20 March 2012

# GEM DIAMONDS FULL YEAR 2011 RESULTS

## RECORD PROFITS AND POSITIONED FOR GROWTH

Gem Diamonds Limited (the Company) today announces its full year audited results for the period ending 31 December 2011.

## FINANCIAL HIGHLIGHTS

- Revenue of US$396 million, up 49% from 2010
- Underlying EBITDA of US$180 million, up 119%
- Attributable net profit of US$68 million, up 235%
- Basic EPS (continuing operations) of 47 US cents, up 213%
- Cash on hand of US$159 million as at 31 December 2011 (US$142 million attributable to Gem Diamonds)

## OPERATIONAL HIGHLIGHTS

- Letšeng record carat production of 112 367 carats, up 24% and recovered grade of 1.62 cpht, up 35% during 2011
- Board approval for US$280 million Letšeng production expansion project (Project Kholo) given in November 2011
- 550 carat Letšeng Star sold in October 2011 into a partnership arrangement for US$16.5 million in the rough
- Board approval for US$85 million for Phase I of the Ghaghoo mine development project in Botswana given in March 2011; project underway with 21% capital spent
- Sales and marketing strategy delivering significant margin uplift

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

“Gem Diamonds reports record results for the 2011 year, both operationally and financially. The record earnings per share and carat production at Letšeng were the result of the successful implementation of a series of strategic work streams and initiatives directed at improving operational efficiencies, managing and controlling mining costs and growing revenues through the “smart sale” of the Company’s rough and polished diamond production. 2011 saw several exceptional diamond discoveries at Letšeng, including the 550 carat Letšeng Star and we continue to see strong demand for our high quality diamonds from both developed and emerging markets, despite the backdrop of challenging times for the global economy.

“Our clear focus is on generating value for shareholders from our core mining assets at Letšeng and Ghaghoo. The US$280 million expansion project at Letšeng will confirm its position as the world’s leading producer of high quality diamonds and the Ghaghoo mine development project in Botswana is also well under way. We look forward with confidence to delivering value for our shareholders during the coming years.”

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

## For further information:


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### About Gem Diamonds:
Gem Diamonds is a leading global diamond producer of high value diamonds. The company owns two production mines, the Letšeng mine in Lesotho and the Ellendale mine in Australia, as well as the Ghaghoo mine, currently in development in Botswana. The Letšeng mine is famous for the production of large, top colour, exceptional white diamonds, making it the highest dollar per carat kimberlite diamond mine in the world. Since Gem Diamonds' acquisition of Letšeng in 2006, the mine has produced four of the twenty largest white gem quality diamonds ever recorded.

Gem Diamonds has a clear and consistent growth strategy based on the expansion of the Letšeng mine to double its production capacity by 2014 and the development of the Ghaghoo mine, expected to be in production during 2013. The Company also seeks to maximise revenue and margin from its rough diamond production by pursuing cutting, polishing and sales and marketing initiatives further along the diamond value chain. With favourable supply/demand dynamics expected to benefit the industry over the medium to long term, particularly at the high end of the market supplied by Gem Diamonds, this strategy positions the Company strongly to generate attractive returns for shareholders in the coming years.

www.gemdiamonds.com

# CHAIRMAN'S STATEMENT

### Introduction
2011 was an excellent year for Gem Diamonds, with revenues up 49% to US$396 million and record net profits being achieved during the year of US$68 million, an increase of 235% over 2010. This was due in large part to a significant strengthening in diamond prices in the first half of 2011, but it also demonstrates the strong operational performance of the Company, particularly at Letšeng, where record carat production was achieved, as well as the impact of Gem Diamonds' sales and marketing strategy, which enabled us to capture additional uplift on our rough diamond sales.

We have maintained our focus on exploiting key opportunities for growth. In line with this, we advanced two major development projects during the year that will see us unlock considerable value from our asset portfolio. In November 2011, the Board approved a production expansion plan known as Project Kholo at the Letšeng mine which will lead to a virtual doubling of the mine's own mining and treatment capacity when the project is completed at the end of 2013. The ramp-up to full production will be July 2014. The Letšeng mine continued to produce exceptionally large, high value diamonds during the period, supporting our investment decision. This US$280 million expansion project is a major strategic initiative for the Company and will reinforce Letšeng's position as the world's leading producer of large high value diamonds. In addition, the development of Phase 1 of the Ghaghoo mine in Botswana received Board approval in March 2011. The development of Phase 1 of this project commenced in July 2011 and continues to progress on time and within budget.

Both of these key growth projects underpin Gem Diamonds' focus on delivering increasing shareholder returns through the expansion and development of its core assets at Letšeng and Ghaghoo. It is to the credit of the management team that they have been able to see the potential in extracting value from these assets which, prior to their acquisition by the Company, were perceived to be high risk and difficult to manage.

2011 saw continuation of the Company's sales and marketing strategy for Letšeng through a combination of tenders, partnership arrangements and own cutting and polishing of selected rough diamonds, which delivered an increase in revenue and margins for Letšeng during 2011.

With record profits and cash flows generated through 2011, Gem Diamonds ended the year with a strong balance sheet of US$158.7 million cash as at 31 December 2011 (of which US$141.8 million is attributable to Gem Diamonds).

### Diamond Market
The first half of 2011 saw the strong growth in rough diamond prices continue following a robust recovery in prices during the fourth quarter of 2010. However, at the end of the third quarter of 2011, the deepening financial crisis in the Eurozone and tightened liquidity of the lending banks resulted in a sharp fall in rough diamond prices as the market corrected, with prices across the sector dropping by approximately 30% to 35% as a result. In the fourth quarter of 2011 the rough market began to stabilise which resulted in a marginal strengthening of rough diamond prices in November and December 2011. Prices for rough diamonds overall ended the year approximately 16% higher than at the end of 2010.

Subsequent to the important 2011 Thanksgiving to Christmas retail season in the USA, reports received indicated that there was growth in the demand for diamond jewellery which led to some restocking in the manufacturing centres at the beginning of 2012. This was reflected in the continued strengthening of prices at both the Letšeng and Ellendale sales held to date in 2012.

Given the uncertainties in the global economy, it is likely that there will be some volatility in the rough diamond price in the first part of 2012 as the market goes through a period of consolidation after the exceptional growth experienced since the 2008 global financial crisis. From the middle of 2012, based on current supply expectations, rough diamond prices are expected to improve.

In the longer term, the prospect for diamonds remains excellent. Based on the supply/demand fundamentals of limited new diamond production coming on stream, and the growing global consumer demand for diamond jewellery, demand for rough and polished diamonds will begin to outpace supply, sustaining a continued long term growth trend.

## Operational Overview

Letšeng continues to produce a significant number of the world's finest and largest diamonds which included the recovery of the 550 carat Letšeng Star, sold in October 2011 into a partnership arrangement for US$16.5 million in the rough, with expected further upside in due course. The recovery of these exceptional diamonds has reinforced Gem Diamonds' position as a top producer of the world's largest high-end rough diamonds.

Operationally, Letšeng had a record year of production with carats recovered in 2011 up by 23.6% to 112 367[1] carats and with the recovered grade up by 35.0% to 1.62[2] from 2010.

At the Ellendale mine in Western Australia, the first half of 2011 was challenging from an operational viewpoint owing largely to the unusually protracted rainy season. However, the last quarter of 2011 saw a major improvement in performance. As has been previously reported, Gem Diamonds continues to consider all of its options in relation to the Ellendale mine and has appointed advisors to assist in this regard.

The Ghaghoo mine in Botswana is currently being developed and Phase 1 construction of the underground mine is progressing well. The box cut and portal have been completed and the development of the decline, using an open face tunnel shield through the sand overburden, has commenced. It is anticipated that Phase 1 will be completed on time and on budget with the first production expected in 2013.

As previously reported, Gem Diamonds completed the sale of its 80% interest in its Indonesian alluvial diamond mining company, PT Galuh Cempaka, in October 2011 for a total consideration of US$5.0 million.

## Sales Strategies

2011 saw the first full year of implementation of the Company's improved sales strategies, directed at gaining a greater share of margin through the 'smart sale' of its rough diamond production. This is being achieved through a combination of tenders; auctions; direct sales of both rough and polished diamonds; a rough off-take agreement with Tiffany & Co.; as well as own and partnered manufacturing arrangements.

In line with this strategy, the Company increased its participation in downstream cutting and polishing for own and partnered goods, where a total of 1 624 carats of Letšeng's rough diamonds at a market value of US$68.6 million were extracted for the full year 2011. Of this, US$1.2 million remains unrecognised in revenue and inventory at year end. This initiative remains at the early stage of its implementation and we believe this strategy can add significantly to the returns achieved for shareholders in the coming years.

## Health and Safety

Gem Diamonds continues to strive to operate to the highest health and safety standards and so it was with deep regret that 2011 saw two fatal accidents at the Letšeng mine and we again offer our sincere condolences to the families for their loss. After a record year of no Lost Time Injuries (LTIs) in 2010, the Lost Time Injury Frequency Rate (LTIFR) for 2011 was 0.25 which exceeds the 2011 zero threshold target. The All Injury Frequency Rate (AIFR) for the year was 4.54, which is below the 2011 threshold target of 5.05.

The Company recorded no major environmental and community related incidents during 2011 and relationships with the various project affected communities in and around Letšeng, Ellendale and Ghaghoo continue to go from strength to strength.

## Measuring our Progress

Whilst we are confident in our strategy and believe the successful implementation of the Company's expansion projects will produce strong growth during the coming years, the Board is acutely aware that returns to shareholders during the past three years have been unsatisfactory and that the current share price does not reflect the current or potential value of the Company.

Accordingly, and with a five year track record as a listed company on the London Stock Exchange now under its belt, the Board has undertaken a thorough review of the relevant Key Performance Indicators (KPIs) through which both it and its shareholders can monitor progress. During the coming year the Remuneration Committee of the Board will be examining which of these KPIs, together with their relevant proportions, should be used in incentivising management.

Of these KPIs, we were especially pleased with our performance during 2011 on the important measures of growth in underlying EBITDA, free cash flow, return on capital employed, carat production and earnings per share. Our objective is to deliver consistent improvements to these KPIs over the longer term and we are confident that if we do, value for shareholders will in turn be enhanced.

## Board of Directors and Corporate Governance

Our objective as a Board is a relatively simple one – to ensure that we choose the strategy that we believe will ultimately deliver the most value to shareholders and to operate responsibly in everything that we do as a company.

Much of the debate at our meetings during the past year has been on strategy and in particular the decision to allocate capital for the further development of the Letšeng mine in Lesotho. Our announcement in November 2011 that we are to invest US$280 million in the expansion of Letšeng's production was the subject of rigorous financial analysis. Ultimately we concluded that it will generate highly satisfactory returns for shareholders, with an estimated IRR of 40% and payback within just over two years of the project's expected completion date in July 2014.

Debate at the Board also centred on the future of the Company's operations at Ellendale in Australia and investment in a new mine at Ghaghoo in Botswana. We have engaged advisors to assist us with the strategic options available to the Company on Ellendale and in March 2011 the Board approved a capital budget of US$85 million for the construction of Phase 1 of the mine at Ghaghoo.

Good corporate governance, careful management of risk and the responsible way in which we manage our business are fundamental to our approach and underpin the longer term sustainability of the Company.

## Outlook

The Gem Diamonds Board has mapped out a clear strategy for management to achieve the best possible returns on shareholder capital invested. Project Kholo has an extremely attractive IRR of 40% and should see greatly enhanced cash flows from Letšeng following the ramp-up to fully expanded production in mid 2014.

The Ghaghoo project is well underway and it is anticipated that Phase 1 will be followed quickly by future phases which will confirm Ghaghoo's status as a substantial long life mine.

Set against a backdrop of continued strong and growing diamond demand from the USA, China and India and constrained supply, particularly at the high quality end of the market in which the Company operates, we believe Gem Diamonds is well-positioned for growth and I am confident that our strategy should deliver strong returns for shareholders over the coming years.

I would like to take this opportunity to thank Gem Diamonds' shareholders, Board and employees for their commitment in ensuring the ongoing sustainable growth of the Company. Gem Diamonds was created in order to provide a growth platform for investors in the diamond sector and as we enter 2012 and beyond, the Board is fully committed to turning that vision into reality.

***Roger Davis***
Non-Executive Chairman

19 March 2012

1 Total carats recovered includes 2 171 carats recovered from tailings during test work.

2 The grade calculation excludes the above mentioned 2 171 carats.

Business review

# CHIEF EXECUTIVE OFFICER'S OVERVIEW

## Introduction

Gem Diamonds reports outstanding results for the 2011 year, both operationally and financially. The record earnings per share and record carat production at Letšeng were the result of the successful implementation of a number of key strategies outlined to shareholders in the 2010 Annual Report. This series of work streams and initiatives was directed at improving operational efficiencies, managing and controlling mining costs and growing revenues through the 'smart sale' of the Company's rough and polished diamond production.

The impressive results achieved in all of these areas in 2011 are expected to be continued and improved upon in 2012 and beyond. After a period of relatively poor bottom line performance following the onset of the global financial crisis, management has implemented the strategies for improved financial and operational performance and achieved record results in doing so.

The two main organic growth initiatives at Letšeng and Ghaghoo will require careful and skilful implementation over the next few years and management is confident in its ability and experience to deliver these two projects on time and within budget. This will result in an effective doubling of the carat production at Letšeng together with other very attractive production and recovery efficiencies.

The Letšeng mine has been developed into a world-class diamond asset. The Company's 70% stake in this mine was acquired in 2006 for a net consideration of US$118 million. It is testimony to the hard work, experience and skill of management that the Letšeng mine is expected to have a net present value (NPV) of some US$1.6 billion[1] (attributable) including the expansion project, Kholo, which is planned to be completed in the second half of 2014.

During 2011, Letšeng continued to demonstrate its status as the foremost producer of the world's largest high quality rough diamonds by producing the 550 carat, Type IIa, Letšeng Star. This diamond was sold in October into a partnership arrangement for US$16.5 million in the rough, with the mine to receive a significant percentage of the margin uplift on the subsequent sale. It is pleasing to report that Letšeng also achieved record carat production in 2011 of 112 367 carats – an increase of 23.6% on 2010. It should be borne in mind that a "Letšeng carat" is the equivalent of approximately 30 times the "industry average carat" value. Compared to the industry average, Letšeng's production in 2011 of 112 367 carats would be the equivalent of approximately 3.3 million carats produced per annum. Importantly, the overall recovered grade at Letšeng was up by 35.0% to 1.62 carats per hundred tonnes (cpht). These achievements reflect the skill, experience, hard work and dedication of the management team on the mine and the Company's technical staff at Head Office and I applaud their fine efforts.

The successful completion of Phase 1 of Ghaghoo will allow decisions to be made about the optimal method of expansion and mining of this very promising asset. Ghaghoo was acquired as a high risk deposit with an expiring retention permit and has rapidly been taken up the value curve with the granting of a mining licence (with 100% of the project residing in Gem Diamonds Botswana), and with the first diamonds expected to be produced next year.

2011 also saw the first full year of implementation of the Company's sales and marketing strategies directed at the 'smart sale' of the Company's rough diamond production.

This strategy consists of three different strands:

- The sale of run of mine rough diamond production on tender and auction in Antwerp, with reserve prices set in order to ensure appropriate prices are received;
- The extraction from run of mine production of rough diamonds for manufacturing and sale by the Company itself of the resultant polished diamonds. During 2011, the diamonds extracted for own manufacturing achieved overall margins at the upper end of expectations;
- The partnering with selected diamantaires on large high end rough diamonds where Letšeng receives the rough diamond value immediately and participates to a significant extent in the polished margin uplift.

## OBJECTIVES AND ACHIEVEMENTS

As indicated above, the Company achieved the strong results in 2011 as a result of the careful and dedicated implementation of the strategic objectives identified and reported to shareholders in 2010. Many of these objectives are of an ongoing nature and will be refined and carried forward in 2012. The objectives include:

### Increased carat production

Growing the Group's production profile is a key strategic priority for the Company, as a means of generating value and further cementing Gem Diamonds' position in the global diamond industry as the leading producer of high quality diamonds.

At Letšeng the Company aims to increase the carats produced to circa 180 000 to 200 000 carats per annum by July 2014 through the successful implementation of Project Kholo. This is expected to result in annual revenue for Letšeng exceeding US$500 million[2]. Since this project is essential to the long term growth of earnings for the Company, management's KPIs strongly reflect the targets required to be met for the success of this project.

The increase of carats mined at Ellendale is also a strategic priority for the Company, especially in light of the disappointing results of this mine during 2011.

The mine construction at Ghaghoo will result in the first diamonds being produced in 2013. Management's KPIs reflect the need for this project to be completed safely, on time and within budget, and at the appropriate quality.

### Sales and marketing

This objective builds on the successful implementation of the sales and marketing strategies implemented in 2010 and 2011 is the first year to benefit from this strategy. The Company aims to significantly increase the number of carats allocated to cutting and polishing by the Company itself and/or sold into partnership arrangements. The increase in revenue as a result of the 'smart sale' of the Company's rough diamond production is also reflected in management's KPIs.

### Operational performance

The record results achieved at Letšeng from an operational viewpoint will be continued and focus brought to increasing carat recovery at Ellendale. There will be significant focus on extending the ore body at Letšeng through an extensive drilling programme which is currently underway, in order to replace carats mined and sold.

On the cost side, whilst corporate costs are regularly assessed and reviewed with an eye to continued control and management, the Company will continue to ensure that the required skills levels for the crucial growth projects and other strategies are maintained to ensure successful and timely implementation.

### Financial performance

A number of new financial KPIs have been adopted by the Board during 2011 and these will be closely monitored over the coming years to ensure that management continues to deliver on the Company's strategy. Management's incentivisation will in turn be assessed on the continued delivery of improvements of these key benchmarks of performance. The Company's Remuneration Committee will be examining this issue in detail during the coming year and we will be reporting their conclusions to shareholders in due course.

Total central corporate costs for the Company were US$14.9 million for 2011[3]. However, as a result of implementing the Group's internal sales and marketing structure which was set up in late 2010 by the Corporate office, Letšeng's selling costs have been permanently reduced from 2.5% to 1.5% of revenue. This saving, together with the manufacturing uplift gained through the manufacturing process and downstream initiative, has resulted in a significant improvement to the Group's EBITDA.

**Health, Safety, Corporate Social Investment and Environment**

The Company's goal is to achieve "Zero Harm" on a sustainable basis across all its operations and continues to refine and improve its health and safety management systems through ongoing identification and implementation of appropriate continuous improvement measures.

However, Letšeng's safety record for 2011 was very disappointing, with the loss of two of our colleagues in separate fatal accidents, along with a further three Lost Time Injuries recorded at the mine. One LTI was recorded at Ghaghoo, with the result that the Group-wide Lost Time Injury Frequency Rate for 2011 is 0.25, which is in excess of the Group's zero threshold target. A Behaviour Based Safety (BBS) system implementation has commenced at Letšeng in 2011 in order to address the operation's safety management deficiencies.

Pleasingly, at the remainder of the Company's operations, Ellendale, Cempaka and Chiri, reported a year of satisfactory progress and performance, with each of these operations achieving a second consecutive Lost Time Injury and Fatality free year.

## CONCLUSION

We expect 2012 to be another exciting year for the Company. We shall continue to focus on asset optimisation of the Group's existing portfolio and to maintain our drive to maximise operational efficiencies. A substantial part of our efforts will of course also be directed at our two major growth projects as they continue to be implemented and we look forward to their contribution to Gem Diamonds' performance.

***Clifford Elphick***

Chief Executive Officer

19 March 2012

1 For the Project Kholo NPV modelling assumptions, see the Project Kholo presentation at www.gemdiamonds.com.

2 Assuming current price levels.

3 Total corporate costs are US$15.3 million, which include one-off project costs of US$0.4 million.

# OPERATING REVIEW
# LETŠENG

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

Since Gem Diamonds took control, Letšeng's annual production has risen from 55 000 carats in 2006 to 112 367 carats in 2011 and during this time, has produced four of the 20 largest white gem diamonds ever recovered – the 603 carat Lesotho Promise in 2006; the 493 carat Letšeng Legacy in 2007; the 478 carat Light of Letšeng in 2008 and the 550 carat Letšeng Star in 2011.

***DIAMOND SALES***

| | **Year ended 31 December 2011** | Year ended 31 December 2010 |
|---|---|---|
| No. carats sold | **107 700** | 88 564 |
| Average US$ per carat | **2 776** | 2 149 |

***FREQUENCY OF RECOVERIES OF LARGE DIAMONDS IN LETŠENG***

| No. of diamonds | 2007 | 2008 | 2009 | 2010 | **2011*** |
|---|---|---|---|---|---|
| >100 carats | 5 | 7 | 5 | 6 | **5** |
| 60-100 carats | 9 | 16 | 10 | 10 | **19** |
| 30-60 carats | 39 | 74 | 76 | 61 | **59** |
| 20-30 carats | 65 | 88 | 98 | 89 | **91** |

| | | | | | |
|---|---|---|---|---|---|
| Total diamonds >20 carats | 118 | 185 | 189 | 166 | **174** |

*Letšeng treatment plants only, excludes Alluvial Ventures production.

**Operational highlights**

- Carats recovered: 112 367
- Average US$ per carat: US$2 776
- Tonnes treated: 6.8 million
- Waste tonnes mined: 16.9 million
- Recovery and sale of the 550 carat Letšeng Star for an initial rough price of US$16.5 million

**Sustainability highlights**

- LTIFR 0.29
- AIFR 2.41
- Zero major environmental incidents recorded in 2011
- On schedule execution of corporate social investment projects

In November 2011 the Company's Board and the Board of Letšeng Diamonds approved Letšeng's expansion project (Project Kholo). Project Kholo commenced in January 2012 and early work has commenced whilst detailed design continues. The planned development entails increased production through the construction of a third processing plant and other operational improvements, which will see a ramp-up to full production of 10 million tonnes by July 2014. Carat output will increase to 180 000 to 200 000 carats per annum (currently 112 367 carats per annum). The total project capital expenditure for Project Kholo is estimated at US$280 million. The project IRR is expected to be 40%, with payback expected in 2016.

Project Kholo will be funded out of existing and future cashflows and a loan facility (based on current diamond prices and exchange rate assumptions). The NPV of the Letšeng mine (100%), including Project Kholo, is US$2.5 billion.

Letšeng delivered a record operational performance in 2011, achieving the highest carat recovery in the history of the mine of 112 367 carats, an increase of 23.6% over the previous year of 90 933 carats.A record 5.7 million tonnes were treated through Letšeng's 1 and 2 treatment plants, up 2.2% over the previous year of 5.6 million tonnes, delivering record profits of US$89.1 million for the mine, up 121.3% over the previous year of US$40.3 million. These production achievements, together with the increase in waste stripping, demonstrate management's ability to achieve the planned Project Kholo production levels.

Letšeng continued to recover high value and exceptionally large diamonds during the year, most notably, the recovery of the 550 carat, Type IIa, D colour, Letšeng Star on 19 August 2011. The Letšeng Star is currently ranked as the 14th largest white gem diamond on record and the second largest white diamond to be recovered at Letšeng.

Of the total ore mined and processed for the year through Letšeng's 1 and 2 plants and Alluvial Ventures plant, 83% of ore was sourced from the Main pipe and 17% was sourced from the Satellite pipe. The recovered grade at Letšeng continued to outperform the resource grade throughout the year and can be attributed to higher than expected ore grades as well as improved recovery controls. The recovered grade for the year was 1.62 carats per hundred tonnes (which excludes 2 171 carats which were recovered from tailings during test work on the X-ray recovery technologies referred to below), an increase of 35% over 2010.

Alluvial Ventures is now treating material directly from the Main pipe. This has been made possible by the introduction of a crushing facility at this plant (Alluvial Ventures had previously treated material from the low grade De Beers stockpile which is now depleted).

Waste tonnes mined in the year increased to 16.9 million tonnes, up from 11.7 million tonnes in the previous year, in line with the mine plan (including the commencement of stripping in the Main pit).

In late 2011, a drilling programme commenced to improve information on current resources and confirm the continuity of the resource below the currently defined limits. The programme consists of four deep holes (two on each pipe) totalling 3 600 metres, aimed at extending the resource base beyond current levels and 15 shorter holes totalling 5 575 metres, aimed at improving the Indicated resource geological continuity and for geotechnical purposes.

Cost reduction remained a focus, and within the mining process the redesign of the blasting pattern continues to deliver benefits in reduced explosive usage and lower consumption of drilling and blasting consumables. Improved procurement of explosives has resulted in annual savings of Maloti 19.5 million (US$2.7 million).

The utilisation of larger trucks for waste stripping was initiated in late 2009 and has since continued, resulting in a decrease in unit costs for contracted loading and hauling from Maloti 13.00 per tonne in 2009 to Maloti 12.70 per tonne in 2012, despite three years' escalation and longer haul distances.

In the treatment plant the plant contractor has taken over the running of the primary crusher from a third party and annual savings of Maloti 12.5 million have been achieved.

Project Kholo aims to improve diamond liberation and reduce diamond damage, which is especially important in order to preserve the high value of Letšeng's large diamonds. Thus the project will increase the top cut-off size, use the latest crushing technology and incorporate inter particle re-crushing to achieve this. This, together with the utilisation of less costly concentration technology, will contribute significantly to the financial benefits of the project.

Various x-ray technologies were successfully tested, recovering a large number of diamonds that had not previously been recovered by the current separation techniques. It is planned for this technology to be used instead of coarse ore dense media separation circuits and to replace the conventional x-ray machines currently used in the recovery plant.

## SALES AND MARKETING STRATEGY

Letšeng's production is sold through Gem Diamonds Marketing Services BVBA (Gem Diamonds Marketing), an Antwerp-based Gem Diamonds' subsidiary, providing Letšeng with complete flexibility over the marketing of its rough production and further resulting in a reduction in the sales and marketing costs of its production from 2.5% to 1.5%. A key element of this sales and marketing strategy has been to give Letšeng more control and to develop downstream activities and capabilities, providing access to additional margins further down the diamond value chain.

Gem Diamonds Marketing generally holds ten tenders annually, two in each of the first and third quarters and three in each of the second and fourth quarters, and since the beginning of 2011, has extracted select diamonds for Letšeng's own polishing and for sale into Letšeng's high-end partnerships.

## DIAMOND SALES

Including all carats extracted from the rough production for manufacturing at their rough valuation, the average value for Letšeng's export of unique diamonds for the year was US$2 776 per carat, compared to the average price of US$2 149 per carat achieved in 2010, a 29% increase in the average price.

In 2011, 591 rough diamonds greater than 10.8 carats in size (+10.8 carats), were recovered at Letšeng, totalling almost 14 000 carats and contributing to 77% of total rough diamond revenue at Letšeng. A total of 187 diamonds recorded prices greater than US$20 000 per carat, contributing rough revenue of US$202.6 million (67% of Letšeng's revenue); this included the 550 carat Letšeng Star diamond which was sold into a partnership arrangement for a rough value of US$16.5 million, where Letšeng will benefit directly from the upside derived from the sale of the resultant polished diamonds.

## OWN MANUFACTURING AND PARTNERSHIP

In line with the Company's stated strategy to increase its participation in downstream cutting and polishing for own and partnered goods, for the full year 2011, a total of 1 624 carats were extracted at a rough market value of US$68.6 million. Of this, US$1.2 million remains unrecognised in revenue and on hand in inventory at year end. Overall the uplift achieved on those goods sold was at the upper end of expectations.

## FINANCIAL PERFORMANCE

Letšeng Diamonds continues to deliver strong operational and financial results generating revenue of US$300.6 million from diamond sales and EBITDA of US$180.7 million, reflecting a 100% increase in EBITDA over the prior year.

| US$ (millions) | **Year ended 31 December 2011[1]** | Year ended 31 December 2010 |
|---|---|---|
| **Sales** | **300.6** | 190.3 |
| Cost of sales* | **(95.4)** | (81.8) |
| Royalty and selling costs | **(24.5)** | (18.6) |
| **EBITDA** | **180.7** | 89.9 |

| **Physicals** | | |
|---|---|---|
| Tonnes treated | **6 805 152** | 7 557 079 |
| Waste tonnes mined | **16 932 222** | 11 676 931 |
| Carats recovered | **112 367** | 90 933 |
| Carats sold[2] | **107 700** | 88 564 |

| **US$ (per unit)** | | |
|---|---|---|
| Exchange rate (average) | **7.26** | 7.32 |
| Average price per carat (rough) | **2 776** | 2 149 |
| Direct cash cost (before waste) per tonne treated[3] | **12.24** | 9.86 |
| Operating cost per tonne treated[4] | **14.07** | 10.79 |
| Waste cash cost per waste tonne mined | **2.91** | 3.01 |

| Local currency (per unit) Lesotho loti | | |
|---|---|---|
| Direct cash cost (before waste) per tonne treated[3] | **88.84** | 72.18 |
| Operating cost per tonne treated[4] | **102.15** | 78.93 |
| Waste cash cost per waste tonne mined | **21.13** | 22.00 |

| Other operating information (US$ millions) | | |
|---|---|---|
| Waste capitalised | **(56.5)** | (40.3) |
| Waste amortised | **(18.6)** | (10.2) |
| Depreciation and amortisation | **(19.6)** | (21.5) |
| Capital expenditure | **18.7** | 12.3 |

* Excluding depreciation and amortisation.

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

2 Excludes sale of polished diamonds.

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

4 Operating costs exclude royalty and selling costs and depreciation and mine amortisation, and include inventory, waste and ore stockpile adjustments.

## COSTS

Cost management has continued to be a key focus and Letšeng has managed to maintain its costs within expected targets notwithstanding fuel and power increases experienced during the year. Local currency direct cash costs (before waste) per tonne treated for the year were Maloti 88.84 relative to the prior year of Maloti 72.18. These costs increased in line with inflation but were further impacted by the lower production levels compared to the prior year as well as increased costs associated with the contractor (Alluvial Ventures who operate a third plant at Letšeng) as these costs are based on a percentage of revenue; as prices have increased over the prior year, the associated costs have increased. The lower production levels in the current year are mainly due to the planned lower throughput from Alluvial Ventures as they depleted the previous stockpiles and have moved into processing harder ore from the Main Pit. As a result of increased waste volumes, reduced rates were negotiated, resulting in waste cash costs per waste tonne moved reducing to Maloti 21.13 from Maloti 22.00 in the prior year.

Total operating costs per tonne treated for the year increased to Maloti 102.15 per tonne from Maloti 78.93 per tonne, mainly as a result of an increase in waste amortisation costs (driven by the different waste to ore strip ratios for the particular ore processed) during the year and the lower production volumes. Waste amortisation is currently only associated with the Satellite pipe.

## HEALTH, SAFETY, SOCIAL AND ENVIRONMENT (HSSE)

The health and safety record at Letšeng was unsatisfactory in 2011. The operation tragically recorded two fatalities and a further three Lost Time Injuries. Comprehensive investigations were undertaken and appropriate corrective actions implemented to correct this unacceptable trend. Correspondingly, the Company recorded a loss of one star rating in its external SHE audit. Implementation of an operation-wide behaviour-based safety system continues on target for completion by mid 2012. The operation recorded zero major[5] environmental incidents, while recording two significant[6] incidents, both comprising hydrocarbon spills. The affected areas were successfully bio-remediated.

Corporate Social Investment (CSI) at Letšeng continues to positively impact the lives of the project affected communities. The Company's flagship CSI projects, the Wool & Mohair and the Livelihoods projects remain on target, while several smaller projects remain ongoing.

## 2012 AND ONWARDS

A pre-feasibility study is currently underway to further determine the relative economics of moving to underground mining in the Satellite pipe in order to effectively eliminate waste stripping once the open-pit reaches its economic limit and to confirm the optimal timing for the proposed transition. Geological drilling is underway in order to improve the definition of the ore-body for both pipes at depth.

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

Letšeng will also continue to grow its allocation of select large high-end diamonds for manufacturing through its own manufacturing or partnership arrangements in order to ensure the diamond distribution channels are well established when the mine production doubles following the completion of Project Kholo. In this manner, Letšeng will be able to benefit from the substantial downstream margins and very importantly continue supplying large high-end rough diamonds to its valued rough clients on tender in Antwerp.

5 Incident which results in long term, high severity environmental impact.

6 Short to mid-term, medium severity environmental impact incidents.

# OPERATING REVIEW ELLENDALE

Ellendale is renowned for fancy and vivid yellow diamonds, resulting from high levels of nitrogen at the time of their formation. They are greatly sought after for their rarity. Ellendale contributes an estimated 50% of the world's supply of these fancy yellow diamonds.

In December 2007, Gem Diamonds acquired Kimberley Diamond Company NL (Kimberley Diamonds). Kimberley Diamonds owns 100% of the Ellendale Mine in the north of Western Australia.

DIAMOND SALES

| | **Year ended 31 December 2011** | Year ended 31 December 2010 |
|---|---|---|
| No. carats sold | **121 454** | 163 924 |
| Average US$ per carat | **731** | 475 |

**Operational highlights**

- Carats recovered: 120 302
- Average US$ per carat: US$731
- Tonnes treated: 3.1 million
- Waste tonnes mined: 6.2 million

## Sustainability highlights

- Fatality free since Gem Diamonds' acquisition in 2007
- A second consecutive LTI–free year
- Zero major environmental incidents
- Ellendale retained its 4 Star rating in the annual external SHE audit

During 2011, all mining and processing activities at Ellendale were from ore sourced from the E9 pipe. This pipe is renowned worldwide for its production of rare fancy yellow diamonds, comprising approximately 13% of Ellendale's total carats sold in 2011.These rare fancy yellow diamonds are sold under an off-take agreement to Tiffany & Co. and account for almost 80% of Ellendale's total revenue. The lower value E4 pipe, which was placed on care and maintenance in early 2009 as a result of the global financial crisis, continued to remain as such during 2011.

Processing challenges continued to be experienced at Ellendale throughout the year due to difficulties associated with processing wet, sticky ore caused by the extended and heavier rainy season and further exacerbated as mining proceeded deeper in the pit where the ore was showing signs of being wetter and having a higher clay content. In the third quarter of the year, major modifications commenced to the processing plant, which saw the installation of an improved secondary crusher product-feed arrangement with the ability to handle wet, sticky ore more effectively. This modification facilitated a marked improvement in production in the final quarter of 2011. Modifications were also made to the primary plant feed section of the processing plant in the first quarter of 2012, resulting in further production improvements to date in 2012 and supporting initial indications that processing throughput at Ellendale will continue on a more consistent basis for 2012, in line with plan.

During the year, the E9 pipe recovered grade generally underperformed the expected grade by 9%. The lower grade had a significant impact on the carat production for the year and is associated with plant throughput efficiencies and some changes in the internal facies and waste boundaries when compared with the resource model. Carat production was below forecast, with the lower tonnes treated substantially impacting on the negative variance, aggravated by the underperforming recovered grade. For the year, Ellendale produced 120 302 carats from the E9 pipe, compared to 166 708 carats in 2010.

Waste mining for the year, at 6.2 million tonnes, exceeded waste moved in 2010 by 29.0%. This increase is a consequence of the timing of waste stripping as per the Life of Mine plan. Mining of the cutback of the northern sector of the West Pit ramped up in 2011. This cutback will enable the mining of the majority of the remaining 4.8 million tonnes of ore contained within in the West Pit design.

During the last quarter of the year, the mining contract renewal tender process was completed and a new mining contractor was appointed to carry out all the mining activities at Ellendale. The onset of the rainy season at the end of each year necessitates treating ore sourced from stockpiled material; traditionally, mining operations only recommence in mid-March after the end of the wet season. However, limited mining continued through the wet season at the end of 2011 and into the first quarter of 2012 in order to supplement plant feed from the stockpile, which ended the year below target due to the change in mining contractor and some inefficiencies experienced prior to the change.

During the last quarter of the year, Lee-Anne de Bruin (former Chief Financial Officer of Kimberley Diamonds) was appointed as Managing Director of Kimberley Diamonds.

The Company is considering all options regarding Ellendale and has appointed advisers to assist in this regard.

## SALES AND MARKETING STRATEGY

In July 2011, Kimberley Diamonds amended the pricing mechanism for its fancy yellow diamonds that it sells directly under the off-take agreement to Laurelton Diamonds, Inc., the diamond sourcing and manufacturing subsidiary of global high-end jeweller Tiffany & Co. The new pricing mechanism adjusts the fancy yellow prices monthly (as opposed to the previously agreed six monthly adjustments). This new mechanism was further back-dated to 1 October 2010 resulting in Kimberley Diamonds receiving back payments totalling US$1.6 million for the 2011 deliveries of fancy yellows (included in the figures detailed in the Financial Performance section below) and an additional $0.6 million for the November and December 2010 deliveries (the 2010 back payment is not included in Ellendale's Financial Performance section figures below).

Up until November 2010, Kimberley Diamonds had sold its commercial production via tenders and/or direct sales. In December 2010 Kimberley Diamonds engaged with an electronic diamond auction company to market its commercial production from Ellendale using an eAuction platform.

## PRICES ACHIEVED

In 2011, Kimberley Diamonds achieved an overall average price of US$731 per carat for its production, an increase of 54% from the average price of US$475 per carat achieved in 2010.

Kimberley Diamonds achieved an average of US$4 409 per carat for Ellendale's rare fancy yellow diamonds that are sold to Tiffany & Co., representing an increase of 53% against the average price per carat of US$2 891 in 2010. In 2011 Ellendale's more commercial diamond production achieved an average price of US$188 per carat, which represents an increase of 21% over the average price achieved in 2010 of US$155 per carat.

## FINANCIAL PERFORMANCE

Kimberley Diamonds generated revenue of US$89.4 million compared to US$77.9 million achieved in the prior year. Kimberley Diamonds has generated a positive EBITDA of US$13.2 million, although it was impacted negatively by operational challenges and a stronger Australian dollar, reflecting a 27% increase over 2010.

| US$ (millions) | **Year ended 31 December 2011** | Year ended 31 December 2010 |
|---|---|---|
| **Sales** | **89.4** | 77.9 |
| Cost of sales* | **(70.6)** | (62.6) |
| Royalty and selling costs | **(5.6)** | (4.9) |
| **EBITDA** | **13.2** | 10.4 |
| | | |
| **Physicals** | | |
| Tonnes treated | **3 116 017** | 4 016 338 |
| Waste tonnes mined | **6 183 668** | 4 794 748 |
| Carats recovered | **120 302** | 166 708 |
| Carats sold | **121 454** | 163 926 |
| | | |
| **US$ (per unit)** | | |
| Exchange rate (average) | **0.97** | 1.09 |
| Average price | | |
| per carat (rough) | **731** | 475 |
| Direct cash cost (before waste) per tonne treated[1] | **19.63** | 12.64 |
| Operating cost | | |
| per tonne treated[2] | **22.67** | 15.61 |
| Waste cash cost per waste tonne mined | **4.16** | 2.86 |
| | | |
| **Local currency (per unit)** | | |
| Australian dollar (AU$) | | |
| Direct cash cost (before waste) per tonne treated[1] | **19.02** | 13.78 |

| | | |
|---|---|---|
| Operating cost per tonne treated[2] | **21.97** | 17.01 |
| Waste cash cost per waste tonne mined | **4.04** | 3.11 |

| | | |
|---|---|---|
| **Other operating information (US$ million)** | | |
| Waste capitalised | **(30.8)** | (16.8) |
| Waste amortised | **(18.7)** | (13.7) |
| Depreciation and amortisation | **(8.8)** | (8.4) |
| Capital expenditure | **20.1** | 6.5 |

* Excluding depreciation and amortisation.

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

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

## COSTS

The production challenges at Ellendale, which have resulted in lower tonnage treated, together with increased fuel prices and inflation, have negatively impacted unit costs. A large portion of Ellendale's cost structure constitutes a fixed portion resulting in local currency direct cash costs (before waste) per tonne treated for the year amounting to AU$19.02 relative to the prior year of AU$13.78. In addition, these costs were impacted by the demobilisation costs incurred with regards to the change of the mining contractor during December. Waste cash costs per tonne of waste moved was AU$4.04, up from the prior year of AU$3.11.

Total operating costs per tonne treated for the year increased to AU$21.97 per tonne from AU$17.01 per tonne, mainly as a result of the lower production volumes and cost impacts referred to above.

## HSSE

Ellendale continues to achieve a high standard in HSSE management and also retained its 4 Star rating in the external SHE audit. The operation has remained fatality-free since it was taken over by Gem Diamonds and achieved 27 months LTI free at year end. Ellendale recorded zero major environmental incidents and one significant incident, which was duly reported to the competent authorities and appropriate remedial actions implemented. The Company continues to contribute to the progress of its project-affected communities through supporting projects related to education, healthy lifestyles, regional environmental initiatives and a range of several worthy causes. The operation successfully completed a comprehensive indigenous training programme for 15 members of its project-affected community in 2011 and recorded a total of 8% indigenous employment by year end.

## 2012 ONWARDS

Whilst management continues to review all of its options regarding the Ellendale mine, and has appointed advisors to assist in this regard, the focus for 2012 will be on ensuring that Ellendale continues to generate cash and to capitalise on production performance through its primary plant feed section.

# OPERATING REVIEW GHAGHOO

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

Gem Diamonds' Board approved a capital budget of US$85 million in March 2011, for the construction of Phase 1 of the Ghaghoo underground mine, with a production capacity of 720 000 tonnes per annum. The objective of Phase 1 is to confirm the grade, diamond prices and the recovery processes, including the use of autogenous milling, which is expected to increase diamond liberation. Results from Phase 1 will underpin a study aimed at defining the way forward for mining at Ghaghoo.

A decline was settled on as the most cost effective access method for the underground mine and construction of Phase 1 began mid 2011, with production on schedule to commence in mid 2013.

Work on construction of the main camp site at the mine which commenced during the second quarter of 2011 was largely completed by the end of 2011, with accommodation for 220 people. Earth-works activities for the development of Phase 1 including the portal for the decline began in July 2011, following which, mobilisation for the underground access began during the fourth quarter of 2011. As expected, tunnel development has progressed slowly in the early stages, with approximately 53 meters completed as at the date of this report, and a further 450 meters to reach the basalt country rock. Thereafter 650 metres of development is required to reach the ore body. Production from the sub-level cave will follow in the second half of 2013.

Procurement of the long lead items for the plant began in mid 2011 with a view to a construction start scheduled for second quarter 2012, with commissioning to start during the first quarter 2013. All construction and sand decline work is being carried out by contractors, with electrical power for the operation supplied by on-site diesel generators, and water for Phase 1 sourced from boreholes within the mining lease area.

Phase 1 of the mine development has a capital cost of US$85 million, of which US$19 million was spent in 2011.

### HSSE

The development of the Ghaghoo HSSE system remains ongoing as construction and operational activities expand. One Lost Time Injury was recorded at the operation in late 2011, while zero major and/or significant environmental incidents were recorded in the reporting period. The Company successfully commenced the implementation of a community water supply programme for several villages in the Central Kalahari Game Reserve and plans to complete the project during 2012. At year end, 30% of the Company's employees were recruited from the project-affected communities.

# OPERATING REVIEW GEM DIAMONDS MARKETING

**Gem Diamonds' marketing arm was formed in 2010 and is responsible for designing and implementing the sales and marketing strategies as defined by the subsidiary mines' boards.** Gem Diamonds maximises revenue from actively managing its own multi-channel strategy and markets its rough diamonds through a combination of channels, including tenders, auctions, direct sales, off-take arrangements and partnerships, and continues to pursue additional initiatives further down the diamond pipeline.

The Group is heavily focused on developing existing relationships with clients and establishing relationships with new clients.

The Group's rough diamond production is marketed primarily in Antwerp through the use of electronic sales (eSales) technology platforms (eTender and eAuction) which are designed to enhance engagement with customers. eSales technology enables Gem Diamonds to interact with its customers more frequently, dynamically and transparently, and helps ensure the achievement of fair market-driven prices for its diamond production.

The Letšeng diamond production is sold on eTender and is marketed by Gem Diamonds Marketing Services BVBA, a wholly owned Group subsidiary based in Antwerp, Belgium. The Kimberley Diamonds (Kimberley) commercial diamond production is marketed through an outsourced service provider via eAuctions in Antwerp and Kimberley's higher value qualifying fancy yellow diamond production continues to be sold to Tiffany & Co. through the Life of Mine off-take agreement.

Letšeng and Kimberley's new sales and marketing strategy was launched in 2010 and the results can already be seen, both in the prices being achieved for its rough diamonds and polished diamonds and the development of the Group's intellectual know-how in the marketing and manufacturing of rough diamonds.

### MANUFACTURING

In line with the Company's stated strategy to increase its participation in downstream cutting and polishing for own and partnered goods, for the full year 2011, a total of 1 624 carats were polished at a rough market value of US$68.6 million. Of this, US$1.2 million remains unrecognised in revenue and on hand in inventory at year end. Overall the uplift achieved on those goods sold was at the upper end of expectations.

# OPERATING REVIEW OTHER ASSETS

Gem Diamonds completed the sale of its 80% interest in its Indonesian alluvial diamond mining company, PT Galuh Cempaka, on 28 October 2011 to Tan & Chong's Gem Pte. Ltd., a Singapore-based company, for a total consideration of US$5 million.

The Chiri Project in Angola remains under review, although opportunities continue to be explored in terms of the future of Gem Diamonds' involvement in this project. Negotiations with the Company's partner have been extended to 31 May 2012. The carrying value of the Groups investment into the Chiri Project as at December 2011 amounts to US$14.5 million representing loans advanced of US$6.2 million, capital assets injected of US$1.4 million and development costs incurred of US$6.9 million. Should the opportunities to further the project not materialise, the Group would be required to reassess the carrying value of this investment.

# GROUP FINANCIAL PERFORMANCE

2011 has been a year of exceptional financial results, reporting record revenue, underlying EBITDA and earnings, notwithstanding a downturn in the diamond market during the last quarter of the year. The Group reports revenue of US$395.6 million and underlying EBITDA of US$179.8 million, pre-tax earnings from continuing operations of US$155.7 million, profit for the year of US$105.9 million and attributable profit of US$67.7 million.

| (US$ millions) | **12 months ended 31 December 2011** | 12 months ended 31 December 2010 |
|---|---|---|
| Revenue | **395.6** | **266.4** |
| Cost of sales* | **(168.4)** | **(147.9)** |
| Royalty and selling costs | **(32.1)** | **(23.2)** |
| Corporate expenses | **(15.3)** | **(13.3)** |
| Underlying EBITDA | **179.8** | **82.0** |
| Depreciation and amortisation | **(30.4)** | **(31.8)** |
| Share-based payments | **(1.5)** | **(1.6)** |
| Resource extension development costs | **(1.8)** | **–** |
| Other income[1] | **0.6** | **2.3** |
| Foreign exchange gain | **7.2** | **1.1** |
| Net finance income | **1.8** | **2.5** |
| Profit before tax | **155.7** | **54.5** |
| Income tax expense | **(52.9)** | **(18.2)** |
| Profit for the year from continuing operations | **102.8** | **36.3** |
| Profit/(loss) from discontinued operations | **3.1** | **(0.1)** |
| Non-controlling interests | **(38.2)** | **(16.0)** |
| Attributable profit | **67.7** | **20.2** |
| Earnings per share (US cents) | **49** | **15** |
| Earnings per share – (continuing operations (US cents) | **47** | **15** |

*Excluding depreciation and amortisation.

1 Included in other income is share of profit in associate of US$0.3 million in 2011 (31 December 2010: loss of US$0.3 million).

Revenue was generated primarily from the sale of rough diamonds recovered at the Letšeng and Ellendale mines. In addition, revenue includes US$6.1 million additional margin generated from the cutting and polishing business.

EBITDA for the year was US$179.8 million, up from the prior year by US$97.8 million from US$82.0 million. The Group managed to maintain similar EBITDA levels in the second half of the year despite the downturn experienced in the global economy. Profit attributable to shareholders for the year was US$67.7 million, equating to 49 US cents per share on a weighted average number of shares in issue of 138 million. Earnings per share from continuing operations amounted to 47 US cents per share.

Cost of sales for the period was US$168.4 million before non-cash costs of depreciation of US$25.8 million and amortisation on mining assets of US$4.6 million.

Although the Lesotho loti (pegged to the South African rand) commenced the year at extremely high levels and devalued significantly during the latter part of the year, the overall average was similar to the prior year. These average levels, however, still represent a strong local currency negatively impacting US dollar reported costs during the year. The Australian dollar has maintained its strong trading levels during the year resulting in a significantly stronger average local currency than that of the prior year. This has also had an impact on Australia's US dollar reported costs during the year.

The following table details the relative exchange rates for 2011 compared to 2010:

| | **FY 2011** | H2 2011 | H1 2011 | FY 2010 | Variance FY 2011 to FY 2010 |
|---|---|---|---|---|---|
| Lesotho loti per US$1.00 | | | | | |
| Average exchange rate for the year/period | **7.26** | 7.63 | 6.89 | 7.32 | (1%) |
| Year/period end exchange rate | **8.07** | 9.36 | 6.78 | 6.62 | 22% |
| Australian dollar per US$1.00 | | | | | |
| Average exchange rate for the year/period | **0.97** | 0.97 | 0.97 | 1.09 | (11%) |

| | | | | | |
|---|---|---|---|---|---|
| Year/period end exchange rate | **0.98** | 1.03 | 0.93 | 0.98 | 0% |

Royalties and selling costs of US$32.1 million mainly comprise mineral extraction costs paid to the Lesotho Revenue Authority of 8% and to the Australian Government of 5% on the sale of diamonds from these respective territories and diamond marketing related expenses. The internal sales and marketing structure formed by the Group in late 2010 has resulted in a reduction in Letšeng's selling costs from 2.5% to 1.5%. As a result of managing the sales and marketing internally, the Group EBITDA in 2011 has improved by US$4.6 million through reduced selling and marketing costs and a positive contribution from that division. In addition, the sales and marketing division has indirectly contributed to the Group profitability through the management of the manufacturing process and downstream initiative, which has resulted in Letšeng generating US$6.1 million in additional revenue.

Corporate expenses relate to central costs incurred by the Company and its services subsidiary, Gem Diamond Technical Services. Corporate expenses were US$15.3 million, impacted by the weaker US dollar during the period (a large portion of corporate costs are based in South African rand), and include one-off project costs of US$0.4m. Corporate costs do not include the positive financial contribution generated by the Group from the implementation of the sales and marketing structure noted above.

## DISCONTINUED OPERATIONS

The operation in Indonesia was on care and maintenance during 2011 and in October was sold for US$5.0 million. As a result, it is no longer carried on the Group's Balance Sheet. All care and maintenance costs incurred during the year have been disclosed separately in the Income Statement under Discontinued Operations. The Group has recovered an overall net profit of US$3.1 million on the sale. The impact on the overall earnings per share was two US cents.

## SHARE-BASED PAYMENTS

Share-based payment costs for the year amount to US$1.5 million, comprising the allocation of the share option awards to staff in early 2008 which ended in April 2011, and for which no vesting took place, and the share option award in 2010 which expires in 2012. On 13 June 2011, the Company announced that 1.3 million options were awarded to Directors and senior employees. The share-based payment cost associated with this new award has impacted the current year's charge by US$0.5 million.

## FOREX

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

## NET FINANCE INCOME

Net finance income comprises the net interest received of US$3.8 million, predominantly generated on surplus cash from the Letšeng operation, against US$2.0 million charged to the Income Statement, representing the impact of unwinding the current environmental provisions.

## TAX

The effective tax rate in the year for the Group is 34% from continuing operations, above the UK statutory tax rate of 26.5%. The increase over the statutory rate is predominantly driven by the dividends declared at Letšeng during the year which resulted in a 10% withholding tax payable in Lesotho. The tax rate of the Group is driven by tax of 25% on profits generated by Letšeng Diamonds, withholding tax of 10% on dividends and deferred tax assets not recognised on losses incurred in non-trading operations.

## NON-CONTROLLING INTERESTS

Non-controlling interests represent 30% of the profits in Letšeng Diamonds, which are attributable to the Company's partner, the Government of the Kingdom of Lesotho.

## BLINA MINERALS NL (PREVIOUSLY BLINA DIAMONDS)

On 25 November 2011, Kimberley Diamonds ceased to account for its investment in Blina Minerals NL (Blina) as an associate as it no longer exerts significant influence. The difference between the carrying value and the fair value at the date the associate was derecognised and was recognised in profit and loss. The subsequent changes in the fair value of the investment are presented in other comprehensive income. For the duration that the investment was accounted for as an associate, the Group recognised US$0.3 million of its share of the profits.

## RESOURCE EXTENSION DEVELOPMENT COSTS

During the year, the Group ceased its resource extension programme at Kimberley Diamonds. Although the results were not favourable, potential opportunities to recommence this programme are possible. As a result of the current position, the Group wrote off US$1.7 million representing the costs previously incurred. No other impairments on non-current assets were identified in the period.

## CASH AND DEBT

The Group had US$158.7 million cash on hand at the period end (of which US$141.8 million is attributable and US$1.6 million is restricted).

Group cash was supplemented by a net cash inflow from operations for the year of US$203.3 million. Investments in property, plant and equipment amounted to US$125.0 million. The largest component of this investment was US$81.3 million, incurred in waste stripping at both mining operations. For Letšeng, plant and equipment investment relates to infrastructure costs associated with the Life of Mine extension. For Kimberley Diamonds, this relates to the increased treatment rate at the Ellendale E9 plant which required additional slimes capacity and the modifications to the primary plant feed section of the processing plant.

During the year total dividends declared by Letšeng Diamonds were US$121.3 million, which resulted in a net cash flow of US$76.4 million to Gem Diamonds and a cash outflow from the Group of US$8.5 million as a result of withholding taxes and US$36.4 million in payments of the Government of Lesotho's portion of the dividend.

During November, Letšeng signed a three year revolving working capital facility of Maloti 250 million with Standard Lesotho Bank. This facility is available for draw-down from January 2012.

Australia and New Zealand Banking Group Limited (ANZ Bank) has issued performance guarantees on behalf of Kimberley Diamonds to the amount of US$9.4 million, of which US$7.0 million is cash-backed to support environmental obligations for protection of the land on which mining, mining related activities or exploration is conducted.

## EVENTS SUBSEQUENT TO THE YEAR END

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

## GOVERNANCE

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

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

It is now almost 11 years since the Kimberley Process was introduced to the diamond industry. The process has grown in reputation and has contributed to the virtual eradication of the trade in conflict diamonds. Gem Diamonds is firmly committed to the principles of the Kimberley Process and all diamonds sold by the Group are Kimberley Process certified.

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

| | Notes | **2011 US$'000** | 2010 US$'000 |
|---|---|---|---|
| **CONTINUING OPERATIONS** | | | |
| Revenue | | **395 574** | 266 376 |
| Cost of sales | | **(196 781)** | (177 833) |
| **GROSS PROFIT** | | **198 793** | 88 543 |
| Other operating income | | **249** | 2 569 |
| Royalties and selling costs | | **(32 097)** | (23 225) |
| Corporate expenses | | **(17 291)** | (15 109) |
| Share-based payments | | **(1 455)** | (1 644) |
| Resource extension development costs | | **(1 767)** | – |
| Foreign exchange gain | | **7 164** | 1 137 |
| **OPERATING PROFIT** | | **153 596** | 52 271 |
| Net finance income | | **1 830** | 2 470 |
| Finance income | | **3 786** | 4 102 |
| Finance costs | | **(1 956)** | (1 632) |
| Share of post tax profit/(loss) of associate | | **308** | (261) |
| **PROFIT BEFORE TAX FROM CONTINUING OPERATIONS** | | **155 734** | 54 480 |
| Income tax expense | 5 | **(52 946)** | (18 207) |

| | | |
|---|---|---|
| **PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS** | **102 788** | 36 273 |
| **DISCONTINUED OPERATIONS** | | |
| Profit /(loss) after tax for the year from discontinued operations | **3 128** | (90) |
| **PROFIT FOR THE YEAR** | **105 916** | 36 183 |
| *Attributable to:* | | |
| Equity holders of parent | **67 669** | 20 185 |
| Non-controlling interests | **38 247** | 15 998 |
| **PROFIT FOR THE YEAR** | **105 916** | 36 183 |
| ***Earnings per share (cents)*** | | |
| – Basic earnings for the year attributable to ordinary equity holders of the parent | **49** | 15 |
| – Diluted earnings for the year attributable to ordinary equity holders of the parent | **48** | 14 |
| ***Earnings per share for continuing operations (cents)*** | | |
| – Basic earnings for continuing operations attributable to ordinary equity holders of the parent | **47** | 15 |
| – Diluted earnings for continuing operations attributable to ordinary equity holders of the parent | **46** | 15 |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

| | **2011 US$'000** | 2010 US$'000 |
|---|---|---|
| **PROFIT FOR THE YEAR** | **105 916** | 36 183 |
| Loss on valuation of available-for-sale financial asset | **(702)** | – |
| Exchange differences on translation of foreign operations | **(70 430)** | 35 783 |
| **Other comprehensive (loss)/income for the year** | **(71 132)** | 35 783 |
| **Total comprehensive income for the year** | **34 784** | 71 966 |
| *Attributable to:* | | |
| Equity holders of parent | **16 042** | 46 178 |
| Non-controlling interests | **18 742** | 25 788 |
| **Total comprehensive income for the year** | **34 784** | 71 966 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

| | **2011 US$'000** | 2010 US$'000 |
|---|---|---|
| **ASSETS** | | |
| **Non-current assets** | | |
| Property, plant and equipment | **424 937** | 414 017 |
| Investment property | **617** | 617 |
| Investment in associate | **–** | 1 257 |
| Intangible assets | **25 529** | 31 154 |
| Other financial assets | **14 587** | 13 506 |
| | **465 670** | 460 551 |
| **Current assets** | | |
| Inventories | **39 222** | 35 237 |

| | | |
|---|---|---|
| Receivables | **10 145** | 7 191 |
| Other financial assets | **9** | 45 |
| Income tax receivable | **–** | 121 |
| Cash and short term deposits | **158 750** | 129 849 |
| | **208 126** | 172 443 |
| Assets of disposal group classified as held for sale | **–** | 3 082 |
| **TOTAL ASSETS** | **673 796** | 636 076 |

| | | |
|---|---|---|
| **EQUITY AND LIABILITIES** | | |
| **Equity attributable to equity holders of the parent** | | |
| Issued capital | **1 383** | 1 383 |
| Share premium | **885 648** | 885 648 |
| Own shares[1] | **(1)** | (1) |
| Other reserves | **(48 720)** | 1 325 |
| Accumulated losses | **(421 406)** | (489 075) |
| | **416 904** | 399 280 |
| **Non-controlling interests** | **66 879** | 84 791 |
| **TOTAL EQUITY** | **483 783** | 484 071 |
| **Non-current liabilities** | | |
| Trade and other payables | **667** | 685 |
| Provisions | **43 201** | 32 510 |
| Deferred tax liabilities | **68 061** | 71 012 |
| | **111 929** | 104 207 |
| **Current liabilities** | | |
| Trade and other payables | **57 098** | 44 274 |
| Income tax payable | **20 986** | 1 648 |
| | **78 084** | 45 922 |
| Liabilities of disposal group classified as held for sale | **–** | 1 876 |
| **TOTAL LIABILITIES** | **190 013** | 152 005 |
| **TOTAL EQUITY AND LIABILITIES** | **673 796** | 636 076 |

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

| | Attributable to the equity holders of the parent | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Issued capital** | **Share premium** | **Own shares** | **Other reserves** | **Accumulated losses)/ retained earnings** | **Total** | **Non-controlling interests** | **Total equity** |
| **Balance at 1 January 2011** | **1 383** | **885 648** | **(1)** | **1 325** | **(489 075)** | **399 280** | **84 791** | **484 071** |
| Profit for the year | **–** | **–** | **–** | **–** | **67 669** | **67 669** | **38 247** | **105 916** |
| Other comprehensive income | **–** | **–** | **–** | **(51 627)** | **–** | **(51 627)** | **(19 505)** | **(71 132)** |
| **Total comprehensive income** | **–** | **–** | **–** | **(51 627)** | **67 669** | **16 042** | **18 742** | **34 784** |
| Share-based payments | **–** | **–** | **–** | **1 582** | **–** | **1 582** | **–** | **1 582** |
| Dividends paid | **–** | **–** | **–** | **–** | **–** | **–** | **(36 654)** | **(36 654)** |
| **Balance at 31 December 2011** | **1 383** | **885 648** | **(1)** | **(48 720)** | **(421 406)** | **416 904** | **66 879** | **483 783** |
| | | | | | | | | |
| **Balance at 1 January 2010** | 1 383 | 885 648 | (1) | (26 551) | (509 260) | 351 219 | 68 043 | 419 262 |
| Profit for the year | – | – | – | – | 20 185 | 20 185 | 15 998 | 36 183 |
| Other comprehensive income | – | – | – | 25 993 | – | 25 993 | 9 790 | 35 783 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Total comprehensive income** | – | – | – | 25 993 | 20 185 | 46 178 | 25 788 | 71 966 |
| Share-based payments | – | – | – | 1 766 | – | 1 766 | – | 1 766 |
| Revaluation through other reserves | – | – | – | 117 | – | 117 | – | 117 |
| Dividends paid | – | – | – | – | – | – | (9 040) | (9 040) |
| **Balance at 31 December 2010** | 1 383 | 885 648 | (1) | 1 325 | (489 075) | 399 280 | 84 791 | 484 071 |

# CONSOLIDATED STATEMENT OF CASHFLOWS

As at 31 December 2011

| | **2011 US$'000** | 2010 US$'000 |
|---|---|---|
| **CASHFLOWS FROM OPERATING ACTIVITIES** | **203 288** | 93 996 |
| Cash generated by operations | **216 680** | 102 565 |
| Working capital adjustments | **3 994** | 803 |
| | **220 674** | 103 368 |
| Interest received | **3 766** | 4 045 |
| Interest paid | **(36)** | (61) |
| Income tax paid | **(21 116)** | (13 356) |
| **CASHFLOWS USED IN INVESTING ACTIVITIES** | **(125 030)** | (77 211) |
| Purchase of property, plant and equipment | **(132 227)** | (77 556) |
| Proceeds from sale of property, plant and equipment | **2 637** | 938 |
| Purchase of other financial assets | **(340)** | (86) |
| Cash received/ (disposed of) from disposal of subsidiary | **4 900** | (369) |
| Rights participation in associate | **–** | (138) |
| **CASHFLOWS USED IN FINANCING ACTIVITIES** | **(36 654)** | (9 244) |
| Financial liabilities repaid | **–** | (204) |
| Dividends paid to non-controlling interests | **(36 654)** | (9 040) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | **41 604** | 7 541 |
| Cash and cash equivalents at the beginning of the year – continuing operations | **129 849** | 113 827 |
| Cash and cash equivalents at the beginning of the year – discontinued operations | **78** | 15 |
| Foreign exchange differences | **(12 781)** | 8 544 |
| **CASH AND CASH EQUIVALENTS AT END OF THE YEAR** | **158 750** | 129 927 |
| **Cash and cash equivalents at end of the year held with banks** | **157 165** | 124 587 |
| **Restricted cash at end of the year** | **1 585** | 5 340 |
| **Less: cash and cash equivalents from discontinued operations at end of the year** | **–** | (78) |
| **CASH AND CASH EQUIVALENTS AT END OF THE YEAR** | **158 750** | 129 849 |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2011

## 1. Segment information

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

- Lesotho (Mining activities)

- Australia (Mining activities)
- Botswana (Mining activities)
- Belgium (Sales and marketing for the sale of diamonds in Antwerp)
- BVI, RSA and UK (Technical and administrative services)

Management monitors the operating results of the geographical units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss. However, Group financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

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

Segment revenue is derived from mining activities and group services.

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

| **Year ended 31 December 2011** | **Lesotho (US$'000)** | **Australia (US$'000)** | **Botswana (US$'000)** | **Belgium (US$'000)** | **BVI, RSA and UK (US$'000)** | **Total (US$'000)** |
|---|---|---|---|---|---|---|
| **Sales** | | | | | | |
| Total sales | **300 587** | **89 432** | **–** | **300 244** | **13 968** | **704 231** |
| Inter-segment sales | **(297 027)** | **–** | **–** | **(58)** | **(11 572)** | **(308 657)** |
| **Sales to external customers** | **3 560** | **89 432** | **–** | **300 186** | **2 396** | **395 574** |
| **Results** | | | | | | |
| Depreciation and amortisation[1] | **40 594** | **27 382** | **–** | **279** | **1 735** | **69 990** |
| Share-based equity transactions | **129** | **145** | **–** | **–** | **1 181** | **1 455** |
| Resource extension development costs | **–** | **1 767** | **–** | **–** | **–** | **1 767** |
| **Segment operating profit/(loss)** | **167 442** | **3 070** | **161** | **1 285** | **(18 362)** | **153 596** |
| Net finance income | | | | | | **1 830** |
| Share of profit of associate | | | | | | **308** |
| **Profit before tax from continuing operations** | | | | | | **155 734** |
| Income tax expense | | | | | | **(52 946)** |
| **Profit for the period from continuing operations** | | | | | | **102 788** |
| | | | | | | |
| **Segment assets** | **371 503** | **117 896** | **66 749** | **3 966** | **113 682** | **673 796** |
| **Segment liabilities** | **54 620** | **59 014** | **2 952** | **2 324** | **3 042** | **121 952** |

1 Depreciation and amortisation includes waste amortisation of US$18.6 million and US$18.7 million at Lesotho and Australia respectively; property, plant and equipment depreciation and mining assets amortisation.

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

Annual revenue from two customers amounted to US$134.4 million (31 December 2010: US$91.5 million) arising from sales reported in the Lesotho, Belgium and Australian segments.

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

Total sales for the period are significantly higher than that in the prior period as a result of an increase in the number of carats recovered and sold in the Lesotho operation, together with an increase in diamonds prices at both the Lesotho and Australian operations.

| Year ended 31 December 2010 | Lesotho (US$'000) | Australia (US$'000) | Botswana (US$'000) | Belgium (US$'000) | BVI, RSA and UK (US$'000) | Total (US$'000) |
|---|---|---|---|---|---|---|
| **Sales** | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total sales | 189 080 | 77 961 | – | 80 744 | 15 547 | 363 332 |
| Inter-segment sales | (88 096) | – | – | (69) | (8 791) | (96 956) |
| **Sales to external customers** | 100 984 | 77 961 | – | 80 675 | 6 756 | 266 376 |
| **Results** | | | | | | |
| Depreciation and amortisation[1] | 34 124 | 21 724 | – | 72 | 1 803 | 57 723 |
| Share-based equity transactions | 92 | 195 | – | | 1 357 | 1 644 |
| **Segment operating profit/(loss)** | 68 047 | 4 638 | (48) | 528 | (20 894) | 52 271 |
| Net finance income | | | | | | 2 470 |
| Share of loss of associate | | | | | | (261) |
| **Profit before tax from continuing operations** | | | | | | 54 480 |
| Income tax expense | | | | | | (18 207) |
| **Profit for the period from continuing operations** | | | | | | 36 273 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Segment assets | 410 811 | 91 078 | 52 775 | 2 399 | 75 040 | 632 103 |
| Investment in associate | – | 891 | – | – | – | 891 |
| **Total segment assets** | 410 811 | 91 969 | 52 775 | 2 399 | 75 040 | 632 994 |
| **Segment liabilities** | 31 607 | 42 604 | 220 | 1 584 | 3 103 | 79 118 |

1 Depreciation and amortisation includes waste amortisation of US$10.2 million and US$13.7 million at Lesotho and Australia respectively; property, plant and equipment depreciation and mining assets amortisation.

| | | | | | | |
|---|---|---|---|---|---|---|
| **Other segment information** | | | | | | |
| Capital expenditure | | | | | | |
| – Property, plant and equipment | 12 288 | 7 126 | 1 840 | 597 | 1 241 | 23 092 |
| – Waste stripping | 40 279 | 16 812 | – | – | – | 57 091 |
| **Total capital expenditure** | 52 567 | 23 938 | 1 840 | 597 | 1 241 | 80 183 |

Segment assets do not include assets of the disposal group classified as held for sale of US$3.1 million.

Segment liabilities do not include deferred tax liabilities of US$71.0 million and liabilities directly associated with the assets of the disposal groups classified as held for sale of US$1.9 million.

## 2. BASIS OF PRESENTATION AND ANNUAL REPORT

The 2011 Annual Report has been published on 20 March 2012 and is available on the Gem Diamonds Limited website (www.gemdiamonds.com)

Copies are available from:
The Company Secretary
Gem Diamonds Limited
2 Eaton Gate
London
SW1W 9BJ

In compliance with 9.6.1 of the Listing Rules on 20 March 2012, the Company forwarded to the Hemscott Group LTD an electronic copy of the Annual Report for publication through the National Storage Mechanism.

The Annual General Meeting will take place on 12 June 2012. The Notice of Meeting will be sent out to shareholders at the latest by 7 May 2012.

## 3. EARNINGS PER SHARE (CENTS)

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

| | **2011 US$'000** | 2010 US$'000 |
|---|---|---|
| Profit for the year from continuing operations | **102 788** | 36 273 |
| Profit/(loss) for the year from discontinued operations | **3 128** | (90) |
| Less: non-controlling interests | **(38 247)** | (15 998) |
| **Net profit attributable to equity holders of the parent for basic and diluted earnings** | **67 669** | 20 185 |

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

| | | |
|---|---|---|
| Weighted average number of ordinary shares in issue during the year ('000) | **138 170** | 138 152 |

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

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

| | **Number of shares** | Number of shares |
|---|---|---|
| | **2011 ('000)** | 2010 ('000) |
| Weighted average number of ordinary shares in issue during the year | **138 170** | 138 152 |
| Effect of dilution: | | |
| – Future share awards under the Employee Share Option Programme | **2 147** | 1 100 |
| Weighted average number of ordinary shares in issue during the year adjusted for the effect of dilution | **140 317** | 139 252 |

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.

## 4. DIVIDENDS PAID AND PROPOSED

The Directors do not intend recommending the declaration of a dividend. The Directors will reconsider the Company's dividend policy as the Company advances the development of its operations. The Directors envisage that, at such time, the Company's dividend policy will be determined based on, and dependant on, the results of the Group's operations, its financial condition, cash requirements, future prospects, profits available for distribution and other factors deemed to be relevant at the time.

## 5. INCOME TAX EXPENSE

| | **2011 US$'000** | 2010 US$'000 |
|---|---|---|
| Income statement | | |
| Current | | |
| – Overseas | **(34 347)** | (12 489) |
| Withholding tax | | |
| – Overseas | **(8 636)** | (2 188) |
| Deferred | | |
| – Overseas | **(9 963)** | (3 530) |
| | **(52 946)** | (18 207) |
| **Reconciliation of tax rate:** | | |
| Profit before taxation from continuing operations | **155 734** | 54 480 |
| Profit/(loss) before taxation from discontinued operations | **3 128** | (708) |
| Profit before taxation | **158 862** | 53 772 |
| | | |
| | **%** | % |
| Applicable income tax rate | **26.5** | 28.0 |
| Permanent differences | **1.7** | 10.9 |
| Unrecognised deferred tax assets | **–** | 0.8 |
| Effect of overseas tax at different rates | **(1.4)** | (2.6) |
| Utilisation of previously unrecognised deferred tax assets | **–** | (5.0) |
| Effect of deferred tax on unremitted earnings | **1.9** | (1.4) |
| Tax effect of share of loss of associate | **–** | (1.3) |
| Withholding tax | **5.6** | 4.0 |
| **Effective income tax rate** | **34.3** | 33.4 |
| Income tax expense reported in the consolidated income statement | **(52 946)** | (18 207) |
| Income tax attributable to discontinued operations | **–** | 618 |
| | **(52 946)** | (17 589) |

## 6. RELATED PARTIES

| **Related party** | **Relationship** |
|---|---|

| | |
|---|---|
| Jemax Management (Proprietary) Limited | Common director |
| Jemax Aviation (Proprietary) Limited | Common director |
| Gem Diamond Holdings Limited | Common director |
| Government of Lesotho | Non-controlling interest |
| Geneva Management Group (UK) Limited | Common director |
| Government of the CAR | Non-controlling interest (during prior year) |
| Government of Indonesia | Non-controlling interest |
| Blina Minerals NL | Associate (until 25 November 2011) |

| | **2011 US$'000** | 2010 US$'000 |
|---|---|---|
| **Compensation to key management personnel (including Directors)** | | |
| Share-based equity transactions | **1 186** | 1 598 |
| Short-term employee benefits | **7 989** | 8 088 |
| | **8 336** | 9 422 |
| **Royalties paid to related parties** | | |
| Government of Lesotho | **(23 887)** | (14 981) |
| **Lease and licence payments to related parties** | | |
| Government of Lesotho | **(87)** | (100) |
| Government of CAR | **–** | (145) |
| **Sales to/(purchases) from related parties** | | |
| Jemax Aviation (Proprietary) Limited | **451** | 357 |
| Geneva Management Group (UK) Limited | **(10)** | (9) |
| Blina Minerals NL | **413** | – |
| **Amount included in trade receivables owing by/(to) related parties** | | |
| Jemax Aviation (Proprietary) Limited | **(50)** | 57 |
| Jemax Management (Proprietary) Limited | **(9)** | (10) |
| **Amounts owing by/(to) related party** | | |
| Government of Lesotho | **(2 012)** | (1 486) |
| Blina Minerals NL | **366** | – |
| **Dividends paid** | | |
| Government of Lesotho | **(36 654)** | (9 040) |

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

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

## 7. POST BALANCE SHEET EVENTS

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