17 March 2015

GEM DIAMONDS FULL YEAR 2014 RESULTS

Gem Diamonds Limited (the Company) is pleased to announce its Full Year results for the period ending 31 December 2014.

During 2014, Gem Diamonds demonstrated a strong operational performance, delivering on a number of strategic objectives, resulting in a robust financial position and maiden dividend. The Company continued to focus on enhancing operational efficiencies and investing in innovative technologies at both Letšeng and Ghaghoo, delivering improved earnings and positioning Gem Diamonds for long term sustainable growth.

FINANCIAL RESULTS

- Revenue US$271 million, up 27 %
- Underlying EBITDA US$104 million, up 35 %
- Attributable net profit US$33 million, up 57 %
- Basic EPS 24 US cents, up 57 %
- Cash on hand US$111 million as at 31 December 2014 (net after debt); (US$99.4 million attributable to Gem Diamonds)

OPERATIONAL HIGHLIGHTS

LETŠENG:

- Carats recovered of 108 569
- Average of US$2 540 per carat
- Tonnes treated of 6.4 million
- Waste tonnes moved of 19.8 million

GHAGHOO:

- The Phase 1 capital project has been completed on time and on budget
- Final commissioning and optimisation of the plant is in progress
- A total of 10 167 carats recovered during commissioning, (including a 20 carat white diamond, a 17 carat white diamond and a three carat orange diamond)

DIVIDEND

- 5 US cents per share
- Total dividend of US$6.9 million
- Record date: 8 May 2015

- Payment date: 9 June 2015

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

"2014 was a solid year both financially and operationally for Gem Diamonds. We successfully delivered on a number of key growth objectives including bringing Ghaghoo into production, significantly enhancing operational efficiencies at Letšeng and delivering a maiden dividend. With a continued focus on cost control, the Company is in a very strong position financially with cash balance of US$111 million, supported by the high average price per carat of US$2 540 achieved for the year. As we expand from a single producing mine to two producing mines, with the ramp up of production at Ghaghoo, we will start to see a significant shift in production figures.

Whilst there have been a number of challenges in the diamond market recently, the medium to long term fundamentals look positive. This, combined with the resilience of Letšeng diamonds to pricing constraints, leaves Gem Diamonds well placed to take advantage of the favourable supply/demand dynamics in the market in order to continue its growth in 2015 and beyond".

The Company will be hosting a webcast presentation on its full year results at 9.30am today. A copy of the full Annual Report 2014 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 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.

CHAIRMAN'S STATEMENT

2014 was characterised by the delivery of a robust financial performance and the recommendation of our first dividend. *The focus on maximising the revenue from our core assets through enhancing operating efficiencies and investing in innovative technologies has delivered improved earnings and has positioned Gem Diamonds for sustainable growth.*

Our investment proposition

- **Diamond market fundamentals**
- **Strategic and structural clarity**
- **Dividend paying policy**
- **Letšeng: value enhancing opportunities**
- **Ghaghoo: near term asset valuation upside**
- **Robust corporate governance**

Dear shareholder,
It gives me great pleasure to present Gem Diamonds' 2014 Annual Report.

Strategic review
In 2011, Gem Diamonds mapped out a clear strategy built on three pillars, namely value creation, growth and sustainability. This broad-based approach has allowed the Group to adapt to short-term opportunities and challenges while moving towards its long-term goal of sustainable shareholder returns. During 2014, the Group made great strides in achieving its stated objectives:

Maintaining a robust financial position and cash flows
The continued enhancement of the Group's cash position and balance sheet strength allows it to react proactively to market and operational conditions in order to meet its medium and longer-term objectives.

Group revenue rose by 27% over the prior year, with cash on hand at the end of the year of US$110.7 million. The Group achieved a total shareholder return of 23% in 2014.

Dividend
Based on the positive results achieved since the implementation of the above strategy, the Board is pleased to recommend maiden cash dividend of 5 US cents per share. The Board has adopted a policy that will determine the appropriate dividend each year based on consideration of the Company's cash resources, the level of free cash flow and earnings generated during the year, and the expected funding commitments for capital projects relating to our growth strategy and will aim to pay a total dividend at an approximately consistent proportion of sustaining net earnings. Dividends are expected to be declared by the Board annually with the full-year results. This policy demonstrates our commitment to returning value to shareholders.

Improving the revenue line at Letšeng through innovation
The Letšeng mine in Lesotho is synonymous with exceptional diamonds. It is, therefore, imperative that the Group continually invests in innovative ways of identifying, recovering and preserving these high-value diamonds. During 2014, the mine continued to reap the benefits of the technological investments made in the previous years. In addition, further focused projects, including the installation of the new Coarse Recovery Plant, which will further improve diamond recovery, and the Plant 2 Phase 1 upgrade, which will increase throughput, reduce breakage and improve diamond liberation, are set to advance Gem Diamonds' strategic objective of increasing revenues at Letšeng. These projects represent relatively low capital investments in keeping with the Group's focus of maintaining capital discipline in all of its operations.

While the political unrest that occurred in Lesotho during 2014 posed a possible challenge, the mine, situated four hours from the capital, Maseru, remained unaffected. The state of affairs in the country has since stabilised, with elections having taken place on 28 February 2015 under the watchful eye of the South African Development Community (SADC) representatives headed by South Africa's Deputy President, Cyril Ramaphosa.

Bringing the Ghaghoo mine into production
Gem Diamonds' technical skills have come to the fore in the development of the Ghaghoo mine in Botswana, delivering the capital project on time and within budget. It is also pleasing to report that the first diamonds produced during commissioning have been of a better quality and average size than those recovered during the exploration phase. It has also been noteworthy that the presence of rare coloured diamonds in the resource has been confirmed.

The mine development showcases Gem Diamonds' commitment to best practice in relation to its project affected communities and the environment. The communities affected by the Ghaghoo mine have been involved and consulted from the outset with the aim of achieving broader stakeholder value. In addition, numerous ecological and archaeological surveys; visual and socio-economic impact assessments; as well as an extensive public participation process have been conducted. Information gathered during this process underpinned the Group's approach to minimising Ghaghoo's ecological footprint and maximising the benefit for all stakeholders. A Ghaghoo Community Trust has been established and local community representatives sit in Trust meetings. The Trust has made a number of material interventions in community projects, long before the first diamond was sold and will continue to do so as the mine enters the next phase of development.

Continued excellence in sales, marketing and manufacturing initiatives
Positioned at the very top end of the diamond market, Gem Diamonds' Letšeng mine consistently produces some of the world's most remarkable diamonds, making it the highest average dollar per carat kimberlite diamond producer in the world and achieved

an average of US$2 540* per carat in 2014. Letšeng's tenders attract the world's top diamantaires who continue to pay the highest prices for these exceptional diamonds, allowing Letšeng's rough production to remain relatively resilient to market fluctuations.

Of note, during the year Letšeng recovered its highest number of diamonds greater than 20 carats in a single year, since acquisition in 2006. This included seven +100 carat diamonds, five of which together achieved a total of US$37.4 million The largest diamond recovered during the year, a 299.3 carat yellow diamond, was sold into a partnership arrangement at the beginning of 2015, which will see Letšeng further benefiting from 50% of the resulting polished uplift.

Committed to the highest health and safety standards
Safeguarding the well-being of employees is both a moral and business imperative. Despite a strong overall safety performance during the year, the loss of life of one of our employees, Mr Segolame Mashumba, in January 2014, is a tragedy that has sharpened our focus on safeguarding the health and safety of our employees. On behalf of the Board and the Group, we once again send our heartfelt condolences to the family. I wish to reaffirm the Group's commitment to eliminating fatalities at work and reducing incidences of injury in line with our all-encompassing goal of achieving zero harm.

Gem Diamonds is deeply aware of its responsibility towards the areas in which it operates, both in terms of environmental stewardship and socio-economic development. The Group recognises that its long-term viability is closely linked to the success and well-being of the communities in which it operates and strives to contribute positively to these communities. A comprehensive sustainable development programme is in place at each operation, supported in terms of strategic guidance by the HSSE Committee, at Board level. (Refer to the full 2014 Sustainable Development Report on the Gem Diamonds website.)

Corporate governance
The Group's commitment to robust corporate governance supports its ability to create sustainable returns for all stakeholders. During September 2014, the UK Corporate Governance Code was amended. The Board agrees with and supports the Code, and the Gem Diamonds' governance framework was amended accordingly. The Group is thus well positioned to introduce the necessary changes as required.

During the year, the Group's Board of Directors submitted themselves to a Board evaluation process aimed at enhancing Board governance. I am pleased to report that no major issues were identified and the feedback received will be incorporated into the Group's governance framework.

After eight years of service as Company Secretary, André Confavreux retired at age 70 on 11 January 2015. The Board would like to express its appreciation to André for his significant contribution to the Group over the years. Following André's retirement, Glenn Turner has added the role of Company Secretary to his current duties as Executive Director.

Outlook
The long-term outlook for the diamond market remains strong. Despite a weakening of prices in the fourth quarter of 2014, partly due to concerns over bank lending and liquidity, the Group expects some firming in the market as banks in Dubai and elsewhere take steps to fill the funding gap that triggered these concerns. The medium to long-term outlook for diamond demand, therefore, is expected to remain favourable, with diamond prices beginning to trend upward in the second half of 2015.

The strategic focus for the year ahead will remain on creating value by focusing on mining and selling diamonds efficiently and responsibly. We remain confident in our ability to continue delivering returns to our shareholders through this focused execution of strategy as is demonstrated by the Group's dividend policy.

The 2014 results are a testimony to the calibre of people employed at Gem Diamonds and I would like to thank my fellow Board members for their wisdom and contribution during the year. On behalf of the Board, I would like to thank our employees for their tireless efforts and commitment to Gem Diamonds as well as our shareholders for their support as we continue to deliver on our strategy and build long-term value.

Roger Davis
Non-Executive Chairman

16 March 2015

CHIEF EXECUTIVE OFFICER'S OVERVIEW

Letšeng continues to drive strong operational performance and exceptional financial results during 2014. *Prices of both rough and polished diamonds firmed over the first three quarters before declining moderately in the final quarter. Despite this softer trend, the final Letšeng tender of 2014 saw very strong prices achieved and demonstrates the Group's commitment to implementing the strategy adopted in 2011 to create sustainable growth and production despite the market conditions. As our second mine, Ghaghoo, ramps up, we look forward to the contribution Botswana's first underground diamond mine will make.*

2014 achievements

- **Maintained robust financial position and cash flows**
- **Operations expanded from a single producing mine to two**
- **Maiden dividend**
- **Improved Letšeng revenue line and plant optimisation**
- **Completed Ghaghoo capital project on time and on budget**
- **Continued excellence in sales, marketing and manufacturing initiatives**

Operational performance

Letšeng

At Letšeng, a year of solid operational performance saw an improvement over the prior year's production results, with costs well controlled. Plant enhancements and improved blasting techniques, as well as greater access to ore from the higher grade, higher value Satellite orebody over the prior year, resulted in an improvement in the grade, size and quality of the diamonds produced.

During the year, Letšeng issued a revised resource statement to reflect a significant increase in the Letšeng indicated resource category which had been extended in depth to approximately 350 metres below the current mine pits on both Satellite and Main pipe orebodies. This extension has resulted in a significant increase in the indicated resource tonnage and contained carats but has also allowed for a significant increase in the Letšeng probable reserves, with the entire 22 year life of mine plan now classified as reserve.

The growth focus at the Letšeng mine during 2014 remained on relatively low capex expansion projects with near-term returns. Two such projects were advanced significantly during the year:

The new Coarse Recovery Plant remains on track for completion at the end of the second quarter of 2015. This plant will optimise the treatment of the high-value, coarse fraction of ore using X-ray transmissive (XRT) technology that will improve the recovery of the high-value Type II diamonds. Significant improvements to security measures and advanced diamond accounting processes will also result from the construction of the new Coarse Recovery Plant.

Implementation of the Plant 2 Phase 1 upgrade project commenced in the third quarter of 2014 and is on track to be completed in early 2015. The project is expected to result in an increased treatment capacity of 250 000 tonnes per annum and further reduce diamond damage and improve diamond liberation. Subsequent upgrades to the plant will be considered once the current projects are completed, and plant performance has been fully evaluated.

The operational improvements undertaken this year, together with the projects that are currently under way and those considered for the future, position Letšeng as a long life open pit operation. Optimisation of the life of mine plans, which take these improvements into account, will deliver on the longer-term plan for Letšeng going forward.

Ghaghoo

As Botswana's first underground diamond mine, the Ghaghoo mine has showcased Gem Diamonds' ability to add value to existing assets through technical innovation. By pursuing an underground mining option, the Group achieved significant cost savings, reduced its potential environmental impact and has served to pave the way for a new era of mining in challenging mining conditions (including deposits covered with significant overburden). This point was reinforced by the President of Botswana when he officiated the opening of the Ghaghoo mine in September 2014.

Gem Diamonds is developing Ghaghoo in a phased approach. The first phase is aimed at confirming diamond grades and prices, as well as testing different mining and processing techniques. In subsequent phases, production will be increased as appropriate in a cost effective manner.

The mine is currently in Phase 1 with the capital project complete and commissioning progressing well. As at 31 December 2014, 48 023 tonnes of ore had been treated, with 10 167 carats recovered, including a 20 carat white diamond, a 17 carat white diamond, and a three carat orange diamond (the recovery of which confirms the presence of valuable coloured diamonds in the orebody). After year end, a 35 carat diamond was recovered, which is the largest diamond recovered at Ghaghoo to date. The first tender of 10 167 carats was held in February of 2015, following viewings held in Gaborone and Antwerp and achieved US$210 per carat. As is usual in the development of the marketing of a new mine's production, it will take at least six months of tender sales and the subsequent sale of the polished diamonds by clients, in order for a reliable average price to emerge. As part of the mine's Phase 1 plan, a production rate of approximately 60 000 tonnes per month is expected to be achieved by mid-2015.

During the year, a significant ingress of water was encountered at Ghaghoo following the intersection of a fissure in the basalt country rock. This challenge has been overcome through swift and efficient technical response, allowing the development of the tunnels to proceed with minimal disruption to mine development.

Sales, marketing and manufacturing
The Group continues to invest in its marketing and manufacturing operations to ensure the highest returns on its production.

During the year Letšeng recovered seven +100 carat diamonds, five of these exceptional diamonds (a 197.6 carat, a 162.02 carat, a 161.31 carat, a 132.55 carat and a 112.6 carat) together achieved a total sales value of US$37.4 million, representing 14% of Letšeng's total revenue. The largest diamond recovered in 2014 was a 299.3 carat yellow diamond, which was extracted and sold into a partnership arrangement in early 2015, where Letšeng will further share in 50% of the uplift from the eventual polished sales value.

For the full year Letšeng sold 108 963 carats (2013: 97 294), achieving an average price of US$2 540* per carat, up 24% from US$2 043* per carat in the prior year.

Health, safety, social and environment (HSSE)
The sustainability of the Group is strongly dependent on maintaining its social licence to operate. As a result, the health and safety of employees and contractors, environmental responsibility, legal compliance and social relevance remain key enablers of the Group's continued success.

The Group manages its environmental footprint with great care. Across all operations there is a continual focus on improving energy efficiency, reducing direct impact and enhancing biodiversity. It is pleasing to report that for the sixth consecutive year no major environmental incidents occurred across the Group.

Gem Diamonds works in close collaboration with its project affected communities to ensure that the social projects implemented make a meaningful contribution to these communities. With the opening of the Ghaghoo mine, the Group's involvement in the surrounding community has intensified. The Ghaghoo Community Trust has been funded as part of the development of the mine and these funds allocated to support community projects during 2014. In addition, employment opportunities have been taken up by many in the project affected communities and the medical facilities on the mine have been made available to treat emergencies in the surrounding communities. Moreover, Ghaghoo continues to equip and maintain the boreholes, which are used by the communities within the Central Kalahari region.

Outlook
As the Group's operations expand from a single producing mine to two producing mines, with the ramp up of production at Ghaghoo, the Group will start seeing a significant shift in production figures going forward. The Group will continue to focus on improving operational efficiencies and pursuing innovative technologies. Taking these steps, I am confident that the Group is well placed to take advantage of the favourable supply/demand dynamics in the market in order to produce continued growth in 2015 and beyond.

I wish to express my sincere appreciation to our employees. Your continued pursuit of excellence has made the success of Gem Diamonds possible. I would also like to thank the Board for their guidance during the year, as well as our shareholders for their continued support.

Clifford Elphick
Chief Executive Officer

16 March 2015

GROUP FINANCIAL PERFORMANCE

Capital and cash management discipline *has placed the Group in a well-funded position to recommend the payment of its maiden dividend of 5 US cents per share, which enforces its strategy of delivering additional value to its shareholders.*

Financial highlights

- **Revenue of US$271 million – up 27%**
- **Underlying EBITDA of US$104 million – up 35%**
- **Attributable profit of US$33 million – up 57%**
- **Basic EPS of 24 US cents – up 57%**
- **Cash on hand of US$111 million**
- **Maiden dividend of 5 US cents per share**

	2014 US$ million Total	2013 US$ million Total
Revenue	**270.9**	212.8
Royalties and selling costs	**(24.7)**	(18.5)
Cost of sales	**(129.6)**	(103.1)
Corporate expenses	**(12.4)**	(13.8)
Underlying EBITDA	**104.2**	77.4
Depreciation and mining asset amortisation	**(15.2)**	(17.3)
Share-based payments	**(1.7)**	(0.9)
Other income	**0.2**	0.7
Foreign exchange gain	**5.2**	0.6
Finance income/(cost)	**0.2**	(1.6)
Reversal of impairment of assets	**–**	0.1
Profit before tax	**92.9**	59.0
Income tax expense	**(35.0)**	(20.8)
Profit for the year	**57.9**	38.2
Non-controlling interests	**(24.7)**	(17.0)
Attributable profit for the year	**33.2**	21.2
Earnings per share (US cents)	**24.0**	15.3

Revenue

The Group's revenue is primarily derived from its two business activities, namely its mining operations at Letšeng and its rough diamond manufacturing operation in Antwerp. Revenue does not include any contribution from the mining operation at Ghaghoo, as the mine had not reached full commercial production during the year. The first sale of carats recovered during commissioning concluded after year end. Overall, the Group revenue increased by 27%, driven by 12% higher volume of rough carat sales from Letšeng and 24% higher diamond prices achieved. Management interventions initiated during 2013, effective mining plans and favourable external market conditions for the majority of 2014 have all resulted in a positive impact on revenue.

Mining operations
The demand for rough diamonds remained strong during 2014, with high prices achieved for Letšeng's production, particularly the high-quality, large diamonds for which the mine is renowned. The benefit of the additional investment in waste stripping in the Satellite pipe at Letšeng in 2013 was realised in 2014, as increased volumes of the higher-value, higher-grade Satellite pipe ore was mined during the year. The Satellite to Main pipe ore ratio was 31:69 during the year, compared to 16:84 in the prior year. The increased contribution of the higher-grade Satellite pipe ore, together with the higher than expected performance of the reserve grade during the year resulted in Letšeng recovering 108 569 carats, a 14% increase from the prior year.

	2014	2013
Average price per carat (US$)[1]	**2 540**	2 043
Carats sold[1]	**108 963**	97 294
Group revenue summary (US$ million)		
Sales – rough	**276.8**	198.8
Sales – polished margin	**5.8**	6.3
Sales – other	**0.4**	0.3
Impact of movement in own manufactured inventory	**(12.1)**	7.4
Group revenue	**270.9**	212.8

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

The combination of increased mining in the higher-value Satellite pipe, the positive impact of the new crushers installed during 2013 and favourable market conditions, resulted in a higher average value obtained for Letšeng's rough diamond exports. US$2 540* per carat was achieved in 2014 from the sale of 108 963 carats, compared to the average price of US$2 043* per carat achieved in 2013 from 97 294 carats. This resulted in an overall increase of 39% in Letšeng's rough revenue compared to the prior year and an EBITDA margin of 46% (2013: 42%).

Diamond manufacturing operation
The diamond manufacturing operation in Antwerp contributed US$5.8 million to Group revenue (through additional polished margin generated) and US$3.9 million to EBITDA. During the year, 1 232 carats valued at a rough market value of US$17.2 million were extracted from the Letšeng exports for manufacturing. In total, polished diamonds with an initial rough value of US$5.1 million were sold during the year and US$15.0 million remained in inventory at the end of the current year, compared to US$2.9 million at the end of the prior year. The year-on-year polished inventory movement decreased the Group revenue by US$12.1 million.

Royalties and selling costs
Royalties and selling costs in the Group of US$24.7 million mainly comprise mineral extraction costs paid to the Lesotho Revenue Authority of 8% on the sale of diamonds and diamond marketing-related expenses.

Cost of sales
The focus for 2014 remained on continued operational excellence through cost reductions and enhancing production efficiencies. Cost of sales for the period was US$129.6 million, the majority of which was incurred at Letšeng, and includes waste stripping costs amortised of US$49.3 million (2013: US$34.8 million). The benefits of the newly negotiated mining contract, procuring a larger mining fleet and improved production throughput contributed to improved unit costs. Cost of sales does not include any operational costs incurred at Ghaghoo, as the mine did not reach its intended sustaining operational levels, and therefore all costs were recognised as part of the asset's carrying value during 2014.

The LSL (pegged to the South African rand) and the Botswana pula (BWP) were weaker than the prior year, positively impacting US dollar reported costs during the year. Conversely, the British pound (GBP) strengthened against the US dollar during the year, negatively impacting GBP corporate costs.

Exchange rates	**2014**	2013	% change
LSL per US$1.00			
Average exchange rate for the year	**10.85**	9.65	12
Year end exchange rate	**11.57**	10.47	11
BWP per US$1.00			
Average exchange rate for the year	**8.98**	8.40	7
Year end exchange rate	**9.51**	8.78	8
US$1.00 per GBP			
Average exchange rate for the year	**1.65**	1.56	6
Year end exchange rate	**1.56**	1.66	(6)

Letšeng costs	**Year ended 31 December 2014**	Year ended 31 December 2013
US$ (per unit)		
Direct cash cost (before waste) per tonne treated[1]	**12.70**	13.34
Operating cost per tonne treated[2]	**19.64**	15.85
Waste cash cost per waste tonne mined	**2.22**	2.71
Local currency (per unit) LSL		
Direct cash cost (before waste) per tonne treated[1]	**137.75**	128.68
Operating cost per tonne treated[2]	**213.08**	152.92
Waste cash cost per waste tonne mined	**24.07**	26.12

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

Total direct cash costs (before waste) at Letšeng, in local currency, were LSL884.6 million compared to LSL801.1 million in 2013. This resulted in unit costs per tonne treated for the year of LSL137.75 (2013: LSL128.68). This increase of 7% is primarily attributable to general inflation increases of approximately 6%; above inflationary fuel and power increases; additional costs relating to back up power facilities and diamond reduction initiatives, offset by savings achieved through the new mining contract arrangements.

Operating costs per tonne treated increased to LSL213.08 per tonne from LSL152.92 per tonne, mainly due to increased waste stripping cost amortised, driven by the different waste to ore strip ratios for the particular ore processed. Letšeng significantly increased mining ore from the Satellite pipe during the year, which carries a higher amortisation charge than the Main pipe. As a result, the amortisation charge attributable to the Satellite pipe ore accounted for 64% of the total waste stripping amortisation charge in 2014 (2013: 48%).

Other operating information (US$ million)	**Year ended 31 December 2014**	Year ended 31 December 2013
Waste cost capitalised	**51.5**	59.3
Waste stripping costs amortised	**49.3**	34.9
Depreciation and mining asset amortisation	**15.2**	16.0
Capital expenditure[1]	**11.3**	9.9

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

Local currency waste cash cost per waste tonne mined decreased by 8% as a result of the newly negotiated mining contract and the use of larger equipment improving overall efficiencies. Following the estimation change in respect of the waste mined out of the surveying review, which was disclosed in 2012, waste costs will be recovered from the mining contractor over the eight year term of the new contract and this has been raised as a prepayment in the Statement of Financial Position. The impact on the waste stripping cost amortised in the current year due to the change in estimate is a credit of US$0.9 million.

Corporate expenses
As a result of the streamlining of the corporate structure initiated in 2013, corporate expenses have further decreased, notwithstanding inflation, from US$13.8 million in 2013 to US$12.4 million in 2014, which now represents the full impact of the restructuring initiatives. Corporate expenses relate to central costs incurred by the Group and are incurred in both South African rand and British pounds.

Share-based payments
Share-based payment costs for the year amounted to US$1.7 million compared to US$0.9 million in 2013. There were two Long-term Incentive Plan (LTIP) options granted during March and June of 2014. In March, 625 000 nil-cost options were granted to certain key employees. The vesting of these options will be subject to the satisfaction of certain performance and service conditions classified as non-market conditions. In June, 609 000 nil-cost options were granted to the Executive Directors. The vesting of these options will be subject to the satisfaction of certain performance conditions over a three-year period. The share-based payment cost associated with the new awards had a US$0.6 million impact on the current year charge.

Net finance income
Net finance income mainly comprises interest received from surplus cash from the Letšeng operation and the finance income adjustment relating to the impact of raising the non-current prepayment at fair value relating to the waste estimation change. This income was partially offset by the unwinding of the current environmental provisions and interest on interest-bearing liabilities.

Income tax expense
The Group's effective tax rate was 37.6%, above the UK statutory tax rate of 21.5%. This tax rate is driven by tax of 25% on profits generated by Letšeng, withholding tax of 10% on dividends from Letšeng and deferred tax assets not recognised on losses incurred in non-trading operations.

EBITDA and attributable profit
The impact of the positive trading activities for the year has resulted in underlying EBITDA of US$104.2 million, up by US$26.8 million (35%) from the prior year. The profit attributable to shareholders for the year was US$33.2 million (up 57% from US$21.2 million in 2013) equating to 24.0 US cents per share (up 57% from 15.3 US cents in 2013) on a weighted average number of shares in issue of 138 million.

Financial position and funding review
The Group's robust cash position was maintained, with US$110.7 million cash on hand at year end, of which US$99.4 million was attributable to Gem Diamonds and US$0.2 million restricted. The Group generated cash flow from operating activities of US$133.7 million before the investment in waste mining and capital expenditure.

Enhancing the Group's funding strategy of incorporating appropriate debt levels into the capital structure, additional debt funding of LSL140.0 million (US$12.1 million) for the funding of the Coarse Recovery Plant, and US$25.0 million to fund the remaining Phase 1 development spend at Ghaghoo was raised during the year. Both these facilities were fully drawn down by year end, resulting in a net cash position of US$73.6 million, with undrawn facilities of US$41.6 million still available as at 31 December 2014.

Investments in property, plant and equipment amounted to US$101.3 million, the largest component of which was US$54.0 million incurred in waste stripping costs at Letšeng. The Group also invested US$11.3 million at Letšeng, in connection with the Coarse Recovery Plant, Plant 2 Phase 1 upgrade, additional resource extension drilling and other sustaining capital costs. US$35.1 million was invested in Ghaghoo, representing the remaining Phase 1 capital project costs (US$26.2 million) together with six months' operational costs during the commissioning phase (US$8.9 million). These costs continued to be recognised as part of the carrying value of the asset until such time as the mine is capable of operating at sustainable levels.

During the year, Letšeng declared dividends of US$92.0 million of which US$57.9 million flowed to Gem Diamonds and US$34.1 million flowed outside of the Group representing withholding taxes of US$6.5 million and payment to the Government of Lesotho of US$27.6 million for its minority portion.

Outlook

Capital and cash management discipline has placed the Group in a well-funded position to recommend the payment of its maiden dividend of 5 US cents per share, which enforces its strategy of delivering additional value to its shareholders. This dividend is subject to shareholder approval at the scheduled AGM to be held on 2 June 2015, and would be anticipated to be paid on 9 June 2015. The total dividend would be US$6.9 million, equating to 21% of 2014 net earnings.

Focus will be on converting the Ghaghoo mine from a development project into sustaining operational activities and achieving steady state production by the end of the first half of 2015. Optimising steady state production costs will be of high priority with the aim of generating a positive contribution to EBITDA.

Letšeng is operationally geared to mine a more consistent mix of Satellite and Main pipe ore. In addition, the potential added value benefits following the completion of the Coarse Recovery Plant and the Plant 2 Phase 1 project in the first half of 2015 provides a strong platform from which to build during 2015 and beyond.

The Group will continue to pursue cost control, operational efficiencies and growth opportunities on an ongoing basis to achieve its objectives of delivering shareholder return over the short, medium and long term.

Michael Michael
Chief Financial Officer

16 March 2015

OPERATING REVIEW – LETŠENG

At Letšeng, plant improvements and improved blasting techniques, *as well as greater access to ore from the higher-grade Satellite orebody resulted in an improvement in the grade, size and quality of the diamonds produced, exceeding all prior year production levels.*

Letšeng

Operational highlights

- **Highest number of +20 carat diamonds recovered**
- **The recovered grade outperformed the 2014 reserve estimate by 7%**
- **Five +100 carat diamonds sold achieved US$37.4 million in total, representing 14% of total sales**
- **Early introduction of the new mining contract resulted in improved efficiencies and cost savings**

Large diamond recoveries

Frequency of recoveries of large diamonds at Letšeng

Number of diamonds*	2008	2009	2010	2011	2012	2013	**2014**
>100 carats	7	5	6	5	3	7	**7**
60 – 100 carats	16	10	10	19	13	16	**21**
30 – 60 carats	74	76	61	59	61	50	**69**
20 – 30 carats	88	98	89	91	110	71	**101**
Total diamonds >20 carats	**185**	**189**	**166**	**174**	**187**	**144**	**198**

**Letšeng's treatment plants only. (Excludes Contractor Plant production.)*

Letšeng operational performance	**Year ended 31 December 2014**	Year ended 31 December 2013	% change
Tonnes treated	**6 421 704**	6 225 821	3
Waste tonnes mined	**19 884 721**	19 072 657	4
Carats recovered	**108 569**	95 053	14

Operational performance

Letšeng reported a year of robust operational performance, exceeding all prior year production levels. For the year Letšeng treated a total of 6.4 million tonnes of ore compared to the 6.2 million tonnes in 2013. Of the total ore treated for the year, 69% was sourced from the Main pipe and 31% from the Satellite pipe, compared to 84% Main and 16% Satellite ore in 2013. The recovered grade has outperformed the 2014 reserve estimate by 7% and this can be attributed to a concerted effort to improve mining, treatment and geological controls, as well as the increased recovery of fine diamonds through improved liberation and dilution control. The higher recovered grade and increased Satellite pipe contribution to the mining mix resulted in 108 569 carats being recovered in 2014, a 14% increase from the prior year.

Waste stripping at Letšeng increased in line with the mine plan and the requirement to access the higher-grade Satellite ore in higher proportions. Waste moved was 19.9 million tonnes, up 4% from 2013. During the first half of 2014, the mining contractor delivered larger mining equipment that included five new 100 tonne dump trucks and two new 300 tonne hydraulic excavators, thereby improving the waste mining efficiency in line with the current and medium-term increase in waste mining.

Significant improvements to sidewall control and blasting of the pit slopes have allowed the slope angles of the mine to be increased safely. This will result in lower stripping ratios, thereby significantly reducing the total cost of mining over the life of the mine. Optimisation of the long-term mine plan, taking into account the steeper slope angles, commenced toward the end of the year and will be ready for review early in 2015.

New mining contract
Letšeng successfully renegotiated its contract with the mining contractor a year ahead of the expiry of the previous contract. This has resulted in improved unit costs for eight years, effective from 1 January 2014. The introduction of the new larger mining equipment has resulted in improved loading and hauling efficiencies, contributing to reduced mining costs.

Focus on diamond damage
With diamond damage remaining a key focus area, a number of initiatives in both mining and processing were embarked upon during the past year to reduce diamond damage even further. Changes to mine blasting practices and operations have resulted in improved fragmentation of the ore for the treatment plants, which contributes to reducing diamond damage. These efforts, in conjunction with the installation of the secondary and tertiary crushers in 2013; the lining of the cyclone underflow boxes; and the optimisation of crusher gaps and crusher operations have resulted in a reduced breakage trend in the valuable Type II diamonds.

Building on the successful installation of the crushers in 2913, further enhancements were made to the plants, which had a positive impact on the diamond breakage trend. New liner configurations for the Plant 1 and Plant 2 secondary crushers were finalised and adopted, resulting in improved throughputs, as well as better fragmentation.

Expansion and improvement programme
Following several studies it was decided that the Plant 2 Phase 1 upgrade would be implemented and that the Plant 2 Phase 2 upgrade project would be examined further after the implementation of Phase 1. The Plant 2 Phase 1 project was approved by the Board in June 2014 at a capital cost of US$4.7 million and will be completed in Q1 2015. The Plant 2 Phase 1 upgrade project will increase Letšeng's production capacity by 250 000 tonnes per annum and is also expected to further reduce diamond damage.

Construction on the new Coarse Recovery Plant started in Q3 of 2014. Construction and commissioning is expected to be completed by the end of Q2 2015. This new plant will create a single access, secure facility, and will use XRT sorters to process all of the +5mm diamond concentrate to ensure improved diamond recovery of the high-value Type II diamonds, which typically have a low fluorescence and are not easily recovered using regular fluorescence-based X-ray technology.

State of the art security systems have been designed for the new Coarse Recovery Plant, which will include X-ray scanning of all personnel exiting the recovery plant.

Skills
The issue of skills attraction and retention remains a material risk to the Letšeng operation. Aside from the normal factors ascribed to working in remote areas and remunerating skilled employees in a globally weak currency, localisation challenges, difficulties experienced in obtaining work permits for expatriates and increasing competition from other diamond companies in Lesotho for skilled personnel have exacerbated the risk.

An exercise focusing on a global search for qualified and experienced Lesotho citizens who were willing to work in Lesotho indicated that there is a limited pool of available skills.

Extensive engagements with Lesotho Government officials on this matter have commenced. Indications are that the stakeholders will adopt a collaborative approach to addressing the skills challenge. Furthermore, an intensified effort is being made to invest in the development of existing employees.

HSSE
Letšeng was awarded, for the second consecutive year, the highest possible rating for HSSE management according to the IRCA global system. The 2014 external HSSE audit resulted in a five star rating which reflects the continued focus on the effective management of risks to the health and safety of the mine's employees and project affected communities, as well as Letšeng's approach to safeguarding the natural environment in which it operates.

On 23 October 2014 Letšeng reached a significant milestone of 365 days without an LTI. Unfortunately, immediately following this milestone Letšeng experienced an LTI. The incident was comprehensively investigated, the root causes determined and appropriate corrective actions taken to prevent recurrences.

No major or significant environmental incidents were recorded at Letšeng during 2014.

To improve the lives and social well-being of the communities affected by mining activities, Letšeng continues to work closely with the project affected communities and relevant community and governmental forums. During 2014, Letšeng invested approximately US$0.3 million towards community investment projects, the amount of which is anticipated to increase in 2015 in line with the maturity of the corporate social investment (CSI) plan and as more projects are implemented. The majority of Letšeng's investment spend went towards infrastructure development, small and medium enterprise and education. To this end, Letšeng's invested US$59 587 towards educational scholarships and initiatives. Letšeng undertook a herd boys training campaign which was focused on outdoor survival skills to aid surviving harsh winter conditions in the Lesotho mountains. The operation also built and equipped three health posts in Lesotho during 2014. These health posts were handed over to the department of health as they continue to expand access to medical services in Lesotho.

At the end of 2014, 92% of Letšeng's workforce comprised Lesotho citizens with 18% originating from project affected communities.

Sustainable development in action
Indigenous plant nursery
Letšeng assisted the local community members in the neighbouring Khubelu valley with the establishment of an indigenous plant nursery. The project aims is to have the communities sell indigenous plants to local projects and businesses, thereby generating an

income for the community and furthering self-sustainability.

The mine provided training to community members which included:
– conservation of endangered plant species;
– propagation of indigenous plants;
– establishing an environment conducive to plant growth; and
– nursery management.

The community is in the process of securing the correct infrastructure for the nursery and the project is well under way.

Focus for 2015

- **Complete the Plant 2 Phase 1 upgrade**
- **Complete the construction and commissioning of the Coarse Recovery Plant**
- **Complete mine planning studies incorporating steeper slope angles, reducing and delaying the peak of waste stripping and the optimal mining rates from both pits to derive optimal returns**
- **Re-review the optimal timing for commencement of underground mining**
- **Undertake further studies into the next phase(s) of the expansion programme**
- **Improving efficiencies through continuous improvement programmes**
- **Continuation of test work with new waste sorting techniques**
- **Continuation of the drive to reduce diamond damage**

***The Ghaghoo diamond mine** was officially opened by His Excellency the President of Botswana, Seretse Khama Ian Khama, on 5 September 2014. The mine reached an important milestone with the completion of the Phase 1 capital project which entailed developing an access decline through 80 metres of sand overburden and three production tunnels in the first level of mining.*

Ghaghoo

Operational highlights

- **The Phase 1 development of the Ghaghoo mine has been completed on time and on budget**
- **Final commissioning and optimisation of the plant to achieve nameplate production output is in progress**
- **A total of 10 167 carats recovered during commissioning, (including a 20 carat white diamond, a 17 carat white diamond and a three carat orange diamond)**

Total resource

20.5 million carats (as at 1 January 2014)

In-situ value

US$4.9 billion (as at 1 January 2014)

Operational performance

The Ghaghoo diamond mine was officially opened by His Excellency the President of Botswana, Seretse Khama Ian Khama, on 5 September 2014.

The mine reached an important milestone with the completion of the Phase 1 capital project, which entailed developing an access decline through 80 metres of sand overburden and three production tunnels in the first level of mining.

The tunnels in the old sampling level (140 metres below surface) were intersected in August 2014. These tunnels were dewatered and inspected and found to be stable and free of harmful gases.

To facilitate production, two 1 200mm diameter ventilation holes were drilled and one has been equipped as an emergency escape route.

The planned ramp up to approximately 60 000 tonnes per month and final commissioning by December 2014 were delayed due to an unforeseen intersection of a major water fissure along the basalt rim tunnel of the first production level. The water fissure was successfully sealed and measures were taken to rehabilitate the underground workings, including the reinforcing of underground tunnels, installing additional pumping and water handling capacities, drilling of dewatering boreholes around the kimberlite pipe and sealing of the water fissure.

During the year, production was drawn from the trial stope on Level 0, 134 metres below surface, and from the development tunnels in Level 1. The ore drawn from these was used in the commissioning of the processing plant. The processing plant is in the final stages of commissioning and further optimisation work is in progress. 48 023 tonnes of ore was treated, resulting in the recovery of 10 167 carats during the year. The recovered grade during the commissioning period has averaged just above 21 carats per hundred tonnes (cpht) compared to an expectation of approximately 27cpht, but was negatively impacted by highly diluted ore from the margins of the pipe and plant inefficiencies during early commissioning. During the latter part of the year, following an optimisation process at the treatment plant, the grade showed improvement and it is expected that reserve grades will be achieved as both the plant and mining operations reach steady state production levels.

HSSE

Ghaghoo is a maturing organisation that is improving its management systems, including the HSSE management system. The operation was recognised for its improvement of HSSE management when it was awarded a four star rating for its external HSSE audit for a second consecutive year in 2014. Regrettably a fall of ground incident occurred on 11 January and resulted in the death of Mr Segolame Mashumba. A comprehensive and thorough accident investigation found that the incident was a result of a series of consecutive actions that combined to weaken the rock mass to such an extent that a very small amount of force was required to cause failure. Work practices have been revised and an extensive training programme has been implemented.

On 4 November 2014 a further fall of ground occurred, resulting in three LTIs. This incident was investigated and appropriate actions were taken to address the root causes to prevent recurrence of the incident.

***Ghaghoo established** a community trust in 2014. This trust is made up of representatives from the mine as well as representatives from the project affected communities as well as representatives from the mine.*

No major or significant environmental incidents occurred during 2014.

Ghaghoo established a community trust in 2014. This trust is made up of representatives from the mine as well as representatives from the project affected communities as well as representatives from the mine. Ghaghoo has increased its CSI activity in local communities during the year, with a focus on education. The mine has adopted the Kaudwane Primary School as part of its social investment strategy and appointed a number of Kaudwane residents as part of its short-term labour project. The project is aimed at building capacity and providing local community members with work experience and skills. Other programmes have been identified as part of the CSI plan for implementation in 2015.

At year end, 93% of the Ghaghoo workforce were Batswana citizens, 19% of which originated from project affected communities.

Sustainable development in action
Adoption of the Kaudwane Primary School

Ghaghoo officially adopted the Kaudwane Primary School on 24 June 2014. An official adoption ceremony was held to mark this event and to facilitate good relations between the Ghaghoo diamond mine and the Kaudwane community. The school identified various projects that they required assistance with, including infrastructure and maintenance upgrades.

Extensive maintenance has been undertaken to improve the ablution facilities of the school, and the classrooms have been provided with electricity after the generator was serviced. More projects are planned for implementation during 2015.

Focus for 2015

- **Continue the transition of processes and systems from the project phase to operations phase**
- **Continue ramping-up mining and production to nameplate capacity and maintain a focus on sustaining those levels. (Production is expected to ramp-up to reach steady state during the first half of 2015).**
- **Optimise the processing plant**
- **Advance the decline to open up Level 2 in 2015**
- **Increase the number carats for sale and the frequency of tenders held (An initial sale of 10 096 carats took place in Gaborone and Antwerp during February 2015.**

OPERATING REVIEW – SALES, MARKETING AND MANUFACTURING

The Group continues to invest in and grow the intellectual property in its sales, *marketing and manufacturing operations, with the objective of ensuring that the highest returns are achieved for its rough and polished diamonds.*

Sales, marketing and manufacturing

Operational highlights

- **US$276.8 million* with an average price of US$2 540* per carat was achieved for Letšeng's high-value production**
- **59* rough diamonds for greater than US$1.0 million each**
- **Polished sales through the manufacturing division contributed US$5.8 million in additional revenue to the Group**

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

Sales and marketing

The Group's rough diamond production is marketed by Gem Diamonds Marketing Services and sold through an electronic tender platform. 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 tender viewings of the Group's diamonds take place in Antwerp, the electronic tender platform allows customers the flexibility to participate in each tender from anywhere in the world. This flexibility together with the professional and transparent manner in which the tender is managed, as well as the high-calibre clients who participate in the tenders, contributes to the achievement of the highest market-driven prices for the Group's rough diamond production. In addition to the Letšeng production, Gem Diamonds Marketing Services will also be tendering the Ghaghoo rough diamond production in 2015, with viewings scheduled to take place in Gaborone and Antwerp.

Rough diamonds selected for polishing are manufactured at Baobab, and the resulting polished diamonds are sold by Gem Diamonds Marketing Services through direct selling channels to prominent high-end clients.

Focus for 2015

Sales and marketing – Gem Diamonds Marketing Services

- **Continue to achieve highest prices for the Group's rough and polished diamonds through optimised sales and marketing activities**
- **Develop and implement the market strategy and sales channels for the Ghaghoo rough production to achieve highest prices**
- **Identify diamond sales and marketing opportunities in other strategic jurisdictions**

Analysis and manufacturing

Baobab Technologies' advanced mapping and analysis of Letšeng's exceptional rough diamonds assists the Group in assessing appropriate true values of its rough diamonds that are presented for sale on tender or sold through any other sales channel. This ensures that robust reserve prices are set for its diamonds at each tender and assists in the making of strategic selling, partnering or manufacturing decisions.

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 Baobab and places other exceptional diamonds into strategic partnership arrangements with select clients.

During 2014, Baobab Technologies received 933 carats of high-value diamonds for processing, with a rough market value of US$12.9 million from Letšeng and continued to cut and polish third party goods. Included in this amount was the manufacture of two high-value diamonds a 124 carat diamond, which resulted in 12 exceptional polished diamonds with a total weight of 40.63 carats (including a 10 carat, D Flawless, Emerald cut), and a 95 carat diamond, which resulted in four exceptional polished diamonds with a total weight of 34.53 carats (including a 18 carat, D Flawless, Round and a 10 carat, D Flawless, Round). All of the polished stones from these two diamonds achieved Excellent grading for cut grade, polish and symmetry by the GIA.

Focus for 2015

Analysis and manufacturing – Baobab

- **Continue to analyse Letšeng's large, high-value diamonds to ensure deep understanding of product value on each Letšeng tender**
- **Obtain best possible polished results for Letšeng's rough diamonds extracted for manufacturing**
- **Increase business activities by polishing more high-value diamonds for customers outside the Group**

The Group is exposed to a number of risks and uncertainties *that could have a material impact on its performance and long-term development. The effective identification, management and mitigation of these risks and uncertainties are a core focus of the Group, as they are key to the Company's objectives and strategy being achieved. Central to Gem's approach to risk management is having the right Board and Senior Management team in place, with such members combining extensive experience of diamond mining, corporate governance, risk management and the local operating conditions in Lesotho and Botswana.*

Risk management is the overall responsibility of the Board, assisted primarily by the Audit and HSSE Committees, who together identify and assess any change in risk exposure, together with the potential financial and non-financial impacts and likelihood of occurrence.

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

Description and impact	**Mitigation**	**2014 actions and outcomes**
Market risks ***Rough diamond prices***		
Numerous factors beyond the control of the Group may affect the price and demand of diamonds. These factors include international economic and political trends, as well as consumer trends. The funding of growth plans could also be adversely affected by constrained cash flows impacted 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. Strict treasury management procedures are also in place to monitor cash and capital projects expenditure.	The market for rough and polished diamonds firmed over the first three quarters in 2014 before softening in the final quarter as a result of recent concerns over bank lending and liquidity. Despite this, diamond prices achieved outperformed the mineral reserve prices, improving Group revenues. Operational efficiency initiatives and current projects in the form of the new Coarse Recovery Plant and Plant 2 Phase 1 upgrade are geared to providing increased revenue and margin. The Group has a strong balance sheet with cash reserves of US$110* million plus existing undrawn facilities of US$42* million. **As at 31 December 2014.*
Operational risks ***Mineral resource risk***		
The Group's mineral resources influence the operational mine plans and affect the generation of sufficient margins. Under-performance 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 and confidence in the mineral resources and assist in optimising the mining thereof.	Letšeng resource drilling and bulk sampling programmes were successfully completed during the year. The results of these programmes together with other geological work have resulted in a significant increase in the indicated resource category and probable reserves. The entire open pit life of mine plan is now classified as reserve.
Operational risks continued ***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	The Group continually reviews the likelihood and consequence of possible different events and ensures that the appropriate management controls, processes and business continuity plans	Letšeng sources its power through the Lesotho Electricity Corporation, which in turn is sourced from the South African electricity provider, Eskom, who have had challenges in providing consistent

Description and impact	Mitigation	2014 actions and outcomes
Group's operations and impact both profitability and cash flows.	are in place to mitigate this risk.	power in South Africa and neighbouring dependent states. In light of this, improvements in power monitoring and the provision of backup power supply were undertaken at Letšeng, reducing the impact of lengthy outages. In addition, a review of critical spares for the treatment plants; improved sidewall control; and geotechnical monitoring during the year were undertaken, which further mitigate possible production down time. Following significant water ingress at Ghaghoo in July, improved water handling and management systems have been introduced.
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.	The new Coarse Recovery Plant, which incorporates enhanced security features is well underway and on target to be completed by the end of the second quarter of 2015. Upgrades to the existing security systems and facilities continued at Letšeng throughout the year. The Phase 1 capital project at Ghaghoo was completed and included appropriate diamond security systems and facilities.
Diamond damage		
Letšeng's valuable Type II diamonds are highly susceptible to damage during the mining and recovery process and the opportunity to reduce such damage creates potential upside for the Group.	Diamond damage is regularly monitored and analysed. Continuous studies are conducted to further implement modifications and identify opportunities to reduce such damage.	Building on the success of the new crushers installed in the prior year, numerous further initiatives continue to be implemented with the aim of reducing diamond damage, with improved blasting practices having had a significant impact. The Plant 2 Phase 1 upgrade, which was approved during the year and on track to be completed by the end of the first quarter of 2015, is further aimed at reducing the impact of diamond damage.
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.	Studies on the Letšeng expansion projects continued to advance during the year. The new Coarse Recovery Plant and Plant 2 Phase 1 upgrade projects were approved and completion thereof is anticipated on time and within budget by the end of the second quarter of 2015. The Phase 1 development of Ghaghoo was completed within budget. The initial ramp up was delayed due to significant water ingress, however, improved water handling and management systems, which were quickly introduced, have reduced the impact of the delay and as a result, the mine is on track for delivery by the end of the first half of 2015.

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. Further to this, the Group engages independent third parties to review and provide assurance on processes currently in place. The Group actively participates and invests in corporate social initiatives and the involvement of members of the communities who sit on the respective corporate social responsibility committees is critical to the success thereof.	While the Group's overall safety performance remains satisfactory, a fatality was recorded at the Ghaghoo underground mine. Letšeng and Ghaghoo maintained their five-star and four-star ratings respectively for their external HSSE audits. Corporate social investment into the Group's project affected communities continued throughout the year.
Strategic risks ***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 remain well informed of all legal and regulatory developments impacting its operations and to build relationships.	Political unrest was experienced during the year in Lesotho; however no disruptions were experienced at the Letšeng Mine. The Group took part in its ongoing dialogues with representative stakeholders, gaining insight into the progress and status of the political developments leading up to the elections in February 2015. The Group further implemented specific procedures to mitigate the impact of any unrest. There were no strikes or lockouts during the year at either operation.
Retention of key personnel and skills shortages		
The successful achievement of the Group's objectives and sustainable growth depends on its ability to attract and retain key suitably qualified and experienced personnel, especially in an environment and industry where skills shortages are prevalent and in jurisdictions where localisation policies exist. A global review for qualified and experienced Lesotho citizens undertaken during the year confirmed this skills shortage.	The Group's human resources practices, which are regularly reviewed, are designed to identify areas of skills shortages, and actions such as development programmes are implemented to mitigate such risks. In addition, these practices are designed to attract, incentivise and retain individuals of the appropriate calibre through performance based bonus schemes and long-term reward and retention schemes.	An intensified effort is being made to invest in the development of existing identified key employees through structured training and development programmes. Extensive engagements with respective government departments are ongoing as part of the effort to develop plans for local upskilling. A review and amendments of remuneration policies and the Employee Share Option Plan (ESOP) were implemented during the year. The amendments to the ESOP incorporated a broader base of participants.

Financial risks ***Exchange rates***		
The Group receives its revenue in US dollars, while its cost base is incurred 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. It is the Group's policy to hedge a portion of future diamond sales when weakness in the local currencies indicates it to be appropriate. Such contracts are generally short term in nature.	Local currencies in the jurisdictions in which the Group operates have weakened against the US dollar during the year. This has had a positive impact on the Group's results. Numerous hedges were taken out in the latter part of the year to take advantage of the weakened currencies.

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, is 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 and Directors' 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 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); and

(b) 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

16 March 2015

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GEM DIAMONDS LIMITED

Opinion on financial statements
In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2014 and of its profit for the year then ended; and
- have been properly prepared in accordance with International Financial Reporting Standards (IFRS).

What we have audited
We have audited the Group financial statements of Gem Diamonds Limited (the Group) for the year ended 31 December 2014 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and IFRS.

This report is made solely to the Company's members, as a body, in accordance with the terms of our engagement letter dated 11 March 2015. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 92, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

In addition, the Company has also instructed us to report, whether in our opinion:

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

Report if we are not satisfied that:

- adequate accounting records have been kept (including returns from those branches which have not been visited);
- the accounts are in agreement with the records and returns; or
- we have obtained all the information and explanations which we consider necessary for the purpose of the audit; and

Review the Directors' Statement in relation to going concern as set out on pages 87 and 88, which, for a premium listed UK incorporated company, is specified for review by the Listing Rules of the Financial Conduct Authority.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Our assessment of focus areas and response
We identified the following risks that had the greatest effect on the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. Details of why we identified these issues as focus areas and our audit response are set out in the table below.

Area of focus	How our audit addressed the area of focus
Revenue recognition	
Refer to the Audit Committee Report on page 63 and the revenue disclosures in Note 2 to the annual financial statements	
Diamonds are sold through three revenue streams as	• We identified and observed controls around the

follows:

- rough diamonds sold on tender;
- selected diamonds sold through partnership arrangements; and
- diamonds extracted for purposes of own manufacturing and sold thereafter in polished form.

We focused on this area due to the inherent risk related to the recognition and measurement of revenue, particularly on partnership arrangements and diamonds extracted for purposes of own manufacturing.

For partnership arrangements, revenue is earned on the sale of the rough diamond, with an additional uplift recognised on the polished margin achieved. Judgement is involved in determining when the risks and rewards of ownership transfer on rough diamond sales and also on the uplift element.

For diamonds extracted for purposes of own manufacturing, no revenue is recognised until the diamonds are sold to third parties; however, there are a number of intercompany transactions that must be eliminated in the consolidated financial statements, and there is risk related to the completeness of sales recognised through the extraction process in light of the polishing losses that result from the manufacturing process.

revenue process in understanding management's internal processes and the control environment.

- We challenged management's recognition of revenue, covering all revenue streams of the Group. This involved agreeing revenue transactions to underlying agreements, invoices and supporting calculations.
- For partnership arrangements, we also assessed and challenged as to when the risks and rewards were transferred. We verified this to supporting agreements.
- We confirmed that intercompany sales transactions properly eliminated and verified the completeness of consolidation entries.
- We performed cut-off testing at year end by selecting transactions close to the period end, and we reconciled inventory movements related to diamonds extracted for purposes of own manufacturing in validating the completeness of revenue.

Impairment of property, plant and equipment and goodwill

Refer to the Audit Committee Report on page 63 and the disclosures of impairment testing in Note 10 to the annual financial statements

At 31 December 2014, the carrying value of property, plant and equipment was US$374.9 million and the carrying value of goodwill was US$17.8 million.

We focused on this area due to the significant size of the carrying value of asset balances and the judgements applied by management in assessing whether indictors of impairment exist and in determining key assumptions used in impairment tests.

Our procedures focused on management's Letšeng goodwill impairment test and the judgements involved in determining the appropriate cash-generating unit and the significant assumptions applied in the future cash flow forecast, including expected diamond prices and discount rates.

- We assessed management's process of identifying impairment indicators and evaluated management's analysis of whether the Group's market capitalisation compared to the Group's net asset value represented an indicator of impairment in 2014.
- We considered the appropriateness of management's conclusions related to whether impairment triggers existed by challenging the rationale applied and the completeness of factors assessed.
- We audited the Letšeng goodwill impairment test model, including the reasonableness of forecast cash flows and underlying assumptions through a comparison of current year actual results and trends.
- We challenged management's price and discount rate assumptions with the assistance of our valuations specialists and performed sensitivity testing on these key assumptions to confirm that no reasonable change in the estimated headroom would result in impairment.
- From the evidence we obtained through our audit procedures, we also assessed the sufficiency of disclosures surrounding management's goodwill impairment test in the consolidated financial statements.

Key judgements relating to the production start date of the Ghaghoo mine

Refer to the Audit Committee Report on page 63 and Note 1.2.26 to the annual financial statements

We focused on this area due to the judgements and estimates applied by management in determining whether the Ghaghoo mine had reached production or continued to be in the development stage during the year.

Management determined that the Ghaghoo mine had not reached operations as intended by management in 2014 and was still in the development stage based on an assessment of key judgements and activity to date, including:

- the extent of testing of the mine plant and equipment;
- the unanticipated high volumes of water from basalt fissures which were encountered during the latter part of the year causing a delay in reaching a steady state of production; and
- the ability to sustain ongoing production of inventory.

- We challenged management's analysis and conclusion on the development stage of the Ghaghoo mine throughout 2014, including an assessment of the key judgements applied and factors considered. For each key judgement, we analysed the results achieved to date and evaluated the reasonableness of the mine's operations as intended by management.
- We also audited costs capitalised to the Ghaghoo mining project in accordance with IAS 16 by agreeing amounts to underlying documentation and validating that the capitalisation criteria was met.

Our application of materiality

The scope of our work is influenced by materiality. We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality	US$4.7 million
Performance materiality	US$2.3 million
Reporting threshold	US$0.2 million

We determined planning materiality of the Group to be US$4.7 million (2013: US$2.9 million), which is 5% of pre-tax profit. Our planning materiality has increased by 62% compared with 2013 given the higher pre-tax profit recognised by the Group in 2014. This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures. We assessed our materiality calculation based on the pre-tax profit of the Group as we considered that to be the most relevant performance measure to the stakeholders of the entity given the production stage of the Group's Letšeng mine.

On the basis of our risk assessment, together with our assessment of the Group's overall control environment, our judgement was that overall performance materiality (ie our tolerance for misstatement in an individual account or balance) for the Group should be 50% of planning materiality, namely US$2.3 million (2013: US$1.5 million). Our objective in adopting this approach was to ensure that total detected and audit differences in all accounts did not exceed our planning materiality level.

Audit work at individual reporting components, covering entities in Belgium, Botswana, Lesotho, Mauritius, South Africa, and the United Kingdom, is undertaken based on a percentage of our total performance materiality. The performance materiality set for each reporting component is based on the relative size of the component and our view of the risk of misstatement at that reporting component. In the current year, the range of performance materiality allocated to reporting components was US$420 000 to US$1.6 million.

We agreed with the Audit Committee that we would report to the Committee all audit differences that remain uncorrected and that exceed US$233 000 (2013: US$150 000), as well as differences below that threshold that, in our opinion, warranted reporting on qualitative grounds.

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

An overview of the scope of our audit
Following our assessment of the risk of material misstatement to the Group financial statements, we selected seven reporting components which represent the principal business units within the Group and account for 100% of the Group's Revenue, 99% of the Group's pre-tax profit and 98% of the Group's total assets. Two of these components were subject to a full scope audit, while the remaining five were subject to a specific or limited scope audit where the extent of audit work was based on our assessment of the risks of material misstatement and of the materiality of the Group's business operations in that reporting component, and therefore, we do not test all accounts at specific scope entities. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. For the remaining components, we performed other procedures to confirm that there were no significant risks of material misstatement in the Group financial statements.

The audit work performed in the seven reporting components was executed at levels of materiality applicable to each individual entity, which were lower than Group materiality.

The Group audit team follows a programme of planned site visits. This year, the Group audit partner visited all full and specific scope locations, including visits to the Letšeng and Ghaghoo mines. The Group team reviewed key working papers audited by reporting component teams, participated in reporting component teams' planning procedures, including discussions on fraud and error, and attended the audit closing meetings for all reporting components.

Opinion on other matters prescribed by the terms of our engagement letter
In our opinion:

- the information given in the Directors' Report and Strategic Report for the financial year for which the Group financial statements are prepared is consistent with the financial statements;
- the information given in the Corporate Governance Statement set out on page 58 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements; and
- the part of the Remuneration Report of the Company that has been described as audited has been properly prepared in accordance with the basis of preparation as described therein.

Matters on which we are required to report by exception
We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

Under the Listing Rules, we are required to review the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code, specified in our review.

Under the terms of our engagement letter, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept (including returns from those branches which have not been visited); or
- the accounts are not in agreement with the records and returns; or
- we have not obtained all the information and explanations which we consider necessary for the purpose of the audit; or
- where the Company has voluntarily complied with items specified for review by the Listing Rules of the Financial Conduct Authority for premium listed UK incorporated companies or the UK Companies Act 2006 and instructed us to review such items namely:
- the Directors' Statement, set out on pages 87 and 88, in relation to going concern;
- 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.

Ernst & Young LLP
London

16 March 2015

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2014

	Notes	**2014 US$'000 Total**	2013 US$'000 Total
Revenue	2	**270 890**	212 828
Cost of sales		**(144 495)**	(120 136)
Gross profit		**126 395**	92 692
Other operating income		**134**	746
Royalties and selling costs		**(24 692)**	(18 485)
Corporate expenses		**(12 628)**	(14 124)
Share-based payments	24	**(1 740)**	(932)
Foreign exchange gain	3	**5 242**	606
Reversal of impairment of assets	3	**–**	155
Operating profit	3	**92 711**	60 658
Net finance income/(cost)	4	**219**	(1 639)
Finance income		**3 430**	1 218
Finance costs		**(3 211)**	(2 857)
Profit before tax for the year		**92 930**	59 019
Income tax expense	5	**(34 983)**	(20 855)
Profit for the year		**57 947**	38 164
Attributable to:			
Equity holders of parent		**33 217**	21 170
Non-controlling interests		**24 730**	16 994
Earnings per share (cents)	6		
Basic earnings per share		**24.0**	15.3
Diluted earnings per share		**23.9**	15.2

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2014

	2014 US$'000	2013 US$'000
Profit for the year	**57 947**	38 164
Other comprehensive income that could be reclassified to the income statement in subsequent periods		
Exchange differences on translation of foreign operations	**(37 307)**	(64 612)
Other comprehensive expense for the year, net of tax	**(37 307)**	(64 612)
Total comprehensive income/(expense) for the year	**20 640**	(26 448)
Attributable to:		
Equity holders of the parent	**2 908**	(32 272)
Non-controlling interests	**17 732**	5 824
Total comprehensive income/(expense) for the year, net of tax	**20 640**	(26 448)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2014

	Notes	**2014 US$'000**	2013 US$'000
Assets			
Non-current assets			
Property, plant and equipment	7	**374 927**	373 625
Investment property	8	**615**	615
Intangible assets	9	**18 181**	20 202
Receivables and other assets	11	**2 877**	–
Other financial assets		**10**	28
		396 610	394 470
Current assets			
Inventories	12	**28 770**	29 326
Receivables and other assets	11	**7 598**	6 749
Other financial assets		**4**	13
Income tax receivable		**353**	–
Cash and short-term deposits	13	**110 738**	71 178
		147 463	107 266
Total assets		**544 073**	501 736
Equity and liabilities			
Equity attributable to equity holders of the parent			
Issued capital	14	**1 383**	1 383
Share premium		**885 648**	885 648
Treasury shares[1]		**(1)**	(1)
Other reserves	14	**(97 753)**	(69 408)
Accumulated losses		**(484 874)**	(518 091)
		304 403	299 531
Non-controlling interests		**61 014**	70 879
Total equity		**365 417**	370 410
Non-current liabilities			
Interest-bearing loans and borrowings	15	**7 261**	–
Trade and other payables	16	**1 274**	1 109
Provisions	17	**19 543**	23 186
Deferred tax liabilities	19	**57 467**	64 824
		85 545	89 119
Current liabilities			
Interest-bearing loans and borrowings	15	**29 841**	–
Other financial liabilities	18	**249**	–
Trade and other payables	16	**43 711**	37 086

Income tax payable	**19 310**	5 121
	93 111	42 207
Total liabilities	**178 656**	131 326
Total equity and liabilities	**544 073**	501 736

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

Approved by the Board of Directors on 16 March 2015 and signed on their behalf by:

CT Elphick	**M Michael**
Director	Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2014

	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 2014	**1 383**	**885 648**	**(1)**	**(69 408)**	**(518 091)**	**299 531**	**70 879**	**370 410**
Profit for the year	**–**	**–**	**–**	**–**	**33 217**	**33 217**	**24 730**	**57 947**
Other comprehensive expense	**–**	**–**	**–**	**(30 309)**	**–**	**(30 309)**	**(6 998)**	**(37 307)**
Total comprehensive income/(expense)	**–**	**–**	**–**	**(30 309)**	**33 217**	**2 908**	**17 732**	**20 640**
Share-based payments (Note 24)	**–**	**–**	**–**	**1 964**	**–**	**1 964**	**–**	**1 964**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**–**	**(27 597)**	**(27 597)**
Balance at 31 December 2014	**1 383**	**885 648**	**(1)**	**(97 753)**	**(484 874)**	**304 403**	**61 014**	**365 417**
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 expense	–	–	–	(53 442)	–	(53 442)	(11 170)	(64 612)
Total comprehensive income/(expense)	1 383	885 648	(1)	(53 442)	21 170	(32 272)	5 824	(26 448)
Share-based payments (Note 24)	–	–	–	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

[1] *Being shares held by Gem Diamonds Limited Employee Share Trust.*
[2] *Refer to Note 14, Issued capital and reserves, for further detail.*

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2014

	Notes	**2014 US$'000**	2013 US$'000
Cash flows from operating activities		**133 736**	87 614
Cash generated by operations	20.1	**153 577**	114 462
Working capital adjustments	20.2	**59**	(17 491)
		153 636	96 971
Interest received		**2 575**	1 218
Interest paid		**(521)**	(517)
Income tax paid		**(21 954)**	(10 058)
Cash flows used in investing activities		**(101 301)**	(73 730)
Purchase of property, plant and equipment		**(47 364)**	(29 651)
Waste cost capitalised		**(53 996)**	(59 278)
Proceeds from sale of property, plant and equipment		**59**	1 191
Purchase of other financial assets		**–**	(22)
Cash received from disposal of subsidiary[1]		**–**	14 030
Cash flows generated by/(used in) financing activities		**10 309**	(8 529)
Financial liabilities raised/(repaid)		**37 906**	(2 591)
Dividends paid to non-controlling interests	22	**(27 597)**	(5 938)
Net increase in cash and cash equivalents		**42 744**	5 355
Cash and cash equivalents at beginning of year		**71 178**	70 842
Foreign exchange differences		**(3 184)**	(5 019)
Cash and cash equivalents at end of year held with banks		**110 574**	70 998
Restricted cash at end of year	13	**164**	180
Cash and cash equivalents at end of year	13	**110 738**	71 178

[1] This relates to the receipt of proceeds in 2013 as a result of the disposal of the operations in Australia in 2012.

1. Notes to the financial statements

1.1 Corporate information

1.1.1 Incorporation

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

These financial statements were authorised for issue by the Board on 16 March 2015.

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

1.1.2 Operational information

The Company has the following investments directly in subsidiaries at 31 December 2014:

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 the Group operates. Other regions where no direct mining activities take place are organised into geographical regions in the areas where the operations are managed. The main geographical regions and the type of products and services from which each reporting segment derives its revenue from are:

Lesotho (diamond mining activities).

Botswana (diamond mining activities).

Belgium (sales, marketing and manufacturing of diamonds).

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 2014	**Lesotho US$'000**	**Botswana US$'000**	**Belgium and Mauritius US$'000**	**BVI, RSA and UK US$'000**	**Total US$'000**
Revenue					
Total revenue	**277 908**	**–**	**272 221**	**8 877**	**559 006**
Inter-segment	**(276 429)**	**–**	**(3 141)**	**(8 546)**	**(288 116)**
External customers	**1 479**	**–**	**269 080**	**331**[1]	**270 890**
Results					
Depreciation and amortisation	**62 800**	**–**	**1 063**	**607**	**64 470**
Depreciation and mining asset amortisation	**13 488**	**–**	**1 063**	**607**	**15 158**
Waste stripping cost amortised	**49 312**	**–**	**–**	**–**	**49 312**
Share-based equity transactions	**488**	**–**	**–**	**1 252**	**1 740**
Segment operating profit/(loss)	**107 527**	**(75)**	**(1 977)**	**(12 764)**	**92 711**
Net finance income					**219**
Profit before tax					**92 930**
Income tax expense					**(34 983)**
Profit for the year					**57 947**
Segment assets	**321 464**	**139 987**	**7 430**	**75 192**	**544 073**

Segment liabilities	**68 212**	**9 304**	**968**	**42 705**	**121 189**
Other segment information					
Capital expenditure					
– Property, plant and equipment*	**7 720**	**42 086**	**92**	**40**	**49 938**
– Waste cost capitalised	**51 484**	**–**	**–**	**–**	**51 484**
Total capital expenditure	**59 204**	**42 806**	**92**	**40**	**101 422**

[1] No revenue was generated in BVI.
**Capital expenditure includes non-cash movements in rehabilitation assets relating to changes in rehabilitation estimates for the Lesotho and Botswana segments and capitalisation of share-based payments for the Botswana segment.*

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

Year ended 31 December 2013	Lesotho US$'000	Botswana US$'000	Belgium and Mauritius US$'000	BVI, RSA and UK US$'000	Total 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[1]	212 828
Results					
Depreciation and amortisation	51 067	–	869	415	52 351
Depreciation and mining asset amortisation	16 301	–	869	415	17 585
Waste stripping cost amortisation	34 766	–	–	–	34 766
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	343 322	107 004	8 740	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

[1] No revenue was generated in BVI.
**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$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.

1.2.1 Basis of presentation

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

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

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

The Group has also adopted the following standards and interpretations from 1 January 2014:

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

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

IAS 32 *Offsetting Financial Assets and Financial Liabilities* – Amendments to IAS 32

These amendments clarify the meaning of ’currently has a legally enforceable right to set-off’ and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Group.

IFRIC 21 *Levies*

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. As the Group applies the requirements of this standard in recognising liabilities for levies, such as royalty payments to governments, the application of this new standard did not have an impact on the financial results of the Group.

IAS 36 *Recoverable Amount Disclosures for Non-Financial Assets* – Amendments to IAS 36

The amendment clarifies the disclosures required in relation to the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The amendments remove the requirement to disclose the recoverable amount for each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit is significant. The Group adopted this amendment and removed the disclosure of recoverable amounts previously disclosed.

IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting* – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Group as the Group does not enter into any hedges.

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 9	*Financial Instruments*	Classification and measurement of financial assets and financial liabilities as defined in IAS 39. The Group is still currently assessing the impact.	IFRS 9 – 1 January 2018
IFRS 15	*Revenue from Contracts with Customer*	The new revenue standard introduces a single, principles-based, five-step model for the recognition of revenue when control of a good or service is transferred to the customer. The Group is still currently assessing the impact.	1 January 2017
IFRS 14	*Regulatory Deferral Accounts*	IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. The Group's activities are currently not subject to rate regulation and therefore this standard does not apply to the Group. Should the Group's activities change in this regard, the Group will assess the impact at that time.	1 January 2016
IAS 16 /IAS 38	*Clarification of Acceptable Methods of Depreciation and*	The amendments clarify the principle in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* that revenue reflects a pattern of economic benefits that	1 January 2016

Amortisation	are generated from operating a business rather than the economic benefits that are consumed through use of an asset. As such, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. As this revenue ratio is not currently used as a method of depreciation, it is anticipated that this standard will not impact the Group. Should the Group's policies change in this regard, the Group will assess the impact at that time.

**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 on pages 24 to 34. The financial position of the Company, its cash flows and liquidity position are described in the Strategic Review on pages 20 to 23. In addition, Note 23, 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 23, 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.

1.2.4 Exploration and evaluation expenditure

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.

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 separately disclosed in Note 7, 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

Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date. Currently the Group only has financial assets at fair value through profit or loss and loans and receivables.

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

1.2.10 Financial liabilities

Interest-bearing borrowings

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

Bank overdrafts are recognised at amortised cost.

Fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on liabilities held for trading are recognised in the income statement.

1.2.11 Fair value measurement

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

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

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

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

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

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

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

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 purpose 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 asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (ie the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through 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.

1.2.13 Inventories

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

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

1.2.14 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 consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

1.2.15 Issued share capital

Ordinary shares are classified as equity.

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

1.2.16 Foreign currency translations

Presentation currency

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

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

Details of the rates applied at the respective reporting dates and for the income statement transactions are detailed in Note 14, Issued capital and reserves.

Transactions and balances

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

1.2.17 Share-based payments

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

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.

1.2.18 Provisions

Provisions are recognised when:

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

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

1.2.19 Restoration and rehabilitation

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

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

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

1.2.20 Taxation

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

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

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

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

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

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

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

Royalties

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

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

1.2.21 Employee benefits

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

Bonus plans

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

1.2.22 Leases

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

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

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

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

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

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

Group as a lessee

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

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

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

Group as a lessor

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

1.2.23 Revenue

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

Sale of goods

The sale of rough diamonds (which are made through competitive tender processes or through partnership arrangements), the sale of polished diamonds and other products (which are made through direct sale transactions) and additional uplift on partnership arrangements 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. For the additional uplift made on partnership arrangements, certain estimates and judgements are made by management as referred under policy 1.2.26 Critical accounting estimates and judgements.

Rendering of service

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

Interest income

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

Dividends

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

1.2.24 Finance costs

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

1.2.25 Dividend distribution

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

1.2.26 Critical accounting estimates and judgements

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

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

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 by management in the cutting and polishing process and the significant risks and rewards have passed to the third party. Judgement is applied by management in determining when additional uplift is recognised and measured with regard to rough diamonds sold into partnership arrangements. Management is required to make certain estimates and assumptions based on when the uplift can be reliably measured. This occurs when the third party sells these goods, at which point in time the value of the final polished goods are determined.

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 mining and polished diamond manufacturing operations is tested annually, with no impairment evident in the current year. Refer to Note 10, 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 Letšeng. The orebody needs to be identified in its various separately identifiable components. An identifiable component is a specific volume of the orebody that is made more accessible by the stripping activity. Judgement is required to identify and define these components (referred to as 'cuts'), and also to determine the expected volumes (tonnes) of waste to be stripped and ore to be mined in each of these components. These assessments are based on a combination of information available in the mine plans, specific characteristics of the orebody and the milestones relating to major capital investment decisions.

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

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

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 are 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', 'stripping activity asset' and/or 'property, plant and equipment'. Some of the criteria would include but are not limited to the following:

- the level of capital expenditure compared to the construction 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.

Production start date **continued**

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

Management made the key judgement that the Ghaghoo mine had not reached production start date during the year based on the following:
– the unanticipated high volumes of water from basalt fissures which were encountered during the latter part of the year causing a delay in reaching steady state production, and
– specific areas in the plant did not allow the commissioning process to progress to its intended production state,

As a result, the mine was not in the condition necessary for it to be capable of operating in the manner intended by management and therefore the mine remained in its construction phase with all costs incurred during the year being capitalised to the Exploration and Development asset category of Note 7, Property, plant and equipment.

Share-based payments

Judgement is applied by management in determining whether the share options relating to employees who resigned before the end of the service condition period have been cancelled or forfeited in light of their leaving status. Where employees do not meet the requirements of a good leaver as per the rules of the long-term incentive plan (LTIP), no award will vest and this will be treated as cancellation by forfeiture. The expenses relating to these charges previously recognised are then reversed. Where employees do meet the requirements of a good leaver as per the rules of the LTIP, some or all of an award will vest and this will be treated as a modification to the original award. The future expenses relating to these awards are accelerated and recognised as an expense immediately.

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

	2014 US$'000	2013 US$'000
Sale of goods	**269 870**	212 020
Rendering of services	**1 020**	808
	270 890	212 828

Finance income is reflected in Note 4, Net finance income/(cost).

3. Operating profit

	2014 US$'000	2013 US$'000
Operating profit includes the following:		
Other operating income		
Profit on disposal of property, plant and equipment	**49**	689
Depreciation and amortisation		
Depreciation and mining asset amortisation	**(16 991)**	(19 558)
Waste stripping costs amortised	**(49 312)**	(34 766)
	(66 303)	(54 324)
Less: Depreciation capitalised to development	**1 957**	1 454
Less: Depreciation and mining asset amortisation capitalised to inventory	**33**	519
	(64 313)	(52 351)
Amortisation of intangible assets	**(157)**	(159)
	(64 470)	(52 510)
Reversal of impairment		
Reversal of impairment – Chiri[1]	**–**	159
Impairment – Project Kholo[2]	**–**	(58)
Net reversal of impairment – other assets	**–**	54
	–	155
Inventories		
Cost of inventories recognised as an expense	**(129 195)**	(102 843)
Write-down of inventories to net realisable value	**–**	(90)
Foreign exchange gain		
Foreign exchange gain	**5 508**	1 480
Mark-to-market revaluations on forward exchange contracts	**(266)**	(874)
	5 242	606

Operating lease expenses as a lessee		
Mine site property	**(90)**	(90)
Equipment and service leases	**(39 535)**	(43 665)
Contingent rental – Alluvial Ventures	**(8 489)**	(9 605)
Leased premises	**(2 716)**	(1 743)
	(50 830)	(55 103)

Auditor's remuneration – Ernst & Young		
Audit fee		
Group financial statements	**(443)**	(479)
Statutory	**(183)**	(331)
	(626)	(810)

Auditor's remuneration – other		
Statutory	**(25)**	(18)
	(25)	(18)

[1] This relates to the sale of assets in 2013, relating to the Chiri Concession in Angola, which was previously fully impaired in 2012. The Group no longer holds this concession in Angola.

[2] 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 had been assessed as no longer having an enduring benefit to the operation, were written off.

	2014 US$'000	2013 US$'000
Other non-audit fees – Ernst & Young		
Tax services advisory and consultancy	**(13)**	(73)
Corporate finance services	**–**	(320)
Tax compliance services	**(11)**	(13)
Other services	**(42)**	(86)
Other assurance services	**(151)**	(87)
	(217)	(579)
Other non-audit fees – other		
Internal audit	**(356)**	(132)
Tax services advisory and consultancy	**(101)**	(163)
	(457)	(295)
Employee benefits expense		
Salaries and wages[1]	**(22 334)**	(20 845)

[1] Includes contributions to defined contribution plan of US$0.8 million (31 December 2013: US$0.9 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:

	2014 US$'000	2013 US$'000
Operating profit	**92 711**	60 503
Foreign exchange gain	**(5 242)**	(606)
Share-based payments	**1 740**	932
Other operating income	**(134)**	(746)
Depreciation and mining asset amortisation (excluding waste stripping cost amortised)	**15 158**	17 296
Underlying EBITDA	**104 233**	77 379

4. Net finance income/(cost)

	2014 US$'000	2013 US$'000
Finance income		
Bank deposits	**2 575**	992
Other	**855**	226
Total finance income	**3 430**	1 218
Finance costs		
Bank overdraft	**(116)**	(143)
Interest on debt, borrowings and trade and other payables[1]	**(2 029)**	(1 501)
Finance costs on unwinding of rehabilitation provision	**(1 066)**	(1 213)
Total finance costs	**(3 211)**	(2 857)
	219	(1 639)

[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.*

5. Income tax expense

	2014 US$'000	2013 US$'000
Income statement		
Current		
– Overseas	**(30 626)**	(12 980)
Withholding tax		
– Overseas	**(6 565)**	(1 498)
Deferred		
– Overseas	**2 208**	(6 377)
	(34 983)	(20 855)
Profit before taxation	**92 930**	59 019

Reconciliation of tax rate	**%**	%
Applicable income tax rate	**21.5**	23.3
Permanent differences	**4.0**	6.1
Unrecognised deferred tax assets	**1.1**	1.5
Effect of overseas tax at different rates	**4.0**	1.9
Withholding tax	**7.0**	2.5
Effective income tax rate	**37.6**	35.3

6. Earnings per share

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

	2014 US$'000	2013 US$'000
Profit for the year	**57 947**	38 164
Less: Non-controlling interests	**(24 730)**	(16 994)
Net profit attributable to equity holders of the parent for basic and diluted earnings	**33 217**	21 170
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)	**138 204**	138 194

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

	Number of shares 2014	Number of shares 2013
Weighted average number of ordinary shares outstanding during the year	138 204	138 194
Effect of dilution:		
– Future share awards under the Employee Share Option Plan	962	710
Weighted average number of ordinary shares outstanding during the year adjusted for the effect of dilution	139 166	138 904

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.

7. Property, plant and equipment

As at 31 December 2014	Stripping activity asset US$'000	Mining asset US$'000	Exploration and develop-ment assets[1] US$'000	Decommis-sioning assets US$'000	Leasehold improve-ment US$'000	Plant and equipment[2] US$'000	Other assets[3] US$'000	Total US$'000
Cost								
Balance at 1 January 2014	**216 133**	**130 981**	**94 339**	**13 014**	**19 891**	**92 814**	**12 818**	**579 990**
Additions	**54 642**	**–**	**38 668**	**–**	**80**	**11 536**	**2 609**	**107 535**
Reallocated to prepayments (Note 11)	**(3 158)**	**–**	**–**	**–**	**–**	**–**	**–**	**(3 158)**
Net movement in rehabilitation provision	**–**	**–**	**616**	**(3 571)**	**–**	**–**	**–**	**(2 955)**
Disposals	**–**	**–**	**–**	**–**	**–**	**(25)**	**(103)**	**(128)**
Reclassifications	**–**	**1 177**	**81**	**–**	**4 439**	**(6 237)**	**540**	**–**
Foreign exchange differences	**(23 665)**	**(6 797)**	**(9 623)**	**(1 035)**	**(2 062)**	**(9 534)**	**(1 285)**	**(54 001)**
Balance at 31 December 2014	**243 952**	**125 361**	**124 081**	**8 408**	**22 348**	**88 554**	**14 579**	**627 283**
Accumulated depreciation/ amortisation								
Balance at 1 January 2014	**100 843**	**42 625**	**–**	**3 144**	**8 544**	**44 993**	**6 216**	**206 365**
Charge for the year	**49 312**	**2 477**	**–**	**880**	**2 459**	**8 435**	**2 740**	**66 303**
Disposals	**–**	**–**	**–**	**–**	**–**	**(25)**	**(91)**	**(116)**
Foreign exchange differences	**(12 076)**	**(668)**	**–**	**(378)**	**(1 059)**	**(5 268)**	**(747)**	**(20 196)**
Balance at 31 December 2014	**138 079**	**44 434**	**–**	**3 646**	**9 944**	**48 135**	**8 118**	**252 356**
Net book value at 31 December 2014	**105 873**	**80 927**	**124 081**	**4 762**	**12 404**	**40 419**	**6 461**	**374 927**

As at 31 December 2013	Stripping activity asset US$'000	Mining asset US$'000	Exploration and develop-ment assets[1] US$'000	Decommis-sioning assets US$'000	Leasehold improve-ment US$'000	Plant and equipment[2] US$'000	Other assets[3] US$'000	Total US$'000
Cost								
Balance at 1 January 2013	199 404	140 846	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	(42 549)	(17 431)	(11 107)	(3 382)	(3 556)	(23 014)	(2 119)	(103 158)
Balance at 31 December 2013	216 133	130 981	94 339	13 014	19 891	92 814	12 818	579 990
Accumulated depreciation/ amortisation								
Balance at 1 January 2013	84 662	40 493	–	2 613	8 610	48 051	4 730	189 159
Charge for the year	34 766	3 396	–	1 170	2 104	10 278	2 610	54 324
Disposals	–	–	–	–	(85)	(2 479)	(62)	(2 626)
Impairment reversal	–	–	–	–	–	(386)	–	(386)
Foreign exchange differences	(18 585)	(1 264)	–	(639)	(2 085)	(10 471)	(1 062)	(34 106)
Balance at 31 December 2013	100 843	42 625	–	3 144	8 544	44 993	6 216	206 365
Net book value at 31 December 2013	115 290	88 356	94 339	9 870	11 347	47 821	6 602	373 625

[1] Borrowing costs of US$0.6 million (31 December 2013: US$nil) incurred in respect of the $25.0 million facility for the remaining spend on the Phase 1 Ghaghoo development (refer to Note 15, Interest-bearing loans and borrowings) were capitalised to the development asset. The weighted average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 4.04%.
[2] Included in plant and equipment is capital work in progress of US$20.2 million (31 December 2013: US$19.3 million). Borrowing costs of US$0.5 million (31 December 2013: US$nil) incurred in respect of the LSL140.0 million bank loan facility for the total funding of the new Coarse Recovery Plant at Letšeng (refer to Note 15, Interest-bearing loans and borrowings) is included in capital work in progress. The weighted average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 5.07%.
[3] Other assets comprise motor vehicles, computer equipment, furniture and fittings, and office equipment.

8. Investment property

The investment property consists of a commercial unit located in the Almas Towers in Dubai. The unit is being let out in terms of a rental agreement which was renegotiated during 2014. The rental agreement is for a period of two years commencing 1 October 2014.

	2014 US$'000	2013 US$'000
Cost		
Balance at 1 January	**617**	617
Balance at 31 December	**617**	617
Accumulated depreciation		
Balance at 1 January	**2**	1
Depreciation	**–**	1
Balance at 31 December	**2**	2
Net book value at 31 December	**615**	615
Fair value[1]	**1 164**	1 099
Amounts recognised in profit or loss		
Rental income	**54**	53
Direct operating expenses	**(16)**	(20)
The future minimum rental income under the rental agreement in aggregate and for each of the following periods are as follows:		
– Within one year	**59**	57
– After one year but not more than five years	**44**	35
– More than five years	**–**	–
	103	92

[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 2014, weighted towards the most recent sales activity, which is valued using a Level 2 input in terms of the fair value hierarchy.

9. Intangible assets

As at 31 December 2014	Intangibles US$'000	Goodwill US$'000	Total US$'000
Cost			
Balance at 1 January 2014	786	19 680	20 466
Foreign exchange difference	(2)	(1 862)	(1 864)
Balance at 31 December 2014	784	17 818	18 602
Accumulated amortisation			
Balance at 1 January 2013	264	–	264
Amortisation	157	–	157
Balance at 31 December 2014	421	–	421
Net book value at 31 December 2014	363	17 818	18 181

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

Impairment of goodwill within the Group was tested in accordance with the Group's policy. Refer to Note 10, Impairment testing, for further details.

10. Impairment testing

	2014 US$'000	2014 US$'000
Goodwill		
Goodwill acquired through business combinations has been allocated to the individual cash-generating units, as follows:		
– Letšeng Diamonds	**17 818**	18 229
– Calibrated Diamonds	**–**	1 451
Balance at end of year	**17 818**	19 680

Goodwill that was previously allocated to the Calibrated Diamonds cash-generating unit has been allocated in full to the Letšeng Diamonds cash-generating unit in the current year as a result of there being a change in the assessment of the cash-generating units within the Group.

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

Discount rates are outlined below (based on a blended rate), 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.

	2014 %	2013 %
Discount rate for each cash-generating unit		
– Letšeng Diamonds	**13.7**	12.5
– Calibrated Diamonds	**–**	13.1

Goodwill impairment testing is undertaken annually and whenever there are indications of impairment. The most recent test was undertaken at 31 December 2014. 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 2014, the recoverable amount for Letšeng Diamonds has been determined based on a value-in-use model.

Value in use

Cash flows are projected for a period up to the date that mining is expected to cease, based on management's expectations at the time of completing the testing, and is limited to the lesser of the current economic resource or the remaining 10-year mining lease period. This date depends on a number of variables, including recoverable reserves and resources, the forecast selling prices and the associated mining and treatment costs.

Key assumptions used in the calculations

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

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

Long-term US$ per carat prices are based on external market consensus forecasts as published by independent marketing consultants adjusted for the Group's specific operations. Plant throughput is based on current plant facilities and processing capacities. The Plant 2 Phase 1 upgrade project to increase the current Plant 2 capacity by 250 000 tonnes per annum has commenced during the year and majority of the costs have been incurred in 2014. This upgrade will result in the increased throughput rate almost immediately after commissioning and is due to be completed by the end of Q1 2015. The additional 250 000 tonnes have therefore been included in the future years when calculating the value in use. Costs are determined on management's experience and the use of contractors over a period of time whose costs are fairly reasonably determinable. Mining costs for the next eight years (effective 1 January 2014) have been based on the negotiated mining contract which was concluded during the year. Costs of extracting and processing which are reasonably determinable are based on managements experience. Expected yield on polished has been based on management's experience.

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 purpose of testing for impairment of goodwill using the value-in-use basis for Letšeng mining operations, it was assessed that no reasonably possible change in any of these key assumptions would cause its carrying amount to exceed its recoverable amount.

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

11. Receivables and other assets

	2014 US$'000	2013 US$'000
Non-current		
Prepayments[1]	**2 877**	–
Current		
Trade receivables	**106**	1 002
Prepayments[1]	**1 250**	739
Deposits	**419**	230
Other receivables	**167**	134
VAT receivable	**5 656**	4 644
	7 598	6 749

[1]A total prepayment of US$3.2 million (comprising a non-current portion of US$2.9 million and a current portion of US$0.3 million) has been reallocated from the stripping activity asset disclosed in Note 7, Property, plant and equipment. This represents the current value of waste costs to be recovered from the mining contractor over the term of the new contract (eight years from 1 January 2014) as a result of the estimation change in respect of the waste mined out of the surveying review which was disclosed in 2012. The waste tonnes and strip ratio for future cuts have been reassessed and have resulted in a credit to the waste stripping cost amortised charge (included in cost of sales) of US$1.4 million and a finance income adjustment of US$0.9 million in the year.

The carrying amounts above approximate their fair value.

Terms and conditions of the receivables:

	2014 US$'000	2013 US$'000
Analysis of trade receivables		
Neither past due nor impaired	**56**	939
Past due but not impaired:		
Less than 30 days	**34**	31
30 to 60 days	**16**	32
60 to 90 days	**–**	–
	106	1 002

12. Inventories

	2014 US$'000	2013 US$'000
Diamonds on hand	**17 460**	18 806
Ore stock piles	**2 055**	3 281
Consumable stores	**9 255**	7 239
	28 770	29 326
Net realisable value write-down	**–**	90

	2014 US$'000	2013 US$'000
13. Cash and short-term deposits		
Cash on hand	**2**	9
Bank balances	**56 925**	22 724
Short-term bank deposits	**53 811**	48 445
	110 738	71 178

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 2014, the Group had restricted cash of US$0.2 million (31 December 2013: US$0.2 million).

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

At 31 December 2014, the Group has US$41.6 million (31 December 2013: US$43.9 million) of undrawn facilities representing a US$20.0 million three-year unsecured revolving credit facility and an LSL250.0 million (US$21.6 million) three-year revolving working capital facility.

During the year, two new facilities were concluded and were fully drawn down at 31 December 2014. For further details on these facilities, refer to Note 15, Interest-bearing loans and borrowings.

14. Issued capital and reserves

Issued capital	31 December 2014		31 December 2013	
	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	**138 270**	**1 383**	138 267	1 383
Allotments during the year	**–**	**–**	3	–
Balance at end of year	**138 270**	**1 383**	138 270	1 383

Share premium

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

Treasury shares

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

At listing, the Gem Diamonds Limited Employee Share Trust acquired 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, there were no shares exercised (31 December 2013: 14 667) and no shares lapsed (31 December 2013: nil). At 31 December 2014, 65 550 shares were held by the trust (31 December 2013: 65 550).

Other reserves

	Foreign currency translation reserve US$'000	Share-based equity reserve US$'000	Total US$'000
Balance at 1 January 2014	**(116 242)**	**46 834**	**(69 408)**
Other comprehensive expense	**(30 309)**	**–**	**(30 309)**
Total comprehensive expense	**(30 309)**	**–**	**(30 309)**
Share-based payments	**–**	**1 964**	**1 964**
Balance at 31 December 2014	**(146 551)**	**48 798**	**(97 753)**
Balance at 1 January 2013	(62 800)	45 670	(17 130)
Other comprehensive expense	(53 442)	–	(53 442)
Total comprehensive expense	(53 442)	–	(53 442)
Share-based payments	–	1 164	1 164
Balance at 31 December 2013	(116 242)	46 834	(69 408)

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	2014	2013
Average rate	ZAR/LSL to US$1	**10.85**	9.65
Period end	ZAR/LSL to US$1	**11.57**	10.47
Average rate	Pula to US$1	**8.98**	8.40
Period end	Pula to US$1	**9.51**	8.78
Average rate	Rupee to US$1	**30.65**	30.75
Period end	Rupee to US$1	**31.75**	30.05
Average rate	Dirham to US$1	**3.67**	3.67
Period end	Dirham to US$1	**3.67**	3.67

Share-based equity reserves

For details on the share-based equity reserve, refer to Note 24, Share-based payments.

Capital management

For details on capital management, refer to Note 23, Financial risk management.

15. Interest-bearing loans and borrowings

	Effective interest rate %	Maturity	**2014 US$'000**	2013 US$'000
Non-current				
LSL140.0 million bank loan facility	South African JIBAR + 4.95%	30 June 2017	**7 261**	–
			7 261	–
Current				
LSL140.0 million bank loan facility	South African JIBAR + 4.95%	30 June 2017	**4 841**	–
US$25.0 million bank loan facility	London US$ three-month LIBOR + 4%	30 April 2015	**25 000**	–
			29 841	–

LSL140.0 million bank loan facility at Letšeng Diamonds

This loan is a three-year unsecured project debt facility signed jointly with Standard Lesotho Bank and Nedbank Limited on 26 June 2014 for the total funding of the new Coarse Recovery Plant. The loan is repayable in 10 quarterly payments commencing 31 March 2015 with a final payment due on 30 June 2017. The interest rate for the facility at 31 December 2014 is 11.08%.

US$25.0 million bank loan facility at the Company

This loan is a nine-month unsecured facility which was signed with Nedbank Capital on 16 January 2014 for the remaining spend on the Ghaghoo Phase 1 development. The loan expired in October 2014, but has been extended in the interim to 30 April 2015 to cater for the process of concluding the refinancing thereof into a six-year secured project debt facility which will expire on 31 December 2020. At the time of finalisation, this facility will be split into its short-term and long-term component. The interest rate for the facility at 31 December 2014 is 4.26%.

Total interest for the year on the interest-bearing loans and borrowings was US$1.1 million (2013: US$nil) which has been capitalised to the carrying value of the assets as borrowing costs.

There are no significant differences between the fair value and carrying value of loans and borrowings.

16. Trade and other payables

	2014 US$'000	2013 US$'000
Non-current		
Operating lease	**82**	2
Severance pay benefits[1]	**1 192**	1 107
	1 274	1 109
Current		
Trade payables[2]	**12 544**	12 023
Accrued expenses[2]	**25 962**	20 790
Leave benefits	**835**	790
Royalties[2]	**3 245**	2 761
Operating lease	**575**	141
Other	**550**	581
	43 711	37 086
Total trade and other payables	**44 985**	38 195

The carrying amounts above approximate fair value.

Terms and conditions of the trade and other payables:

[1] The severance pay benefits arise due to legislation, within the Lesotho jurisdiction, requiring that two weeks of severance pay be provided for every completed year of service, payable on retirement.
[2] These amounts are mainly non-interest bearing and are settled in accordance with terms agreed between the parties. Included in accrued expenses is an interest-bearing payable. The interest thereon has been provided for in finance costs. Refer to Note 4, Net finance income/(cost).

17. Provisions

	2014 US$'000	2013 US$'000
Rehabilitation provisions	**19 543**	23 186
Reconciliation of movement in provisions		
Balance at beginning of year	**23 186**	29 496
Arising during the year	**616**	442
Decrease in rehabilitation provisions	**(3 571)**	(2 791)
Unwinding of discount rate	**1 336**	1 213
Foreign exchange differences	**(2 024)**	(5 174)
Balance at end of year	**19 543**	23 186

Rehabilitation provisions

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

In determining the amounts attributable to the rehabilitation provisions, management used a discount rate range of 7.0% to 7.5% (31 December 2013: 5.5% to 7.5%), estimated rehabilitation timing of 10 to 13 years (31 December 2013: 11 to 14 years) and an inflation rate range of 5.9% to 6.0% (31 December 2013: 5.6% to 6.0%). In addition to the changes in the discount rates, inflation and rehabilitation timing, the decrease in the provision is attributable to the reassessment of the estimated closure costs.

18. Other financial liabilities

	2014 US$'000	2013 US$'000
Current		
Forward exchange contract	**249**	–

The Group enters into forward exchange contracts to hedge the exposure to changes in foreign currency of future sales of diamonds at Letšeng Diamonds. The forward exchange contract is the revaluation on the market-to-market financial liabilities at year end. The Group performs no hedge accounting.

The forward exchange contracts are measured using a Level 2 input in terms of the fair value hierarchy, thus basing its fair value on observable spot exchange rates, the yield curves of the respective currencies as well as the currency basis spreads between the respective currencies.

19. Deferred taxation

	2014 US$'000	2013 US$'000
Deferred tax assets		
Accrued leave	**50**	45
Operating lease liability	**7**	5
Provisions	**5 140**	5 919
	5 197	5 969
Deferred tax liabilities		
Property, plant and equipment	**(58 293)**	(66 951)
Prepayments	**(333)**	(154)
Provisions	**–**	350
Unremitted earnings	**(4 038)**	(4 038)
	(62 664)	(70 793)
Net deferred tax liability	**(57 467)**	(64 824)
Reconciliation of deferred tax liability		
Balance at beginning of year	**(64 824)**	(71 277)
Movement in current period:		
– Accelerated depreciation for tax purposes	**2 906**	(6 404)
– Accrued leave	**11**	(22)
– Operating lease liability	**120**	6
– Prepayments	**(124)**	(146)
– Provisions	**(297)**	(1)
– Tax losses utilised in the year	**(408)**	190
– Foreign exchange differences	**5 149**	12 830
Balance at end of year	**(57 467)**	(64 824)

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$39.0 million (31 December 2013: US$46.3 million).

The Group has estimated tax losses of US$306.8 million (31 December 2013: US$293.0 million). No deferred tax assets have been recognised in respect of such losses at 31 December 2014 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$306.8 million estimated tax losses (31 December 2013: US$293.0 million), US$4.8 million losses in various jurisdictions (31 December 2013: US$3.2 million), expire as follows:

	31 December 2014 US$'000	31 December 2013 US$'000
2015	**2**	2
2016	**5**	6
2017	**1 177**	1 244
2018	**1 914**	1 914
2019	**1 699**	–
	4 797	3 166

20. Cash flow notes

20.1 Cash generated by operations

	Notes	**2014 US$'000**	2013 US$'000
Profit before tax for the year		**92 930**	59 019
Adjustments for:			
Depreciation and amortisation on property, plant and equipment	3	**15 158**	17 744
Waste stripping cost amortised	3	**49 312**	34 766
Reversal of impairment of assets	3	**–**	(155)
Write-down of inventory	3	**–**	90
Finance income	4	**(3 430)**	(1 218)
Finance costs	4	**3 211**	2 857
Mark-to-market revaluations		**266**	984
Unrealised foreign exchange differences		**(7 942)**	620
Profit on disposal of property, plant and equipment	3	**(49)**	(689)
Movement in prepayments		**138**	160
Other non-cash movements		**2 243**	7
Share-based equity transaction	24	**1 740**	932
		153 577	114 462

20.2 Working capital adjustments

Increase in inventories		**(1 969)**	(10 962)
Increase in receivables		**(1 560)**	(4 009)
Increase/(decrease) in trade and other payables		**3 588**	(2 520)
		59	(17 491)

21. 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:

	2014 US$'000	2013 US$'000
– Within one year	**1 444**	1 813
– After one year but not more than five years	**4 997**	5 437
– More than five years	**10 313**	11 126
	16 754	18 376

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:

	2014 US$'000	2013 US$'000
– Within one year	**132**	84
– After one year but not more than five years	**611**	381
– More than five years	**1 711**	735
	2 454	1 200

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 at Letšeng pertaining to the loading and hauling which was due to terminate at the end of 2014 was renegotiated during the year and therefore future commitment amounts have been based on the new contract which has an eight-year term, effective 1 January 2014.

	2014 US$'000	2013 US$'000
– Within one year	**32 942**	29 422
– After one year but not more than five years	**189 170**	718
– More than five years	**100 486**	–
	322 598	30 140
Capital expenditure		
Approved but not contracted for	**5 197**	40 070
Approved and contracted for	**10 794**	3 853

The majority of capital expenditure commitments relate to the finalisation of the new Coarse Recovery Plant and the Plant 2 Phase 1 upgrade at Letšeng.

Contingent rentals – Alluvial Ventures

The contingent rentals represent the Group's obligation to a third party (Alluvial Ventures) for operating a third plant on the Group's mining property at Letšeng Diamonds. The rental is determined when the actual diamonds mined by Alluvial Ventures are sold. The rental agreement is based on 50% – 70% of the value (after costs) of the diamonds recovered by Alluvial Ventures and is limited to US$1.2 million per individual diamond. As at the reporting date, such future sales cannot be determined.

Letšeng Diamonds Educational Fund

In terms of the mining agreement entered into between the Group and the Government of the Kingdom of Lesotho, the Group has an obligation to provide funding for education and training scholarships. The quantum of such funding is at the discretion of the Letšeng Diamonds Education Fund Committee. The amount of the funding provided for the current year was US$0.1 million (31 December 2013: 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$3.5 million (December 2013: US$3.6 million) and tax claims within the various jurisdictions in which the Group operates approximating US$1.4 million (December 2013: US$1.2 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.

22. 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.

	2014 US$'000	2013 US$'000
Compensation to key management personnel (including Directors)		
Share-based equity transactions	**1 447**	1 054
Short-term employee benefits	**7 170**	5 819
	8 617	6 873
Fees paid to related parties		
Jemax Aviation (Proprietary) Limited	**(73)**	(82)
Jemax Management (Proprietary) Limited	**(181)**	(98)
Royalties paid to related parties		
Government of Lesotho	**(22 102)**	(15 868)
Lease and licence payments to related parties		
Government of Lesotho	**(114)**	(112)
Sales to/(purchases) from related parties		
Jemax Aviation (Proprietary) Limited	**(36)**	214
Geneva Management Group (UK) Limited	**(6)**	(6)
Amount included in trade receivables owing by/(to) related parties		
Jemax Aviation (Proprietary) Limited	**28**	51
Jemax Management (Proprietary) Limited	**(8)**	(8)
Amounts owing to related party		
Government of Lesotho	**(3 167)**	(2 425)
Dividends paid		
Government of Lesotho	**(27 597)**	(5 938)

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

23. 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 2014, the Group has US$41.6 million (31 December 2013: 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 LSL250.0 million (US$21.6 million), three-year unsecured revolving working capital facility. This facility is in the process of being renewed for an additional three-year term and by year end an initial term sheet had been signed. The renewed facility will bear interest at the Lesotho prime rate.

At year end, there is no drawdown on this facility.

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 +5.33%.

At year end there is no drawdown on this facility.

Unsecured – Nedbank Capital (a division of Nedbank Limited) – nine-month facility; currently being extended and refinanced through a six-year project debt facility

This loan is a nine-month unsecured US$25.0 million facility which was signed with Nedbank Capital on 16 January 2014 for the remaining spend on the Ghaghoo Phase 1 development. The loan expired in October 2014, but has been extended in the interim to 30 April 2015 to cater for the process of concluding the refinancing thereof into a six-year secured project debt facility which will expire on 31 December 2020. The current facility bears interest at London USD Interbank three-month LIBOR + 4% and the refinanced facility will bear interest at London USD Interbank three-month LIBOR + 5.5%

At year end, this facility was fully drawn down.

Unsecured – Standard Lesotho Bank and Nedbank Limited – three-year unsecured project debt facility for the new Coarse Recovery Plant

For the completion of the new Coarse Recovery Plant, a three-year unsecured LSL140.0 million facility was concluded in June 2014. This facility bears interest at South African JIBAR + 4.95%.

At year end, this facility was fully drawn down.

(a) Market risk

(i) Commodity price risk

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

(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 2014. There has been no change in the assumptions or method applied from the prior year.

Sensitivity analysis

If the US dollar had appreciated/(depreciated) 10% against currencies significant to the Group at 31 December 2014, income before taxation would have been US$0.1 million higher/(lower) (31 December 2013: US$0.1 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 2014, the Group has US$20.0 million notional cover (31 December 2013: US$nil) forward exchange contracts outstanding.

(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 any impaired receivables or receivables that are past due but not impaired.

(c) Liquidity risk

Liquidity risk arises from the Group's inability to obtain the funds it requires to comply with its commitments including the inability to sell a financial asset quickly at a price close to its fair value. Management manages the risk by maintaining sufficient cash, marketable securities and ensuring access to shareholding funding. This ensures flexibility in maintaining business operations and maximises opportunities. Furthermore, the Company has available debt facilities of US$41.6 million at year end.

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

	2014 US$'000	2013 US$'000
Floating interest rates		
Interest-bearing loans and borrowings		
– Within one year	**31 381**	–
– After one year but not more than five years	**8 041**	–
Total	**39 422**	–
Trade and other payables		
– Within one year	**43 711**	37 086
– After one year but not more than five years	**1 274**	1 109
Total	**44 985**	38 195

24. Share-based payments

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

	2014 US$'000	2013 US$'000
Equity-settled share-based payment transactions charged to the income statement	**1 740**	932
Equity-settled share-based payment transactions capitalised	**224**	232
	1 964	1 164

The long-term incentive plans are described below:

Employee Share Option Plan (ESOP)

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

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

24. Share-based payments

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

	2014 US$'000	2013 US$'000
Equity-settled share-based payment transactions charged to the income statement	**1 740**	932
Equity-settled share-based payment transactions capitalised	**224**	232
	1 964	1 164

The long-term incentive plans are described below:

Employee Share Option Plan (ESOP)

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

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

Non-Executive share awards

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

ESOP for March 2012 (long-term incentive plan (LTIP))

On 20 March 2012, 1 347 000 options were granted to certain key employees under the LTIP of the Company. Of the total number of shares, 449 000 were nil value options and 898 000 were market value options. The exercise price of the market value options is £3.00 (US$4.76), which was equal to the market price of the shares on the date of the grant. Of the 1 347 000 options originally granted, only 747 000 are still outstanding following the resignation of a number of employees. 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 awards which vest on 20 March 2015 are exercisable between 20 March 2015 and 20 March 2022. 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.

ESOP for September 2012 (LTIP)

On 11 September 2012, 936 000 options were granted to certain key employees (excluding Executive Directors) under the LTIP of the Company. Of the total number of shares, 312 000 were nil value options and 624 000 were market value options. The exercise price of the market value options is £1.78 (US$2.85), which was equal to the market price of the shares on the date of grant. Of the 936 000 options originally granted, only 528 000 are still outstanding following the resignation of a number of employees. The awards which vest over a three-year period in tranches of a third of the award each year, dependent on the performance targets for the 2013, 2014 and 2015 financial years being met, are exercisable between 1 January 2016 and 31 December 2023. The vesting of the options is subject to performance conditions based on goals relating to the Group and individual performance which are classified as non-market conditions. The fair value of these options is estimated in a similar manner as the March 2012 LTIP.

ESOP for March 2014 (LTIP)

In March 2014, 625 000 nil-cost options were granted to certain key employees under the LTIP of the Company. The vesting of the options will be subject to the satisfaction of certain performance as well as service conditions classified as non-market conditions. The options which vest over a three-year period in tranches of a third of the award each year are exercisable between 19 March 2017 and 18 March 2024. If the performance or service conditions are not met, the options lapse. As the performance conditions are non-market-based they are not reflected in the fair value of the award at grant date, and therefore the Company will assess the likelihood of these conditions being met with a relevant adjustment to the cumulative charge as required at each financial year end. The fair value of the nil-cost options is £1.74 (US$2.87).

ESOP for June 2014 (LTIP)

In June 2014, 609 000 nil-cost options were granted to the Executive Directors under the LTIP of the Company. The vesting of the options will be subject to the satisfaction of certain market and non-market performance conditions over a three-year period. Of the 609 000 nil-cost options, 152 250 relates to market conditions with the remaining 456 750 relating to non-market conditions. The options which vest are exercisable between 10 June 2017 and 9 June 2024. If the performance or service conditions are not met, the options lapse. The performance conditions relating to the non-market conditions are not reflected in the fair value of the award at grant date. At each financial year end, the Company will assess the likelihood of these conditions being met with a relevant adjustment to the cumulative charge as required. The fair value of the nil-cost options relating to non-market conditions is £1.61 (US$2.70). The fair value of the options granted, relating to the market conditions, is estimated at the date of the grant using a Monte Carlo simulation model, taking into account the terms and conditions upon which the options were granted, projected dividends, share price fluctuations, the expected volatility, the risk-free interest rate, expected life of the options in years and the weighted average share price of the Company.

Movements in the year

ESOP

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

	2014 '000	2013 '000
Outstanding at beginning of year	**18**	33
Exercised during the year	**–**	(15)
Balance at end of year	**18**	18
Exercisable at end of year	**–**	–

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

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

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

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

ESOP for June 2014, March 2014, September 2012, March 2012 and 2011 (LTIP)

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

	2014 '000	2013 '000
Outstanding at beginning of year	**2 073**	4 501
Granted during the year	**1 234**	–
Exercised during the year	**–**	(3)
Forfeited	**(862)**	(2 425)
Balance at end of year	**2 445**	2 073

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

	LTIP June 2014	LTIP September 2012	LTIP March 2012	LTIP 2011
Dividend yield (%)	**–**	–	–	–
Expected volatility (%)	**37.25**	42.10	63.88	66.32
Risk-free interest rate (%)	**1.94**	0.33	1.20	1.59
Expected life of option (years)	**3.00**	3.00	3.00	3.00
Weighted average share price (US$)	**2.70**	2.85	4.76	4.38
Fair value of nil value options (US$)	**1.83**	2.85	3.76	3.01
Fair value of market value options (US$)	**–**	1.66	2.27	1.95
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.

25. Dividends proposed

	2014 US$'000	2013 US$'000
Proposed dividends on ordinary shares		
Final cash dividend for 2014: 5 cents per share (2013: nil)	**6 913**	–

Proposed dividend on ordinary shares is subject to approval at the AGM to be held on 2 June 2015 and is not recognised as a liability as at 31 December.

26. 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	**2014**	2013
Letšeng Diamonds (Proprietary) Limited	Lesotho	**30%**	30%
Accumulated balances of material non-controlling interest		**66 148**	72 454
Profit allocated to material non-controlling interest		**24 782**	15 702

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

	2014 US$'000	2013 US$'000
Revenue	**277 908**	201 310
Cost of sales	**(138 293)**	(114 150)
Gross profit	**139 615**	87 160
Royalties and selling costs	**(22 379)**	(16 099)
Other income/(costs)	**3 384**	(860)
Operating profit	**120 620**	70 201
Net finance income/(costs)	**2 045**	(614)
Profit before tax	**122 665**	69 587
Income tax expense	**(40 059)**	(17 246)
Profit for the year	**82 606**	52 341
Total comprehensive income	**82 606**	52 341
Attributable to non-controlling interest	**24 782**	15 702
Dividends paid to non-controlling interest	**27 597**	5 938

Summarised statement of financial position as at 31 December

	2014 US$'000	2013 US$'000
Assets		
Non-current assets		
Property, plant and equipment and intangible assets	**252 397**	281 017
Current assets		
Inventories, receivables and other assets and cash and short-term deposits	**81 958**	64 862
Total assets	**334 355**	345 879
Non-current liabilities		
Trade and other payables, provisions and deferred tax liabilities	**69 557**	81 951
Current liabilities		
Interest-bearing loans and borrowings and trade and other payables	**44 306**	22 415
Total liabilities	**113 863**	104 366
Total equity	**220 492**	241 513
Attributable to:		
Equity holders of parent	**154 345**	169 059
Non-controlling interest	**66 148**	72 454
Summarised cash flow information for the year ended 31 December		
Operating	**82 581**	85 961
Investing	**(62 730)**	(68 782)
Financing	**(15 496)**	(8 529)
Net increase in cash and cash equivalents	**4 355**	8 650

27. Events after the reporting period

No other fact or circumstance has taken place between the end of the reporting period and the approval of the financial statements which, in our opinion, is of significance in assessing the state of the Group's affairs.