

29 July 2014

# GEM DIAMONDS LIMITED

## H1 2014 Trading Update

**Exceptional First-Half underpinned by an excellent operational performance and strong growth potential.**

Gem Diamonds Limited (LSE: GEMD) reports a trading update for the Period 1 January 2014 to 30 June 2014 (H1 2014) (the Period). Gem Diamonds' financial results for the Period will be detailed in its Half Year 2014 Report and Results Announcement which will be released on 20 August 2014.

Highlights during the Period:

Letšeng:

### **Letšeng delivers exceptional performance**

- 80% increase in Letšeng's revenue\* to US\$ 147.8 million compared to H1 2013
- 29% increase to 54 678 in carats recovered compared to H1 2013.
- 14% increase to 53 799 in carats sold\* in the first five tenders of 2014, compared to H1 2013.
- 58% increase in average value per carat of US\$ 2 747\* achieved for the first five tenders of 2014, compared to H1 2013.
- 37 rough diamonds achieved a value in excess of US\$ 1.0 million each.
- 77 rough diamonds achieved a value in excess of US\$ 20 000 per carat.
- 5 rough diamonds achieved a value in excess of US\$ 60 000 per carat.
- A total of 311 rough diamonds greater than 10.8 carats in size were sold.
- Three exceptional quality +100 carat diamonds – a 162.02 carat, a 161.31 carat and a 132.55 carat, were sold for US\$ 11.1 million, US\$ 2.4 million and US\$ 7.5 million, respectively.
- Tonnes of ore treated up 6% on H1 2013.

\*Includes carats extracted for polishing at rough valuation.

Ghaghoo:

### **First diamonds recovered, underpinning long-term potential at Ghaghoo**

- Development of Phase 1 of the Ghaghoo mine achieved on time and on budget.
- Processing plant being commissioned, with 2 400 carats recovered from commissioning as at end of June 2014.
- Development of three production tunnels on Level 1 underway.
- Build-up to planned production levels by end 2014 on track.
- Photographs of Ghaghoo's diamonds are now available on Gem Diamonds' website - [www.gemdiamonds.com/gem/en/media/imagegallery/](http://www.gemdiamonds.com/gem/en/media/imagegallery/)

Cash:

**Robust financial position and cashflows providing financial flexibility to meet medium to long-term objectives**

- The Group increases its strong cash position to US\$ 114 million cash as at 30 June 2014, of which US\$ 98 million is attributable to Gem Diamonds. (US\$ 71 million as at 31 December 2013, of which US\$ 62 million was attributable to Gem Diamonds).
- During the Period, Letšeng declared dividends of US\$ 40 million which resulted in a net cash flow of US\$ 25 million to Gem Diamonds and a cash outflow from the Group as a result of withholding taxes of US\$ 3 million and payments of the Government of Lesotho's portion of the dividend of US\$ 12 million.
- During the Period Letšeng concluded a debt facility of Maloti 140 million (in addition to the Maloti 250 million working capital facility currently available, but undrawn, at Letšeng) for the full cost of the new coarse recovery plant.
- Of the additional US\$ 25 million facility available for Ghaghoo Phase 1, US\$ 16 million had been drawn down by the end of the Period.

Dividend:

- In March 2014, Gem Diamonds' Board of Directors announced its intention to pay a maiden dividend to shareholders at the end of the 2014 financial year. The Group remains on track to meet this objective.

**Gem Diamonds' CEO, Clifford Elphick commented:**

*"This has been a strong half-year for Gem Diamonds with one of the best ever performances at Letšeng. This, reflects the current mine plan and the technical improvements and optimisation programmes which are taking place at Letšeng. Additionally, good progress has been made with the development of the Ghaghoo mine. The mine has been built and commissioning has begun. This new mine will unlock considerable long-term value. The Company has increased its cash position to a Group cash balance of US\$ 114 million which is significant given the Board's stated intention to pay a maiden dividend for the 2014 year.*

*Letšeng continues to prove its world class asset status. The ongoing focus on low capex, value accretive projects is delivering value resulting in increased diamond liberation and reduced diamond damage. This, together with the current mine plan and the higher proportion of Satellite Pipe ore mined, has resulted in a 29% increase in carats recovered compared to the corresponding 2013 period. This has, in turn, supported strong sales meeting robust demand throughout the Period.*

*At Ghaghoo the first sale of diamonds is scheduled to take place before the year end. The first diamonds produced during the commissioning of the plant have, as anticipated, been of a significantly higher quality and average size than those mined during the exploration phase. A 20 carat and two 10 carat diamonds have been recovered from the first 2 400 carats recovered as at end of June 2014. This compares to the largest diamond recovered in the exploration sampling of 7 carats. During the development of the production level there has been a greater quantity of water encountered than indicated by the exploration drilling. Steps have been taken to deal with this and it is not anticipated that there will be any impact on the planned production targets for 2014.*

*It is also very pleasing to see the greatly enhanced reserves and resources position of the company after the latest drilling and evaluation campaign. All of Letšeng's optimal open pit now falls within the indicated resource*

*category and thus converts to probable reserves, approximately doubling the in-situ value of the reserve to US\$ 4.6 billion and the open pit life of mine has been extended to 22 years.”*

## 1. Diamond Market

The Period saw strong demand for rough diamonds across the spectrum, and in particular for the large high value rough diamonds. A healthy buoyant market for Letšeng’s rough diamonds continued during the Period. This strength in diamond prices has been maintained at the first tender of the second half of the year, held during July 2014.

Diamond consumption continues to rise. The encouraging outlook is expected to continue into the second half of the year, as strengthened economic activity boosts consumer confidence and spending.

Sentiment and trading in the polished market remains robust, with good prices being achieved for the large high quality diamonds sold during the Period.

## 2. Lesotho

Gem Diamonds holds a 70% shareholding in Letšeng Diamonds (Pty) Ltd (“Letšeng”) in partnership with the Government of the Kingdom of Lesotho which owns the remaining 30%.

### 2.1 Production

	H1 2014	H1 2013	YoY % Change
Waste stripped (tonnes)	10 021 431	9 856 614	2%
Ore treated (tonnes)	3 229 091	3 036 576	6%
Carats recovered	54 678	42 268	29%
Grade recovered (cpht)	1.69	1.39	22%

During the Period, Letšeng successfully re-negotiated its contract with the mining contractor, resulting in greatly improved unit costs for the next eight years, effective 1 January 2014.

Waste mining for the Period was 2% higher than in H1 2013. New, larger mining equipment was commissioned during May 2014 which will ensure the continued adherence to the mine plans with the increased waste mining required for the future years, access to adequate ore in both pits and improved unit costs.

Letšeng’s Plants 1 and 2 treated 1.3 million and 1.4 million tonnes of ore respectively in the Period, 36% of which was sourced from the Satellite pipe and 64% from the Main pipe. The balance of ore was treated through the Alluvial Ventures plant, 33% of which was sourced from old stockpiles and 67% from the Main Pipe. The Alluvial Ventures plant continued to run during the Period and this contract has now been extended until 31 December 2015.

Letšeng produced 54 678 carats in H1 2014 representing a 29% increase from H1 2013 - driven by the greater percentage of the higher grade Satellite pipe together with technical improvements in plant liberation and throughput.

## 2.2 Rough Diamond Sales and Diamonds Extracted for Manufacturing

	First 5 tenders of 2014*	First 5 tenders of 2013*	YoY % Change
Carats sold	53 799	47 065	14%
Total value (US\$ millions)	147.8	81.9	80%
Achieved US\$/ct	2 747	1 741	58%

\*Includes carats extracted for polishing at rough valuation.

Letšeng held five tenders during H1 2014, achieving excellent results with an average price of US\$ 2 747 per carat, bringing the 12 month rolling average to US\$ 2 543 per carat.

During the Period, 37 exceptional rough diamonds achieved prices greater than US\$ 1.0 million, and five rough diamonds achieved in excess of US\$ 60 000 per carat. Also, three +100 carat rough diamonds achieved top prices, in accordance with their respective colour, clarity and shape – a 162.02 carat diamond sold for US\$ 11.1 million (US\$ 68 687 per carat); a 161.31 carat sold for US\$ 2.4 million (US\$ 14 636 per carat); and a 132.55 carat sold for US\$ 7.5 million (US\$ 56 492 per carat).

During the Period, 377 carats were extracted for own manufacturing at a rough value of US\$ 4.2 million. US\$ 4.9 million at rough value remained in inventory at the end of the Period, compared to US\$ 2.9 million at the end of December 2013.

## 2.3 Projects

The new coarse recovery plant project remains on track for completion in Q2 2015 for a total budget of Maloti 140.0 million, of which Maloti 82.0 million is expected to be spent in 2014 (all of which is fully funded through a debt facility as mentioned above). X-Ray Transmissive (XRT) sorters have been ordered that will ensure improved recovery of the high value type II diamonds. Design of the Personnel Control Centre (PCC) is well advanced and the selection of the personnel X-ray scanner supplier is planned for early Q3 2014. It is expected that this scanner, together with the improved surveillance, fully hands-free and auditable diamond recovery will result in the significant security improvements expected from this project. The civil contractor will establish site in Q3 2014 as planned.

Work to identify opportunities for additional ongoing incremental improvements to throughput and diamond breakage at both of the Letšeng plants has progressed to the point that the first phase of the upgrade at Plant 2 has been approved for implementation. Phase 1 of the project will commence in Q3 2014 and is planned to be complete by Q1 2015. It will deliver an increase in treatment capacity of 250 000 tonnes per annum, as well as further reducing diamond damage, at a capital cost of Maloti 50.0 million (approximately US\$ 5.0 million) of which, approximately Maloti 38.0 million is expected to be spent in 2014. It will lay the foundation for further improvements in both treatment capacity and diamond damage reduction in subsequent phases which still need further development.

### 3. Botswana

Gem Diamonds' wholly-owned subsidiary, Gem Diamonds Botswana, is currently developing the Ghaghoo mine ("Ghaghoo") in Botswana.

The development of the Ghaghoo mine is progressing well and on schedule with 2 400 carats having been recovered up to 30 June 2014 during the commissioning of the plant. These carats included a 20 carat and two 10 carat diamonds (during the exploration phase, the largest diamond recovered was 7 carats). Optimisation of the treatment plant processes is ongoing during the commissioning phase. The production build-up to 60 000 tonnes per month is still anticipated to be reached by December 2014.

To date, three production tunnels are progressing within kimberlite on the first production level, Level 1 at 154 metres below surface, whilst an exploratory tunnel and training stope have been developed in the kimberlite on Level Zero at 130 metres below surface. High volumes of water from basalt fissures have recently been encountered in one area and besides contributing to difficult mining conditions have necessitated the procurement of additional pumping capacity and the drilling of additional dewatering bore holes.

Drilling of the second ventilation hole is complete and holing in is imminent. The third and final hole has been drilled to a depth of 121 metres and should be completed in July, well ahead of the actual requirement to have this ventilation capacity available.

The first tender for Ghaghoo's production is scheduled to take place before year end.

As at 30 June 2014, US\$ 82.0 million of the total capital budget of US\$ 96.0 million had been spent.

### 4. Mineral Resource and Reserve Statement

An updated Mineral Resource and Reserve Statement detailing the Group's mineral resources and reserves, effective as at 1 January 2014, was published on 16 July 2014. This document is available on Gem Diamonds' website: [www.gemdiamonds.com](http://www.gemdiamonds.com).

### 5. Health, Safety, Security and Environment (HSSE):

As previously reported, a fall of ground incident occurred in Level 0 of the underground development at Ghaghoo on 11 January 2014. This has been the only lost time injury recorded for the Group during the Period, resulting in a Lost Time Injury Frequency Rate (LTIFR) for the Group of 0.08.

Zero major stakeholder or environmental incidents have occurred in the Period.

### 6. Revised Letšeng guidance for full year 2014

The extension of the Alluvial Ventures contract, new larger mining fleet, as well as improved plant availability have all contributed to a positive revision of full year 2014 production guidance. Cost management continues to be a key focus for Letšeng and the operation has maintained its costs within the expected targets for the first half of 2014. The impact of the re-negotiated mining contract is reflected in the lower revised full year guidance for mining waste cash costs.

	Previous FY 2014 guidance given in Q4 2013 Trading Update	Revised FY2014
Waste tonnes mined (Mt)	15 - 18	18 - 20
Ore treated (Mt)	5.5 – 5.8	6.3 - 6.5
Carats recovered (Kct)	90 - 95	95 - 100
Carats sold (Kct)	94 - 99	97 - 103
Direct cash costs (before waste) per tonne treated (Maloti)	127 -135	no change
Mining waste cash costs per tonne of waste mined (Maloti)	28 - 31	24 -28
Operating costs per tonne treated <sup>1</sup> (Maloti)	190 - 220	no change
Stay in business capital (US\$m)	6- 10	no change
Project capital <sup>2</sup> (US\$m)	18 - 20	12 - 15

1. Operating costs per tonne excludes royalty, selling costs, depreciation and mine amortisation, but includes inventory, waste and ore stockpile adjustments.

2. Letšeng project capital includes the coarse recovery plant and the first phase Plant 2 upgrade.

#### For further information:

##### Gem Diamonds Limited

Sherryn Tedder, Investor Relations

Tel: +27 (0) 11 560 9600

Mob: +27 (0) 83 943 4505

##### Bell Pottinger

Charles Vivian / James MacFarlane

Tel: +44 (0) 207 861 3800

#### About Gem Diamonds:

Gem Diamonds is a leading global diamond producer of high value diamonds. The company owns 70% of the Letšeng mine in Lesotho and 100% of the Ghaghoo mine in Botswana. The Letšeng mine is famous for the production of large, top colour, exceptional white diamonds, making it the highest dollar per carat kimberlite diamond mine in the world. Since Gem Diamonds' acquisition of Letšeng in 2006, the mine has produced four of the twenty largest white gem quality diamonds ever recorded.

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

[www.gemdiamonds.com](http://www.gemdiamonds.com)