RNS Number:
Gem Diamonds Limited
15 March 2016

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GEM DIAMONDS FULL YEAR 2015 RESULTS

Gem Diamonds Limited (the Company) is pleased to announce its Full Year Results for the year ending 31 December 2015 (the Period).

FINANCIAL RESULTS

- Revenue US$249.5 million, down 8% YoY
- Underlying EBITDA US$103.5million, down 2% YoY
- Profit for the year US$67.4 million, up 12% YoY
- Attributable profit (post exceptional items) US$52.0 million, up 57% YoY
- Earnings per share (pre exceptional items), 30.2 US cents, up 26% YoY

DIVIDEND

- Ordinary dividend of 5 US cents per share recommended
- Special dividend of 3.5 US cents per share also recommended

Commenting on the results today, Clifford Elphick, Chief Executive Officer of Gem Diamonds, said:
"It is pleasing to see that the prices achieved for Letšeng's diamonds during 2015 have remained robust despite the sharp downturn in the global market. The world class, high quality diamonds, for which Letšeng is renowned, have contributed to the strong results at an average price of US$2 299 per carat for the year."

"Although 2015 was a challenging year for the diamond mining industry, it is encouraging to report that the Group has delivered a strong set of operational and financial results. The Group continued to implement its strategic objectives of capital discipline by investing in low cost high return capital projects. The increase in the recoveries of the important +100 carat diamonds from an average of 6 per year to 11 in 2015 demonstrates the success of the initiatives."

The key objectives for the development of Phase 1 at the Ghaghoo mine have been achieved. In this regard, the average grade recovered during the year met the expected reserve grade and following the commissioning of the surge bin in January, the key metric of 2 000 tonnes per day through the processing plant was achieved.

The strong financial results achieved in 2015 have enabled the Board to recommend an ordinary dividend of 5 US cents per share and, in addition to this ordinary dividend have recommended a special dividend of 3.5 US cents per share. The special dividend relates to the cash saving arising from the settlement of a previous tax assessment."

The Company will be hosting a webcast presentation on its full year results at 9.30am today. A copy of the full Annual Report 2015 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 world class, high-value diamonds .The Letšeng mine is renowned for the production of large, top colour, exceptional white diamonds, making it the highest average dollar per carat kimberlite diamond mine in the world. Since Gem Diamonds acquired the Letšeng mine in 2006, it has produced four of the 20 largest white gem quality diamonds ever recorded.

Gem Diamonds has a growth strategy based on enhancing the operational efficiencies of Letšeng and developing the Ghaghoo mine, whilst maintaining its strong balance sheet. The Company seeks to maximise revenue and create additional margin from its rough diamond production through the Group's expanded sales, marketing and manufacturing capabilities. 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.

GEM DIAMONDS ANNUAL REPORT 2015

Chairman's statement

A strong set of results

- Strategic clarity
- Investing in low-cost, high-return innovative projects
- Robust corporate governance
- Dividend paying policy

Dear shareholder,
It is my pleasure to present the Gem Diamonds' 2015 Annual Report. I believe this report offers a fair and balanced account of the business, its performance over the last year and its prospects going forward.

Strategic focus
Although 2015 was a challenging year for the diamond mining industry, it is pleasing to report that the Group has delivered a strong set of results, both operationally and financially. Despite continued downward pressure on both rough and polished diamond prices during the period, particularly in the commercial diamonds, robust prices were achieved for the Group's high-end Letšeng diamonds. These strong results are the outcome of the strategic plan adopted by the Board two years ago whereby the focus was placed on maximising revenue from core assets through enhancing operational efficiencies and investing in low-cost and high-return innovative projects.

This strategic focus has positioned Gem Diamonds well for sustainable growth and, following another strong set of results during 2015, notwithstanding challenging market conditions, the Group ended the year with net cash of US$55.3 million. Moreover, the Group achieved a remarkable milestone with no lost time injuries recorded at any Gem Diamonds' operations during 2015. This achievement is a hallmark of strong operational management.

The Group continued to demonstrate capital discipline and, at Letšeng, we have successfully completed various low capital incremental growth projects on time and on budget. The addition of the Plant 2 upgrade to the treatment plant and the new Coarse Recovery Plant has resulted in a rise in the recoveries of the important +100 carat diamonds from an average of six per year to 11 in 2015. In addition, the revised optimised life of mine plan for Letšeng which was implemented during the year has significantly enhanced the value of the mine.

At Ghaghoo, it is pleasing that the initial key objectives set out for the development of Phase 1 of this asset were achieved and are all the more noteworthy due to the challenging underground conditions encountered.

The depressed market has impacted the prices achieved for our Ghaghoo production. Consequently, in the current climate, and after reviewing various options, it was considered prudent to downsize the operation for 2016 to reduce cash consumed during its final development. It is important to note that Ghaghoo remains a key future option for the Group and its expansion opportunities, when diamond prices improve, will further deliver on the Board's strategic plan.

Gem Diamonds continues to seek opportunities to maximise revenue from the sale of its rough diamonds through a combination of channels, including tenders, auctions, off-take arrangements and partnerships. The Group's multi-channel marketing strategy is effectively managed by the Gem Diamonds sales and marketing team in Antwerp and continues to develop relationships with new and existing clients.

Dividend
A maiden dividend of US$6.9 million (5 US cents per share) was paid to shareholders in June 2015 in respect of the 2014 year. This was a significant milestone for the Company. Following the positive results achieved in 2015 and in applying the dividend policy implemented in the prior year, the Board is pleased to recommend the payment of an ordinary cash dividend of 5 US cents per share (US$6.9 million) which will be proposed at the 2016 Annual General Meeting. In addition, a special dividend of 3.5 US cents per share (US$4.8 million) will also be proposed representing the cash saving arising from the settlement of a previous tax assessment.

The Group will continue to adopt a prudent capital management strategy and stringent cost controls at the operations in order to remain in a position to recommend dividend payments to shareholders.

Striving for zero harm and positive contributions
Gem Diamonds strives to mine its diamonds in such a way that promotes socially and environmentally desirable outcomes. It is therefore pleasing to report that in addition to having an LTI-free year during 2015, no major or significant environmental or stakeholder incidents were recorded.

The Group is dedicated to creating and maintaining stakeholder relationships that forge shared value and leave a positive legacy in its project affected communities. Focused engagement at all levels of the business ensures that community projects are relevant and feedback is incorporated into strategies going forward. In addition, robust international best practice guidelines are implemented across the Group to ensure optimal governance.

Ensuring high levels of corporate governance
The Board is committed to the highest standards of corporate governance and believes that strong corporate governance is key to the Group's ability to create sustainable returns for all stakeholders. The Board therefore continues to support the principles encompassed in the revised UK Corporate Governance Code.

During the year, the Board welcomed Michael Lynch-Bell as an independent non-Executive Director and the Audit Committee Chairman. Mr Lynch-Bell was previously a senior resources partner at Ernst & Young (EY) for over 27 years. His wealth of experience through his non-Executive directorships at three other mining and mineral companies will complement the skill set of the Board.
After eight years of service as Chief Operating Officer and Executive Director, Alan Ashworth has announced his intention to retire in June 2016. The Board would like to express its appreciation to Alan for his significant contribution to the Group over the years.

Outlook
Although 2016 has seen a positive start with improved rough diamond prices being reported across the industry, significant global economic uncertainty remains. Nevertheless, through disciplined execution of its core strategy, I believe that the Group is well positioned to further maximise shareholder returns.

I would like to take this opportunity to acknowledge the hard work of the people who have made the successes of the 2015 year possible. I would like to give my heartfelt thanks to my fellow Board members for their insightful leadership and express my appreciation to the Gem Diamonds management team. I would also like to thank our host governments of Lesotho and Botswana and, of course, our shareholders for their continued confidence and support. Finally, I would like to thank all Gem Diamonds employees for their dedication and hard work throughout the year.

Roger Davis
Non-Executive Chairman

14 March 2016

Chief executive's report

Positive results in a tough market

- Disciplined cost control

- Continued focus on maximising revenue

- Successful project delivery within budget

In a year characterised by adverse global market conditions, Gem Diamonds' strategy has allowed the Group to successfully navigate this challenging environment and to continue to generate cash from its core asset, Letšeng, resulting in sustainable returns for our shareholders. The Group's strong financial position, as reflected in this report, is the result of disciplined execution of its strategy which has been due to the excellent work by the whole Gem Diamonds team.

While the global commodity market saw a sharp downturn during 2015, the revenue generated from the sale of Letšeng diamonds remained robust at an average of US$2 299* per carat. This is a remarkable achievement, and clear evidence of the resilience of Letšeng's unique, high-quality diamonds and the success of our technical progress in reducing diamond damage. In current market conditions, a key focus for our team has been on maximising production whilst controlling costs and we are proud to report Group underlying EBITDA of US$104 million and EPS (before exceptional items) of 30.2 US cents.

Prudent balance sheet management

During the year, the Group upheld its fiscal discipline and maintained its healthy balance sheet. This was achieved by adhering to a number of strategic imperatives, including:

- continuing investment in low capital projects at Letšeng that deliver quick paybacks with high returns;
- achieving operational excellence and driving costs down; and
- maintaining low debt levels whilst preserving the Group's cash position.

After paying a US$6.9 million (5 US cents per share) maiden dividend during the year, the Group ended 2015 with a net cash position of US$55.3 million.

** includes carats extracted for polishing at rough valuation*

Maximising value through innovation and operational excellence at Letšeng

Gem Diamonds' focus at Letšeng is on operational excellence and optimising the value of the mine through:

- the introduction of innovative technology to reduce diamond damage and improved recoveries through incremental investment in low capital projects; and
- improving the production profile through optimal life of mine planning.

In 2015, the Company continued to reap the benefit of investments made in previous years in this regard. The introduction of optimised secondary crushers at Letšeng during 2013 was an important milestone toward reducing diamond damage. In addition, a change in mine blasting practices and patterns has resulted in improved fragmentation of the ore delivered to the treatment plants, which further contributed to a reduced damage trend in our valuable Type II diamonds.

During the year, two additional low capital investment projects were completed. The Plant 2 upgrade was completed at a total capital cost of US$3.5 million and, following commissioning, has increased Letšeng's production capacity by 250 000 tonnes per annum and has also contributed to reduced diamond damage. Furthermore, the new Coarse Recovery Plant has enhanced security, and through the use of X-ray transmissive sorting technology, has improved recovery of the high-value Type II diamonds. This plant was completed at a capital cost of US$11.0 million.

Before these interventions, an average of six diamonds greater than 100 carats were recovered per year, whereas in 2015, the Group recovered 11 diamonds greater than 100 carats, the largest of which was the 357 carat 'Letšeng Dynasty'. This exceptional diamond was sold for US$19.3 million, achieving the highest price for a single diamond from our Letšeng mine – a truly noteworthy achievement in a depressed market.

In early 2015, a revised optimal life of mine plan for Letšeng was implemented which significantly increases the net present value of the mine by increasing annual are tonnages from the higher-value Satellite pipe and reducing and smoothing the waste mining profile over the next 20 years.

The Letšeng team deserves credit for the successful implementation of these initiatives and for their continued commitment to achieving operational excellence.

Developing the Ghaghoo mine

I am pleased to report that the key objectives set out by the Group for the Phase 1 development at Ghaghoo mine have been achieved. It is also pleasing to note that the average grade recovered during the year of 28.0 cpht marginally exceeded the reserve grade of 27.8 cpht.

We continued to experience difficult underground conditions at Ghaghoo. At the end of November 2015, caving at the end of tunnels 2 and 3 propagated through to surface. Although this was anticipated to occur as the volume of ore extracted underground increased, it occurred some six months earlier than expected. Due to the safety procedures in place, no injuries were sustained nor was there any damage to equipment. Actions required to create a buffer zone to limit sand dilution have been put in place and underground mining has resumed. This will result in the deferment of extraction of approximately 300 000 tonnes of ore.

As part of the treatment plant optimisation, a 100 tonne per hour surge bin, positioned ahead of the Autogenous Mill to enhance the mill's performance, was commissioned on 21 January 2016. Following the commissioning of the surge bin, the Phase 1 planned treatment feed rate of 2 000 tonnes per day was achieved, confirming the plant's ability to run at its nameplate capacity of 60 000 tonnes per month.

Another notable achievement this year was establishing a sustainable solution for the water fissure on Level 1 and the intersection on the ramp to Level 2.

The fall in prices for the Ghaghoo production during the year has impacted the planned pace of the ramp up at Ghaghoo. A sale of 49 120 carats in December achieved US$7.4 million at an average price of US$150 per carat, down from US$210 and US$165 per carat in the previous two sales held in February and July respectively. Based on these prices and the current depressed state of the rough diamond market for Ghaghoo's production, various options were reviewed and in the short term it was considered prudent to downsize the operation to minimise the cash to be consumed by this asset. Consequently, a modified target of approximately 300 000 tonnes of ore to be treated has been set for 2016. With over 20 million carats in the resource worth over US$4 billion, Ghaghoo, located in a world renowned diamond producing country and 100% owned by the Group, remains an important asset. Opportunities are being assessed to expand the operation to achieve healthy margins and a strong return on capital as and when diamond prices improve.

Investing in value accretive marketing and downstream initiatives

Gem Diamonds remains committed to unlocking the full value from our assets by maximising the revenue achieved from rough and polished diamond sales. Gem Diamonds' sales and marketing team has been instrumental in developing the Letšeng Diamond brand and increasing and improving the Group's customer base. In a challenging diamond market, the sales and marketing team in Antwerp has demonstrated their expertise in achieving top prices for Letšeng's diamonds. Over the past few years, the number of registered customers for the Letšeng tenders has more than doubled and we continue to welcome renowned diamantaires in Antwerp.

The Group continued to invest in its downstream activities by selecting certain high value rough diamonds for cutting and polishing, through its own facilities in Antwerp or partnering with select clients. During the year the Group achieved an average of 25% additional value over the initial rough price for the selected diamonds put through this process, supporting the objectives of this process.

Protecting our workforce

Gem Diamonds regards its employees as a key asset and sets the health and safety of its workforce as its highest priority. It therefore gives me great pleasure to report zero lost time injuries during the 2015 calendar year. This achievement is indicative of the success of various operational initiatives and focused managerial effort in the creation of a culture of responsible care. I would like to congratulate our entire workforce across all our operations for the remarkable milestone as such an achievement is simply not possible without the concerted effort of each and every employee.

Minimising environmental impacts

The Group has continued its excellent track record in relation to the sustainable care of the environment and we can report, for the seventh consecutive year, that no major environmental incidents have occurred across the Group.

Our environmental teams, with the assistance of industry specialists and academics, continue to monitor the Group's ongoing environmental compliance and pursue best practice guidelines.

Collaborating with our project affected communities

Close collaboration with our project-affected communities continued throughout 2015 with a total investment by the Group of US$0.6 million being made into community and social programmes.

In Lesotho, positive feedback has been received from community representatives as well as from a number of Lesotho government ministers and officials about our efforts in this area. The social and community programme in Lesotho was also showcased at the Commonwealth Conference in Malta in November 2015 to the acclaim and appreciation of the prime minister and the Lesotho delegation. The main areas for community and social investment in 2015 were a tertiary education scholarship, youth development programmes, a village health worker training programme and a subsistence farming project.

In Botswana, the Ghaghoo Community Trust, a key initiative, received funding from the Group during the year. The Trust, which includes two voting community representatives, met regularly throughout the year and commissioned several community based initiatives. The provision of maintenance of the boreholes supplied to project-affected communities around the Ghaghoo mine continued. In addition, the Ghaghoo mine has adopted schools in the vicinity of the Central Kalahari Game Reserve, and the mine's relationship with these local schools has been strengthened through sponsorship of both academic and sport-related projects. The construction of facilities at the schools and the introduction of educational mine visits for scholars has proven to be particularly effective.

Industry advocacy

We remain committed to supporting the diamond industry. Gem Diamonds was one of the founding members of the Diamond Producers Association (DPA), established during 2015. The objective of the DPA is to promote the interests of diamond producers and support the development of the sector. This includes maintaining and enhancing consumer demand for and confidence in diamonds, as well as sharing best practices in health and safety and environmental management with our diamond peers.

Outlook

The emphasis for 2016 and beyond remains on positioning the Group to leverage its strengths and invest responsibly in future value creation for our shareholders. We are focused on making the Ghaghoo mine a significant contributor to the Group's financial success, as well as concentrating on the continued development and further financial strength of the Letšeng operation.

I remain confident that the strategic direction of Gem Diamonds will continue to keep the Company in a financially strong position and generate cash to fund dividends and achieve strong returns for our shareholders.

It is also an appropriate time to acknowledge once again the excellent work of Gem Diamonds' employees, the careful guidance of the Board and the unwavering support received from our shareholders.

Clifford Elphick
Chief Executive Officer

14 March 2016

Group financial performance

Maximising production whilst controlling costs

- Underlying EBITDA of US$104 million
- Basic EPS of 37.6 US cents
- Cash on hand of US$86 million
- Ordinary and special dividends proposed

In a commodities market categorised by challenging conditions, Gem Diamonds has remained focused on its fundamental goal of extracting the maximum value from its resources for long-term shareholder value creation.

In response to the operating environment during the year, the Group has focused on disciplined balance sheet management and careful cost containment resulting in a strong net cash position of US$55.3 million with US$16.1 million available facilities at 31 December 2015, increasing to US$51.1 million in January 2016 following the refinancing of one of the Group's existing revolving credit facilities.

Revenue

The Group is committed to maximising the value achieved on rough and polished diamond sales. The Group's revenue is primarily derived from its two business activities, namely its mining operations in Lesotho (Letšeng) and Botswana (Ghaghoo), and its rough diamond manufacturing operation in Antwerp. Group revenue of US$249.5 million in 2015 is 8% lower than that achieved in 2014 notwithstanding a 9% decrease in Letšeng's average US$ per carat achieved and 6% lower volume of rough carat sales. Revenue of US$3.8 million was generated through additional polished margin by the manufacturing operation. In addition, the Group's revenue was positively impacted by the movement in own manufactured inventory, increasing Group revenue by US$8.8 million.

Letšeng continued its solid operational performance in line with its optimised life of mine plan and despite 2015 being a challenging year for the general diamond industry, an average of US$2 299[1] per carat was achieved, evidence of the resilience of its large, high-value diamonds against the downward market pressures and success of the technical changes made in reducing diamond damage.

Ghaghoo sold its first parcel of diamonds in February 2015 for US$2.1 million, achieving US$210 per carat. Two more parcels were sold in July and December for US$4.9 million and US$7.4 million, achieving US$165 and US$150 per carat respectively, reaching total sales of US$14.4 million for the full year. These sales are not reported in the Group revenue, but have been set off against operating and development costs capitalised to the carrying value of the asset, as the mine did not reach full commercial production for accounting purposes by the end of the year.

Financial highlights

US$ million	**2015**	2014*
Revenue	**249.5**	270.8
Royalty and selling costs	**(21.9)**	(24.7)
Cost of sales	**(112.4)**	(127.8)
Corporate expenses	**(11.7)**	(12.4)
Underlying EBITDA	**103.5**	106.0
Depreciation and amortisation	**(10.4)**	(14.8)
Other income	**0.5**	0.1
Share-based payments	**(1.7)**	(1.7)
Foreign exchange gain	**7.0**	5.6

Net finance income	**0.1**	0.2
Profit before tax from continuing operations	**99.0**	95.4
Income tax	**(31.6)**	(35.0)
Profit after tax from continuing operations	**67.4**	60.4
Profit/(loss) from exceptional items	**10.2**	(2.5)
Profit after tax after exceptional items	**77.6**	57.9
Non-controlling interests	**(25.6)**	(24.7)
Attributable profit	**52.0**	33.2
Basic EPS (US cents)	**37.6**	24.0

** Prior period figures have been restated for the reclassification impact of accounting for the discontinued operation*

	2015	2014
Letšeng revenue[1]		
Average price per carat (US$)	**2 299**	2 540
Carats sold	**102 778**	108 963
Ghaghoo revenue[2]		
Average price per carat (US$)	**162**	n/a
Carats sold	**89 107**	n/a
Group revenue summary (US$ million)		
Sales – rough	**236.3**	276.8
Sales – polished margin	**3.8**	5.8
Sales – other	**0.6**	0.3
Impact of movement in own manufactured inventory	**8.8**	(12.1)
Group revenue	**249.5**	270.8

[1] *Includes carats extracted for polishing at rough valuation.*
[2] *Ghaghoo concluded its first sale in 2015 and therefore no figures are tabled for 2014. As Ghaghoo did not commence with commercial production for accounting purposes, the sales generated for the year were not included in the Group revenue.*

Royalties consist of an 8% levy paid to the Lesotho Revenue Authority on the sale of diamonds in Lesotho and 10% paid to the Department of Mines in Botswana. Diamond selling and marketing-related expenses are incurred by the Group sales and marketing operation in Belgium. During the year, royalties and selling costs decreased by 11% to US$21.9 million, driven mainly by lower sales.

Operations
While revenue is generated in US dollars, the majority of operational expenses are incurred in the relevant local currency. The Lesotho loti (LSL) (pegged to the South African rand), Botswana pula (BWP) and British pound (GBP) were all weaker against the US dollar during the year, which positively impacted the Group's US dollar reported costs.

Exchange rates	**2015**	2014	% change
LSL per US$1.00			
Average exchange rate for the year	**12.78**	10.85	18
Year end exchange rate	**15.50**	11.57	34
BWP per US$1.00			

Average exchange rate for the year	**10.14**	8.98	13
Year end exchange rate	**11.25**	9.51	18
US$ per GBP1.00			
Average exchange rate for the year	**1.53**	1.65	(7)
Year end exchange rate	**1.47**	1.56	(6)

Letšeng mining operation

During the year, ore tonnes treated at Letšeng were 4% higher than in 2014, at 6.7 million tonnes. The volume of the higher-value, higher-grade Satellite pipe ore mined was maintained at similar levels to that of 2014, of 1.9 million tonnes, resulting in the Satellite to Main pipe mining ratio of 29:71 for the year (2014: 31:69). Carats recovered during the year of 108 579 remained at similar levels to that of the prior year (2014: 108 569). An increase in diamond inventory levels at the end of the year, due to the timing of production cut-off for tender purposes, influenced the lower number of carats sold of 102 778 during the year.

Operational excellence through proactive cost management and enhanced production efficiencies remained a key focus for the year. Cost of sales for the year was US$110.6 million, down 13% from US$126.9 million in 2014, and includes waste stripping costs amortised of US$47.2 million (2014: US$49.3 million).

Letšeng costs	**2015**	2014
US$ (per unit)		
Direct cash cost (before waste) per tonne treated[1]	**11.40**	12.70
Operating cost per tonne treated[2]	**16.50**	19.64
Waste cash cost per waste tonne mined	**2.20**	2.22
Local currency (per unit) LSL		
Direct cash cost (before waste) per tonne treated[1]	**145.64**	137.75
Operating cost per tonne treated[2]	**210.84**	213.08
Waste cash cost per waste tonne mined	**28.08**	24.07
Other operating information (US$ million)		
Waste cost capitalised	**61.4**	51.5
Waste stripping costs amortised	**47.2**	49.3

[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 LSL972.8 million compared to LSL884.6 million in 2014. This resulted in a unit cost per tonne treated of LSL145.64 relative to the prior year of LSL137.75, representing an effective increase of 6%. These costs include those associated with Alluvial Ventures (the contractor operating a third plant at Letšeng) which are based on a percentage of revenue. During 2015, the Alluvial Ventures costs increased following the higher revenue achieved from their production compared to the prior year. Cash costs excluding the impact of the Alluvial Ventures costs were LSL123.91 compared to LSL123.41 in 2014, remaining flat year on year. This is all the more noteworthy taking into account general inflation increases of approximately 5%; above inflationary power increases; additional costs relating to back up power facilities; and the negative impact of the strong US dollar on foreign currency denominated purchases.

Operating costs per tonne treated of LSL210.84 were largely in line with the prior year's cost of LSL213.08 per tonne, reflecting the similar mining profile within the Satellite and Main pipes which has occurred over the last two years. The amortisation charge attributable to the Satellite pipe ore accounted for 65% of the total waste stripping amortisation charge in 2015 (2014: 64%).

In line with the revised Letšeng life of mine plan, increased volumes of waste of 24.0 million tonnes were mined during the year, 21% more than 19.8 million tonnes mined in the prior year. Local currency waste cash costs per waste tonne mined increased by 17%. This increase was primarily driven by longer haul distances as the waste was mined at deeper levels within the waste cuts. The increase was further compounded by the impact of the strong US dollar on the mining contractor cost due to the additional earthmoving equipment required for the increased volume.

Ghaghoo mining operation

Underground mining conditions at Ghaghoo continued to be difficult and hindered the rate and progress of the ramp-up during the year. The operation therefore, did not reach commercial production for accounting purposes and as a result all costs, net of sales, have been capitalised to the carrying value of the asset on the balance sheet. During the year, Ghaghoo incurred development costs of US$9.0 million in order to access both current and future ore producing tunnels and further incurred US$30.2 million in operating costs, which include costs associated with the sealing of the fissue encountered on Level 1 and the planned intersection on Level 2. These costs, net of sales, increased the carrying value of the asset by US$24.8 million during the year.

In line with the Group's continued approach of cost optimisation and cash preservation, it was considered prudent to restructure Ghaghoo in the short term in order to meet these objectives through downsizing the operation.

Diamond manufacturing operation

The Group continued generating additional margin on selected high-value diamonds through its manufacturing facilities and partnership arrangements. The diamond manufacturing operation in Antwerp contributed US$3.8 million to Group revenue (through additional polished margin generated) and US$2.9 million to underlying EBITDA. During the year, 336 carats valued at a rough market value of US$4.6 million were extracted from the Letšeng exports for manufacturing. In total, polished diamonds with an initial rough value of US$13.4 million were sold during the year and US$6.2 million remained in inventory at the end of the current year, compared to US$15.0 million at the end of the prior year.

Corporate office

The cost-effective streamlining of corporate structures whilst maintaining high levels of governance and assurance, continued in 2015, reducing costs from US$12.4 million in 2014 to US$11.7 million in 2015. Corporate expenses relate to central costs incurred by the Group through its technical and administrative offices in South Africa and the United Kingdom and are incurred in South African rand and British pounds. Notwithstanding local inflation costs, the overall US dollar reported costs have been positively impacted by the weaker local currencies. Corporate costs remain tightly controlled and have reduced by 24% since 2011.

The share-based payment charge for the year was US$1.7 million. During the year, a new award was granted in terms of the Long-Term Incentive Plan (LTIP), whereby 667 500 nil cost options were granted to certain key employees and 740 000 nil cost options were granted to Executive Directors. The vesting of the options to key employees is subject to the satisfaction of certain performance as well as service conditions classified as non-market conditions. The vesting of the options to Executive Directors is subject to the satisfaction of certain market and non-market performance conditions over a three-year period. The share-based payment charge associated with this new award was US$0.6 million for the year.

Exceptional items

On 30 June 2015 the Group sold its manufacturing operation in Mauritius as part of streamlining its manufacturing structure. The trading results of the operation are classified as part of discontinued operations and gave rise to a profit on disposal of US$0.7 million.

In December 2015, the Company settled an interest-bearing tax liability for an amount less than that previously provided, resulting in the reversal of accrued expenses of US$8.1 million. This reversal, together with an associated foreign exchange gain of US$1.5 million was recognised as an exceptional item due to its non-recurring nature.

Underlying EBITDA and attributable profit

Based on the operating results, the Group generated an underlying EBITDA of US$103.5 million. The profit attributable to shareholders before exceptional items was US$41.8 million (up 17% from US$35.7 million in 2014) equating to 30.2 US cents per share (up 17% from 25.8 US cents in 2014) on a weighted average number of shares in issue of 138 million. Attributable profit after exceptional items was US$52.0 million or 37.6 US cents per share for the year.

The Group's effective tax rate was 29.1%, above the UK statutory tax rate of 20.25%. 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.

Financial position and funding overview

The Group maintained its solid cash position during the year through its strong operational performance at Letšeng and prudent cash management and ended the year with US$85.7 million cash on hand, of which US$71.7 million was attributable to Gem Diamonds and US$2.6 million was restricted (2014: US$0.2 million). This restricted cash mainly relates to funds reserved for a portion of the future repayment of the US$25.0 million secured bank loan facility at Ghaghoo.

The Group generated cash flow from operating activities of US$119.1 million before the investment in waste mining of US$61.4 million and capital expenditure of US$18.7 million at Letšeng and Ghaghoo. The capital expenditure mainly comprised the investment in the Plant 2 Phase 1 upgrade of and the new Coarse Recovery Plant at Letšeng of US$2.7 million and US$5.3 respectively; and US$6.8 million at Ghaghoo for earthmoving equipment as part of its initial ramp-up programme.

During the year, Letšeng declared dividends of US$39.2 million of which US$24.7 million flowed to Gem Diamonds and US$14.5 million was paid outside of the Group for withholding taxes of US$2.7 million and payment to the Government of Lesotho of US$11.8 million for its minority portion.

The Group is well funded and ended the year in a net cash position of US$55.3 million. Furthermore, standby undrawn facilities remain availabe. The LSL140.0 million (US$9.0 million) facility at Letšeng will be fully repaid by June 2017 and has an outstanding balance of US$5.4 million at year end. The US$25.0 million facility for the completion of the Ghaghoo Phase 1 development was extended into a six-year, secured facility, with repayments due to commence during 2016.

The US$20.0 million three-year unsecured facility at the Company was successfully refinanced on 29 January 2016 for a further three years at an increased value of US$35.0 million.

Dividend

Prudent investment and disciplined capital and cash management have placed the Group in a well-funded position. Based on this position and the results achieved, notwithstanding a challenging environment, the Board is pleased to maintain its dividend policy and recommends the payment of its second ordinary dividend of 5 US cents per share. This dividend is subject to shareholder approval at the scheduled AGM to be held on 7 June 2016. The total dividend would be US$6.9 million, equating to 18% of the Group's 2015 net sustainable earnings. Following the cash saving arising from the settlement of the tax assessment referred to in the exceptional items, a special dividend of 3.5 US cents amounting to US$4.8 million will also be proposed at the AGM.

Outlook

Focus in 2016 will be on the restructuring of Ghaghoo with cost optimisation and reduction in cash consumption a priority. Expansion opportunities with respect to increasing production once market conditions improve sufficiently will be reviewed. At Letšeng, the full benefit of the Coarse Recovery Plant and the Plant 2 Phase 1 upgrade should further enhance the potential at Letšeng which will in turn add to the delivery of returns to shareholder over the short, medium and long term.

Michael Michael
Chief Financial Officer

14 March 2016

OPERATING REVIEW

Letšeng

Letšeng had another strong year, exceeding all prior year production levels once again.

Highlights

- The Plant 2 Phase 1 upgrade and Coarse Recovery Plant projects successfully completed
- Waste tonnes mined increased by 21% in line with the optimised mine plan
- 11 diamonds larger than 100 carats recovered, setting a new record for the mine
- Largest diamonds recovered were a 357 carat and a 314 carat diamond
- 36 rough diamonds achieved a value greater than US$1.0 million each
- LTI and fatality-free year
- ISO 14001 and OHSAS 18001 certification

Operational performance

Letšeng had another strong year, exceeding all prior year production levels once again. 108 579 carats were recovered compared to 108 569 recovered in 2014. Ore treated was 6.7 million tonnes compared to 6.4 million tonnes in 2014. The increase in treated tonnes, particularly in the second half of the year, reflects the benefits of the Plant 2 Phase 1 upgrade project implemented at the beginning of the year. Of the total ore treated, 71% was sourced from the Main pipe and 29% from the Satellite pipe. Waste tonnes mined increased by 21% in line with the optimised LoM plan, which allows for increased levels of higher-grade ore from the higher-value Satellite pipe to be mined.

Optimised mine plan

A new optimised life of mine plan was published in May 2015, and can be accessed on the Gem Diamonds' website, www.gemdiamonds.com. The plan makes provision for increased levels of higher-grade ore from the higher-value Satellite pipe to be mined annually. In accordance with this plan, Satellite ore production will ramp up to 2.0 million tonnes per annum in 2020 and remain at that level to the end of the LoM which extends to 2038.

A key feature of the optimised LoM plan is the use of steeper pit slope angles. Significant improvements to side wall control and blasting of the pit slopes has allowed the mine to safely increase the pit slope angles. This will result in lower stripping ratios, thereby significantly reducing the total cost of mining over the LoM and increasing open pit ore tonnage.

During the second half of 2015, a third 300 tonne excavator and five additional 100 tonne dump trucks were acquired, equipping the mine to achieve the waste stripping target in the optimised Lom plan.

Furthermore, the optimised plan made provision for the increased treatment capacity of 250 000 tonnes per annum following the recent Plant 2 Phase 1 upgrade.

The expansion of the open pits has necessitated the relocation and construction of an expanded mining support services complex. The first phase of this project has been approved and will establish the infrastructure where daily service maintenance on the 100 tonne haul trucks can be carried out. The first phase service station will be completed by the end of the second quarter of 2016 at a cost of less than US$1.0 million.

Initial high-level studies suggest there is a case for an underground mine in both the Satellite and Main pipes. Further studies will be undertaken to determine the optimal timing of when underground construction needs to commence.

Letšeng operational performance	**Year ended 31 December 2015**	Year ended 31 December 2014	% change
Ore tonnes treated	**6 679 581**	6 421 704	4.0
Waste tonnes mined	**24 010 847**	19 884 725	20.8
Carats recovered	**108 579**	108 569	–

Reducing diamond damage remains a priority

Reducing diamond damage remains an area of key focus for Letšeng. A number of innovative work streams in mining and processing are underway to reduce diamond damage and are starting to yield positive results. This is evident in the increase in the number of larger diamonds that were recovered in 2015, with 11 diamonds greater than 100 carats having been recovered. This is a new record for the mine.

The Plant 2 Phase 1 upgrade was completed in the first quarter of the year. The project was completed at a cost of US$3.5 million, on schedule and within budget. The expected increase in the annual plant capacity as a result of the upgrade has been successfully realised.

The new Coarse Recovery Plant was finalised in the second quarter of the year at a total amount of US$11.0 million, being below the original budget. The plant is operating and has met most expectations. Some minor refinements will be introduced during the second quarter of 2016.

Skills

Skills attraction and retention remains a principal risk and focus at Letšeng. Localisation demands, challenges in obtaining work permits for skilled ex-patriates and increasing demand for skilled personnel from other companies in Lesotho have exacerbated the risk.

Extensive engagement with Lesotho government officials on this matter and initiatives to mitigate the skills risk by enhancing remuneration practices and conducting development programmes for local employees are ongoing.

Frequency of recoveries of large diamonds

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

HSSE

Letšeng was awarded, for the third consecutive year, the highest possible rating for Health, Safety, Security and Environment (HSSE) management according to the IRCA global system. In addition, Letšeng also obtained ISO 14001 and OHSAS 18001 certification for its environmental, occupational health and safety management systems. These achievements reflect Letšeng's comprehensive commitment to effectively manage the risks relating to the health and safety of its employees, its project affected communities (PACs) and its impact on the natural environment in which it operates.

Letšeng implemented various behaviour-based safety initiatives to keep the focus on continuing to work safely and by the end of the year achieved a fatality and lost time injury (LTI) free calendar year and a total of 430 LTI-free days. No major or significant environmental or stakeholder incidents were recorded during 2015.

Letšeng continues to work closely with all stakeholders to address socio-economic challenges within its PACs. In line with its corporate social investment plan, Letšeng invested approximately US$0.3 million during 2015 towards community investment projects. The corporate investment plan is based on a comprehensive needs analysis that was conducted in consultation with various stakeholders including PACs and community and government leadership forums. The majority of Letšeng's corporate social investment went towards education and health facilities. Letšeng's investment towards education included projects such as tertiary education scholarships and youth development programmes.

Letšeng launched a village health worker training programme that supports the health workers from isolated villages with training as well as equipping them with medical kits. These village health workers are often the only medical assistance that members of the villages have access to and therefore the impact they have on community members is significant. In addition, the Butha-Buthe subsistence farming project commenced, aimed at empowering subsistence farmers in the neighbouring region to not only farm and provide food for their families but also to sell surplus produce to generate income for the household.

At the end of 2015, 97% of Letšeng's workforce comprised Lesotho citizens.

Focus in 2016

- Continue the ramp up of the waste stripping, in line with the optimised mine plan.
- Intensified focus on costs.
- Enhance efficiencies through continuous improvement programmes.
- Construction of the first phase of the mining equipment support services complex.
- Progress the under-ground mine studies.
- Progress innovation work-streams to further reduce diamond damage.

Ghaghoo

During the year, Ghaghoo treated 326 922 tonnes and recovered 91 499 carats, achieving a recovered grade of 28.0 cpht.

Highlights

- Phase 1 objectives achieved
- Water fissure sealed
- 91 499 carats recovered
- LTI and fatality-free year
- Recovered grade of 28.0 cpht, above reserve estimates
- Largest diamond of 48 carats recovered

Operational performance

The Ghaghoo Phase 1 project commenced early in 2011. The objectives of this phase were to obtain a representative production sample in the VKSE phase of the orebody in order to test the autogenous milling (AG) technology and firm up the grade and diamond price estimates. These objectives to a large extent, have now been met.

During the year, Ghaghoo treated 326 922 tonnes and recovered 91 499 carats, achieving a recovered grade of 28.0 cpht. The AG technology proved successful and recovered grades were 1% above the reserve estimate of 27.8 cpht. This was further enhanced after installing a surge bin ahead of the AG mill in early 2016 to improve the AG mill performance. The majority of the ore treated during the year was sourced from Level 1. A total of 1 751 metres of tunnelling was completed.

During the year, 30 diamonds larger than 10.8 carats were recovered, including a 48 carat diamond, the largest diamond recovered at Ghaghoo to date. It is encouraging that a number of fancy coloured diamonds, including blues, pinks, orange, lilacs and yellows, although predominantly in the smaller sieve sizes, were also recovered, confirming the presence of fancy diamonds in the orebody.

Downsizing the operation

Diamond prices achieved from three sales held in 2015 were lower than the reserve estimate due to the current depressed state of the rough diamond market and the overall finer size of the recovered diamonds. Based on this fall in prices, various options were reviewed with the aim of minimising operating losses during 2016. Ghaghoo remains an important future option for the Group, however, in the short term, it is considered prudent to downsize current production to achieve a modified target of approximately 300 000 tonnes for 2016. Options are being assessed to expand the operation in order to achieve acceptable financial returns, as and when diamond prices improve.

HSSE

Ghaghoo was awarded, for the third consecutive year, a four star rating for Health, Safety, Security and Environment (HSSE) management based on the IRCA Global system. Ghaghoo's HSSE Management system matured in 2015 with various initiatives being launched on site to safeguard the health and safety of employees and surrounding community members as well as protecting the pristine natural environment that Ghaghoo operates in. Ghaghoo focussed on continuing to work safely and by the end of the year achieved a fatality and lost time injury (LTI) free calendar year and a total of 418 LTI-free days.

No major or significant environmental or stakeholder incidents occurred at Ghaghoo during 2015.

Ghaghoo continues to expand the reach of its corporate social investment programme and during 2015 invested approximately US$0.1 million towards community investment projects. The majority of this investment went towards infrastructure development, including assisting the Kaudwane Primary School, which was adopted in 2014, with the upgrading of its school buildings. Ghaghoo also made significant investments towards education and health care projects. Ghaghoo works closely with a number of other schools and during the year the operation assisted these schools by sponsoring various prize giving ceremonies, donating sporting equipment and establishing a vegetable garden. This vegetable garden allows the school to provide the scholars with practical experience that forms part of their curriculum on agriculture as well as producing fresh produce which forms part of the school feeding programme.

In an ongoing attempt to partner with schools, Ghaghoo introduced an educational tour initiative during which students are hosted and given an opportunity to see how a working mine operates, as part of their curriculum in their final year of primary school.

Focus in 2016

- Cost optimisation and restructuring the operation.
- Sampling of the VK-Main phase of the orebody.
- Continuation of Level 2 development.
- Assessing options to expand the operation.

Ghaghoo operational performance	Year ended 31 December 2015
Ore tonnes treated	**326 922**
Tunnelling metres developed	**1 751**
Carats recovered	**91 499**
Grade recovered (cpht)	**28.0**

Mineral resource management

Unlocking value through integrated mineral resource management

Highlights

- Letšeng mineral resources re-estimated
- Letšeng US$ per carat slightly overperformed the 2015 expected values
- Ghaghoo's recovered grade exceeds expected reserve
- Mineral resource development at Letšeng continues

Gem Diamonds adopts an integrated approach to mineral resource management (MRM) thus ensuring optimal extraction of the mineral resource. This entails understanding the in-situ resources, the modifying factors that govern the resource to reserve conversion process and the continued improvement and optimisation of processes across the MRM pipeline.

2015 Reserve performance
Letšeng

- Letšeng's recovered grade was slightly below the expected grade at less than 1% variance. This close correlation supports the 2015 reserve grade estimates.
- Letšeng US$ per carat reserve revenues slightly over performed the 2015 expected values. This close correlation is encouraging after several initiatives targeting diamond damage reduction and security improvements were put in place. In addition, this emphasises the resilience of Letšeng-type goods compared to the overall market declines experienced in 2015 of approximately 19% at the end of the year as reported in WWW's large fine goods index.

2015 Letšeng Reserve performance[1]	Grade (carat per hundred tonne)	US$ per carat
Actual	1.61	2 299
Expected	1.62	2 219
	0.6%	3.6%

[1] *Includes Plant 1, Plant 2 and Plant 3 mining contractor.*

The expected 2015 reserve performance measurement indicators detailed above are based on 2015 reserve estimates as per the 2015 reserve statement summarised later in this section.

Ghaghoo

- Ghaghoo's recovered grade was 0.7% above the expected grade from the VKSE ore mined. This is encouraging as it gives the Group confidence in the modelled reserve grades and the expected benefits from the autogenous milling process.
- The US$ per carat reserve revenues underperformed against the 2015 expected values by 23%. This under-performance is attributed to a combination of the downward movement of diamond prices and size frequency deficiencies in the larger diamond categories.

2015 Ghaghoo Reserve performance[2]	Grade (carat per hundred tonne)	US$ per carat
Actual	28.0	162
Expected	27.8	210

	0.7%	23%

[2] *The expected 2015 reserve grade is based on the 2014 reserve statement while the expected revenue is based on an internal 2015 reserve estimate.*

Historical performance trends

The increased levels of higher-grade ore from the higher-value Satellite pipe mined annually are in line with the new optimised LoM plan. In accordance with this plan, Satellite ore will ramp-up to 2.0 million tonnes per annum in 2020 and remain at that level to the end of the Lom.

These historical performance graphs highlight that although short-term variability exists within the resource, particularly with respect to diamond value, the long-term trends in both pipes are reasonably predictable.

Mineral resources development
Letšeng

- **Drilling and sampling** – In order to help determine the location, size and shapes of the basalt mega-xenoliths in both Letšeng pipes, the ahead of face drilling programme continued in 2015. This assists in guiding mine planning to ensure that rafts are not blasted together with clean ore, minimising dilution and diamond damage. A total of 48 holes or 3 179 metres were drilled. The data gathered from this programme will also be used to improve the 2016 geological model. A total of 768 396 tonnes of discrete samples were collected in 2015, consisting of the following amounts of the various rock types: 432 125 tonnes of KMain from the Main pipe, 297 553 tonnes of SVK and 38 718 tonnes of NVK from the Satellite pipe. This additional sampling information will be incorporated in the 2016 resource estimates.

- **Microdiamonds** – Five microdiamond samples were collected in 2015 from both the Main pipe and the Satellite pipe. This project aims to confirm whether microdiamonds can be used at Letšeng to predict grades at depth for the different kimberlite phases. Analysis of the results by an industry expert confirmed that microdiamonds can be used at Letšeng to predict grade at depth. Further samples will be processed in 2016 to establish grade correlation at depth in the resource.

Ghaghoo

- Resource mapping was completed on Level 1 during 2015. This mapping confirmed the homogenous nature of the VKSE ore phase.

Mineral resource and reserve statements
Letšeng's mineral resources were re-estimated in 2015 with an effective statement date of 1 January 2015.
The updated 2015 statement reflects slight changes to resources and reserves due to mining depletion and updates to orebody volumetric and estimation models.

The Ghaghoo resource and reserve statement was not updated as insufficient information was obtained during the commissioning and ramp-up phase in order to make reliable changes to the 2015 statement. The Ghaghoo statement will be updated during the course of 2016.

The resources are stated inclusive of reserves and are stated as gross resources and reserves.

Auditing and compliance

Gem Diamonds' resource and reserve estimates were prepared in compliance with the South African Mineral Resource Committee (SAMREC) code under the supervision of the Group MRM Executive, Mr Andrew Allan, Pr Sci Nat (400127/11). Venmyn Deloitte independently reviewed and approved the resources and reserves.

Letšeng summary resource statement as at 1 January 2015

Resource	Probable reserves				Indicated resources				Inferred resources				Total resources			
	Ore (mT)	Grade (cts/100 T)	Carats (m)	$/ct	Ore (mT)	Grade (cts/100 T)	Carats (m)	$/ct	Ore (mT)	Grade (cts/100 T)	Carats (m)	$/ct	Ore (mT)	Grade (cts/100 T)	Carats (m)	$/ct
Letšeng	137.2	1.75	2.40	2 048	179.2	1.75	3.14	2 094	105.9	1.71	1.81	2 063	285.1	1.74	4.95	2 083
% change from 2014	4%	2%	6%	0%	(4)%	2%	(3)%	0%	(1)%	3%	2%	1%	(3)%	2%	(1)%	0%

Sales, marketing and manufacturing

Gem Diamonds continues to invest in its sales, marketing and manufacturing operations to pursue innovative ways of maximising revenue through a combination of marketing channels, including tenders, strategic partnerships, off take arrangements and additional initiatives further down the diamond pipeline.

Highlights

- US$2 299* average US$ per carat achieved for Letšeng's high-value production
- Largest diamond recovered for the year sold for US$19.3 million, being the highest total amount paid for a single Letšeng diamond to date
- Polished sales through the manufacturing division contributed additional revenue of US$2.0 million
- US$162 average US$ per carat achieved for Ghaghoo production amidst depressed market

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

Sales and marketing

Opportunities

- Maximising revenue through the Group's flexible sales and marketing channels to capitalise on the ever moving rough and polished markets.
- Enhancing the Group's sales and marketing reputation through its respected and transparent tender process as well as marketing and client relationship management.

Challenges

- Understanding and adapting to the uncertain and cautious rough and polished diamond market currently being experienced.
- Staying abreast of the short and medium-term market trends to ensure an optimal marketing channel is selected to maximise revenue for the Group.

The Group's rough diamond production is marketed and sold by Gem Diamonds Marketing Services (Belgium) and Gem Diamonds Marketing Botswana (Botswana). Letšeng's diamonds are viewed and sold in Antwerp while Ghaghoo's diamonds are viewed in both Gaborone and Antwerp and, subject to prevailing market conditions, are sold either through an open tender or direct sale to maximise revenue.

Following viewings by customers in either Antwerp or Gaborone, Gem Diamonds' electronic tender platform allows customers the flexibility to participate in each tender from anywhere in the world. The tender process is managed in an extremely transparent and efficient manner. This, combined with professionalism and focused customer care, has led to a branded Gem Diamonds experience, which has contributed to securing customer loyalty, as well as assisting in achieving highest market-driven prices for the Group's rough diamond production.

Rough diamonds which have been manufactured by Baobab into polished diamonds are sold by Gem Diamonds Marketing Services through direct selling channels to prominent high-end customers.

Operational performance

During the year, the Group continued to build its premium customer base. Currently, the Group has 339 approved and registered customers, up from 105 in 2010. Eight tenders were held during the year, all of which were well attended, with an average of 130 customers attending each tender. The Group continually engages with its customers to better understand their challenges and needs and where possible accommodates these in its marketing strategy (ie the implemented change from 10 to eight Letšeng tenders per annum).

The multiple strategic marketing channels adopted in the sale of Letšeng's high-quality diamonds in 2015 contributed in achieving an average price of US$2 299* per carat in a difficult and challenging diamond market.

An average price of US$162 per carat was achieved for Ghaghoo's production. The downward pressure on prices for the more commercial Ghaghoo production seen in 2015, materially influenced the sales and marketing strategy for these goods. The Ghaghoo production was initially sold on tender at the start of the year but thereafter, as market prices for these types of goods fell, sales were concluded through direct sales, with the aim at all times of maximising the price.

Focus in 2016

- To maintain and enhance our reputation for holding premier tenders for large, high-value diamonds.
- To further understand Ghaghoo's market and maximise the revenue for these diamonds through flexible marketing strategies.
- Further strengthen relationships with clients and enhance partnerships in both the rough and polished markets.
- Develop and retain skilled employees.

Rough diamond analysis and manufacturing

Opportunities

- Use of rapidly developing technology to improve large high-value rough diamond analysis and manufacturing capabilities.

- Increasing revenue through additional analysis and manufacturing of high-value diamonds.

Challenges

- Availability and retention of required skill sets.

- Staying relevant on rapidly developing technological enhancements in the diamond analysis and manufacturing sector.

Baobab Technologies' advanced mapping and analysis of Letšeng's large exceptional rough diamonds supports the Group in analysing and assessing the estimated true value of Letšeng's rough diamonds that are presented for sale on tender or sold through other sales channel. This ensures that robust reserve prices are set for the Group's high-value diamonds at each tender and informs strategic selling, partnering or manufacturing decisions.

To access the highest value for Letšeng's top-quality diamonds, the Group, through Baobab, selectively manufactures some of these high-value rough diamonds and additionally places other exceptional diamonds into strategic partnership arrangements with select clients. Baobab also performs analysis, cutting and polishing of large high value diamonds for third party customers.

Operational performance

During 2015, Baobab Technologies received 218 carats of rough diamonds for manufacturing, with a rough market value of US$1.7 million from Letšeng and continued to cut and polish third-party goods.

Some of the diamonds manufactured during the year were a 61.30 carat diamond, which resulted in four exceptional polished diamonds with a total weight of 21.89 carats (including a 15.12 carat D Flawless, Emerald cut) and a 45.25 carat diamond, which resulted in five exceptional polished diamonds with a total weight of 16.11 carats (including a 10.26 D Flawless, Round cut). Currently in production is a 124 carat Type IIa, D colour diamond. The manufactured diamonds which were sold during the year contributed additional revenue of US$2.1 million to the Group.

Focus in 2016

- Continuing to analyse Letšeng's large, high-value diamonds to ensure a deep understanding of product value on each Letšeng tender.

- Obtaining the best possible polished results for all diamonds manufactured.

- Retention of key staff.

Principal risks and uncertainties

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

Central to Gem Diamonds' approach to risk management is having the right Board and Senior Management team in place, with such members combining extensive experience in diamond mining, corporate governance, assurance management and knowledge of the local operating conditions in Lesotho and Botswana.

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

The Company is continually strengthening its risk management processes to provide informed assurance to the Board in order to assess current objectives. A review of the Group's Internal Audit function resulted in a full-time internal auditor being appointed during 2014, reporting directly to the Audit Committee. The Group Internal Audit function carries out the risk-based audit plan approved by the Audit Committee, to evaluate the effectiveness and contribute to the improvement of risk management controls and governance processes.

Given the long-term nature of the Group's mining operations, risks are unlikely to alter significantly on a yearly basis, however, inevitably the level of risk and the Group's risk appetite could change. The Board and its committees have identified the following key risks. 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. The risks are actively monitored and managed as detailed below in no order of priority.

The KPIs, which are grouped into the Growth, Value Creation and Sustainability of the Group's strategy on pages 12 to 15, are linked to the risks below.

Description and impact	Mitigation	2015 actions and outcomes	KPIs affected
Market risks			
Rough diamond prices			
• Numerous factors beyond the control of the Group may affect the price and demand for diamonds. These factors include international economic and political trends, global diamond production levels, synthetic diamonds and consumer trends. • The funding of growth plans could also be adversely affected by cash constraints resulting from negative market conditions.	• Market conditions are continually monitored to identify trends that pose a threat or create 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 in place to monitor cash and capital projects expenditure.	• The market for both rough and polished diamonds was constrained during 2015, with diamond indices showing a decrease in the average diamond prices across all diamond producers in excess of 19%. • Letšeng's high value diamond prices remained resilient increasing by 3% compared to the reserve price estimates set at 1 January 2015. The diamond damage reduction and security initiatives, through the completion of the Coarse Recovery Plant during the year, further contributed to this positive outcome. • During the year the price per carat achieved for the Ghaghoo production decreased from US$210 per carat in February to US$150 per carat in December. Based on this decline and the depressed state of the rough diamond market for Ghaghoo's production, various options were reviewed with the aim of minimising the cash to be consumed by this asset. It was considered prudent to downsize the production level in 2016. • The Group has maintained a robust balance sheet with net cash of US$55.3 million at 31 December 2015, together with existing undrawn facilities of US$51.1 million at the date of this report.	• Growth

Description and impact	Mitigation	2015 actions and outcomes	KPIs affected
Operational risks			
Mineral resource risk			
• The Group's mineral resources influence the operational mine plans and the generation of sufficient margins. Underperformance of 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.	• In order to better define the Letšeng orebody, ahead-of-face drilling and discrete production sampling programmes initiated in previous years continued in 2015. In addition, micro diamond sample analysis which aims to predict grades at depth was also conducted during the year. The outcomes of these programmes will be used to update resource models. • Development at Ghaghoo was limited to mapping of the geology for the underground tunnels. Increased production levels during the ramp-up phase resulted in 91 499 carats being recovered during the year, improving the understanding of the VKSE phase of the orebody. As mining continues, more data will become available to further understand the resource and develop the value in the reserve.	• Growth; • Value creation
A major production interruption			
• The Group may experience material mine and/or plant shutdowns or periods of decreased production due to a number of events. Any such event could negatively influence the Group's operations and impact both profitability and cash flows.	• The Group continually reviews the likelihood and consequence of different possible events and ensures that the appropriate management controls, processes and business continuity plans are in place to immediately mitigate risk.	• Letšeng sources its power through the Lesotho Electricity Corporation, which in turn sources its power from the South African electricity provider, Eskom. Eskom has had challenges in providing consistent power in South Africa and neighbouring dependent states. In light of this, improvements in power supply monitoring, and the provision of additional backup power supply were undertaken at Letšeng during the previous year, to minimise the impact of lengthy outages. During 2015, Eskom's downtime did not materialise to the extent expected and as such Letšeng experienced less than 88 hours of power outages, of which 64 hours were countered with backup power. • The fissure which caused water ingress at Ghaghoo during 2014 was sealed in 2015 and improved methodologies have been established to ensure sudden water ingresses do not occur in future. • In November 2015, premature caving at the end of tunnels 2 and 3 at the Ghaghoo mine propagated through to the surface, resulting in an influx of sand. There was no prolonged production interruption and a buffer zone was created to reduce the risk of sand dilution. A revised draw control regime has also been implemented to mitigate further risk. • Ghaghoo has a single access tunnel to the underground workings which remains a risk, however frequent and precise monitoring of the access tunnel condition is performed.	• Growth; • Value creation; • Sustainability

Operational risks (continued)

Diamond theft

• Theft is an inherent risk factor in the diamond industry.	• Security measures are constantly reviewed in order to minimise this risk.	• The new Coarse Recovery Plant incorporates enhanced security features and was completed during 2015. The full benefits of the security features are being continually assessed.	• Growth

Diamond damage

• Letšeng's valuable Type II diamonds are highly susceptible to damage during the mining and recovery process and to reduce such damage creates potential upside for the Group.	• Diamond damage is continually monitored and analysed. Studies are conducted to identify further modifications and opportunities to reduce such damage.	• Building on the success of the new crushers installed in 2013, the Plant 2 Phase 1 upgrade with the aim of reducing diamond damage, was completed during the first quarter of 2015. Following the completion of the upgrade, higher production levels were achieved, particularly in the last quarter of the year. During the year, a record 11 diamonds greater than 100 carats were recovered.	• Growth; • Value creation

Expansion

• The Group's growth strategy is based on delivery of expansion projects, premised on various studies, cost trends and future market assumptions. In assessing the viability, cost and implementation of these projects, risks concerning cost overruns and/or delays may affect the implementation and execution thereof.	• Project governance structures have been applied to ensure 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.	• At Letšeng, the new Coarse Recovery Plant and Plant 2 Phase 1 upgrade projects were completed on schedule and within budget. • Downsizing the production rate at Ghaghoo during 2016, necessitated by the current adverse pricing achieved for its production, will reduce cash consumed in the current market. Options are being assessed to expand the operation in order to achieve acceptable financial returns as and when the diamond prices improve.	• Growth; • Value creation

Operational risks (continued)

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, and monitor compliance throughout the various operations within the Group. This is overseen by the HSSE Committee on behalf of the Board. • Further to this, the Group engages independent third parties to advise and provide assurance on current operational compliance with HSSE policies. • The Group actively participates and invests in corporate social initiatives and the involvement of members of the project-affected communities (PACs) who sit on the respective corporate social investment (CSI) committees is critical to the success thereof.	• The Group continues to strive towards its goal of zero harm to its people and environment by operating within its sustainable development framework. • The Group recorded a fatality and LTI-free year. • Letšeng and Ghaghoo maintained their five-star and four-star ratings respectively for their external HSSE audits. In addition, precautionary measures at Ghaghoo ensured that no injuries occurred during the premature caving event. • Letšeng received ISO14001 and OHSAS18001 certification during the year. • Corporate social investment into the Group's PACs continued throughout the year.	• Sustainability
Country and political risks • The political environments of the various jurisdictions that the Group operates within may adversely impact our ability to operate effectively and profitably. Emerging market economies are generally subject to greater risks, including regulatory and political risk, and can be exposed to a rapidly changing environment.	• 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 build relationships and to remain well informed of all legal and regulatory developments impacting its operations.	• The Group continually monitors political risk procedures to mitigate the impact of any unrest. There were no strikes or lockouts during the year across the Group. • Numerous initiatives in promoting relationships were undertaken during the year and in November 2015 the Group, jointly with the Lesotho Government, attended the Commonwealth Conference in Malta to promote investment in Lesotho.	• Growth; • Sustainability

Operational risks (continued)

Retention of key personnel and skills shortages			
• The success of the Group's objectives and sustainable growth depends on its ability to attract and retain key suitably qualified and experienced personnel, especially in an environment and industry where skills shortages are prevalent and in jurisdictions where localisation policies exist.	• The Group regularly reviews human resources practices, which are designed to identify areas of skill shortages, and actions such development programmes to mitigate such risks. In addition, these programmes are designed to attract, incentivise and retain individuals of the appropriate calibre through performance-based bonus schemes and long-term reward and retention schemes.	• Intensified efforts contribute to the development of 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 employee upskilling.	• Growth; • Value creation; • Sustainability

Financial risks

Currency			
• The Group receives its revenue in US dollars, while its cost base is incurred in local currencies of the various countries within which it operates. The volatility of these currencies trading against the US dollar impacts 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 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 significantly against the US dollar during the year. This has positively impacted the Group's results. • A number of foreign exchange hedging contracts were entered into during the year to take advantage of the weakened currencies where appropriate.	• Growth; • Value creation

Viability statement

In accordance with the revised UK Corporate Governance Code, the Board has assessed the viability of the Group far beyond the 12 months from the approval of the financial statements. The Board concluded that the most relevant time period for this assessment is a three-year period from the approval of the financial statements, taking into account the Group's current position and the potential impact of the principal risks that could impact the viability of the Group as outlined on pages 16 and 20. This period also coincides with the Group's business and strategic planning period, which is an annual review of the three-year plan, led by the CEO and involving all relevant functions including operations, sales and marketing, financial, treasury and risk. The Board actively participates in the annual review process by means of structured board meetings and annual strategy sessions. A three-year period gives management and the Board sufficient and realistic visibility in the context of the industry environment of the Group.

The Group's focus is on organic growth, with particular emphasis on enhancing efficiencies and optimising expansion plans at its flagship Letšeng operation. Similarly, the ramping up of production at the Ghaghoo mine remains a key objective, albeit at a slower rate in the current challenging diamond market conditions, in order to reduce cash outflow.

For the purpose of assessing the Group's viability, the Board focused their attention on the more critical principal risks. Although the business and strategic plan reflects the Board's best estimate of the future prospects of the Group, they have also tested the potential impact on the Group of a number of scenarios over and above those included in the plan, by quantifying their financial impact and overlaying this on the detailed financial forecasts in the plan.

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

- a significant decrease in forecast rough diamond prices; and
- a significant appreciation of local currencies to the US dollar.

The results of this stress testing showed that, due to the stability and cash-generating nature of the Group's core asset, Letšeng, along with the strong net cash position of US$55.3 million as at 31 December 2015 and available standby facilities of US$51.1 million, the Group would be able to withstand the impact of these scenarios occurring over the three-year period by making adjustments to its operating plans within the normal course of business.

Based on their robust assessment of the principal risks, prospects and viability of the Group, the Board confirms that they have reasonable expectation that the Group will be able to continue operation and meet its liabilities as they fall due over the three-year period ending March 2019.

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

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

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

Preparation of the financial statements

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

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

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

The Directors confirm that the financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit 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 the Companies Act 2006, in particular the requirements of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 of the United Kingdom pertaining to Directors' remuneration which would otherwise only apply to companies incorporated in the UK.

Michael Michael
Chief Financial Officer

14 March 2016

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

This report is made solely to the Company's members, as a body, in accordance with the terms of our engagement letter dated 4 March 2016.

Our opinion on financial statements

In our opinion:

- the financial statements of Gem Diamonds Limited (the Group) give a true and fair view of the state of the Group's affairs as at 31 December 2015 and of its profit for the year then ended; and
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRS).

Opinion on other matters requested by the Group

In our opinion:

- the information given in the Corporate Governance Statement set out on page 62 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 information given in the Directors' Report and the Strategic Report is consistent with the Group financial statements; and
- the part of the Directors' Remuneration Report audited has been properly prepared in accordance with the basis of preparation as described therein.

What we have audited

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

Consolidated statement of financial position as at 31 December 2015

Consolidated income statement for the year then ended

Consolidated statement of comprehensive income for the year then ended

Consolidated statement of changes in equity for the year then ended

Consolidated statement of cash flows for the year then ended

Related notes 1 to 28 to the financial statements

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

Overview of our audit approach

Risks of material misstatement	• Revenue recognition • Key judgements relating to the production start date of the Ghaghoo mine • Assessing the Ghaghoo development asset for impairment
Audit scope	• We performed an audit of the complete financial information of four components and audit procedures on specific balances for a further five components. • The components where we performed full or specific audit procedures accounted for 99% of pre-tax profit, 100% of revenue and 97% of total assets.
Materiality	• Overall Group materiality of US$5.4 million which represents 5% of pre-tax profit.

Our assessment of risk of material misstatement

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual areas.

Risk	Our response to the risk	What we concluded to the Audit Committee
Revenue recognition		
Refer to the Audit Committee Report; Note 1.2.23; and Note 2 of the Annual Financial Statements		
The Group recognised revenue of US$249.5 million in the year (2014: US$270.8 million). Diamonds are sold through the following revenue streams: • Rough diamonds sold on tender; • Selected diamonds sold through partnership arrangements; • Diamonds sold through joint operation 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 stone. Judgement is involved in determining when the risks and rewards of ownership transfer on rough diamond sales and also on the polished stone margin component. During the year, the Group entered into joint operation arrangements and therefore management undertook a review of this new revenue recognition practice and has updated its revenue policy as set out in Note 1.2.23. For diamonds extracted for purposes of own manufacturing, there is a risk related to the completeness of sales recognised through the extraction process in light of the polishing losses that result from the manufacturing process.	The component audit teams based in Belgium, Botswana, and Lesotho, with close oversight from the primary audit team performed procedures as follows: • We considered all diamond revenue streams as significant, and therefore, identified and observed controls around the revenue process in understanding management's internal processes and the control environment. • We verified 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 and joint operation arrangements, we assessed and challenged as to when the risks and rewards transferred. We verified this to supporting agreements and documents; and • 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. The primary audit team: • Evaluated the revenue recognition policy established for joint operation arrangements with respect to appropriateness and compliance with IFRS. • We performed full and specific scope audit procedures over revenue in three locations, which covered 100% of the risk amount.	Following our audit procedures on the underlying fact patterns and the analysis supporting management's conclusions, we agreed with the revenue recognition policy applied to the joint operation arrangements. We concluded that revenue recognised in the year is correct on the basis of our procedures performed both at group and by component audit teams.

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

Refer to the Audit Committee Report and Note 1.2.26 and Note 8 of the Annual Financial Statements

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

Management determined that the Ghaghoo mine had not reached operations as intended by management in 2015 and was still in the development stage based on an assessment of key judgements and activity to date, including:

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

The primary audit team performed audit procedures related to this risk as follows:

- We challenged management's assessment that the development phase continued throughout 2015, including our assessment of the key judgements applied through comparison to our findings from other areas of our audit and the underlying fact patterns.
- We assessed whether the production start date policy is appropriate and in accordance with IFRS and industry practice, including the adequacy of disclosures in the financial statements.
- 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.

Based on our evaluation of the development progress at the Ghaghoo mine and management's technical analysis, we agreed that the mine has yet to reach the production start date for accounting purposes.

Through the audit testing performed by the component audit team, we concluded that the amount capitalised in the year to the Ghaghoo mine asset is appropriate.

Assessing the Ghaghoo development asset for impairment

Refer to the Audit Committee Report and Note 1.2.26 and Note 8 of the Annual Financial Statements

We focused on this area due to the size of the Ghaghoo development asset of US$139.0 million (2014: US$112.2 million) and because of the judgements and estimates involved related to the expected future performance of the mine.

In light of the low prices achieved to date and the increasing asset value, management considers these factors to have triggered an impairment test.

The primary audit team performed audit procedures on the Ghaghoo mine valuation model as follows:

- We tested the methodology applied in the value-in-use calculation as compared to the requirements of IAS 36, Impairment of Assets, and the mathematical accuracy of management's model.
- We obtained an understanding of and assessed the basis for key underlying assumptions in the mine's business plan. We challenged management's cash flows forecasting by considering evidence available to support assumptions for reasonableness.
- We used EY internal valuations specialists to evaluate management's price and discount rate assumptions and performed sensitivity testing on these key assumptions.
- We discussed with management, including operations personnel, and understood the future mine plan for the Ghaghoo asset in order to verify the reasonableness of assumptions in the valuation model; and
- We considered the adequacy of the Group's disclosures in respect to the Ghaghoo impairment test within the critical accounting estimates and judgements within Note 1.

Following the audit procedures performed, it is evident that management's valuation model is highly sensitive to slight changes in the pricing and discount rate assumptions.

We concluded that the result of the impairment test for the Ghaghoo development asset is complete and accurate and that the carrying value presented at 31 December 2015 is materially correct.

In the prior year, our Auditor's Report included a risk of material misstatement in relation to impairment of property, plant and equipment and goodwill.

In the current year, we have continued to audit the Group's goodwill impairment test, and in light of the significant calculated headroom of US$342 million, we did not consider this to be a risk of material misstatement for our 2015 audit.

With respect to the risk of impairment of property, plant and equipment, we have focused our work in the current year on the risk of impairment on the Ghaghoo development asset.

The scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of group-wide controls, changes in the business environment and other factors when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 19 reporting components of the Group, we selected 15 components covering entities within Belgium, Botswana, Lesotho, Mauritius, South Africa, United Arab Emirates, and the United Kingdom, which represent the principal business units within the Group.

Of the 15 components selected, we performed an audit of the complete financial information of four components ('full scope components') which were selected based on their size or risk characteristics. For five components ('specific scope components'), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 99% (2014: 99%) of the Group's pre-tax profit, 100% (2014: 100%) of the Group's revenue and 97% (2014: 98%) of the Group's total assets. For the current year, the full scope components contributed 98% (2014: 98%) of the Group's pre-tax profit, 98% (2014: 98%) of the Group's revenue and 95% (2014: 71%) of the Group's total assets. The specific scope components contributed 1% (2014: 1%) of the Group's pre-tax profit, 2% (2014: 2%) of the Group's revenue and 2% (2014: 27%) of the Group's total assets. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

Of the remaining six components that together represent 1% of the Group's pre-tax profit, we performed other procedures, including analytical reviews, testing of consolidation journals and intercompany eliminations, and assessing entity level controls to respond to any potential risks of material misstatement to the Group financial statements.

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

Changes from the prior year

Our scope allocation in the current year is broadly consistent with 2014 in terms of overall coverage of the Group; however, we did make some changes in the identity of components subject to full and specific scope audit procedures. Changes in our scope since the 2014 audit included moving the Ghaghoo mine in Botswana from a specific scope to a full audit scope component due to the risks of material misstatement we identified for the location. We also brought the Mauritius operations into scope as a specific scope component in light of the Group's disposal of this business during the year.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. For the four full scope components, audit procedures were performed on two of these directly by the primary audit team and by our component audit teams in Botswana and Lesotho. For the five specific scope components, audit procedures were performed on two of these directly by the primary audit team. Of the three specific scope components where the work was performed by component auditors, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

The Group audit team continued to follow a programme of planned visits that has been designed to ensure that the Senior Statutory Auditor visits each of the full scope locations at least once a year. During the current year's audit cycle, visits were undertaken by the primary audit team to the component teams in Belgium, Botswana, Lesotho and South Africa. The Global Team Planning Event was held in South Africa with representatives of the components from Botswana, Lesotho and South Africa all attending. The primary audit team also held a separate Team Planning Event with the component audit team in Belgium. Dependent on the timing of our visits, these involved discussion of the audit approach with the component team and any issues arising from their work, consideration of the approach to revenue recognition, and meeting with local management. The primary team interacted regularly with the component teams where appropriate during various stages of the audit, reviewed key working papers, attended audit closing meetings, including discussions of fraud and error, and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality	US$5.4 million
Performance materiality	US$2.7 million
Reporting threshold	US$0.2 million

Materiality
The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be US$5.4 million (2014: US$4.7 million), which is 5% (2014: 5%) of pre-tax profit. We consider pre-tax profit provides us with the most relevant performance measure to the stakeholders of the entity given the production stage of the Group's Letšeng mine. Our planning materiality has increased by 15% compared to 2014 given the higher pre-tax profit recognised by the Group in 2015.

During the course of our audit, we reassessed initial materiality and changed our final materiality to reflect the actual reported performance of the Group in the year.

Performance materiality
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2014: 50%) of our planning materiality, namely US$2.7 million (2014: US$2.3 million). We have set performance materiality at this percentage due to our past experience of the audit.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was US$0.4 million to US$1.4 million (2014: US$0.4 million to US$1.6 million).

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

We have agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of US$0.2 million (2014: US$0.2 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

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.

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 102, the directors are responsible for the preparation of the 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 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 as to whether 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;
- report whether the information given in the Directors' Report and the Strategic Report is consistent with the Group financial statements;

- report whether 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.

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.

Matters on which we are required to report by exception

ISAs (UK and Ireland) reporting	We are required to report to you if, in our opinion, financial and non-financial 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 • otherwise misleading. In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the directors' statement that they consider the Annual Report and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy; and whether the annual report appropriately addresses those matters that we communicated to the Audit Committee that we consider should have been disclosed.	We have no exceptions to report.
Engagement letter requirements	The Company has instructed us to report, whether in our opinion: • adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or • the financial statements are not in agreement with the accounting records and returns; or • we have not received all the information and explanations we require for our audit; or • a Corporate Governance statement has not been prepared by the Company.	We have no exceptions to report.
Listing Rules review requirements	We are required to review: • the directors' statement in relation to going concern and longer-term viability, set out on page 98. This statement is specified for review by the Listing Rules of the Financial Conduct Authority for premium listed UK incorporated companies. • the part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.	We have no exceptions to report.

Statement on the directors' assessment of the principal risks that would threaten the solvency or liquidity of the entity

ISAs (UK and Ireland) reporting	We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to: • the directors' confirmation in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity; • the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated; • the directors' statement in the financial statements about whether they considered it appropriate to adopt the going-concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements; and • the directors' explanation in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Mirco Bardella
Senior Statutory Auditor
For and on behalf of Ernst & Young LLP
London

14 March 2016

Consolidated Income Statement
for the year ended 31 December 2015

	Notes	**2015 US$'000 Before exceptional items**	**2015 US$'000 Exceptional Items**	**2015 US$'000 Total**	2014* US$'000 Total
CONTINUING OPERATIONS					
Revenue	2	**249 475**	**–**	**249 475**	270 838
Cost of sales		**(122 483)**	**–**	**(122 483)**	(142 360)
Gross profit		**126 992**	**–**	**126 992**	128 478
Other operating income	3	**458**	**8 126**	**8 584**	134
Royalties and selling costs		**(21 929)**	**–**	**(21 929)**	(24 692)
Corporate expenses		**(11 941)**	**–**	**(11 941)**	(12 628)
Share-based payments	25	**(1 738)**	**–**	**(1 738)**	(1 740)
Foreign exchange gain	3	**6 997**	**1 472**	**8 469**	5 616
Operating profit	3	**98 839**	**9 598**	**108 437**	95 168
Net finance income	4	**120**	**–**	**120**	219
Finance income		**1 505**	**–**	**1 505**	3 430
Finance costs		**(1 385)**	**–**	**(1 385)**	(3 211)
Profit before tax for the year from continuing operations		**98 959**	**9 598**	**108 557**	95 387
Income tax expense	5	**(31 553)**	**–**	**(31 553)**	(35 005)
Profit for the year from continuing operations		**67 406**	**9 598**	**77 004**	60 382
DISCONTINUED OPERATION					
Profit/(loss) after tax for the year from discontinued operation	6	**–**	**668**	**668**	(2 435)
Profit for the year		**67 406**	**10 266**	**77 672**	57 947
Attributable to:					
Equity holders of parent		**41 759**	**10 266**	**52 025**	33 217
Non-controlling interests		**25 647**	**–**	**25 647**	24 730
Earnings per share (cents)	7				
– Basic earnings for the year attributable to ordinary equity holders of the parent		**30.2**	**7.4**	**37.6**	24.0
– Diluted earnings for the year attributable to ordinary equity holders of the parent		**29.9**	**7.3**	**37.2**	23.9

** The prior year figures have been restated for the reclassification impact of accounting for the discontinued operation (refer to Note 6, Disposal of subsidiary).*

Consolidated Statement of Comprehensive Income

	2015 US$'000	2014 US$'000
Profit for the year	**77 672**	57 947
Other comprehensive income that could be reclassified to the income statement in subsequent periods		
Exchange differences on translation of foreign operations	**(81 601)**	(37 307)
Recycling of exchange differences on discontinued operation	**(988)**	–
Other comprehensive (expense)/income for the year, net of tax	**(82 589)**	(37 307)
Total comprehensive (expense)/income for the year	**(4 917)**	20 640
Attributable to:		
Equity holders of the parent	**(15 586)**	2 908
Non-controlling interests	**10 669**	17 732
Total comprehensive (expense)/ income for the year, net of tax	**(4 917)**	20 640

Consolidated Statement of Financial Position
as at 31 December 2015

	Notes	**2015** **US$'000**	2014 US$'000
Assets			
Non-current assets			
Property, plant and equipment	8	**339 367**	374 927
Investment property	9	**615**	615
Intangible assets	10	**13 510**	18 181
Receivables and other assets	12	**2 218**	2 877
Other financial assets		**4**	10
		355 714	396 610
Current assets			
Inventories	13	**30 288**	28 770
Receivables and other assets	12	**5 827**	7 598
Other financial assets		**6**	4
Income tax receivable		**269**	353
Cash and short-term deposits	14	**85 719**	110 738
		122 109	147 463
Total assets		**477 823**	544 073
Equity and liabilities			
Equity attributable to equity holders of the parent			
Issued capital	15	**1 383**	1 383
Share premium		**885 648**	885 648
Treasury shares[1]		**(1)**	(1)
Other reserves	15	**(163 420)**	(97 753)
Accumulated losses		**(439 764)**	(484 874)
		283 846	304 403
Non-controlling interests		**59 923**	61 014
Total equity		**343 769**	365 417

Non-current liabilities			
Interest-bearing loans and borrowings	16	**25 082**	7 261
Trade and other payables	17	**1 138**	1 274
Provisions	18	**12 473**	19 543
Deferred tax liabilities	20	**50 385**	57 467
		89 078	85 545
Current liabilities			
Interest-bearing loans and borrowings	16	**5 339**	29 841
Other financial liabilities	19	**–**	249
Trade and other payables	17	**32 228**	43 711
Income tax payable		**7 409**	19 310
		44 976	93 111
Total liabilities		**134 054**	178 656
Total equity and liabilities		**477 823**	544 073

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

Approved by the Board of Directors on 14 March 2016 and signed on their behalf by:

CT Elphick **M Michael**

Director Director

Consolidated Statement of Changes in Equity

	Issued capital[1] US$'000	Share premium[1] US$'000	Own shares[2] US$'000	Other reserves[1] US$'000	Accumulated (losses)/ retained earnings US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
				Attributable to the equity holders of the parent				
Balance at 1 January 2015	**1 383**	**885 648**	**(1)**	**(97 753)**	**(484 874)**	**304 403**	**61 014**	**365 417**
Profit for the year	**–**	**–**	**–**	**–**	**52 025**	**52 025**	**25 647**	**77 672**
Other comprehensive expense	**–**	**–**	**–**	**(67 611)**	**–**	**(67 611)**	**(14 978)**	**(82 589)**
Total comprehensive income/(expense)	**–**	**–**	**–**	**(67 611)**	**52 025**	**(15 586)**	**10 669**	**(4 917)**
Share-based payments (Note 25)	**–**	**–**	**–**	**1 944**	**–**	**1 944**	**–**	**1 944**
Dividends paid	**–**	**–**	**–**	**–**	**(6 915)**	**(6 915)**	**(11 760)**	**(18 675)**
Balance at 31 December 2015	**1 383**	**885 648**	**(1)**	**(163 420)**	**(439 764)**	**283 846**	**59 923**	**343 769**
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 25)	–	–	–	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

[1] *Refer to Note 15, Issued capital and reserves, for further detail.*

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

Consolidated Statement of Cash Flows
for the year ended 31 December 2015

	Notes	**2015 US$'000**	2014 US$'000
Cash flows from operating activities		**119 103**	133 736
Cash generated by operations	21.1	**155 257**	153 577
Working capital adjustments	21.2	**(3 769)**	59
		151 488	153 636
Interest received		**1 762**	2 575
Interest paid		**(417)**	(521)
Income tax paid		**(33 730)**	(21 954)
Cash flows used in investing activities		**(109 605)**	(101 301)
Purchase of property, plant and equipment		**(48 562)**	(47 364)
Waste cost capitalised		**(61 416)**	(53 996)
Proceeds from sale of property, plant and equipment		**407**	59
Cash disposed of from disposal of subsidiary	21.3	**(34)**	–
Cash flows (used in)/from financing activities		**(23 057)**	10 309
Financial liabilities (repaid) / raised		**(4 384)**	37 906
Dividends paid to holders of the parent		**(6 913)**	–
Dividends paid to non-controlling interests		**(11 760)**	(27 597)
Net (decrease)/increase in cash and cash equivalents		**(13 559)**	42 744
Cash and cash equivalents at beginning of the year - continuing operations		**110 704**	71 140
Cash and cash equivalents at beginning of the year - discontinuing operation		**34**	38
Foreign exchange differences		**(11 460)**	(3 184)
Cash and cash equivalents at the end of the year held at banks		**83 165**	110 541
Restricted cash at the end of the year		**2 554**	163
Add: cash and equivalents of discontinued operation at end of year		**–**	34
Cash and cash equivalents at the end of the year	14	**85 719**	110 738

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 BVI. The Company's registration number is 669758.

These financial statements were authorised for issue by the Board on 14 March 2016.

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 2015:

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 Gem Diamonds Marketing 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) Limited3, Gem Diamonds Technology DMCC and Calibrated Diamonds Investment Holdings (Proprietary) Limited; 99.9% in Gem Diamonds Marketing Botswana (Proprietary) Limited; 99% in Baobab Technologies BVBA; and 98% in Gem Diamonds Marketing Services BVBA, a marketing company that sells the Group's diamonds on tender in Antwerp.

[1] The cost of investment represents original cost of investments at acquisition dates.
[2] No change in the shareholding since the prior year.
[3] On 30 June 2015 the Group sold the manufacturing facility in Gem Diamonds Technology (Mauritius) Limited. As a result, the trading results of the operation have been classified as part of discontinued operations (refer to Note 6, Disposal of subsidiary).

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);
- BVI, RSA and UK (technical and administrative services); and
- Mauritius (manufacturing of diamonds) – disposed of during the year.

The Mauritius operation, which was disposed of during the year, was previously aggregated with the Belgium operations into one operating segment, as management monitored these two operations as one, due to the similarity of their services provided.

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

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, and asset and liability information from operations regarding the Group's geographical segments:

Year ended 31 December 2015	Lesotho US$'000	Botswana US$'000	Belgium US$'000	BVI, RSA and UK US$'000	Total conti-nuing opera-tions	Discon-tinued opera-tion	Total US$'000
Revenue							
Total revenue	**236 357**	**–**	**263 490**	**9 788**	**509 635**	**85**	**509 720**
Inter-segment	**(235 183)**	**–**	**(15 696)**	**(9 281)**	**(260 160)**	**–**	**(260 160)**
External Customers	**1 174**	**–**	**247 794**	**507**[1]	**249 475**	**85**	**249 560**
Depreciation and amortisation	**56 497**	**–**	**615**	**362**	**57 474**	**117**	**57 591**
Depreciation and mining asset amortisation	**9 275**	**–**	**615**	**362**	**10 252**	**117**	**10 369**
Waste stripping cost amortisation	**47 222**	**–**	**–**	**–**	**47 222**	**–**	**47 222**
Share-based equity transactions	**489**	**–**	**–**	**1 249**	**1 738**	**–**	**1 738**
Segment operating profit/(loss)	**113 998**	**(1 864)**	**(1 281)**	**(2 416)**	**108 437**	**(1 002)**	**107 435**
Net finance income					**120**	**–**	**120**
Profit/(loss) before tax					**108 557**	**(1 002)**	**107 555**
Income tax expense					**(31 553)**	**–**	**(31 553)**
Gain on disposal of subsidiary					**–**	**1 670**	**1 670**
Profit for the year					**77 004**	**668**	**77 672**
Segment assets	**278 570**	**158 399**	**7 938**	**32 916**	**477 823**	**426**	**478 249**
Segment liabilities	**44 426**	**35 105**	**1 123**	**3 015**	**83 669**	**758**	**84 427**
Other segment information						**–**	**–**
Capital expenditure							
- Property, plant and equipment2	**10 206**	**19 871**	**374**	**2 337**	**32 788**	**–**	**32 788**
- Waste cost capitalised	**61 416**	**–**	**–**	**–**	**61 416**	**–**	**61 416**
- Operating expenses capitalised	**–**	**14 260**	**–**	**–**	**14 260**		**14 260**
Total capital expenditure	**71 622**	**34 131**	**374**	**2 337**	**108 464**	**–**	**108 464**

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

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

Included in annual revenue for the current year is revenue from a single customer which amounted to US$46.7 million arising from sales reported in the Lesotho and Belgium segment.

Segment liabilities do not include deferred tax liabilities of US$50.4 million.

Total sales for the current year are lower than that of the prior year mainly as a result of the current market conditions and lower diamond prices achieved at the Lesotho segment, together with lower number of carats sold due to production cut-off periods.

Year ended 31 December 2014	Lesotho US$'000	Botswana US$'000	Belgium US$'000	BVI, RSA and UK US$'000	Total conti-nuing opera-tions	Discon-tinued opera-tions	Total US$'000
Revenue							
Total revenue	277 908	–	272 169	8 877	558 954	52	559 006
Inter-segment	(276 429)	–	(3 141)	(8 546)	(288 116)	–	(288 116)
External customers	1 479	–	269 028	331[1]	270 838	52	270 890
Results							
Depreciation and amortisation	62 800	–	719	607	64 126	344	64 470
Depreciation and mining asset amortisation	13 488	–	719	607	14 814	344	15 158
Waste stripping cost amortised	49 312	–	–	–	49 312	–	49 312
Share-based equity transactions	488	–	–	1 252	1 740	–	1 740
Segment operating profit/(loss)	107 527	(75)	480	(12 764)	95 168	(2 457)	92 711
Net finance income					219	–	219
Profit before tax					95 387	(2 457)	92 930
Income tax expense					(35 005)	22	(34 983)
Profit for the year					60 382	(2 435)	57 947
Segment assets	321 464	139 987	6 552	75 192	543 195	878	544 073
Segment liabilities	68 212	9 304	939	42 705	121 160	29	121 189
Other segment information							
Capital expenditure							
– Property, plant and equipment2	7 720	42 086	92	40	49 938	–	49 938
– Waste cost capitalised	51 484	–	–	–	51 484	–	51 484
Total capital expenditure	59 204	42 086	92	40	101 422	–	101 422

[1] No revenue was generated in BVI.

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

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

1.2 Summary of significant accounting policies

1.2.1 Basis of presentation

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS). These financial statements have been prepared under the historical cost basis. 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 2015:

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.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions
IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. This amendment is not relevant to the Group, since none of the entities within the Group have defined benefit plans with contributions from employees or third parties.

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 16	*Leases*	The new standard requires lessees to recognise assets and liabilities on their balance sheets for most leases, many of which may have been off balance sheet in the past. The Group will assess the impact prior to effective date.	1 January 2019
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.	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 Amortisation*	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 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.	1 January 2016
IFRS 10, IFRS 12 and IAS 28	*Applying the Consolidation Exception Amendments*	The amendments to IFRS 10 clarify that the exemption in IFRS 10.4 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures its subsidiaries at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. The Group is still currently assessing the impact.	1 January 2016
IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. The Group is still currently assessing the impact.	1 January 2016

IFRS 11	*Accounting for Acquisitions of interest in Joint Operations*	The amendments require an entity acquiring an interest in a joint operation, in which the activity of the joint operation constitutes a business, to apply, to the extent of its share, all of the principles and disclosure in IFRS 3 and other IFRS that do not conflict with the requirements of IFRS 11. The Group is still currently assessing the impact.	1 January 2016
IAS 27	*Equity Method in Separate Financial Statements*	The amendments to IAS 27 allow an entity to use the equity method as described in IAS 28 to account for its investments in subsidiaries, joint ventures and associates in its separate financial statements. Therefore, an entity must account for these investments either at cost or in accordance with IFRS 9 (or IAS 39) or using the equity method. The Group is still currently assessing the impact.	1 January 2016

**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 36 to 41 and pages 46 to 48. The financial position of the Company, its cash flows and liquidity position are described in the Strategic Review on pages 30 to 33. In addition, Note 24, Financial risk management, includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

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

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

Refer to Note 24, 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 diamond prices 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 following criteria must be met, being:

(a) an investor has power over an investee;

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

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

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

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

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

1.2.4 Exploration and evaluation expenditure

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

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

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

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

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

1.2.5 Development expenditure

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

All development expenditure is monitored for indicators of impairment annually.

1.2.6 Property, plant and equipment

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

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

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

Item	Method	Useful life
Mining assets	Straight line	Lesser of life of mine or period of lease
Decommissioning assets	Straight line	Lesser of life of mine or period of lease
Leasehold improvements	Straight line	Lesser of three years or period of lease
Plant and equipment	Straight line	Three to 10 years
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 ore body) are probable;

(b) the component of the ore body 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 8, Property, plant and equipment. If all the criteria are not met, the production stripping costs are charged to the income statement as operating costs. The stripping activity asset is initially measured at cost, which is the accumulation of costs directly incurred to perform the stripping activity that improves access to the identified component of ore, plus an allocation of directly attributable overhead costs. If incidental operations are occurring at the same time as the production stripping activity, but are not necessary for the production stripping activity to continue as planned, these costs are not included in the cost of the stripping activity asset. If the costs of the stripping activity asset and the inventory produced are not separately identifiable, a relevant production measure is used to allocate the production stripping costs between the inventory produced and the stripping activity asset. The stripping activity asset is subsequently amortised over the expected useful life of the identified component of the orebody that became more accessible as a result of the stripping activity. Based on proven and probable reserves, the expected average stripping ratio over the average life of the area being mined is used to amortise the stripping activity. As a result, the stripping activity asset is carried at cost less amortisation and any impairment losses.

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

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

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

1.2.7 Investment property

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

Item	Method	Useful life
Investment property	No depreciation is provided due to depreciable amount being zero	
Initial direct costs capitalised to investment property	Straight line	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 will 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 CGUs (or groups of CGUs) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which goodwill is allocated shall represent the lowest level within the entity at which the goodwill is monitored for internal management purposes, and shall not be larger than an operating segment before aggregation.

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

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

1.2.9 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.

1.2.12Impairments

Non-financial assets
Assets that are subject to amortisation or depreciation are reviewed for impairment if it is determined that there is an indication of impairment in accordance with IAS 36. Goodwill is assessed for impairment on an annual basis. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Non-financial assets that were previously impaired are reviewed for possible reversal of the impairment at each reporting date.

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

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

Assets carried at amortised cost
If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the

financial asset's original effective interest rate (ie the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in the income statement.

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

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

1.2.13Inventories

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.

1.2.14Cash and cash equivalents

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

For the purpose of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

1.2.15Issued 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.

1.2.16Foreign 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 15, 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.

1.2.17Share-based payments

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

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

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

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

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

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

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

Management applies judgement when determining whether share options relating to employees who resigned before the end of the service condition period are cancelled or forfeited as referred under policy 1.2.26, Critical accounting estimates and judgements.

1.2.18Provisions

Provisions are recognised when:

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

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

1.2.19Restoration and rehabilitation

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

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

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

1.2.20Taxation

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.

1.2.21Employee 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.

1.2.22Leases

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

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

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

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

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

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

Group as a lessee

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

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

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

Group as a lessor

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

1.2.23Revenue

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

Sale of goods
Revenue is 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.

The following revenue streams are recognised:

- rough diamonds which are made through competitive tender processes, partnership agreements and joint operation arrangements;
- polished diamonds and other products which are made through direct sale transactions;
- additional uplift on partnership arrangements; and
- additional uplift joint operation arrangements.

Revenue through joint operation arrangements is recognised for the sale of the rough diamond according to the percentage interest in the joint operation arrangement, as only that percentage of significant risks and rewards pass at the time of sale. Contractual agreements are entered into between the Group and the joint operation partner (Partner) whereby both parties control jointly the cutting and polishing activities relating to the diamond. All decisions pertaining to the cutting and polishing of the diamonds require unanimous consent from both parties. Once these activities are complete, the polished diamond is sold after which the revenue on the remaining percentage of the rough diamond is recognised, together with additional uplift on joint operation arrangement. For more detail on how these arrangements have been included in the financial statements refer to Note 2, Revenue and Note 13, Inventories.

Revenue through partnership arrangements is recognised for the sale of the rough diamond, with an additional uplift based on the polished margin achieved. Management recognises the revenue on the sale of the rough diamond when it is sold to a third party, as there is no continuing involvement by management in the cutting and polishing process and the significant risks and rewards have passed to the third party. For additional uplift on partnership arrangements, certain estimates and judgements are made by management as referred to under policy 1.2.26, 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.

1.2.24Finance 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.

1.2.25Dividend 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.

1.2.26Critical 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. Refer to Note 8, Property, plant and equipment.

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. Refer to Note 8, Property, plant and equipment.

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. Refer to Note 8, Property, plant and equipment.

Revenue – partnership arrangements
Management has entered into partnership 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. 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. Refer to Note 2, Revenue.

Impairment reviews
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.

While conducting an impairment review of its assets using value in use impairment models, the Group exercises judgement in making assumptions about future rough diamond prices, exchange rates, volumes of production, ore reserves and resources included in the current life of mine (LoM) plans, production costs and macroeconomic factors such as inflation and discount rates. Changes in estimates used can result in significant changes to the Consolidated Income Statement and Consolidated Statement of Financial Position.

The Group has performed impairment testing, which is on an annual basis for all significant operations and when there are potential indicators which may require impairment review. The results of the impairment testing performed did not indicate any impairments on the mining operations.

The key assumptions used in the recoverable amount calculations, determined on a value-in-use basis, are listed in the table below:
Valuation basis
Discounted present value of future cash flows.

LoM and recoverable value of reserves and resources
Economically recoverable reserves and resources are based on management's expectations of the availability of

reserves and resources at mine sites and technical studies undertaken by in-house and third party specialists. Reserves remaining after the current LoM plans and current lease periods have not been included in determining the value in use of the operations.

LoM – capital expenditure
Management has estimated the timing and quantum of the capital expenditure based on the Group's current LoM plans for each operation.

Diamond prices
The diamond prices used in the impairment test have been set with reference to recent prices achieved, Group's medium-term forecast and market trends; and long-term diamond price escalation reflect the Group's assessment of market supply/demand fundamentals.

Discount rate
The discount rate of 12.0% used for Letšeng and 13.1% for Ghaghoo, in both instances represents the before-tax risk-free rate adjusted for market risk, volatility and risks specific to the asset and its operating jurisdiction.

Cost inflation rate
Long-term inflation rates of 4% to 6% above the long-term US dollar inflation rate were used for operating costs and capital cost escalators.

Exchange rates
Exchange rates are estimated based on an assessment of current market fundamentals and long-term expectations. The US$/LSL and US$/BWP exchange rate range used commenced at LSL15.50 and BWP11.25 respectively, devaluing over the period in line with economic forecasts provided by independent, third party experts.

Sensitivity
The value in use for Letšeng indicated sufficient headroom, and no reasonable change in the key assumptions will result in an impairment.

The value in use for Ghaghoo exceeded the carrying value, however based on the current prices achieved for the Ghaghoo production; this value does not reflect significant headroom. The diamond prices used in the impairment review have been set with reference to recent achieved prices and market trends. The long-term escalators reflect the Group's assessment of market supply/demand fundamentals, although short-term volatility remains present within the market. Although the value in use exceeds the carrying value, it remains highly sensitive to rough diamond prices and escalation rates.

Market capitalisation
The Group has made a judgement in determining if, in the instance where the Group's asset carrying values, result in an indicator of impairment. The Group believes that the capitalisation position does not represent an impairment as all significant operations were assessed during the year and no impairments were recognised.

Refer to Note 11, 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. Refer to Note 18, Provisions, for further detail.

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. Refer to Note 5, Income tax, for further detail.

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 ore body needs to be identified in its various separately identifiable components. An identifiable component is a specific volume of the ore body 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 ore body 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 ore body, compared to the current period ratio of actual volume (tonnes) of waste to the volume (tonnes) of ore is considered to determine the most suitable production measure.

These judgements and estimates are used to calculate and allocate the production stripping costs to inventory and/or the stripping activity asset(s). Furthermore, judgements and estimates are also used to apply the stripping ratio calculation in determining the amortisation of the stripping activity asset. Refer to Note 8, Property, plant and equipment, for further detail.

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 ore body divided by the number of tonnes expected to be mined. The average life of area stripping ratio and the average life of area cost per tonne are recalculated annually in light of additional knowledge and changes in estimates. Changes in the stripping ratio are accounted for prospectively as a change in estimate. Refer to Note 8, Property, plant and equipment, for further detail.

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 include 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 costs 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.

Refer to Note 8, Property, plant and equipment, for further detail.

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:

- Water ingress from the bassalt fissure which was sealed during the later part of the year, together with continued difficult ground conditions experienced, delayed the anticipated ramp-up in production to steady state levels.
- Inconsistent feed rates to 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 on a sustainable basis 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 8, 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. Refer to Note 25, Share-based payments, for further detail.

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. Refer to Note 3, Operating profit, for further detail.

2. Revenue

	2015 US$'000	2014* US$'000
Sale of goods	**248 969**	269 818
Rendering of services	**506**	1 020
	249 475	270 838

** The prior year figures have been restated for the reclassification impact of accounting for discontinued operations (refer to Note 6, Disposal of subsidiary).*

Included in revenue is sales of rough and polished diamonds sold through joint operation arrangements totalling US$2.2 million and US$0.2 million respectively.

Finance income is reflected in Note 4, Net finance income.

3. Operating profit

	2015 US$'000	2014* US$'000
Operating profit includes the following:		
Other operating income		
Profit on disposal of property, plant and equipment	**251**	49
Depreciation and amortisation		
Depreciation and mining asset amortisation – continuing operations	**(13 057)**	(16 646)
Depreciation – discontinued operation	**(117)**	(345)
Waste stripping costs amortised	**(47 222)**	(49 312)
	(60 396)	(66 303)
Less: Depreciation capitalised to development	**2 738**	1 957
Less: Depreciation and mining asset amortisation capitalised to inventory	**224**	33
	(57 434)	(64 313)
Amortisation of intangible assets	**(157)**	(157)
	(57 591)	(64 470)
Inventories		
Cost of inventories recognised as an expense	**(111 969)**	(129 195)
Exceptional items		
Other operating income	**8 126**	–
Foreign exchange gain	**1 472**	–
	9 598	–

In December 2015, the Company settled an interest-bearing tax liability for an amount less than that previously provided for (refer to Note 17, Trade and other payables), resulting in the reversal of accrued expenses of US$8.1 million. This reversal has been disclosed as other income. In addition, the interest-bearing tax liability was payable in Australian dollars, resulting in a foreign exchange gain of US$1.5 million being recognised in the consolidated financial statements.

Foreign exchange gain		
Foreign exchange gain	**7 314**	5 882
Mark-to-market revaluations on forward exchange contracts	**1 155**	(266)
	8 469	5 616

** The prior year figures have been restated for the reclassification impact of accounting for the discontinued operation (refer to Note 6, Disposal of subsidiary).*

3. **Operating profit (continued)**

	2015 US$'000	2014* US$'000
Operating lease expenses as a lessee		
Mine site property	**(112)**	(90)
Equipment and service leases	**(51 147)**	(39 535)
Contingent rental – Alluvial Ventures	**(11 360)**	(8 489)
Leased premises	**(2 509)**	(2 694)
	(65 128)	(50 808)
Auditor's remuneration – Ernst & Young		
Group financial statements	**(555)**	(443)
Statutory	**(154)**	(172)
	(709)	(615)
Auditor's remuneration – other		
Statutory	**(34)**	(25)
	(34)	(25)
Other non-audit fees – Ernst & Young		
Tax services advisory and consultancy	**(32)**	(13)
Corporate finance services	**–**	–
Tax compliance services	**(17)**	(11)
Other services	**(38)**	(42)
Other assurance services	**(134)**	(151)
	(221)	(217)
Other non-audit fees – other		
Internal audit	**(29)**	(356)
Tax services advisory and consultancy	**(16)**	(101)
	(45)	(457)
Employee benefits expense		
Salaries and wages[1]	**(21 784)**	(20 864)

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

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

Operating profit	**108 437**	95 168
Other operating income	**(8 584)**	(134)
Foreign exchange gain	**(8 469)**	(5 616)
Share-based payments	**1 738**	1 740

Depreciation and mining asset amortisation (excluding waste stripping cost amortised)	**10 424**	14 812
Underlying EBITDA	**103 546**	105 970

** The prior year figures have been restated for the reclassification impact of accounting for the discontinued operation (refer to Note 6, Disposal of subsidiary).*

[1] Includes contributions to defined contribution plan of US$0.6 million (31 December 2014: US$0.8 million).

4. Net finance income

	2015 US$'000	2014 US$'000
Finance income		
Bank deposits	**1 098**	2 575
Other	**407**	855
Total finance income	**1 505**	3 430
Finance costs		
Bank overdraft	**(82)**	(116)
Interest on debt, borrowings and trade and other payables[1]	**(335)**	(2 029)
Finance costs on unwinding of rehabilitation provision	**(968)**	(1 066)
Total finance costs	**(1 385)**	(3 211)
	120	219

[1] Included in interest on debt, borrowings and trade and other payables in the prior year, was a provision for interest on potential tax liabilities which were under dispute. This tax liability was settled during the current year and all interest waived.

5. Income tax

	2015 **US$'000**	2014* US$'000
Income tax expense		
Income statement		
Current		
– Overseas	**(22 209)**	(30 626)
Withholding tax		
– Overseas	**(2 858)**	(6 565)
Deferred		
– Overseas	**(6 486)**	2 186
	(31 553)	(35 005)
Profit before taxation	**108 557**	95 387
Reconciliation of tax rate	**%**	%
Applicable income tax rate	**20.3**	21.5
Permanent differences	**(1.9)**	4.0
Unrecognised deferred tax assets	**3.6**	1.1
Effect of overseas tax at different rates	**4.5**	4.0
Withholding tax	**2.6**	7.1
Effective income tax rate	**29.1**	37.7

** The prior year figures have been restated for the reclassification impact of accounting for the discontinued operation (refer to Note 6, Disposal of subsidiary).*

Included in permanent differences is income from exceptional items. For more information on this refer to Note 3, Operating profit. During the year the UK Corporate Tax Rate changed to 20.3% (2014: 21.5%).

6. Disposal of subsidiary

In 2012, the Group established a small manufacturing facility in Mauritius through Gem Diamonds Technology Mauritius (Proprietary) Limited. On 30 June 2015 the Group sold its manufacturing business. As a result, the trading results of the operation have been classified as part of discontinued operations. The net assets have been derecognised and the subsidiary has therefore been deconsolidated from this date.

The sale was finalised for the agreed purchase price of US$0.4 million, to be paid in quarterly instalments of a minimum of US$50 000 commencing in October 2016. The Group retained a cession over the shares of Gem Diamonds Technology Mauritius (Proprietary) Limited as security for the due, proper and timeous payment of the deferred proceeds. The consideration receivable has been included in non-current and current receivables and other assets (refer to Note 12, Receivables and other assets).

The results of the Mauritius operation are as follows:

	31 December 2015 US$'000	31 December 2014 US$'000
Revenue	**85**	52
Cost of sales and other operating costs	**(443)**	(2 134)
Gross loss	**(358)**	(2 082)
Foreign exchange loss	**(644)**	(375)
Operating loss	**(1 002)**	(2 457)
Gain on disposal of subsidiary	**1 670**	–
Profit/(loss) before tax from discontinued operation	**668**	(2 457)
Income tax expense	**–**	22
Profit/(loss) after tax from discontinued operation	**668**	(2 435)
Earnings/(loss) per share from discontinued operation (cents)		
Basic	**0.48**	(1.76)
Diluted	**0.48**	(1.76)
The net cash flows attributable to the discontinued operation is as follows:		
Operating	**(293)**	(1 855)
Investing	**444**	–
Financing	**(151)**	1 835
Foreign exchange loss on translation cash balance	**(4)**	(3)
Net cash outflow	**(4)**	(23)

The net assets disposed of are as follows:	**31 December 2015 US$'000**
Assets	
Property, plant and equipment	**269**
Inventories	**4**
Trade and other receivables	**119**
Cash and cash equivalents	**34**
Liabilities	

Trade and other payables	**(732)**
Provisions	**(26)**
Net identifiable assets disposed of	**(332)**
Recycling of foreign currency translation reserve	**(988)**
Consideration not yet received	**(350)**
Gain on disposal of subsidiary	**(1 670)**

7. Earnings per share

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

	2015 US$'000	2014* US$'000
Profit for the year from continuing operations	**77 004**	60 382
Profit/(loss) for the year from discontinued operations	**668**	(2 435)
Recycling of foreign currency translation reserve on discontinued operations	**–**	57 947
Less: Non-controlling interests	**(25 647)**	(24 730)
Net profit attributable to equity holders of the parent for basic and diluted earnings	**52 025**	33 217
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)	**138 227**	138 204

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

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

	Number of shares 2015	Number of shares 2014
Weighted average number of ordinary shares outstanding during the year	**138 227**	138 204
Effect of dilution:		
– Future share awards under the Employee Share Option Plan	**1 476**	962
Weighted average number of ordinary shares outstanding during the year adjusted for the effect of dilution	**139 703**	139 166

** The prior year figures have been restated for the reclassification impact of accounting for the discontinued operation (refer to Note 6, Disposal of subsidiary).*

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.

** The prior year figures have been restated for the reclassification impact of accounting for the discontinued operation (refer to Note 6, Disposal of subsidiary).*

8. Property, plant and equipment

As at 31 December 2015	Stripping activity asset US$'000	Mining asset US$'000	Exploration and develop-ment assets1 US$'000	Decommis-sioning assets US$'000	Leasehold improve-ment US$'000	Plant and equip-ment2 US$'000	Other assets3 US$'000	Total US$'000
Cost								
Balance at 1 January 2015	**243 952**	**125 361**	**124 081**	**8 408**	**22 348**	**88 554**	**14 579**	**627 283**
Additions	**61 416**	**–**	**27 402**	**–**	**390**	**13 183**	**8 824**	**111 215**
Net movement in rehabilitation provision	**–**	**–**	**–**	**(2 751)**	**–**	**–**	**–**	**(2 751)**
Disposals	**–**	**–**	**–**	**–**	**(96)**	**(1 450)**	**(209)**	**(1 755)**
Reclassifications	**–**	**2 126**	**–**	**–**	**13 115**	**(15 408)**	**167**	**–**
Foreign exchange differences	**(72 589)**	**(15 608)**	**(21 990)**	**(1 716)**	**(7 552)**	**(23 136)**	**(3 960)**	**(146 551)**
Balance at 31 December 2015	**232 779**	**111 879**	**129 493**	**3 941**	**28 205**	**61 743**	**19 401**	**587 441**
Accumulated depreciation/ amortisation								
Balance at 1 January 2015	**138 079**	**44 434**	**–**	**3 646**	**9 944**	**48 135**	**8 118**	**252 356**
Charge for the year	**47 222**	**2 098**	**–**	**439**	**1 945**	**5 355**	**3 337**	**60 396**
Disposals	**–**	**–**	**–**	**–**	**(96)**	**(842)**	**(157)**	**(1 095)**
Foreign exchange differences	**(40 806)**	**(1 908)**	**–**	**(1 068)**	**(2 978)**	**(14 706)**	**(2 117)**	**(63 583)**
Balance at 31 December 2015	**144 495**	**44 624**	**–**	**3 017**	**8 815**	**37 942**	**9 181**	**248 074**
Net book value at 31 December 2015	**88 284**	**67 255**	**129 493**	**924**	**19 390**	**23 801**	**10 220**	**339 367**

[1] *Borrowing costs of US$1.6 million (31 December 2014: US$0.6 million) incurred in respect of the $25.0 million facility at Ghaghoo development (refer to Note 16, Interest-bearing loans and borrowings) were capitalised to the development asset. The weighted average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 6.5%.*
[2] *During the year the new Coarse Recovery Plant was completed and reclassified out of plant and equipment, into leasehold improvements. Borrowing costs of US$0.9 million (31 December 2014: US$0.5 million) incurred in respect of the LSL140.0 million bank loan facility for the total funding of the new Coarse Recovery Plant at Letšeng have been capitalised (refer to Note 16, Interest-bearing loans and borrowings). The weighted average capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 11.35%.*
[3] *Other assets comprise motor vehicles, computer equipment, furniture and fittings, and office equipment.*

8. **Property, plant and equipment (continued)**

As at 31 December 2014	Stripping activity asset US$'000	Mining asset US$'000	Exploration and develop-ment assets1 US$'000	Decommis-sioning assets US$'000	Leasehold improve-ment US$'000	Plant and equip-ment2 US$'000	Other assets3 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 12)	(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

9. 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 entered into for a two-year period which commenced on 1 October 2014.

	2015 US$'000	2014 US$'000
Cost		
Balance at 1 January	**617**	617
Balance at 31 December	**617**	617
Accumulated depreciation		
Balance at 1 January	**2**	2
Depreciation	**–**	–
Balance at 31 December	**2**	2
Net book value at 31 December	**615**	615
Fair value[1]	**1 011**	1 164
Amounts recognised in profit or loss		
Rental income	**59**	54
Direct operating expenses	**(16)**	(16)
The future minimum rental income under the rental agreement in aggregate and for each of the following periods are as follows:		
– Within one year	**44**	59
– After one year but not more than five years	**–**	44
– More than five years	**–**	–
	44	103

[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 2015, weighted towards the most recent sales activity, which is valued using a Level 2 input in terms of the fair value hierarchy.*

10. Intangible assets

As at 31 December 2015	**Intangibles US$'000**	**Goodwill US$'000**	**Total US$'000**
Cost			
Balance at 1 January 2015	**784**	**17 818**	**18 602**
Foreign exchange difference	**(1)**	**(4 513)**	**(4 514)**
Balance at 31 December 2015	**783**	**13 305**	**14 088**
Accumulated amortisation			
Balance at 1 January 2014	**421**	**–**	**421**
Amortisation	**157**	**–**	**157**
Balance at 31 December 2015	**578**	**–**	**578**
Net book value at 31 December 2015	**205**	**13 305**	**13 510**
As at 31 December 2014			
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

Impairment of goodwill within the Group was tested in accordance with the Group's policy. Refer to Note 11, Impairment testing, for further details.

11. Impairment testing

	2015	2014
	US$'000	US$'000
Goodwill		
Goodwill acquired through business combinations has been allocated to the individual cash-generating unit, as follows:		
– Letšeng Diamonds	**13 510**	17 818
Balance at end of year	**13 510**	17 818

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

The discount rate is outlined below, and represents the real pre-tax rate. This rate is based on the weighted average cost of capital (WACC) of the Group and adjusted accordingly at a risk premium for the Letšeng Diamonds cash-generating unit, taking into account risks associated therein.

	2015	2014
	%	%
Discount rate		
– Letšeng Diamonds	**12.0**	13.7

Goodwill impairment testing is undertaken annually and whenever there are indications of impairment. The most recent test was undertaken at 31 December 2015. In assessing whether goodwill has been impaired, the carrying amount of the Letšeng Diamonds cash-generating unit is compared with its recoverable amount. For the purpose of goodwill impairment testing in 2015, 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. The period used was nine years, representing the lesser of the current economic resource or the remaining nine-year mining lease period.

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$/carat prices;
- costs of extracting and processing;
- expected yield on polished diamonds;
- discount rates; and
- expected LSL/US$ exchange 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 diamond prices, LSL:US$ exchange rate and discount rates.

Long-term US dollar 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. 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 seven years (effective 1 January 2014) have been based on the negotiated mining contract which was concluded during the prior year. Costs of extracting and processing which are reasonably determinable are based on management's experience. The LSL:US$ exchange rate used at 31 December 2015 was LSL15.50 and was devalued over the period in line with economic forecasts.

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 the Letšeng mining cash-generating unit, 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.

12. Receivables and other assets

	2015 **US$'000**	2014 US$'000
Non-current		
Prepayments1	**1 905**	2 877
Other receivables	**313**	–
	2 218	2 877
Current		
Trade receivables	**83**	106
Prepayments[1]	**780**	1 250
Deposits	**457**	419
Other receivables	**58**	167
VAT receivable	**4 449**	5 656
	5 827	7 598

[1] A total prepayment of US$2.1 million (comprising a non-current portion of US$1.9 million and a current portion of US$0.2 million) has been reallocated from the stripping activity asset disclosed in Note 8, Property, plant and equipment. This represents the current value of waste costs to be recovered from the mining contractor 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$0.7 million and a finance income adjustment of US$0.4 million in the year.

The carrying amounts above approximate their fair value.

Terms and conditions of the receivables:

	2015 **US$'000**	2014 US$'000
Analysis of trade receivables		
Neither past due nor impaired	**53**	56
Past due but not impaired:		
Less than 30 days	**20**	34
30 to 60 days	**4**	16
60 to 90 days	**4**	–
90 to 120 days	**2**	–
	83	106

13. Inventories

Diamonds on hand	**18 984**	17 460
Ore stock piles	**1 658**	2 055
Consumable stores	**9 646**	9 255
	30 288	28 770
Net realisable value write-down	**–**	–

Included in diamonds on hand is inventory relating to joint operation arrangements of $0.7 million (31 December 2014: US$nil).

14. Cash and short-term deposits

	2015 US$'000	2014 US$'000
Cash on hand	**1**	2
Bank balances	**58 465**	56 925
Short-term bank deposits	**27 253**	53 811
	85 719	110 738

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 2015, the Group had restricted cash of US$2.6 million (31 December 2014: US$0.2 million). This restricted cash mainly relates to funds reserved for the debt service of the US$25.0 million secured bank loan facility at Ghaghoo.

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 2015, the Group has US$16.1 million (31 December 2014: US$41.6 million) of undrawn facilities representing the LSL250.0 million three-year revolving working capital facility at Letšeng.

The US$20.0 million three-year unsecured revolving credit facility's availability period ended in October 2015, with the full facility expiring on 16 January 2016. On 29 January 2016 this facility was refinanced for a further three years at an increased amount of US$35.0 million.

For further details on these facilities, refer to Note 16, Interest-bearing loans and borrowings, and Note 28, Events after the reporting period.

15. Issued capital and reserves

Issued capital	**31 December 2015**		31 December 2014	
	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**	**200**	200 000	2 000
Issued and fully paid				
Balance at beginning of year	**138 270**	**1 383**	138 270	1 383
Allotments during the year	**27**	**–**	–	–
Balance at end of year	**138 297**	**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 these ordinary shares by subscription from the Company at nominal value of US$0.01.

During the current year, 7 350 shares were exercised (31 December 2014: nil) and no shares lapsed (31 December 2014: nil). At 31 December 2015, 58 200 shares were held by the trust (31 December 2014: 65 550).

15. Issued capital and reserves (continued)

Other reserves	Foreign currency translation reserve US$'000	Share-based equity reserve US$'000	Total US$'000
Balance at 1 January 2015	**(146 551)**	**48 798**	**(97 753)**
Other comprehensive expense	**(67 611)**	**–**	**(67 611)**
Total comprehensive expense			
Share-based payments	**–**	**1 944**	**1 944**
Balance at 31 December 2015	**(214 162)**	**50 742**	**(163 420)**
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)

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	**2015**	2014
Average rate	ZAR/LSL to US$1	**12.78**	10.85
Period end	ZAR/LSL to US$1	**15.50**	11.57
Average rate	Pula to US$1	**10.14**	8.98
Period end	Pula to US$1	**11.25**	9.51
Average rate	Rupee to US$1	**35.12**	30.65
Period end	Rupee to US$1	**35.90**	31.75
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 25, Share-based payments.

Capital management

For details on capital management, refer to Note 24, Financial risk management.

16. Interest-bearing loans and borrowings

	Effective interest rate %	Maturity	**2015 US$'000**	2014 US$'000
Non-current				
LSL140.0 million bank loan facility	South African Jibar + 4.95%	30 June 2017	**1 807**	7 261
US$25.0 million bank loan facility	London US$ three-month Libor + 5.5%	30 June 2021	**23 275**	
			25 082	7 261
Current				
LSL140.0 million bank loan facility	South African Jibar + 4.95%	30 June 2017	**3 614**	4 841
US$25.0 million bank loan facility	London US$ three-month Libor + 5.5%	30 June 2021	**1 725**	25 000
			5 339	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 which commenced on 31 March 2015 with a final payment due on 30 June 2017. The interest rate for the facility at 31 December 2015 is 11.58%.

US$25.0 million bank loan facility at Gem Diamonds Botswana (Ghaghoo)

This loan facility is held with Nedbank Capital. During the year this loan was converted from a nine-month unsecured facility to a six-year secured debt facility. The loan is repayable in staggered bi-annual payments commencing in June 2016, with final payment due on 30 June 2021. At year-end, this facility was fully drawn down. The interest rate for the facility at 31 December 2015 is 5.8%.

Total interest for the year on the interest-bearing loans and borrowings was US$2.5 million (2014: US$1.1 million) which has been capitalised to the carrying value of the assets as borrowing costs.

17. Trade and other payables

	2015 **US$'000**	2014 US$'000
Non-current		
Operating lease	**82**	82
Severance pay benefits1	**1 056**	1 192
	1 138	1 274
Current		
Trade payables2	**16 340**	12 544
Accrued expenses2	**9 342**	25 962
Leave benefits	**730**	835
Royalties2	**4 285**	3 245
Operating lease	**741**	575
Other	**790**	550
	32 228	43 711
Total trade and other payables	**33 366**	44 985

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 the balance in the prior year was an amount accrued for an interest-bearing tax liability which was settled during the current year. For further details refer to Note 3, Operating profit (exceptional item).

18. Provisions

	2015 US$'000	2014 US$'000
Rehabilitation provisions	**12 473**	19 543
Reconciliation of movement in provisions		
Balance at beginning of year	**19 543**	23 186
Arising during the year	**–**	616
Decrease in rehabilitation provisions	**(4 229)**	(3 571)
Unwinding of discount rate	**1 265**	1 336
Foreign exchange differences	**(4 106)**	(2 024)
Balance at end of year	**12 473**	19 543

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 6.5% to 7.5% (31 December 2014: 7.0% to 7.5%), estimated rehabilitation timing of nine to 12 years (31 December 2014: 10 to 13 years) and an inflation rate range of 4.6% to 6.0% (31 December 2014: 5.9% 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 annual reassessment of the estimated closure costs performed at the operations and the weakening of the local currencies against the US dollar.

19. Other financial liabilities

	2015 US$'000	2014 US$'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 mark-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.

There were no open forward exchange contracts as at 31 December 2015.

20. Deferred taxation

	2015 **US$'000**	2014 US$'000
Deferred tax assets		
Accrued leave	**34**	50
Operating lease liability	**2**	7
Provisions	**3 594**	5 140
Tax loss not utilised	**239**	–
	3 869	5 197
Deferred tax liabilities		
Property, plant and equipment	**(49 652)**	(58 293)
Prepayments	**(563)**	(333)
Unremitted earnings	**(4 039)**	(4 038)
	(54 254)	(62 664)
Net deferred tax liability	**(50 385)**	(57 467)
Reconciliation of deferred tax liability		
Balance at beginning of year	**(57 467)**	(64 824)
Movement in current period:		
– Accelerated depreciation for tax purposes	**(6 193)**	2 906
– Accrued leave	**(5)**	11
– Operating lease liability	**93**	120
– Prepayments	**(293)**	(124)
– Provisions	**(308)**	(297)
– Tax losses utilised in the year	**220**	(408)
– Disposal of subsidiaries	**50**	–
– Foreign exchange differences	**13 518**	5 149
Balance at end of year	**(50 385)**	(57 467)

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$30.7 million (31 December 2014: US$30.1 million).

The Group has estimated tax losses of US$313.8 million (31 December 2014: US$294.6 million). Deferred tax assets have been recognised on losses amounting to US$0.9 million as management considers that it is probable that the losses in those entities will be utilised against taxable profits in the foreseeable future. All tax losses are generated in jurisdictions where tax losses do not expire. In the prior year, tax losses of US$4.8 million related to the Mauritius operation which was disposed of during the current year. Refer to Note 6, Disposal of subsidiary.

21. Cash flow notes

	Notes	2015 US$'000	2014 US$'000
21.1 Cash generated by operations			
Profit for the year before tax from continuing operations		**108 557**	95 387
Profit/(loss) before tax for the year from discontinued operation		**668**	(2 457)
Adjustments for:			
Depreciation and amortisation on property, plant and equipment		**10 369**	15 158
Waste stripping cost amortised		**47 222**	49 312
Finance income		**(1 505)**	(3 430)
Finance costs		**1 385**	3 211
Market to market revaluations		**(249)**	266
Unrealised foreign exchange differences		**(6 369)**	(7 942)
Profit on disposal of property, plant and equipment		**(251)**	(49)
Movement in prepayment		**1 115**	138
Other non-cash movements		**(5 753)**	2 243
Gain on disposal of subsidiary		**(1 670)**	–
Share-based equity transaction		**1 738**	1 740
		155 257	153 577
21.2 Working capital adjustment			
Increase in inventory		**(8 216)**	(1 969)
Increase in receivables		**(4 586)**	(1 560)
Increase in trade and other payables		**9 033**	3 588
		(3 769)	59
21.3 Cash flows used in investing activities			–
Proceeds on sale of subsidiary		**350**	–
Proceeds on sale of subsidiary not yet received		**(350)**	
Net costs incurred		**–**	
Cash equivalents sold		**(34)**	
Net cash proceeds divested		**(34)**	–

22. Commitments and contingencies

Commitments

Operating lease commitments – Group as lessee

The Group has entered into commercial lease arrangements for rental of office premises. These leases have a period of between two and 11 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:

	2015 **US$'000**	2014 US$'000
– Within one year	**1 443**	1 438
– After one year but not more than five years	**3 759**	4 997
– More than five years	**5 900**	10 313
	11 102	16 748

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:

	2015 **US$'000**	2014 US$'000
– Within one year	**107**	132
– After one year but not more than five years	**492**	611
– More than five years	**1 271**	1 711
	1 870	2 454

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.

	2015 **US$'000**	2014 US$'000
– Within one year	**25 428**	32 942
– After one year but not more than five years	**157 883**	189 170
– More than five years	**33 138**	100 486
	216 449	322 598

Capital expenditure

Approved but not contracted for	**127**	5 197
Approved and contracted for	**5 229**	10 794

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% to 70% of the value (after costs) of the diamonds recovered by Alluvial Ventures and is limited to US$1.2 million per individual diamond. As at the reporting date, such future sales cannot be determined.

Letšeng Diamonds Educational Fund

In terms of the mining agreement entered into between the Group and the government of the Kingdom of Lesotho, the Group has an obligation to provide funding for education and training scholarships. The quantum of such funding is at the discretion of the Letšeng Diamonds Education Fund Committee. The amount of the funding provided for the current year was US$0.1 million (31 December 2014: US$0.1 million).

Contingencies

The Group has conducted its operations in the ordinary course of business in accordance with its understanding and interpretation of commercial arrangements and applicable legislation in the countries where the Group has operations. In certain specific transactions, however, the relevant third party or authorities could have a different interpretation of those laws and regulations that could lead to contingencies or additional liabilities for the Group. Having consulted professional advisers, the Group has identified possible disputes approximating US$0.6 million (December 2014: US$3.5 million) and tax claims within the various jurisdictions in which the Group operates approximating US$1.3 million (December 2014: US$1.3 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.

23. 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 (until June 2015)	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.

	2015 US$'000	2014 US$'000
Compensation to key management personnel (including Directors)		
Share-based equity transactions	**1 421**	1 447
Short-term employee benefits	**7 784**	7 170
	9 205	8 617
Fees paid to related parties		
Jemax Aviation (Proprietary) Limited	**(108)**	(73)
Jemax Management (Proprietary) Limited	**(165)**	(181)
Royalties paid to related parties		
Government of Lesotho	**(19 273)**	(22 102)
Lease and licence payments to related parties		
Government of Lesotho	**(112)**	(114)
Sales to/(purchases) from related parties		
Jemax Aviation (Proprietary) Limited	**(75)**	(36)
Geneva Management Group (UK) Limited	**2**	(6)
Amount included in trade receivables owing by/(to) related parties		
Jemax Aviation (Proprietary) Limited	**(42)**	28
Jemax Management (Proprietary) Limited	**(7)**	(8)
Amounts owing to related party		
Government of Lesotho	**(3 513)**	(3 167)
Dividends paid		
Government of Lesotho	**(11 760)**	(27 597)

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.

24. 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 to 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 2015, the Group has US$16.1 million (31 December 2014: US$41.6 million) debt facilities available and continues to have the flexibility to manage the capital structure more efficiently by the use of these debt facilities, thus ensuring that an appropriate gearing ratio is achieved.

The debt facilities in the Group are as follows:

Unsecured – Standard Lesotho Bank and Nedbank Capital (a division of Nedbank Limited) – revolving credit facility

The Group, through its subsidiary, Letšeng Diamonds, has an LSL250.0 million (US$16.1 million), three-year unsecured revolving working capital facility. This facility was refinanced jointly with Standard Lesotho Bank and Nedbank Capital in July 2015. The renewed facility will bear interest at the Lesotho prime rate.

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

Secured – Nedbank Capital (a division of Nedbank Limited) – six-year project debt facility

The Group, through its subsidiary, Gem Diamonds Botswana (Ghaghoo), has a loan facility held with Nedbank Capital. In May 2015 this loan was converted from a nine-month unsecured facility to a six-year secured debt facility. The loan is repayable in staggered bi-annual payments commencing in June 2016, with final payment due on 30 June 2021. The facility bears 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

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 with a final payment due on 30 June 2017. This facility bears interest at South African JIBAR + 4.95%.

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

The Company had a US$20.0 million three-year unsecured revolving credit facility which expired in January 2016. This facility was refinanced to a US$35.0 million three-year unsecured revolving credit facility. Refer to Note 28, Events after the reporting period.

The US$20.0 million three-year unsecured revolving credit facility's availability period ended in October 2015, with the full facility expiring on 16 January 2016. On 29 January 2016 this facility was refinanced for a further three years at an increased amount of US$35.0 million. This facility bears interest at London USD Interbank three-month LIBOR +5.5%. Refer to Note 28, Events after the reporting period.

The Group is subject to diamond price risk. Diamonds are not homogeneous products and the price of rough diamonds is not monitored on a public index system. The fluctuation of prices is related to certain features of diamonds such as quality and size. Diamond prices are marketed in US dollar and long-term US$ 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.

(a) Market risk

(i) 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 2015. 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 2015, income before taxation would have been US$2.8 million higher/(lower) (31 December 2014: US$0.1 million). There would be no effect on equity reserves other than those directly related to income statement movements.

(ii) 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 2015, the Group had no forward exchange contracts outstanding (31 December 2014: US$20.0 million).

(iii) 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$16.1 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:

	2015 **US$'000**	2014 US$'000
Floating interest rates		
Interest-bearing loans and borrowings		
– Within one year	**7 438**	31 381
– After one year but not more than five years	**29 658**	8 041
Total	**37 096**	39 422
Trade and other payables		
– Within one year	**32 228**	43 711
– After one year but not more than five years	**1 138**	1 274
Total	**33 366**	44 985

25. Share-based payments

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

	2015 **US$'000**	2014 US$'000
Equity-settled share-based payment transactions charged to the income statement	**1 738**	1 740
Equity-settled share-based payment transactions capitalised	**206**	224
	1 944	1 964

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.

25. Share-based payments (continued)

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

None of the performance conditions for this award were satisfied, and therefore the award lapsed during 2015.

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 458 000 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 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 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). Of the 625 000 options originally granted, only 486 389 are still outstanding following the resignation of a number of employees.

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 relate 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.

25. Share-based payments (continued)

ESOP for April 2015 (LTIP)

In April 2015, 667 500 nil-cost options were granted to certain key employees under the Long-Term Incentive Plan (LTIP) of the Company. The vesting of the options will be subject to the satisfaction of certain performance as well as service conditions classified as non-market conditions. The options which vest after a three-year period are exercisable between 1 April 2018 and 31 March 2025. If the performance or service conditions are not met, the options lapse. As the performance conditions are non-market based they are not reflected in the fair value of the award at grant date, and therefore the Company will assess the likelihood of these conditions being met with a relevant adjustment to the cumulative charge as required at each financial year end. The fair value of the nil-cost options is £1.33 (US$1.97). Of the 667 500 options originally granted, only 642 500 are still outstanding following the resignation of a number of employees.

In addition, 740 000 nil-cost options were granted to the Executive Directors under the LTIP of the Company. The vesting of the options will be subject to the satisfaction of certain market and non-market performance conditions over a three-year period. Of the 740 000 nil-cost options, 185 000 relates to market conditions with the remaining 555 000 relating to non-market conditions. The options which vest are exercisable between 1 April 2018 and 31 March 2025. If the performance or service conditions are not met, the options lapse. The performance conditions relating to the non-market conditions are not reflected in the fair value of the award at grant date. At each financial year end, the Company will assess the likelihood of these conditions being met with a relevant adjustment to the cumulative charge as required. The fair value of the nil-cost options relating to non-market conditions is £1.33 (US$1.97). The fair value of these options is estimated in a similar manner as the June 2014 LTIP.

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

	2015 '000	2014 '000
Outstanding at beginning of year	**18**	18
Exercised during the year	**(7)**	–
Balance at end of year	**11**	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.

25. Share-based payments (continued)

ESOP for April 2015, June 2014, March 2014, September 2012 and March 2012 (LTIP)

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

	2015 '000	2014 '000
Outstanding at beginning of year	**2 445**	2 073
Granted during the year	**1 408**	1 234
Exercised during the year	**–**	–
Forfeited	**(917)**	(862)
Balance at end of year	**2 936**	2 445

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

	LTIP April 2015	LTIP June 2014	LTIP September 2012	LTIP March 2012
Dividend yield (%)	**2.00**	–	–	–
Expected volatility (%)	**37.18**	37.25	42.10	63.88
Risk-free interest rate (%)	**1.16**	1.94	0.33	1.20
Expected life of option (years)	**3.00**	3.00	3.00	3.00
Weighted average share price (US$)	**2.10**	2.70	2.85	4.76
Fair value of nil value options (US$)	**1.97**	1.83	2.85	3.76
Fair value of market value options (US$)	**–**	–	1.66	2.27
Model used	**Monte Carlo**	Monte Carlo	Monte Carlo	Monte Carlo

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

26. Dividends paid and proposed

	2015 US$'000	2014 US$'000
Proposed dividends on ordinary shares		
Final ordinary cash dividend for 2015: 5 US cents per share (2014: 5 US cents per share)	**6 915**	6 913
Special dividend for 2015: 3.5 US cents per share	**4 840**	–
Total	**11 755**	6 913

Proposed dividends on ordinary shares are subject to approval at the AGM to be held on 7 June 2016 and are not recognised as a liability as at 31 December.

The 2014 dividend was approved on 2 June 2015 and a final cash dividend of 5 US cents per share was paid to shareholders on 9 June 2015.

27. 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	**2015 US$'000**	2014 US$'000
Letšeng Diamonds (Proprietary) Limited	Lesotho		30%
Accumulated balances of material non-controlling interest		**57 494**	66 148
Profit allocated to material non-controlling interest		**24 397**	24 782

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

Summarised income statement for the year ended 31 December

	2015 US$'000	2014 US$'000
Revenue	**236 357**	277 908
Cost of sales	**(118 385)**	(138 293)
Gross profit	**117 972**	139 615
Royalties and selling costs	**(19 475)**	(22 379)
Other income	**8 401**	3 384
Operating profit	**106 898**	120 620
Net finance income/(costs)	**279**	2 045
Profit before tax	**107 177**	122 665
Income tax expense	**(25 850)**	(40 059)
Profit for the year	**81 327**	82 606
Total comprehensive income	**81 327**	82 606
Attributable to non-controlling interest	**24 397**	24 782
Dividends paid to non-controlling interest	**11 760**	27 597

27. Material partly owned subsidiaries (continued)

Summarised statement of financial position as at 31 December

	2015 US$'000	2014 US$'000
Assets		
Non-current assets		
Property, plant and equipment and intangible assets	**204 350**	252 397
Current assets		
Inventories, receivables and other assets, and cash and short-term deposits	**78 436**	81 958
Total assets	**282 786**	334 355
Non-current liabilities		
Trade and other payables, provisions and deferred tax liabilities	**59 345**	69 557
Current liabilities		
Interest-bearing loans and borrowings and trade and other payables	**31 794**	44 306
Total liabilities	**91 139**	113 863
Total equity	**191 647**	220 492
Attributable to:		
Equity holders of parent	**134 153**	154 345
Non-controlling interest	**57 494**	66 148
Summarised cash flow information for the year ended 31 December		
Operating	**4 701**	82 581
Investing	**–**	(62 730)
Financing	**5 421**	(15 496)
Net increase in cash and cash equivalents	**10 122**	4 355

28. Events after the reporting period

The Company's existing US$20.0 million three-year unsecured revolving credit facility's availability period ended in October 2015, with the full facility expiring on 16 January 2016. This facility was refinanced for a further three-year unsecured credit facility with Nedbank Capital (a division of Nedbank Limited) for an increased amount of US$35.0 million. The facility agreement was signed and concluded on 29 January 2016 and the facility is available for drawdown.

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.