases at surface mining operations. Furthermore, during the production phase, stripping costs are incurred in the production of inventory as well as in the creation of future benefits by improving access and mining flexibility in respect of the ore to be mined, the latter being referred to as a 'stripping activity asset'. Judgement is required to distinguish between these two activities at each of the surface operations. The orebodies need to be identified in its various separately identifiable components. An identifiable component is a specific volume of the orebody that is made more accessible by the stripping activity. Judgement is required to identify and define these components (referred to as 'cuts'), and also to determine the expected volumes (tonnes) of waste to be stripped and ore to be mined in each of these components. These assessments are based on a combination of information available in the mine plans, specific characteristics of the orebody and the milestones relating to major capital investment decisions.

Judgement is also required to identify a suitable production measure that can be applied in the calculation and allocation of production stripping costs between inventory and the stripping activity asset. The ratio of expected volume (tonnes) of waste to be stripped for an expected volume (tonnes) of ore to be mined for a specific component of the orebody, compared to the current period ratio of actual volume (tonnes) of waste to the volume (tonnes) of ore is considered to determine the most suitable production measure.

These judgements and estimates are used to calculate and allocate the production stripping costs to inventory and/or the stripping activity asset(s). Furthermore, judgements and estimates are also used to apply the stripping ratio calculation in determining the amortisation of the stripping activity asset.

*Stripping ratio*

Estimated recoverable reserves are used in determining the amortisation of mine-specific assets. Amortisation is calculated by using the expected average stripping ratio over the average life of the area being mined. The average stripping ratio is calculated as the number of tonnes of waste material expected to be removed during the life of area, per tonne of ore mined. The average life of area cost per tonne is calculated as the total expected costs to be incurred to mine the orebody divided by the number of tonnes expected to be mined. The average life of area stripping ratio and the average life of area cost per tonne are recalculated annually in light of additional knowledge and changes in estimates. Changes in the stripping ratio are accounted for prospectively as a change in estimate.

*Production start date*

The phase of each mine construction project is assessed to determine when a mine moves into the production phase. The criteria used to assess the start date is determined by the unique nature of each mine's construction project and includes factors such as the complexity of a plant and its location. Various relevant criteria are considered to assess when the mine is substantially complete and ready for its intended use and moves into the production phase. At this point, all related amounts are reclassified from 'exploration and development assets' to 'mining assets' and/or 'property, plant and equipment'. Some of the criteria would include but are not limited to the following:

- The level of capital expenditure compared to the construction cost estimates;
- Completion of a reasonable period of testing of the mine plant and equipment;
- Ability to produce inventory in saleable form; and
- Ability to sustain ongoing production of inventory.

When a mine construction project moves into the production phase, the capitalisation of certain mine construction costs ceases and costs are either regarded as inventory or expensed, except for capitalisable costs related to mining asset additions or improvements, production phase stripping costs capitalisable as stripping activity asset(s), and exploration expenditure that meets the criteria for capitalisation. It is also at this point that depreciation/amortisation commences.

*Share-based payments*

Judgement is applied by management in determining whether the share options relating to employees who resigned before the end of the service condition period have been cancelled or forfeited in light of their leaving status. The Group elected that the employees were not awarded some or all of an award and have thus been treated as cancellation by forfeiture. The expenses relating to these charges previously recognised have been reversed.

*1.2.27 Exceptional items*

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

## 2. Revenue

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

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

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

## 3. Operating profit

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

## 3. **Operating profit** (continued)

| | **2013** | 2012 |
|---|---|---|
| | **US$'000** | US$'000 |
| **Foreign exchange gain** | | |
| Foreign exchange gain | **1 480** | 2 624 |
| Mark-to-market revaluations on forward exchange contracts | **(874)** | 1 191 |
| | **606** | 3 815 |
| **Operating lease expenses as a lessee** | | |
| Mine site property | **(90)** | (85) |
| Equipment and service leases | **(43 665)** | (45 210) |
| Contingent rental – Alluvial Ventures | **(9 605)** | (7 463) |
| Leased premises | **(1 743)** | (792) |
| | **(55 103)** | (53 550) |
| **Auditor's remuneration – Ernst & Young** | | |
| Audit fee | | |
| Group financial statements | **(479)** | (834) |
| Continuing operations | **(479)** | (560) |
| Discontinued operations | **–** | (274) |
| Statutory | **(331)** | (298) |
| Continuing operations | **(331)** | (298) |
| | **(810)** | (1 132) |
| **Auditor's remuneration – other** | | |
| Statutory | **(18)** | (15) |
| Continuing operations | **(18)** | (15) |
| | **(18)** | (15) |

| **Other non-audit fees – Ernst & Young** | | |
|---|---|---|
| Tax services advisory and consultancy | **(73)** | (283) |
| Continuing operations | **(73)** | (112) |
| Discontinued operations | **–** | (171) |
| Corporate finance services | **(320)** | (143) |
| Continuing operations | **(320)** | (143) |
| Tax compliance services | **(13)** | (16) |
| Continuing operations | **(13)** | (16) |
| Other services | **(86)** | (150) |
| Continuing operations | **(86)** | (150) |
| Other assurance services | **(87)** | (187) |
| Continuing operations | **(87)** | (187) |
| | **(579)** | (779) |

**3. Operating profit** (continued)

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

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

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

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

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

## 4. Exceptional items

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

**Impairment – Chiri**

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

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

**Impairment – Project Kholo**

During 2011, the Group approved the expansion at the Letšeng mine (Project Kholo). During 2012, Project Kholo as originally envisaged was re- evaluated and as a result certain capital expenditure incurred on items that have been assessed as no longer having an enduring benefit to the operation, have been written off. As the write-off of these assets has arisen from circumstances other than the write-off of assets at the end of their usual expected lives, this write-off has been classified as exceptional.

**Net reversal of impairment – Other assets**

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

## 5. Finance (cost)/income

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

*[1]Included in interest on debt, borrowings and trade and other payables is a provision for interest on potential tax liabilities which are under dispute.*

## 6. Income tax expense

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

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

## 7. Discontinued operations

There are no discontinued operations for the current year.

**Australia**

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

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

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

| | 2012<br>US$'000 |
|---|---|
| Revenue | 113 704 |
| Cost of sales and other operating costs[1] | (108 667) |
| **Gross profit** | 5 037 |
| Other operating income | 80 |
| Royalties and selling costs | (6 912) |
| Finance costs[2] | (493) |
| Share-based payments | (650) |
| Impairments | (4 121) |
| Foreign exchange gain | 459 |

| | |
|---|---|
| **Loss before remeasurement to fair value** | (6 600) |
| Remeasurement to fair value | (63 697) |
| Recycling of foreign currency translation reserve | (48 389) |
| **Loss before tax from discontinued operations** | (118 686) |
| Income tax expense | – |
| **Loss after tax from discontinued operations** | (118 686) |
| **Earnings per share from discontinued operations (cents)** | |
| – Basic | (86) |
| – Diluted | (85) |
| The net cash flows attributable to the discontinued operation are as follows: | |
| Operating | 43 007 |
| Investing | (51 217) |
| **Net cash outflow** | (8 210) |

[1]*Included in cost of sales is an amount of US$1.7 million relating to write-down of inventories.*

[2]*Included in finance costs is unwinding of discount rate of rehabilitation provision of US$1.0 million.*

## 8. Earnings per share

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

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

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

| | | |
|---|---|---|
| Weighted average number of ordinary shares outstanding during the year ('000) | **138 194** | 138 177 |

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

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

| | **Number of shares 2013 '000** | Number of shares 2012 '000 |
|---|---|---|
| Weighted average number of ordinary shares outstanding during the year | **138 194** | 138 177 |
| Effect of dilution: | | |
| – Future share awards under the Employee Share Option Programme | **682** | 1 350 |
| Weighted average number of ordinary shares outstanding during the year adjusted for the effect of dilution | **138 876** | 139 527 |

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

## 9. Property, plant and equipment

| As at 31 December 2013 | Mining assets[1] US$'000 | Exploration & development assets US$'000 | Decommissioning assets US$'000 | Leasehold improvements US$'000 | Plant and equipment[2] US$'000 | Other assets[3] US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| Balance at 1 January 2013 | **340 250** | **90 460** | **18 353** | **17 362** | **119 100** | **12 239** | **597 764** |
| Additions | **59 278** | **20 050** | **–** | **299** | **10 023** | **1 211** | **90 861** |
| Net movement in rehabilitation provision | **–** | **(392)** | **(1 957)** | **–** | **–** | **–** | **(2 349)** |
| Disposals | **–** | **–** | **–** | **(85)** | **(2 976)** | **(67)** | **(3 128)** |
| Reclassifications | **7 566** | **(4 672)** | **–** | **5 871** | **(10 319)** | **1 554** | **–** |
| Foreign exchange differences | **(59 980)** | **(11 107)** | **(3 382)** | **(3 556)** | **(23 014)** | **(2 119)** | **(103 158)** |
| **Balance at 31 December 2013** | **347 114** | **94 339** | **13 014** | **19 891** | **92 814** | **12 818** | **579 990** |
| **Accumulated depreciation/amortisation** | | | | | | | |
| Balance at 1 January 2013 | **125 155** | **–** | **2 613** | **8 610** | **48 051** | **4 730** | **189 159** |
| Depreciation and amortisation charge | **38 162** | **–** | **1 170** | **2 104** | **10 278** | **2 610** | **54 324** |
| Disposals | **–** | **–** | **–** | **(85)** | **(2 479)** | **(62)** | **(2 626)** |
| Impairment reversal | **–** | **–** | **–** | **–** | **(386)** | **–** | **(386)** |
| Foreign exchange differences | **(19 849)** | **–** | **(639)** | **(2 085)** | **(10 471)** | **(1 062)** | **(34 106)** |
| **Balance at 31 December 2013** | **143 468** | **–** | **3 144** | **8 544** | **44 993** | **6 216** | **206 365** |
| **Net book value at 31 December 2013** | **203 646** | **94 339** | **9 870** | **11 347** | **47 821** | **6 602** | **373 625** |

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

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

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

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

## 10. Investment property

The investment property consists of a commercial unit located in the Almas Towers in Dubai. The unit is being let out in terms of a long-term rental agreement entered into with a tenant for a period of five years which commenced on 23 July 2010.

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

*[1]No independent valuation was performed. Fair value was based upon an overview of property sales (units within the same building as the investment property) during 2013, weighted towards the most recent sales activity, which is valued using a Level 2 input in terms of the fair value hierarchy.*

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

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

## 11. Intangible assets

| As at 31 December 2013 | **Intangibles US$'000** | **Goodwill US$'000** | **Total US$'000** |
|---|---|---|---|
| **Cost** | | | |
| Balance at 1 January 2013 | **786** | **24 292** | **25 078** |
| Foreign exchange difference | **–** | **(4 612)** | **(4 612)** |
| **Balance at 31 December 2013** | **786** | **19 680** | **20 466** |
| **Accumulated amortisation** | | | |
| Balance at 1 January 2012 | **105** | **–** | **105** |
| Amortisation | **159** | **–** | **159** |
| **Balance at 31 December 2013** | **264** | **–** | **264** |
| **Net book value at 31 December 2013** | **522** | **19 680** | **20 202** |

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

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

## 12. Impairment testing

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

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

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

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

Goodwill impairment testing is undertaken annually and whenever there are indications of impairment. The most recent test was undertaken at 31 December 2013. In assessing whether goodwill has been impaired, the carrying amount of the cash-generating unit is compared with its recoverable amount. For the purpose of goodwill impairment testing in 2013, recoverable amounts for Letšeng Diamonds and Calibrated Diamonds have been determined based on value in use and fair value less costs of disposal models respectively.

## 12. Impairment testing (continued)

### Letšeng Diamonds

#### Value in use

Cash flows are projected for a period up to the date that mining is expected to cease, based on management's expectations at the time of completing the testing, and is limited to the lesser of the current economic resource or the remaining 11-year mining lease period. This date depends on a number of variables, including recoverable reserves and resources, the forecast selling prices and the treatment costs.

#### Key assumptions used in the calculations

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

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

Economically recoverable reserves and resources, carats recoverable and grades achievable are based on management's current expectation and mine plan, supported by the evaluation work undertaken by appropriately qualified persons. The impairment test is most sensitive to changes in commodity prices and foreign exchange rates.

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

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

#### Sensitivity to changes in assumptions

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

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

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

**Calibrated Diamonds**

**Fair value less costs of disposal**

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

**Key assumptions used in the calculations**

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

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

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

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

**Sensitivity to changes in assumptions**

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

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

**Other**

*Chiri*

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

*Project Kholo*

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

The Group will continue to test its assets for impairment where indications are identified and may in future record additional impairment charges or reverse any impairment charges to the extent that market conditions improve and to the extent permitted by accounting standards.

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

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

## 13. Other financial assets

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

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

The Group enters into forward exchange contracts to hedge the exposure to changes in foreign currency of future sales of diamonds at Letšeng Diamonds. The forward exchange contract is the revaluation on the market-to-market financial assets at year end. The Group performs no hedge accounting. At 31 December 2013, the Group has no forward exchange contracts outstanding.

## 14. Deferred taxation

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

The Group has not recognised a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries because it is able to control the timing of dividends and only part of the temporary difference is expected to reverse in the foreseeable future. The gross temporary difference in respect of the undistributable reserves of the Group's subsidiaries for which a deferred tax liability has not been recognised is US$31.9 million (31 December 2012: US$44.5 million).

The Group has estimated tax losses of US$293.0 million (31 December 2012: US$310.0 million). No deferred tax assets have been recognised in respect of such losses at 31 December 2013 as management considers that it is not probable that the losses in those entities will be utilised against taxable profits in those entities in the foreseeable future.

Of the US$293.0 million (31 December 2012: US$310.0 million) estimated tax losses, US$3.2 million (31 December 2012: US$1.4 million) losses in various jurisdictions expire as follows:

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

## 15. Inventories

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

## 16. Receivables and other assets

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

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

The carrying amounts above approximate their fair value.

Terms and conditions of the receivables:

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

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

## 17. Cash and short-term deposits

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

The amounts reflected in the financial statements approximate fair value.

Cash at banks earn interest at floating rates based on daily bank deposit rates. Short-term deposits are generally call deposit accounts and earn interest at the respective short-term deposit rates.

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

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

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

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

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

## 18. Issued capital and reserves

| | **31 December 2013** | | 31 December 2012 | |
|---|---|---|---|---|
| | **Number of shares '000** | **US$'000** | Number of shares '000 | US$'000 |
| **Authorised – ordinary shares of US$0.01 each** | | | | |
| As at year end | **200 000** | **2 000** | 200 000 | 2 000 |
| **Issued and fully paid** | | | | |
| Balance at beginning of year | **138 267** | **1 383** | 138 267 | 1 383 |
| Allotments during the year | **3** | **–** | – | – |
| **Balance at end of year** | **138 270** | **1 383** | 138 267 | 1 383 |

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

**Share premium**

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

**Treasury shares**

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

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

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

**18. Issued capital and reserves** (continued)

Other reserves

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

**Foreign currency translation reserve**

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of foreign entities. During the year, the South African, Lesotho, Botswana, Mauritian and United Arab Emirate subsidiaries' functional currencies were different to the Group's functional currency of US dollar. The rates used to convert the operating functional currency into US dollar are as follows:

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

**Share-based equity reserves**

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

**Other reserves**

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

**Capital management**

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

## 19. Trade and other payables

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

The carrying amounts above approximate fair value.

Terms and conditions of the trade and other payables:

*[1] These amounts are mainly non-interest bearing and are settled in accordance with terms agreed between the parties. Included in accrued expenses is an interest-bearing payable. The interest thereon has been provided for in finance costs. Refer to Note 5, Finance (cost)/income.*

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

**20. Provisions**

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

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

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

**Rehabilitation provisions**

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

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

## 21. Cash flow notes

*21.1 Cash generated by operations*

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

**21. Cash flow notes** (continued)

*21.2 Working capital adjustments*

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

*21.3 Cash received/(disposed) from disposal of subsidiary*

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

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

## 22. Interest-bearing loans and borrowings

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

The carrying values of the liabilities approximate their fair values.

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

## 23. Commitments and contingencies

### Commitments

*Operating lease commitments – Group as lessee*

The Group has entered into commercial lease arrangements for rental of office premises. These leases have a period of between two and 12 years with an option of renewal at the end of the period. The terms will be negotiated during the extension option periods catered for in the agreements. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases:

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

**Mining leases**

Mining lease commitments represent the Group's future obligation arising from agreements entered into with local authorities in the mining areas that the Group operates.

The period of these commitments is determined as the lesser of the term of the agreement, including renewable periods, or the life of the mine. The estimated lease obligation regarding the future lease period, accepting stable inflation and exchange rates, is as follows:

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

**Moveable equipment lease**

The Group has entered into commercial lease arrangements which include the provision of loading, hauling and other transportation services payable at a fixed rate per tonne of ore and waste mined; power generator equipment payable based on a consumption basis; and rental agreements for various mining equipment based on a fixed monthly fee.

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

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

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

## 23. Commitments and contingencies (continued)

### Contingent rentals – Alluvial Ventures

The contingent rentals represents the Group's obligation to a third party (Alluvial Ventures) for operating a third plant on the Group's mining property at Letšeng Diamonds. The rental is determined when the actual diamonds mined by Alluvial Ventures are sold. The rental agreement is based on 40% to 50% of the value of the diamonds recovered by Alluvial Ventures and is limited to US$0.9 million per individual diamond. As at the reporting date, such future sales cannot be determined.

### Letšeng Diamonds Educational Fund

In terms of the mining agreement entered into between the Group and the Government of the Kingdom of Lesotho, the Group has an obligation to provide funding for education and training scholarships. The quantum of such funding is at the discretion of the Letšeng Diamonds Education Fund Committee. The amount of the funding provided for the current year was US$0.1 million (31 December 2012: US$0.1 million).

### Contingencies

The Group has conducted its operations in the ordinary course of business in accordance with its understanding and interpretation of commercial arrangements and applicable legislation in the countries where the Group has operations. In certain specific transactions, however, the relevant third party or authorities could have a different interpretation of those laws and regulations that could lead to contingencies or additional liabilities for the Group. Having consulted professional advisers, the Group has identified possible disputes approximating US$3.6 million (December 2012: US$4.1 million) and tax claims within the various jurisdictions in which the Group operates approximating US$1.2 million (December 2012: US$1.4 million).

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

## 24. Related parties

| Related party | Relationship |
|---|---|
| Jemax Management (Proprietary) Limited | Common director |
| Jemax Aviation (Proprietary) Limited | Common director |
| Gem Diamond Holdings Limited | Common director |
| Government of Lesotho | Non-controlling interest |
| Geneva Management Group (UK) Limited | Common director |

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

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

**24. Related parties** (continued)

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

| | | |
|---|---|---|
| **Amounts owing by/(to) related party** | | |
| Government of Lesotho | **(2 425)** | (1 062) |
| Blina Minerals NL | **–** | 372 |
| **Dividends paid** | | |
| Government of Lesotho | **(5 938)** | (8 770) |

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

Jemax Management (Proprietary) Limited and Jemax Aviation (Proprietary) Limited provided administrative and aviation services with regards to the mining activities undertaken by the Group. Geneva Management Group (UK) Limited provided administration, secretarial and accounting services to the Company. The above transactions were made on terms agreed between the parties and were made on terms that prevail in arm's-length transactions.

## 25. Financial instruments

### Fair value

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

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

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

### Valuation technique Level 2: Forward exchange contract

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

### Fair value hierarchy

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

## 26. Financial risk management

### Financial risk factors

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

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

(b) Credit risk; and

(c) Liquidity risk.

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

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

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

### Capital management

The capital of the Company is the issued share capital, share premium and treasury shares on the Group's statement of financial position. The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may issue new shares. The management of the Group's capital is performed by the Board.

At 31 December 2013, the Group has US$43.9 million debt facilities available and continues to have the flexibility to manage the capital structure more efficiently by the use of these debt facilities thus ensuring that an appropriate gearing ratio is achieved. The debt facilities in the Group are as follows:

### Unsecured – Standard Lesotho Bank – revolving credit facility

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

**Unsecured – Nedbank Capital (a division of Nedbank Limited) – revolving credit facility**

The Company has a US$20.0 million three-year unsecured revolving credit facility which is due for renewal in January 2016. This facility bears interest at London USD Interbank three-month LIBOR plus 5.33%.
At year end there is no drawdown on either of these two facilities.

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

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

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

***(a) Market risk***

*(i) Commodity price risk*

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

*(ii) Foreign exchange risk*

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Lesotho loti, South African rand and Botswana pula. Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group's sales are denominated in US dollar which is the functional currency of the Company, but not the functional currency of the operations.

The currency sensitivity analysis below is based on the following assumptions:

- Differences resulting from the translation of the financial statements of the subsidiaries into the Group's presentation currency of US dollar, are not taken into consideration.
- The major currency exposures for the Group relate to the US dollar and local currencies of subsidiaries. Foreign currency exposures between two currencies where one is not the US dollar are deemed insignificant to the Group and have therefore been excluded from the sensitivity analysis.

The analysis of the currency risk arises because of financial instruments denominated in a currency that is not the functional currency of the relevant Group entity. The sensitivity has been based on financial assets and liabilities at 31 December 2013. There has been no change in the assumptions or method applied from the prior year.

**26. Financial risk management** (continued)

*(a) Market risk (continued)*

*(ii) Foreign exchange risk (continued)*

*Sensitivity analysis*

If the US dollar had appreciated (depreciated) 10% against currencies significant to the Group at 31 December 2013, income before taxation would have been US$0.1 million higher (lower) (31 December 2012: US$0.5 million). There would be no effect on equity reserves other than those directly related to income statement movements.

*(iii) Forward exchange contracts*

The Group enters into forward exchange contracts to hedge the exposure to changes in foreign currency of future sales of diamonds at Letšeng Diamonds. The Group performs no hedge accounting. At 31 December 2013, the Group has no forward exchange contracts outstanding (31 December 2012: US$44.0 million notional cover).

*(iv) Cash flow interest rate risk*

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's cash flow interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. At the time of taking new loans or borrowings management uses its judgement to decide whether it believes that a fixed or variable rate borrowing would be more favourable to the Group over the expected period until maturity.

*(b) Credit risk*

The Group's potential concentration of credit risk consists mainly of cash deposits with banks and other receivables. The Group's short-term cash surpluses are placed with the banks that have investment grade ratings. The maximum credit risk exposure relating to financial assets is represented by the carrying value as at the reporting dates. The Group considers the credit standing of counterparties when making deposits to manage the credit risk.

Considering the nature of the Group's ultimate customers and the relevant terms and conditions entered into with such customers, the Group believes that credit risk is limited as customers pay on receipt of goods.

No other financial assets are impaired or past due and accordingly, no additional analysis has been provided.

No collateral is held in respect of the impaired receivables or receivables that are past due but not impaired.

*(c) Liquidity risk*

Liquidity risk arises from the Group's inability to obtain the funds it requires to comply with its commitments including the inability to sell a financial asset quickly at a price close to its fair value. Management manages the risk by maintaining sufficient cash, marketable securities and ensuring access to shareholding funding. This ensures flexibility in maintaining business operations and maximises opportunities. Furthermore, the Company has available debt facilities of US$43.9 million at year end, which was increased to US$63.9 million subsequent to year end.

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

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

## 27. Share-based payments

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

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

There were no options granted during the current year.

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

The long-term incentive plans are described below:

**Employee Share Option Plan**

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

There is a nil or nominal exercise price for the options granted at Admission of the Company. The contractual life of the options is 10 years and there are no cash settlement alternatives. The Company has no past practice of cash settlement.

**Non-Executive share awards**

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

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

On 13 June 2011, 1 314 000 options were granted to certain key employees under the LTIP of the Company. Of the total number of shares, 438 000 were nil value options and 876 000 were market value options. The exercise price of the market value options is £2.63 (US$4.38), which was equal to the market price of the shares on the date of the grant. The vesting of the options will be subject to the satisfaction of performance conditions over a three-year period that is considered appropriately stretching. The options which vest are exercisable between 13 June 2014 and 12 June 2021. If the performance conditions are not met, the options lapse. The fair value of the options granted is estimated at the date of the grant using a Monte Carlo simulation model, taking into account the terms and conditions upon which the options were granted, projected dividends, share price fluctuations, the expected volatility, the risk-free interest rate, expected life of the options in years and the weighted average share price of the Company. The contractual life of each option granted is three years.

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

**Employee Share Option Plan for March 2012 (LTIP)**

On 20 March 2012, 1 347 000 options were granted to certain key employees under the LTIP of the Company. Of the total number of shares, 449 000 were nil value options and 898 000 were market value options. The exercise price of the market value options is £3.00 (US$4.76), which was equal to the market price of the shares on the date of the grant. Of the 1 347 000 options originally granted, only 777 000 are still outstanding following the resignation of a number of employees. The vesting of the options will be subject to the same conditions as the LTIP 2011 on the previous page. The awards which vest on 20 March 2015 are exercisable between 20 March 2015 and 20 March 2022. The fair value of these options is estimated in a similar manner as the LTIP 2011 on the previous page.

**Employee Share Option Plan for September 2012 (LTIP)**

On 11 September 2012, 936 000 options were granted to certain key employees (excluding Executive Directors) under the LTIP of the Company. Of the total number of shares, 312 000 were nil value options and 624 000 were market value options. The exercise price of the market value options is £1.78 (US$2.85), which was equal to the market price of the shares on the date of grant. Of the 936 000 options originally granted, only 540 000 are still outstanding following the resignation of a number of employees. The awards which vest over a three-year period in tranches of a quarter of the award each year, dependent on the performance targets for the 2013, 2014 and 2015 financial years being met, are exercisable between 1 January 2016 and 31 December 2023. The vesting of the options is subject to performance conditions based on goals relating to the Group and individual performance which are classified as non-market conditions. The fair value of these options is estimated in a similar manner as the LTIP 2011 on the previous page.

**Movements in the year**

*Employee Share Option Plan*

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

| | **2013**<br>**'000** | 2012<br>'000 |
|---|---|---|
| Outstanding at beginning of year | **33** | 44 |
| Exercised during the year | **(15)** | (11) |
| Balance at end of year | **18** | 33 |
| Exercisable at end of year | **–** | – |

The following table lists the inputs to the model used for the plan for the awards granted under the ESOP:

*Employee Share Option Plan*

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

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

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

**27. Share-based payments** (continued)

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

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

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

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

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

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

## 28. Material partly owned subsidiaries

Financial information of Letšeng Diamonds, a subsidiary which has a material non-controlling interest, is provided below:

Proportion of equity interest held by non-controlling interests:

| Name | Country of incorporation and operation | 2013 | 2012 |
|---|---|---|---|
| Letšeng Diamonds (Proprietary) Limited | Lesotho | **30%** | 30% |
| Accumulated balances of material non-controlling interest | | **72 454** | 76 319 |
| Profit allocated to material non-controlling interest | | **15 702** | 18 084 |

The summarised financial information of this subsidiary is provided below. This information is based on amounts before inter-company eliminations.

**Summarised income statement for the year ended 31 December:**

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

**28. Material partly owned subsidiaries** (continued)

**Summarised statement of financial position as at 31 December:**

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

## 29. Events after the reporting period

The following has taken place since the reporting date:

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

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