CHIEF EXECUTIVE'S REVIEW

The focus on extracting maximum value from the Group's operations through enhancing operating efficiencies and investing in innovative technologies has delivered a strong operational performance, a record carat production and strong shareholder returns during 2018.

The Group's strategy is built on three pillars, namely: extracting maximum value from our operations; working responsibly and maintaining our social licence to operate; and preparing for our future. This integrated approach to enhance our business performance allows the Group to adapt to challenges and opportunities as they arise, enabling the achievement of the long-term goal of sustainable shareholder returns.

2018 performance

Against the backdrop of a challenging year for the diamond mining industry, Gem Diamonds achieved pleasing results characterised by the recovery of 15 diamonds greater than 100 carats, a record for a single calendar year. Production in 2018 also included the highest recovery of diamonds greater than 20 carats in weight.

The most notable recovery for the year was the 910 carat Lesotho Legend, which sold for US$40.0 million (US$43 956 per carat). This diamond is the largest recovered from Letšeng to date and is the fifth largest gem-quality diamond ever recovered. The recovery of a diamond of this quality and size affirms the world-class calibre of the Letšeng mine. While this diamond was an exceptional find, it was one of several notable recoveries[1] including a 4.06 carat pink diamond, which achieved the highest dollar per carat for the year of US$64 067 per carat and a 138.20 carat white diamond which sold for US$8.4 million (US$60 428 per carat), making it the highest dollar per carat achieved during the year for a Letšeng white rough diamond.

The market for the Letšeng mine's large, high-quality white rough diamonds remained resilient throughout the year. An average price of US$2 131[2] per carat was achieved, up 10% from US$1 930[2] per carat in 2017.

At Letšeng, planned major maintenance work conducted on the plants during May, together with enhanced efficiencies from

Clifford Elphick – Chief Executive Officer various Business Transformation initiatives, improved plant runtime resulting in a significant increase in the tonnages treated during the second half of 2018. Carats recovered during 2018 increased by 13% to 126 875 (2017: 111 811 carats). A total of 125 111 carats were sold, generating revenue of US$267.3 million, an underlying EBITDA of US$82.3 million and earnings per share of 18.80 US cents. The Group ended the year in a net cash[3] position of US$17.5 million compared to US$1.4 million in the previous year.

[1] Refer to the Gem Diamonds website for photographs of notable diamond recoveries (www.gemdiamonds.com).
[2] Includes carats extracted at rough valuation.
[3] Calculated as the sum of cash and cash equivalents less drawn down facilities (excluding asset-based finance facility).

Extracting maximum value from operations

The Business Transformation has progressed well and remains on-track to achieve the target of US$100 million in cost savings and efficiencies by 2021, with an anticipated sustainable annual net benefit of US$30 million from 2022 onwards.

The initiatives already implemented are expected to deliver US$63.7 million over the next four years. Of these initiatives, US$4.9 million relate to once-off savings through working capital management and the sale of non-core assets, and the balance of US$58.8 million represents cumulative recurring annualised benefits over the targeted period in mining, processing and corporate activities. The Group remains committed to identifying and implementing additional efficiencies and cost savings to augment these results.

The success of the Business Transformation process is underpinned by the organisational health of the Group. In 2017 an independent organisational health index (OHI) survey was conducted at the outset of the process in order to identify organisational health practice areas requiring improvement. A second survey was conducted during the latter part of 2018 and it is pleasing to report that the results from this survey demonstrated that the Group successfully reached an overall organisational health improvement.

The LoM plan for the Letšeng mine was revisited during 2018, with the aim of further reducing the waste stripping required to expose Kimberlite in both the Main and Satellite pipes through the steepening of inter-ramp slope angles. Mining in accordance with this plan has commenced and is expected to significantly increase the net present value of the mine.

As previously reported a formal process to dispose of the Ghaghoo asset is underway and satisfactory progress has been made.

Preparing for the future

In order to build towards ensuring a profitable and sustainable future for Gem Diamonds through focused investment, it is important to continually seek innovative ways of identifying, recovering and liberating Letšeng's high-value diamonds.

During the year, the Company, through its subsidiary Gem Diamonds Innovation Solutions, (GDIS) continued to make good progress in the development of its two key technologies to i) identify locked diamonds within kimberlite; and, ii) to liberate diamonds using a non-mechanical process. These technologies are aimed primarily at limiting diamond damage and reducing operating costs. The Company approved a US$3.0 million pilot plant to be constructed at Letšeng which employs innovative technology to identify diamonds within kimberlite ore. This project will also include the use of a prototype high-voltage pulse generating unit to liberate the diamonds. We anticipate the pilot plant to be commissioned during Q2 2019. The results and outcomes emanating from the pilot plant operation will determine the way forward in respect of these technologies.

Good progress has been made in the statutory process for the renewal of the Letšeng mining lease during 2018.

Working responsibly and maintaining our social licence

Gem Diamonds remains committed to delivering shareholder returns in a responsible and sustainable way. The Group believes that long-term profitability goes hand-in-hand with upholding and promoting the rights and welfare of its employees and project communities.

Health and safety remains a top priority for the Group, and I am pleased, once again, to report a fatality-free year. Four LTIs were recorded during the year. I wish to reaffirm Gem Diamonds' commitment to eliminating workplace injuries in line with its goal of achieving zero harm.

Recognising the potential risk that dams pose to host communities and the environment, dam safety has long been of the utmost importance to Gem Diamonds. The Group undertakes full lifecycle management of tailings storage facilities in accordance with the highest structural stability standards including international best practice. A rigorous monitoring programme is in place to ensure any risks to the operation or the surrounding communities and is timeously identified and mitigated.

Moreover, in order to safeguard downstream communities, an early-warning system, together with community training and awareness programmes, is used to support emergency response readiness in the unlikely event of a failure. (For further detail on how the Group ensures the highest standards of dam safety management, refer to the Sustainable Development Reporting Platform www.gemdiamonds.com.)

Project affected communities are vital stakeholders, and the Group continues to work closely with such communities. Throughout the year, investment continued to be made into several community programmes which are designed to support community needs through self-sustaining initiatives, such as the dairy farming project launched in 2017, the Vegetable Farming Project launched in 2015 and the Four Woolsheds Construction Project launched in 2013. Furthermore, in celebration of the recovery of the Lesotho Legend, the 910 Community Project was launched. Following consultation with community leaders, the construction and development of a commercial poultry and egg farming co-operative was identified as the preferred community project. A feasibility study has been commissioned to better understand the potential socio-economic impact of this project and to determine the investment required.

Investment in education is one of the most impactful and sustainable contributions that the Group can make and its Scholarship Programme, therefore, remains a priority. Through this initiative, bursaries are offered to students currently studying or interested in studying for tertiary qualifications relating to the development of the natural resources of Lesotho. To improve skills within the country, Gem Diamonds also offers an Internship Programme at the Letšeng mine, guaranteeing two years of work, with permanent employment offered to top candidates at the end of that period.

From an environmental perspective, I am pleased to report that during 2018, the Group maintained its exemplary record of zero reportable environmental incidents.

Outlook

The emphasis for 2019, and beyond, remains on positioning Gem Diamonds for continued sustainable growth by leveraging the Group's strengths and by focused investment. Through this disciplined focus on value creation, the Group aims to continue the positive momentum generated in 2018.

I would like to extend my appreciation to Johnny Velloza for the work he has carried out during his time as Chief Operating Officer (COO), and to thank him for electing to continue contributing to the Group's success through his role as a non-Executive Director of the Board. In addition, I would like to take this opportunity to thank Gavin Beevers, who had served as a non-Executive Director of Gem Diamonds for many years, for agreeing to return as Technical Advisor to operations while we seek a suitable candidate to fill the role of COO.

My sincere gratitude goes out to all our employees – your efforts at driving efficiencies and constant dedication to making every aspect of our business better have defined our success.

Finally, I would like to thank our shareholders for their continued support and assure them of our commitment to achieving excellence.

Clifford Elphick
Chief Executive Officer

12 March 2019

GROUP FINANCIAL PERFORMANCE

Building a solid platform for maximum wealth creation.

2018 marked a very positive year for Gem Diamonds with strong operational and financial performance driving an improved cash position. This was the result of the culmination of a number of Business Transformation initiatives, operational enhancements and business process optimisations providing the platform to extract maximum value from our operations.

Robust tender revenues achieved at Letšeng during 2018 were underpinned by strong operational results with a record 15 diamonds greater than 100 carats and an improved number of diamonds greater than 20 carats being recovered during the year. Included in these recoveries, is the remarkable 910 carat Lesotho Legend that sold for US$40 million and contributed significantly towards the Group's improved revenue, cash position and strengthened balance sheet.

Compared to 2017, underlying EBITDA increased to US$82.3 million from US$45.0 million and attributable profit increased to US$26.0 million from US$5.5 million. The Group's net cash* position improved to US$17.5 million by year end compared to US$1.4 million in 2017.

Cost containment remains a challenge as the Group operates in a high inflationary and difficult macro-economic environment. In addition, both plants were also stopped for major planned shutdowns during the first half of the year, increasing operating costs while treating lower volumes of ore tonnes. The benefit of these improvements was reflected in the notable improvement in plant uptime during the second half of the year. At Letšeng, increased load and hauling distances and fuel increases of 22% year on year further added to cost increases, which were partly contained by the successful implementation of various Business Transformation initiatives and strict cost management discipline. The successful implementation of several Business Transformation initiatives resulted in a contribution of US$19.4 million, net of fees and costs, to the Group's results during the year and the cumulative four-year target to 2021 of US$100 million in revenue, productivity improvements and cost savings remains on track.

The strong financial performance ensured debt repayments were fulfilled as they became due and the positive outlook aided in the renewal of the LSL250.0 million unsecured revolving credit facility at Letšeng for a further three years at an increased value of LSL500.0 million.

** Net cash is calculated as cash and short-term deposits less drawn down bank facilities (exluding asset-based finance facility).*

Revenue

Group revenue of US$267.3 million in 2018, primarily derived from its mining operations in Lesotho (Letšeng), was 25% higher than that achieved in 2017. Letšeng achieved an average of US$2 131** per carat (US$1 930** per carat in 2017) following an improvement in the frequency of the recovery of large, high-quality white diamonds, including the sale of the Lesotho Legend. The total carats sold increased by 17% to 125 111 carats, the highest number ever to be sold in a calendar year.

Initiatives within the Business Transformation which would have a direct revenue impact within the processing workstream, contributed US$16.9 million during the year, before associated operating and implementation costs. This mainly related to the implementation of a mobile XRT sorting machine to re-treat tailings material, which contributed 11 360 to carats sold during 2018.

*** Includes carats extracted at rough valuation.*

Michael Michael – Chief Financial Officer

GROUP FINANCIAL PERFORMANCE CONTINUED

Summary of financial performance

US$ million	2018	2017
Revenue	267.3	214.3
Royalty and selling costs	(22.9)	(18.8)
Cost of sales[1, 3]	(152.1)	(141.3)
Corporate expenses	(10.0)	(9.2)
Underlying EBITDA[2]	82.3	45.0
Depreciation and mining asset amortisation	(8.6)	(8.9)
Share-based payments	(1.4)	(1.5)
Other income	0.4	0.8
Foreign exchange gain/(loss)	2.2	(1.3)
Net finance costs	(1.9)	(3.8)
Profit before tax	73.0	30.3
Income tax expense	(26.4)	(13.1)
Profit for the year	46.6	17.2
Non-controlling interests	(20.6)	(11.7)
Attributable profit	26.0	5.5
Earnings per share (US cents)	18.80	3.96

[1] Including waste stripping costs amortisation but excluding depreciation and mining asset amortisation.
[2] Underlying earnings before interest, tax, depreciation and mining asset amortisation (EBITDA) as defined in Note 4 of the notes to the consolidated financial statements.
[3] Including Ghaghoo's care and maintenance costs for 2018 which are included in other operating income and expense in the statutory statement of profit or loss.

US$ million	2018	2017
Group revenue summary		
Letšeng sales – rough	266.6	206.8
Ghaghoo sales – rough	–	2.4
Sales – polished margin	0.2	0.6
Sales – other	0.4	0.6
Impact of movement in own manufactured inventory	0.1	3.9
Group revenue	**267.3**	**214.3**

Royalties consist of an 8% levy paid to the government of Lesotho on the value of diamonds sold by Letšeng. Selling costs relating to diamond selling and marketing-related expenses are incurred by the Group's sales and marketing operation in Belgium. During the year, royalties and selling costs increased by 22% to US$22.9 million, in line with revenue.

Operational expenses

While revenue is generated in US dollar, the majority of operational expenses are incurred in the relevant local currency in the operational jurisdictions. Although the local currency closing rates were weaker for the year, the average Lesotho loti (LSL) (pegged to the South African rand) and Botswana pula (BWP) were slightly stronger against the US dollar during the year, which negatively impacted underlying US dollar reported costs. Group cost of sales was US$152.1 million, compared to US$141.3 million in the prior year, the majority of which was incurred at Letšeng.

Exchange rates	2018	2017	% change
LSL per US$1.00			
Average exchange rate	**13.25**	13.31	–
Year-end exchange rate	**14.39**	12.38	16
BWP per US$1.00			
Average exchange rate	**10.20**	10.34	(1)
Year-end exchange rate	**10.73**	9.83	9
US$ per GBP1.00			
Average exchange rate	**1.34**	1.29	4
Year-end exchange rate	**1.27**	1.35	(6)

Letšeng mining operation

Cost of sales for the year was US$145.9 million, up 14% from US$127.6 million in 2017. Total waste stripping costs amortised of US$68.2 million were incurred compared to US$67.9 million in 2017.

In line with the mine plan, Letšeng mined 25.8 million tonnes of waste compared to 29.7 million in 2017. Notwithstanding the major shutdowns in H1 2018 to replace the scrubber shell, tonnes treated were 1% higher than 2017 due to improved run time of the Letšeng plants experienced in H2 2018. Ore tonnes treated were 6.5 million tonnes, of which 2.2 million tonnes were sourced from the Satellite pipe compared to 2.1 million tonnes in 2017. Carats recovered improved by 13% to 126 875 (2017: 111 811) of which the mobile XRT sorting machine contributed 11 905 carats, sourced from both 2018 re-treated tailings (5 672 carats) and pre-2018 re-treated tailings (6 233 carats). The cost of operating this machine was LSL1.61 per tonne treated.

Unit cost per tonne treated	Operating costs				Business Transformation (BT) costs			Non-cash accounting charges[2]	
	Direct cash costs[1]	3rd Plant operator costs	Once-off main-tenance costs	**Sub-total**	XRT sorting machine operating costs	Fees and employee reward scheme	**Total direct operating cash costs**	Charges	**Total operating cost**
2018 (LSL)	**141.54**	**24.18**	**2.82**	**168.54**	**1.61**	**12.36**	**182.51**	**112.63**	**295.14**
2017 (LSL)	134.20	15.34	–	**149.54**	–	–	**149.54**	116.03	**265.57**
% change	5%	58%	–	**13%**	–	–	**22%**	(3%)	**11%**
2018 (US$)	**10.68**	**1.83**	**0.21**	**12.72**	**0.12**	**0.93**	**13.77**	**8.50**	**22.27**
2017(US$)	10.09	1.15	–	**11.24**	–	–	**11.24**	8.72	**19.96**
% change	6%	59%	–	**13%**	–	–	**23%**	(3%)	**12%**

[1] Direct mine cash costs represent all operating costs, excluding royalty and selling costs.
[2] Non-cash accounting charges include waste stripping cost amortised, inventory and ore stockpile adjustments, and excludes depreciation and mining asset amortisation.

GROUP FINANCIAL PERFORMANCE CONTINUED

Direct cash cost per tonne treated increased by 5%. Stringent cost control and the impact of the cost savings derived from the Business Transformation initiatives implemented at Letšeng assisted in containing this increase in costs amid local country inflation, increased ore mining hauling distances of 6% and increased average fuel price of 22% year on year. The Business Transformation initiatives delivered US$5.2 million of cost savings, net of operating and implementation costs, during 2018.

The third plant operator contractor cash costs per tonne treated in local currency increased by 58%. This cost is a function of the revenue generated by the sales from diamonds recovered through the contractor plant and the increase in costs is due to the additional revenue generated during the year.

The scrubber shell in Plant 2 that cracked in the latter part of 2017 was replaced for a capital amount of LSL11.8 million, of which LSL8.6 million was spent in 2018. Associated once-off repairs and maintenance costs of LSL18.4 million are included in operating costs for the year, resulting in a LSL2.82 increase in unit costs.

Consultant fees and an employee incentive plan related to the successful delivery of the Business Transformation initiatives increased unit costs by LSL12.36 per tonne treated. Both these costs are self-funded through the gains of the Business Transformation.

The non-cash accounting charges per tonne treated decreased mainly due to ending the year with a higher value of diamond inventory. This was slightly offset by higher waste amortisation costs as a result of processing more Satellite pipe material during 2018. The amortisation charge attributable to the Satellite pipe ore accounted for 80% of the total waste stripping amortisation charge in 2018 (2017: 79%).

The total operating costs (post-non-cash accounting charges) per tonne treated were LSL295.14, which is 11% higher than 2017 of LSL265.57 per tonne treated.

The increase in the local currency waste cash cost per waste tonne mined increased by 8% to LSL35.78 (2017: LSL33.23). This was largely driven by increased waste mining hauling distances of 19% and increased fuel price of 22% year on year.

Ghaghoo care and maintenance operation

Costs incurred at Ghaghoo for the year amounted to US$5.7 million (including US$1.1 million costs associated with the potential sale of the mine) and have been recognised in the income statement. Costs continued to be incurred in 2018 relating to the dewatering of the underground and the re-sealing of the fissure, which was damaged following an earthquake in 2017.

Corporate expenses

Corporate expenses relate to central costs incurred by the Group through its technical and administrative offices in South Africa and head office in the United Kingdom and are incurred in South African rand and British pound. Corporate costs for the year were US$10.0 million (2017: US$9.2 million). Included in these costs are US$0.5 million relating to Business Transformation fees and employee reward scheme (2017: US$0.1 million) and US$0.2 million relating to project costs (2017: US$0.5 million), resulting in normalised corporate costs of US$9.3 million.

The share-based payment charge for the year was US$1.4 million. During the year, a new award was granted in terms of the long-term incentive plan (LTIP), whereby 1 450 000 nil-cost options were granted to certain key employees and Executive Directors. The vesting of the options to key employees is subject to the satisfaction of certain market and non-market performance conditions over a three-year period, in line with previous awards within the LTIP.

Underlying EBITDA and attributable profit

Based on the operating results, the Group generated an underlying EBITDA of US$82.3 million. The improved underlying EBITDA from US$45.0 million in 2017 was mainly driven by the higher revenue achieved. In total, Business Transformation initiatives contributed US$12.7 million to the Group's underlying EBITDA. Profit attributable to shareholders was US$26.0 million equating to 18.80 US cents per share, based on a weighted average number of shares in issue of 138.7 million.

The Group's effective tax rate was 36.1%. The tax rate reconciles to the statutory Lesotho corporate tax rate of 25.0% rather than the statutory UK corporate tax rate of 19.0% as this is now the jurisdiction in which the majority of the Group's taxes are incurred. Deferred tax assets were not recognised on losses incurred in non-trading operations.

Capital expenditure

The Group invested US$23.0 million into capital projects, of which US$20.7 million was incurred at Letšeng.

Two of the major ongoing capital projects at Letšeng are the extension of the tailings storage facility (estimated project cost of US$13.7 million) and the construction of the mining complex (estimated project cost of US$18.5 million). During 2018, US$8.8 million and US$8.1 million respectively was spent on these projects. The mining complex was completed during the year within the estimated total project cost and the tailings storage facility project which commenced in late 2017 is on track to be completed during H1 2020.

In line with the continuing strategy of reducing diamond damage through the early detection of large diamonds, the construction of a US$3.0 million pilot plant by GDIS at Letšeng was approved during the year. GDIS was established in Cyprus during 2017 to house all the Group's innovation and technology research and development projects. During 2018 US$1.8 million was invested into this project, which is on track to be commissioned in Q2 2019.

Financial position and funding overview

The Group ended the year with cash on hand of US$50.8 million (2017: US$47.7 million) of which US$43.3 million is attributable to Gem Diamonds and US$0.2 million is restricted. At year end, the Group had utilised facilities of US$33.3 million, resulting in a net cash position* of US$17.5 million (2017: US$1.4 million). Further standby undrawn facilities of US$57.8 million remain available, comprising US$23.0 million at Gem Diamonds and US$34.8 million at Letšeng.

The Group generated cash from operating activities of US$138.3 million (2017: US$97.4 million) before investment in waste stripping costs at Letšeng of US$79.3 million and capital expenditure of US$23.0 million.

Contributing to the Group's closing cash balance of US$50.8 million is US$6.7 million due to direct cash saving Business Transformation initiatives relating to the sale of non-core assets and reduced waste stripping rates. This is in addition to the US$12.7 million EBITDA improvement detailed above, totalling an overall contribution of US$19.4 million from Business Transformation during the year.

During 2018 Letšeng paid dividends of US$69.1 million to its two shareholders, resulting in a net cash inflow of US$43.6 million to Gem Diamonds (70% shareholding) and a cash outflow from the Group for withholding taxes of US$4.8 million and payment of the government of Lesotho's (30% shareholding) share of dividend of US$20.7 million.

During 2018, the Letšeng Diamonds LSL250.0 million three-year unsecured revolving working capital facility jointly held with Standard Lesotho Bank and Nedbank Capital was renewed for a further three years to July 2021 and increased to LSL500.0 million. A more favourable interest rate on this facility was negotiated of Lesotho prime rate less 1.5% with the remaining terms and conditions being in line with the previous facility. At year end, the full LSL500.0 million (US$34.8 million) was available for drawdown.

Repayments of US$5.0 million on the Gem Diamonds Limited facility, relating to the Ghaghoo US$25.0 million debt, were made during the year. The outstanding balance of US$20.0 million will be repaid in quarterly instalments, with the final repayment due on 31 December 2020. Similarly, repayments of LSL24.0 million (US$1.8 million) were made on the project debt facility for the construction of the relocated mining complex at Letšeng . The outstanding balance of LSL191.0 million (US$13.3 million) will be repaid by September 2022.

** Net cash is calculated as cash and short-term deposits less drawn down bank facilities (excluding asset-based finance facility).*

GROUP FINANCIAL PERFORMANCE CONTINUED

Summary of loan facilities as at 31 December 2018

Company	Term/ description	Lender	Expiry	Interest rate[1]	Amount (US$ million)	Drawn down (US$ million)	Available (US$ million)
Gem Diamonds Limited	Three-year RCF and term loan	Nedbank	December 2020	London US$ three-month LIBOR + 4.5%	**45.0**	**20.0**	**23.0**
Letšeng Diamonds	Three-year RCF	Standard Lesotho Bank and Nedbank Lesotho	July 2021	Lesotho prime rate minus 1.5%	**34.8**	**–**	**34.8**
Letšeng Diamonds	5.5-year project facility	Nedbank/ECIC	March 2022	Tranche 1 (R180 million) South African JIBAR + 3.15%	**12.5**	**10.9**	**–**
			September 2022	Tranche 2 (LSL35 million) South African JIBAR + 6.75%	**2.4**	**2.4**	**–**
Total					**94.7**	**33.3**	**57.8**

[1] *At 31 December 2018 LIBOR was 2.80% and JIBAR was 7.15%.*

Dividend

Based on the Group's continued focus on strengthening its balance sheet and positioning itself for the future, the Board resolved not to propose the payment of a dividend, notwithstanding the improved 2018 results.

Outlook

Focus in 2019 will be the implementation of the revised mine plan to drive down Letšeng's waste stripping costs and increase Satellite pipe contribution, together improving the net present value (NPV) of the operation. This together with furthering the optimisation of the operations and delivering the target of the Business Transformation will enable the Company to repay financial debts as they become due and complete its capital projects on time, thereby positioning the Company for the future which will be in the interests of long-term benefit improvement to its shareholders.

Michael Michael
Chief Financial Officer

12 March 2019

BUSINESS TRANSFORMATION

Significant progress made towards achieving US$100 million cumulative cash cost savings and productivity improvements to 2021

Delivering value

After its commencement in the second half of 2017, the Business Transformation continued its momentum in 2018. The cumulative four-year target to 2021 of US$100 million in revenue, productivity improvements and cost savings remains on track. This target is stated net of implementation costs, consultant fees and an employee incentive plan related to the successful delivery of initiatives contributing to the overall target.

The focus in 2018 remained on mine planning optimisation, mining efficiencies and improvements, increased plant uptime, asset and contract management, capital discipline and continued stringent cost controls.

There were 325 initiatives identified and pursued during 2018 and by year end, initiatives which are expected to contribute US$63.7 million to the cumulative US$100 million target had been implemented. Of these implemented initiatives, US$4.9 million relates to once-off savings and the balance of US$58.8 million relates to cumulative recurring annualised benefits over the four-year period. The majority of the implemented initiatives were within the mining and processing workstreams, totalling US$53.3 million. US$20.7 million of the implemented initiatives have been cash flowed to date, of which US$19.4 million flowed in 2018.

Business Transformation also aims to improve resource-use efficiencies, thereby reducing the financial cost of mining while at the same time containing the impact on our communities and the environment. The reduction of our carbon footprint benefits the natural environment and reduces the levels of air pollution exposure for our communities and employees. This aligns with our Group strategy of maximising benefit for our communities and minimising our impact on the environment.

During the year, mining and processing initiatives which improved fuel use and energy requirements respectively, contributed to the overall energy efficiency improvement reported by the Group in 2018. Examples of these initiatives include:

- employing a fleet management system to monitor and aid in the reduction of:
  - service and maintenance requirements;
  - idle and queue time through improved loading and hauling scheduling;
  - load spillage; and
  - fuel consumption due to driver error.
- improving road and tyre maintenance; and
- installing early weather warning systems preempting power failures for timely switch-over to generators avoiding power loss at the plants and subsequent high energy demands on startup.

At the outset, it was recognised that the success of the Business Transformation would be underpinned by the organisational health of the Group. An independent organisational health index (OHI) survey was conducted in Q3 2017 to identify organisational health practice areas requiring improvement through a 'quartile' rating score. This resulted in the identification of 48 organisational health initiatives to be implemented over a 18-month period with the aim of improving the OHI survey score by at least one quartile. During the year 39 organisational health initiatives were implemented addressing priority practices including accountability; direction; leadership; innovation; learning; and motivation. A follow up OHI survey was conducted in Q4 2018 and the Group successfully reached its overall quartile improvement target. Following this survey new initiatives continue to be identified in areas which require further improvement within organisational health.

In addition, the Business Transformation employee recognition and reward scheme, which is self-funded through the gains of the Business Transformation, was developed and implemented with the first payment made in July 2018 in respect of the first wave of implemented initiatives.

Subsequent to year end, implemented initiatives have reached approximately US$79 million mainly due to the finalisation of the steeper slopes pit design in January 2019.

2019 focus

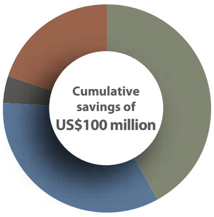
- To implement the remaining initiatives contributing to the US$100m cumulative four-year target.
- To ensure sustainability of the Business Transformation initiatives.
- To transition into a sustainable Continuous Improvement business environment.

The transition from Business Transformation into Continuous Improvement will focus primarily on behaviours that drive everyday improvements and a relentless pursuit of excellence. This will endeavour to embed a culture of continuous improvement, sustainably capturing additional value through the implementation of initiatives that drive efficiencies and improvements.

The table on the next page references the cumulative four-year target of US$100 million together with the status of implementation of the primary contributing initiatives.

BUSINESS TRANSFORMATION CONTINUED

Delivering US$100 million (up to 2021)

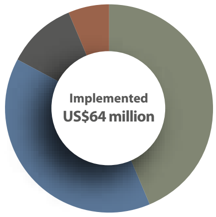


US$42 million — Mining — US$28 million

US$34 million — Processing — US$25 million

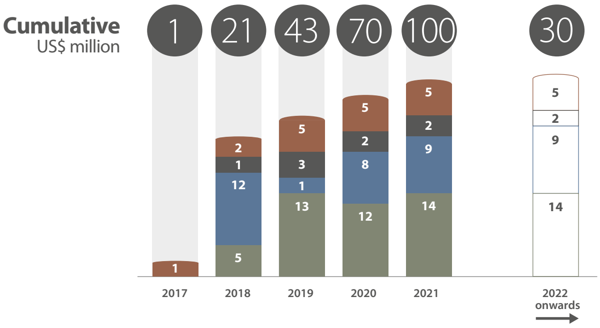
US$4 million — Working capital and overhead — US$7 million

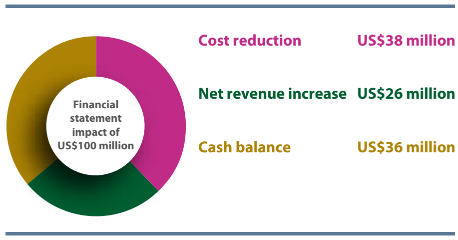
US$20 million — Corporate activities — US$4 million



Implemented US$64 million

Initiative and target	Activity and target	Objective	Impact	Status	Tracking against US$100m target
Mining					
US$42 million	**Drill, load and haul activities: US$31 million**	Reduce mining costs through: • improving efficiencies and rates; and reviewing tenure of mining contractor; • optimising support equipment requirements and associated cost; • improving haul roads to optimise truck speeds; • increasing truck capacity by 7% by installing greedy boards; and • improving drill rates by 30% by modernising the drilling fleet with a cost-efficient autonomous system	• Reduce waste unit costs and waste stripping capitalisation • Reduce ore unit costs	**Implemented[1] US$22.8 million** A reduction in mining rates implemented in Q2 2018 primarily based on the optimisation of the mining fleet and support equipment, increased truck capacity through installing greedy boards and improving haul road conditions. **Work in progress[2]** Further rate reductions targeted through continuous maintenance of haul roads, improving truck speeds, optimising shift changes and drill rates. Targeting further benefit through improved diesel consumption initiatives.	US$44 million
	Pit design: US$6 million	Opportunities to steepen current slope angles with the benefit of reducing waste tonnes over the LoM.	• Reduce waste tonnes and waste stripping capitalisation	**Work in progress[2] (Implemented[1] after year end)** Blasting trials to ensure reliable berm retention were undertaken during 2018 and completed in Q4 2018. Following positive results this initiative was formally implemented in January 2019 with the adoption of the new mine plan. This initiative is expected to contribute US$13.0 million to the four-year target. This initiative was implemented 12 months earlier than initially estimated.	
	Blasting practices: US$5 million	Changing blasting patterns and practices, accessories and explosive mix, leading to a reduction in blasting consumables by up to 30%.	• Reduce direct cash costs	**Implemented[1] US$5.2 million** Reduced the number of primers used per blast hole in both ore and waste. Introduced saver plugs in waste blasting to reduce the volume of explosives required. Secured early settlement discounts with explosive suppliers. **Work in progress[2]** Additional blasting initiatives being tested to further reduce explosive consumables and accessories.	
Processing					
US$34 million	**Plant uptime: US$16 million**	66 initiatives identified to improve plant uptime through: • improved maintenance scheduling (planned and unplanned); • improving ore feed management; • improving stability of power supply; and • reducing operational delays.	• Increase ore tonnes treated • Net revenue increase	**Implemented[1] US$3.1 million** Once-off implementation of a scrubber bypass which mitigated the loss of tonnes due to the Plant 2 extended shutdown in H1 2018 for planned maintenance and to replace the scrubber. Initiatives identified to improve ore feed to the Plants were implemented by Q4 2018. **Work in progress[2]** Further plant uptime initiatives are being implemented at different stages during the four-year period, and the benefits are expected to ramp up during 2019.	US$31 million
	Additional throughput: US$16 million	Deploy an XRT machine to re-treat tailings	• Increase carats recovered • Net revenue increase	**Implemented[1] US$18.7 million** The XRT sorting machine recovered 11 905 carats from re-treating tailings, being significantly higher than initially estimated.	
		Review and renegotiate the Alluvial Ventures contract for the operation of the third plant at Letšeng.	• Reduce direct cash costs	**Implemented[1] US$2.6 million** The Alluvial Ventures contract has been renegotiated to realign the profit margin share and to extend the tenure to mid-2020.	
	Plant consumables: US$2 million	Efficient usage and reduce consumption of plant consumables.	• Reduce direct cash costs	**Implemented[1] US$0.6 million** Improved flocculant and coagulant combination product introduced and a new flocculant recovery unit at Plant 1 commissioned to reduce consumption of consumables. **Work in progress[2]** Further initiatives to optimise the usage of plant consumables are being implemented.	





Initiative and target	Activity and target	Objective	Impact	Status	Tracking against US$100m target
Working capital and overheads					
US$4 million	**Working capital: US$1 million**	• Improve working capital management with specific focus on redundant and slow-moving plant inventory at Letšeng. • The working capital initiative is a once-off benefit which is expected to deliver over a 12 – 18 month period.	• Reduce working capital (once off cash benefit)	**Implemented[1] US$0.7 million** Draw down of slow moving stock and the rebasing of economic order quantities has been implemented. The sale of scrap material has commenced. **Work in progress[2]** Further redundant stock and scrap metal has been identified for sale.	US$8 million
	Overheads: US$3 million	• Reducing support service costs at Letšeng through contract reviews and focused contract management. • Implementing stricter spend control procedures on administrative and support costs at Letšeng. • Reducing the Letšeng corporate office footprint and other office costs	• Reduce direct cash costs	**Implemented[1] US$6.3 million** Initiatives implemented at Letšeng as follows: • The catering and housekeeping contract was reviewed and renegotiated. • Entered into new IT network provider contracts offering improved technological services and rates. • The corporate office footprint has been reduced through the sub-leasing of excess office space. • Reviewed insurance requirements and providers and implemented savings. • Improved on mine diesel issue procedures and eliminated diesel additives from equipment where not required. • Initiatives targeting office cost reductions were implemented. **Work in progress[2]** Additional initiatives to reduce overheads at Letšeng, including further energy saving opportunities have been identified and are in the process of being implemented.	
Corporate activities					
US$20 million	**Non-core assets: US$16 million**	• Selling non-core mining fleet and redundant stock at Ghaghoo.	• Reduce direct cash costs • Once-off cash benefit	**Implemented[1] US$1.4 million** Assets associated with Ghaghoo ie the aircraft servicing the mine, certain non-core mining fleet and inventory have been sold.	US$17 million
		• Reduce or eliminate the ongoing care and maintenance costs at Ghaghoo.	• Reduce direct cash costs	**Work in progress[2]** A formal sales process for the Ghaghoo mine with appointed corporate advisers was initiated during the year and remains ongoing.	
		• Selling other non-core assets across the Group.	• Once-off cash benefit	**Implemented[1] US$0.7 million** The sale of the investment property in Dubai was completed in November. **Work in progress[2]** Additional non-core assets across the Group have been identified for sale.	
	Corporate costs US$4 million	• Implementation of stricter spend control procedures on admin and support costs and focusing on fit-for-purpose operations. • Downsizing office footprint in the United Kingdom, South Africa and Botswana.	• Reduce direct cash costs	**Implemented[1] US$1.9 million** The following initiatives across the United Kingdom, South Africa, Belgium and Botswana operations were implemented: • Office footprints in the United Kingdom and Botswana reduced. • Strict spend control through one centralised cost approval office implemented. • Focused control of travel expenditure and associated costs. • Reduced Annual Report publishing and printing costs. • Reduced professional fees. **Work in progress[2]** Reduction of membership association fees, reduced office footprint in South Africa, reduced audit and audit-related fees and numerous other initiatives are being implemented to further reduce Corporate costs.	

1. Implemented – means that all key activities to realise the value of an initiative have been completed and no further action is required for the benefit to begin to accrue and be realised over the four-year period (2018 to 2021).
2. Work in progress – means an initiative has been planned and a business case has been approved for implementation. Associated implementation costs may have been incurred.