DIRECTORATE AND EXECUTIVE MANAGEMENT

Non-Executive Directors

1. HARRY KENYON-SLANEY (57)

Non-Executive Chairman

Qualifications
BSc Geology (Southampton University) International Executive Programme (INSEAD France)

Appointment date
June 2017

Key skills and experience
Commercial and capital markets, public company board governance and government stakeholder engagement

Relevant past experience
Harry Kenyon-Slaney is currently a senior adviser to McKinsey & Co and has over 33 years' experience in the mining industry, principally with Rio Tinto. He is a Geologist by training and his experience spans operations, marketing, projects, finance and business development. He has worked in South Africa, Australia and the UK. Harry is also a member of the Boards of Directors of Petropavlovsk plc and Schenck Process AG, an independent non-Executive Director of Sibanye Gold Limited and a non-Executive Director of several private companies. Until 2015, Harry was a member of the Group Executive Committee of Rio Tinto where he held the roles of CEO of Energy, and before that CEO of Diamonds and Minerals. Prior to this he variously led Rio Tinto's global titanium dioxide business, was CEO of Rio Tinto's listed subsidiary, Energy Resources of Australia Limited, was GM operations at Palabora Mining Company in South Africa and held senior marketing roles in copper, uranium and industrial minerals. He began his career as an underground Geologist with Anglo American on the gold mines in South Africa.

Board committee membership

Attendance at Board meetings
5/5

2. MICHAEL LYNCH-BELL (65)

Senior Independent Director

Qualifications
BA Hons (Economics and Accountancy) (University of Sheffield); FCA of the ICAEW

Appointment date
Non-Executive Director in December 2015; Senior Independent Director in November 2017

Key skills and experience
Finance and capital markets, oil and gas and mining and metals

Relevant past experience
Michael spent a 38-year career with Ernst & Young (EY) having led its Global Oil and Gas, UK IPO and Global Oil and Gas and Mining transaction advisory practices. He was a member of the assurance practice from 1974 to 1996 when he transferred to the transaction advisory practice. He was also UK Alumni sponsor and a member of the firm's EMEIA and Global Advisory Councils. He retired from EY as a partner in 2012 and continued as a consultant to the firm until November 2013. Michael is currently Deputy Chair and Senior Independent non-Executive Director at Kaz Minerals Plc, Chair of Seven Energy International, Chair of the Audit Committee of Lenta Limited and non-Executive Director of Barloworld Limited. Michael is also a Director of Habi Pharma Pty Ltd a private company.

Board committee membership

Attendance at Board meetings
5/5

3. MIKE BROWN (58)

Non-Executive Director

Qualifications
BSc Eng, Mining PR Eng (ECSA) (University of Witwatersrand), Strategic Executive Programme (London Business School)

Appointment date
January 2018

Key skills and experience
Operational, resource performance, project growth and finance

Relevant past experience
Mike has over 35 years' experience in the resources industry in operational, senior management, and director roles. He spent six years in Switzerland as the Managing Director Technical at Pala where he oversaw all technical aspects of the investments, including the risks associated with resource performance, project management, ramp up, operations, and the associated working capital and financial controls. Prior to joining Pala, Mike spent 21 years with De Beers in Southern Africa in various roles culminating in the post of Chief Operating Officer where he was accountable for five operating mines, including greenfield and brownfield growth projects. He also managed the restructuring at De Beers Consolidated Mines (DBCM) in 2005/2006 and again in 2009. Mike has overseen growth projects and building of mines in Namibia, South Africa, Sierra Leone, Vietnam and USA. Mike is currently a non-Executive director of Nevada Copper.

Board committee membership

Attendance at Board meetings
5/5

Non-Executive Directors *(continued)*

4. JOHNNY VELLOZA (48)

Non-Executive Director

Qualifications
BSc Mining & Mineral Engineering (University of Johannesburg); BSc Business/Commerce General (University of South Africa)

Appointment date
Chief Operating Officer in June 2016; Deputy Chief Executive Officer in May 2018; Executive Director in July 2018; Non-Executive Director from September 2018

Key skills and experience
Mining industry; Operations; Commercial

Relevant past experience
Johnny is a mining engineer with broad mining experience in both open pit and underground operations across Southern and East Africa, Chile and Australia. Johnny has worked in a number of different commodities including iron ore, copper, gold and diamonds. Johnny has held senior operational management roles in large mining companies, including De Beers, AngloGold Ashanti and BHP Billiton. Since starting his career twenty-five years ago Johnny has gained experience in exploration, feasibility studies, opening new mines and running mines. Johnny left his executive role with Gem Diamonds in September 2018 to take up the role of CEO in a copper/cobalt company in the DRC.

Board committee membership

Attendance at Board meetings
2/5

Executive Directors

5. CLIFFORD ELPHICK (58)

Chief Executive Officer

Qualifications
BCom (University of Cape Town); BCompt Hons (University of South Africa)

Appointment date
Founded Gem Diamonds in July 2005

Key skills and experience
Diamond and mining industries, commercial and capital markets

Relevant past experience
Clifford joined Anglo American Corporation in 1986 and was seconded to E. Oppenheimer and Son as Harry Oppenheimer's personal assistant in 1988. In 1990, he was appointed Managing Director of E. Oppenheimer and Son, a position he held until leaving in December 2004. During that time, Clifford was also a Director of Central Holdings, Anglo American and DB Investments. Following the privatisation of De Beers in 2000, Clifford served on the De Beers Executive Committee. Clifford is also the non-Executive Chairman of Zanaga Iron Ore Co. Limited.

Board committee membership

Attendance at Board meetings
5/5

6. MICHAEL MICHAEL (48)

Chief Financial Officer

Qualifications
BCom Hons (Rand Afrikaans University); CA(SA)

Appointment date
Joined Gem Diamonds in March 2008; appointed to the Board in April 2013

Key skills and experience
Finance and capital markets and diamond industry

Relevant past experience
Michael has over 20 years' experience in financial management. He joined RSM Betty & Dickson, an audit firm in Johannesburg, South Africa in January 1993 and became Audit Partner at the firm in March 2000. From August 2006 to February 2008 Michael was seconded to Gem Diamonds to assist with the financial aspects of the Main London Listing including the financial reporting, management accounting and tax relating to the IPO. In March 2008 Michael joined Gem Diamonds on a full-time basis.

Board committee membership
none

Attendance at Board meetings
5/5

Audit Committee Remuneration Committee Nominations Committee HSSE Committee

Executive Management

7. GLENN TURNER (58)

Chief Legal and Commercial Officer and Company Secretary

Qualifications
BA LLB (University of Cape Town); LLM (Cambridge)

Appointment date
Joined Gem Diamonds in May 2006; served on the Board from April 2008 to November 2017, appointed Company Secretary in January 2015

Key skills and experience
Diamond industry and legal

Relevant past experience
Glenn was called to the Johannesburg Bar in 1987 where he spent 14 years practising as an advocate specialising in general commercial and competition law, and took silk in 2002. Glenn was appointed De Beers' first General Counsel in 2002 and was also a member of the Executive Committee. Glenn was responsible for a number of key initiatives during his tenure, including overseeing De Beers' re-entry into the USA.

Board committee membership

8. BRANDON DE BRUIN (48)

Group Business Transformation Officer

Qualifications
BCom LLB (University of the Witwatersrand)

Qualified attorney in South Africa and solicitor in England and Wales

Appointment date
Joined Gem Diamonds in August 2007 – New Business; appointed as Sales and Marketing Executive in July 2013 – 2017; appointed as Group Business Transformation Officer in 2017.

Key skills and experience
Diamond industry, sales and marketing, commercial and legal, debt and equity capital market.

Relevant past experience
Brandon joined Gem Diamonds from Clifford Chance LLP, he specialised in Debt and Equity Capital Markets and Corporate Finance. Brandon gained extensive commercial and legal experience in international corporate and finance transactions working for clients such as Citigroup, UBS, JPMorgan, ABN Amro, Bank of America, Lehman Brothers and Morgan Stanley. He also gained valuable experience in stock exchange listings, rules and regulations in London, Luxembourg and New York.

Board committee membership
none

CHAIRMAN'S INTRODUCTION TO CORPORATE GOVERNANCE

The Board remains committed to maintaining high standards of corporate governance.

The membership and work of the Board has continued to evolve during 2018. In July we welcomed Johnny Velloza to the Board. Johnny served as Chief Operating Officer for two years prior to joining the Board, and following his resignation as COO, Johnny has become a non-Executive Director. As a Board we recognised the wealth of knowledge and experience that Johnny has of the business and of the wider diamond mining industry and we were therefore pleased that he was willing to remain a Board member. Gavin Beevers, who served as a non-Executive Director of Gem Diamonds for 11 years and was a former senior De Beers executive, agreed to return as Technical Adviser until a suitable replacement for Johnny is found. We wish Johnny well in his new role and look forward to continuing to work with him on the Board.

In November 2018 the Board conducted a site visit to the Letšeng Mine. The visit afforded the Board members the opportunity to meet with a wide range of employees across the business to review the major operational improvements that had taken place during the year, to assess the robustness of the corporate, financial and safety systems and to discuss emerging ideas for further improvement. Specifically, we visited the open pit to assess the impact of the improved drilling and blasting which have enabled the steeper slopes of the revised life of mine plan, to see the newly constructed workshop facility, the progress made in expanding future deposition capacity of the tailings dams and held discussions with management on health and safety programmes, community engagement and implementation of Business Transformation action plans.

The Board believes that corporate governance is a priority and remains committed to maintaining high standards of corporate governance. I, along with my fellow directors, recognise that it is our responsibility to ensure that a robust governance framework is in place to support the long-term sustainability of the Company and ultimately its ongoing success. Following the publication of the new UK Corporate Governance Code in July 2018, the Board has commenced work on identifying the necessary adjustments to be made to its governance systems. Full compliance with the new Code is a priority and next year the Board will report on what modifications have been made to our existing systems in order to meet the requirements of the Code. During 2018 the terms of reference for each Board sub-committee were reviewed and updated to ensure we are well positioned to efficiently implement any changes required.

Corporate governance is embedded in the way we organise our business, with local boards and sub-committees taking responsibility for our operations in local jurisdictions. The new Code specifically emphasises the need for boards to focus on their relationship with the Company's stakeholders. The Board and management are committed to maintaining regular, open and transparent dialogue with all our shareholders, customers, employees, suppliers and local communities and in doing so, we are mindful of taking into account different stakeholder considerations during our decision-making. Furthermore, the Board seeks to actively engage on any issue identified to ensure that a satisfactory conclusion is reached.

Succession planning is integral to the success of the Board. The Board currently consists of two Executive Directors and four non-Executive Directors representing different nationalities and disciplines (the details of which you will find in the biography for each individual on the directorate pages 46 and 47).

During the year our Nominations Committee has continued to focus on both long-term and short-term succession. We believe we are currently well placed for the future with an appropriate mix of skills and experience but remain focused on continually improving diversity at all levels throughout our business recognising the value that diversity in all its aspects brings to business decision-making. More information about our Board diversity policy can be found under the UK Corporate Governance Code Compliance Report on page 50.

Our governance framework, together with the Company's policies and procedures, supports effective decision-making at all levels of the Group. Delegations of authority are in place across the business and we are committed to encouraging integrity and transparency in all aspects of decision-making. In addition, we seek to ensure that the Board and its committees function effectively and that they provide valuable contributions to our deliberations and that no individual or group dominates the Board's decision-making process.

This section, together with the reports from the Audit, Nomination, HSSE and Remuneration Committees beginning on page 58, provides a description of how the Group has complied with and applied the main principles of the UK Corporate Governance Code.

All the current Directors will be offering themselves for re-election and Johnny Velloza will be standing for election by the shareholders at the 2019 AGM.

As individuals and as a group, all board members are conscious of ensuring that we undertake our duties as Directors for the long-term benefit of the Company. In doing so we are mindful of taking into account different stakeholder considerations during our decision-making. The Board regularly receives briefings and training to ensure we are informed of the relevant legislative and regulatory updates that affect how we operate. The Board has been briefed on the reporting requirements regarding directors' duties and we will look to enhance our disclosures on this over the coming year.

The Board appointed Prism Boardroom, an external adviser to undertake a comprehensive Board evaluation process to assess the performance and effectiveness of the Board and the sub-committees. A summary of the evaluation approach can be found on page 54. A report on the outcome of this review will be provided in the 2019 Annual Report and Accounts and on our website. We will use the evaluations of the Board and the Committees to ensure that we continue to improve the way the Company is governed and managed.

The Audit Committee has continued to regularly monitor our framework of risk management and internal controls, ensuring risks are identified, evaluated and managed. In turn this supports the Board in determining the nature and extent of the principal risks it is willing to take to achieve its strategic objectives as well as to ensure that any emerging risks have been communicated to the Board.

Our internal audit function continues to monitor and review our processes and controls in order to ensure we are alerted to any emerging potential issues of bribery, fraud or corruption. All staff have access to a whistleblowing hotline to report any suspected wrongdoing and the Audit Committee receives reports on all irregularities and the actions taken. Following investigation, I am pleased to report that none of the cases reported during 2018 were significant and were all resolved without serious consequences.

The Remuneration Committee continued to focus on implementing the Directors' Remuneration Policy approved by shareholders in 2017. The Committee continually monitors trends and developments in remuneration to ensure that the Company's Remuneration Policy and practices are in line with best market practice and that they are appropriately linked to corporate and individual performance and to delivering the Group's strategy on behalf of our investors.

The HSSE Committee continues to ensure health, safety, social and environmental policies and practices are assessed and reviewed periodically to maintain a high level of relevance and appropriateness throughout the Group. The Committee receives regular updates from management on any material incidents and tracks the implementation of agreed actions on a routine basis.

To ensure we remain in touch with our shareholders, I regularly engage with our investors and I am pleased to report that all resolutions at the 2018 AGM received significant votes in favour.

I am grateful to Clifford, Michael and to all our executive colleagues, as well as my fellow Directors for all the work they have done during the year. I would also like to take this opportunity to thank you, our shareholders, for your continued support.

My fellow Board members and I will be available at the 2019 AGM to respond to any questions you may have on this report or any of the Committees' activities and I look forward to welcoming those of you who are able to attend.

Gem Diamonds has an exciting future. We are building the right team and we are ensuring we have the right processes and safeguards in place to take advantage of the opportunities that it will bring.

Harry Kenyon-Slaney
Non-Executive Chairman

12 March 2019

UK CORPORATE GOVERNANCE CODE COMPLIANCE

The Board has commenced work in readiness for the implementation of the new Code effective from 1 January 2019.

This report combines the Directors' Report, the Strategic Report and the Group's compliance with the principles and provisions of the 2016 UK Corporate Governance Code (the Code). It includes details of the key policies, processes and structures that apply to the Company. It incorporates sections on the role and work of the Audit, Nominations, HSSE and Remuneration Committees in line with the Disclosure Guidance and Transparency Rules (DTR).

The Board continues to review and assess all policies and practices throughout the organisation considering changes to the Code and best practice principles. It also looks at forthcoming legislative and regulatory changes that may affect the governance and compliance of the structure and functions of the Board and its Committees. The Board has commenced work in readiness for the implementation of the new Code from 1 January 2019. Any actions required to ensure the Company is fully compliant with the Code have been identified with some of these already being initiated such as starting to review the matters reserved and committees' terms of reference and undertaking a thorough external board evaluation. The 2019 Annual Report and Accounts will contain details of the steps taken to ensure the governance arrangements fully meet the requirements of the Code.

The Board ensures it is kept apprised of all revisions and market practice recommendations issued by institutional investor bodies such as the Institutional Shareholder Services, the Institutional Voting Information Service and the Pension and Investment Research Consultant.

The Company considers that it is compliant with all provisions of the 2016 Code, unless highlighted otherwise in this report.

Board of directors

The role of the Board

The Board is responsible for the overall conduct of the Group's business as follows:

- setting the Group's strategy and for the management, direction and performance of the business;
- monitoring and understanding the risk environment in which the Group operates;
- providing accountability to shareholders for the proper conduct of the business;
- safeguarding the long-term success of the Group and taking into consideration the interests of all stakeholders; and
- ensuring the effectiveness of and reporting on the structure of corporate governance.

The Board has an agenda for each Board meeting, which includes discussion and decision-making surrounding:

- verbal reports given by the Chairman of each Committee on the Committee's activities;
- overall Group strategy, new business, and long-term plans incorporating viability assessment;
- operational reviews;
- major capital projects;
- annual business plans and operating plans;
- the Group's financial structure, including tax and treasury;
- governance, compliance and regulatory issues;
- annual and half-year financial results;
- system of internal control and risk management; and
- shareholder communications and administrative matters.

The Board sets standards of conduct, which provide an ethical framework for the Group's business functions. While the Board focuses on strategic issues, such as financial performance, risk management, and other critical business concerns, it also has a formal schedule of reserved matters. These reserved matters, which are documented in a comprehensive list of authorisation levels and prior approval requirements for key corporate decisions and actions, are reviewed and approved by the Board regularly. The matters reserved were last reviewed in March 2018.

While all Directors have equal responsibility in terms of the law for managing the Group's affairs, it is the role of the executive management to run the business within the parameters established by the Board and to produce clear, accurate and timely reports to enable the Board to monitor and assess the Group's performance. The executive management draws on the expertise and experience of the non-Executive Directors.

All Directors are free to express their views and may ask that these be recorded in the minutes where appropriate.

Board composition during 2018

Name	Title	Held appointment during 2018	Committee chairmen and number of members
Executive Board members			
CT Elphick	Chief Executive Officer	√	
M Michael	Chief Financial Officer	√	
Non-Executive Board members			
H Kenyon-Slaney	Chairman	√	Nominations (4)
MD Lynch-Bell	Senior Independent Director	√	Audit (3), Remuneration (3)
M Brown[1]		Appointed 1 January 2018	HSSE (5)*
J Velloza[2]		Appointed 1 July 2018	

[1] *M Brown was appointed to the Board and as Chair of the HSSE from 1 January 2018.*
[2] *J Velloza was appointed to the Board on 1 July 2018 as an Executive Director and became a non-Executive Director on 15 September 2018.*
* *G Turner, Chief Legal and Commercial Officer and Company Secretary resigned from the Board in November 2017, but remained a member of the HSSE Committee.*

The non-Executive Directors possess a range of experience and competencies and bring independent judgement to bear on issues of strategy, performance and resources that are vital to the success of the Group.

The current non-Executive Directors, including the Chairman, with the exception of J Velloza, are regarded as independent by the Board as defined in the Code.

Board and Committee meetings

Four scheduled Board meetings and one special meeting of the Board were held during 2018. Attendance by Directors at Board and Committee meetings is shown below.

There are six formally constituted Committees of the Board, each of which has specific terms of reference. Those for the Audit, Nominations, HSSE and Remuneration Committees can be viewed on the Group's website together with the matters reserved for the Board. The remaining two Committees (Standing and Share Scheme) facilitate the administration of the Board's delegated authority.

In the event that Board approval is required between Board meetings, Board members are emailed the details, including supporting information in order to make a decision. The decision of each Board member is communicated and recorded at the following Board meeting.

Attendance at Board and Committee meetings during 2018

Director	Board 5 held	Audit 4 held	Remuneration 4 held	Nominations 4 held	HSSE 4 held
Executive Board members					
CT Elphick	5	–	–	4	–
M Michael	5	–	–	–	–
Non-Executive Board members					
H Kenyon-Slaney	5	4	4	4	4
M Brown	5	4	2*	2*	4
MD Lynch-Bell	5	4	4	4	4
J Velloza **	2	-	-	-	1**

* *M Brown was appointed to the Remuneration and Nomination Committees from 5 June 2018.*
** *J Velloza was appointed to the Board on 1 July 2018 and became a non-Executive Director from 15 September 2018 and joined the HSSE Committee.*

UK CORPORATE GOVERNANCE CODE COMPLIANCE CONTINUED

Non-Executive Directors' meetings

Before each scheduled Board meeting, the non-Executive Directors meet independently of the Executive Directors, in accordance with the practice adopted by many listed companies. During the year, four such meetings were held.

Chairman and Chief Executive Officer

A clear separation is maintained between the responsibilities of the Chairman and the Chief Executive Officer. The Board has operated on this basis for over 10 years thereby ensuring there is a clear division of responsibilities between the leadership of the Board and the executive leadership of the company's business.

The Chairman is responsible for creating the conditions for the effective working of the Board. The Chief Executive Officer is responsible for the leadership, operations and management of the Group within the strategy and business plan agreed by the Board. Their individual responsibilities, together with the responsibilities of the Senior Independent Director and non-Executive Directors are detailed on the following pages.

Roles of the Chairman and Chief Executive Officer

Chairman, Harry Kenyon-Slaney	Chief Executive Officer, Clifford Elphick
The effective operation and leadership of the Board and setting the highest standards of corporate governance.	Developing a business strategy for the Group to be approved by the Board.
Providing strategic guidance to the executive team.	Producing the business plans for the Group to be approved by the Board.
Setting the agenda, style and tone of Board discussions.	Overseeing the management of the executive resource and succession planning processes and presenting the output from these to the Board and Nominations Committee.
Through the Nominations Committee, ensuring that the Board comprises individuals with appropriate skill sets, experience and knowledge.	Ensuring that effective business and financial controls and risk management processes are in place across the Group, as well as compliance with all relevant laws and regulations.
Ensuring that the Company maintains effective communication with shareholders and that the Board understands their views and concerns.	Making recommendations to the Board on the appropriate delegation of authority within the Group.
Working with the Chief Executive Officer to ensure that the Board receives accurate and timely information on the performance of the Group.	Keeping the Board informed about the performance of the Group and bringing to the Board's attention all matters that materially affect, or are capable of materially affecting, the performance of the Group and the achievement of its strategy.
Leading the evaluation of the performance of the Board, its Committees and individual Directors.	Developing, for the Board's approval, appropriate values and standards to guide all activities undertaken by the Group.
Encouraging a culture of openness and discussion to foster a high-performing collegial team of Directors.	Providing clear and visible leadership in responsible business conduct.
Ensuring that relevant stakeholder and shareholder views, as well as strategic issues, are regularly reviewed, clearly understood and underpin the work of the Board.	
Facilitating the relationship between the Board and the Chief Executive Officer.	
Ensuring that adequate time is available for discussion on all agenda items.	

Roles of the Senior Independent Director and non-Executive Directors

Senior Independent Director based in the UK, Michael Lynch-Bell	Non-Executive Directors
Acting as a sounding board for the Chairman.	Scrutinising the performance of executive management in meeting agreed goals and objectives and monitoring the reporting of performance.
Serving as an intermediary for other Directors if necessary.	Reviewing the integrity of financial information and determining whether internal controls and systems of risk management are robust.
Being available to shareholders if concerns they have raised with the executive team and/or the Chairman have not been satisfactorily resolved.	Determining the Company's policy for executive remuneration, as well as the remuneration packages for the Chairman and Executive Directors through the Remuneration Committee. Providing a wide range of skills and independence, including independent judgement on issues of strategy, performance and risk management.

Board skills, balance and independence

The Board annually reviews the composition and chairmanship of its primary Committees, namely the Audit, Nominations, HSSE and Remuneration Committees. The Company complies with the requirement of the Code that there should be a balance of Executive and non-Executive Directors so that no individual or group can dominate the Board's decision-making.

As a mining company, the efficiency of the day-to-day operations, in both the medium and long term, is essential to the Group's progress in producing shareholder value.

Knowledge of the diamond industry is crucial to foster new business opportunities and to enhance the Group's operations in cutting and polishing and sales and marketing strategies.

Knowledge of financial markets is also necessary to ensure fulfilment of the Group's strategy. The biographies, which can be found on pages 46 and 47, provide more information on each Director's competencies. All Directors allocate sufficient time to the Group to fulfil their responsibilities effectively.

Non-Executive Directors should be independent in character and judgement. With the exception of Johnny Velloza, who was appointed to the Board on 1 July 2018 and became a non-Executive Director from 15 September 2018, all other non-Executive Directors on the Board are considered to be independent of management and the Group. In applying the independence test, the Board considers relationships with executive management, major shareholders, subsidiary and associated companies and other parties with whom the Company transacts business against predetermined materiality thresholds. The Board values the skills and experience that Johnny Velloza brings to the Board, however, as he cannot be considered independent, he has not been appointed to either the Audit or Remuneration Committees, but has become a member of the HSSE Committee.

The letters of appointment for the non-Executive Directors and the contracts of the Executive Directors are available for inspection at the place of business of the Company in London.

Appointments and re-elections to the board (see also Board diversity on page 55)

The Code requires there to be a formal, rigorous and transparent procedure for the appointment of new Directors, which should be made on merit, against objective criteria and with due regard to the benefits of diversity on the Board. Since 2007, recruitment to the Board has been based on recommendation; therefore, no outside consultants have been engaged. The Board currently comprises a broad and highly relevant skill set, and the Nominations Committee will continue to make appointments based on merit while considering diversity and the specialist skill set which is required by the business.

The Nominations Committee's section of this report is set out on pages 64 to 66.

It is required that all Directors retire at the AGM and, if appropriate, offer themselves for re-election in accordance with 2016 Code provision B.7.1. This practice will continue for future re-elections. The Nominations Committee has considered and concluded that the Board has demonstrated commitment to its role. The Committee is also satisfied that the collective skills, experience, background and knowledge of the Company's Directors enables the Board and its Committees to conduct their respective duties and responsibilities effectively.

UK CORPORATE GOVERNANCE CODE COMPLIANCE CONTINUED

Continuing board development, independent professional advice and the company secretary

Board evaluation

Aim

Annual Board evaluations are conducted to assess the Board's approach to strategy, the ongoing effectiveness of the committees and risk management. Following internally conducted evaluations in 2016 and 2017, a more extensive externally facilitated exercise was agreed for 2018 to ensure that the structure of the new Board and the composition of the Committees are effective and that we have the correct size, skills, experience and attributes required to continue to effectively govern and manage risk within the Group.

Approach

In December 2018, Prism Boardroom was appointed to undertake an externally facilitated performance evaluation of the Board. Prism Boardroom has no other connection with the Company. The scope of the 2018 evaluation was determined following a review of Board and Committee papers, minutes and previous evaluations of the Board. One-to-one interviews will be held with each of the Directors during March 2019. A report setting out the findings, conclusions and recommendations for further discussion and action will be prepared and circulated to members of the Board. The recommendations are expected to be discussed at the June 2019 Board meeting.

Independent advice

All Directors either independently or collectively may take independent professional advice at the expense of the Company, in the conduct of their duties, subject to prior consultation with the Chairman. Furthermore, all Directors have access to executive management and the advice and services of the Company Secretary. The Company Secretary is accountable to the Board for ensuring that all governance matters are complied with and assisting with professional development as required.

Training and induction

All new Directors receive a full, formal and tailored induction upon joining the Board. This includes meetings with management, external auditors and also covers the Board committees that they join. In addition, ongoing support and resources are provided to Directors, enabling them to extend and refresh their skills, knowledge and familiarity with the Group. Professional development and training is provided through three measures:

- providing regular updates on changes (actual and proposed) in laws and regulations affecting the Company or its business;
- making arrangements, including site visits, to ensure Directors are familiar with Group operations, including its commitment to and application of the Group's corporate and social responsibility policies; and
- creating opportunities for professional and skills training, such as committee chairmanship and through appropriate Board presentations and formal professional seminars.

Company Secretary

An independent firm of Chartered Secretaries in Public Practice advises the Company Secretary. Bruce Wallace Associates is engaged to ensure that all company secretarial and governance issues are attended to and the Board is kept apprised of all compliance and best practice matters throughout the year.

Conflicts of interest

The UK Companies Act requires Directors to avoid any situation where they may have a direct or indirect interest that conflicts, or may conflict, with the Group's interests, unless approved by the non-interested Directors. In accordance with this Act, the Company operates a procedure to ensure the disclosure of conflicts and, if appropriate, for the consideration and authorisation of them by non-conflicted Directors. The Board maintains a register of 'conflicts of interest' that it reviews annually (most recently in March 2019). The Company voluntarily complies with this requirement.

In late 2018 and early 2019, the Chairman, Harry Kenyon-Slaney, was appointed as a non-Executive Director of two other public limited companies. This appointment will not detract him from carrying out his current roles and responsibilities as Chairman of the Company.

Dealings in shares and the EU market abuse regime

The Company's Share Dealing Policy and reporting procedures are in line with the EU Market Abuse Regulations implemented in July 2016 (Regulations).

Directors' remuneration

While the Board is ultimately responsible for Directors' remuneration, the Remuneration Committee, consisting of independent non-Executive Directors, is responsible for determining the remuneration and conditions of employment of Executive Directors, as well as the Chairman. The Directors' Remuneration Policy was updated in 2017 and approved by shareholders at the 2017 AGM. The details of the Directors' Remuneration Policy and all Directors' remuneration are detailed on pages 72 to 78 and in the Annual Report on Remuneration on pages 79 to 89.

Bribery Act

The Group applies a zero-tolerance approach to acts of bribery and corruption involving any of its staff and third-party representatives or associates and is committed to upholding and complying with the requirements of the UK Bribery Act.

The Group's amended Anti-Bribery and Corruption Policy approved by the Board in June 2016 has been adopted by all operations within the Group. A formal review of this policy is carried out on a bi-annual basis thereby ensuring the policy remains robust regarding compliance and diligence procedures. The Group internal audit will carry out its next formal review of the Group's Anti-Bribery and Corruption Policy in 2019 to ensure continued compliance with the UK Bribery Act requirements.

The Group's terms of business require all customers and third parties with whom business is transacted to adopt the same zero-tolerance approach to bribery and corruption as implemented by the Board.

Board diversity

The Board is mindful of the continuing Hampton-Alexander Reviews and its objective to improve diversity in Executive leadership and those reporting to the Executive Committee as well as to the Board. Similarly the Board is conscious of the trends evidenced in the new Corporate Governance Code equally to increase diversity in boardrooms. The Company recognises the importance of diversity, including gender, at all levels across the Group. In this regard it is significant that 96% of the total Group workforce are Lesotho citizens and 20% of the total workforce is female. Throughout the Group, succession planning is considered a key priority with a focus on the development of women into leading roles, which drives a diverse pipeline of talent.

More information on gender-based employment is contained in the Sustainable Development Review on pages 37 and 44.

Communication of business development during the year

Detailed information on the Group's business developments and projects can be found on the Company's website in the investors section, where all published information and shareholder communication is available. This includes trading updates; year-end and half-year results; resource and reserve statements; and all other announcements.

Accountability and audit

Information and financial reporting systems

The Board is conscious of its responsibility to present a fair, balanced and understandable assessment of the Group's position and prospects and is satisfied that the Strategic Report on pages 1 to 44 has met this obligation. The Responsibility Statement of the Directors in respect of the Annual Report and Accounts is set out on page 90.

The Board is responsible for ensuring that the necessary resources are in place for the Company to meet its objectives and measures performance against them. The Board receives information in a timely manner in the form and of a quality appropriate to enable it to discharge its duties. Financial reporting to the Board is continuously modified and enhanced to cater for changing circumstances. The Group's comprehensive planning and financial reporting procedures include detailed operational business plans for the year ahead and a three-year rolling plan. The Board reviews and approves the Group's annual business plan. These are prepared in co-operation with all Group functions based on specified economic assumptions. Performance is monitored, and relevant action taken throughout the year through monthly reporting of KPIs and updated forecasts for the year, together with information on key risk areas.

In addition, routine management reports on an operational and consolidated basis, including updated forecasts for the year, are prepared and presented to the Board. These reports form the cornerstone of the Group's system of internal control. Detailed consolidated management accounts, as well as an executive summary, are circulated prior to each scheduled Board meeting. Between Board meetings, summary update reports covering matters such as operational performance, sales results, cash flow and progress on strategic issues are circulated to Board members and Senior Executives.

Internal control

The Board of Directors has responsibility for the Group's overall approach to risk management and internal control, which are embedded in all key operations. In accordance with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting Guidance published by the Financial Reporting Council in September 2014 (the Risk Guidance), the Board has defined the processes adopted for its ongoing monitoring and assessment and relies on reviews undertaken by the Audit Committee throughout the year, as well as the approval of the Annual Report and Accounts. In addition, regular management reporting and a balanced assessment of key risks and controls is an important component of Board assurance.

The principal aim of the system of internal control is the management of business risks that significantly threaten the fulfilment of the Group's business and strategic objectives, with a view to enhance the value of shareholders' investments and safeguarding assets. The internal control systems have been designed to manage, rather than eliminate, the risk of failure, to achieve business objectives and to provide reasonable but not absolute assurance that the Group's business objectives will be achieved within the risk tolerance levels identified by the Board. The Directors have reviewed the effectiveness of the system of internal control. For the review, the Audit Committee considered reports dealing with internal audit plans and outcomes, as well as risk logs and sign-off from external audit and management representations. These did not reveal any significant findings or weaknesses. A full report of the work carried out by the Audit Committee on behalf of the Board is set out in the Audit Committee Report on pages 58 to 63.

Internal audit

The Group internal audit function, as an independent assurance provider, is an important element of the overall process by which the Audit Committee and the Board obtain the assurance it requires that risks are being effectively managed and controlled and the adequacy and effectiveness of the Group's control environment.

The Group internal audit function is provided through an in-house audit department supplemented by external industry experts when required. Group internal audit, reporting directly to the Audit Committee, is responsible for co-ordinating the Group's risk-based audit approach and to evaluate the

UK CORPORATE GOVERNANCE CODE COMPLIANCE CONTINUED

effectiveness and contribute to the improvement of the risk management process, control environment and governance systems. Various ad hoc assignments are also performed during the year at the request of management.

The risk-based audit plan, approved by the Audit Committee, covers all operating units, focusing in particular on the principal risks. It involves discussions with management on the risks identified in the local and Group risk registers, emerging risks, operational changes and capital projects. Findings and agreed actions are reported to management and the Audit Committee.

External audit

A principle of the Code is that the Board should establish formal and transparent arrangements for considering how it should apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the Group's external auditors, EY. These responsibilities are delegated to and discharged by the Audit Committee, whose role is defined on pages 58 to 63.

Risk assessment and management

The Board, through the Audit Committee, considers effective risk management as an essential element of professional management and has implemented robust risk assessment and internal control systems across the Group.

In accordance with the Risk Guidance, a process has been established for continually identifying, evaluating and managing the Group's principal risks. The Group's Risk Management Policy aims to cover and review all important risks faced by the Group, including, but not limited to, operational, financial, commercial, legal, regulatory and compliance risks, which could undermine the Group's ability to achieve its strategic and business objectives. In accordance with the new Corporate Governance Code, the Audit Committee will over the year ensure that its risk management process covers both principal and emerging risks to the Company.

Risks are monitored continually and formally reviewed annually. A more comprehensive report of the Group's principal risks and how these are managed and/or mitigated can be found on pages 11 to 15 of the Strategic Report.

The Group's operations perform regular risk assessment reviews and maintain risk registers. Objectives in the business plan are aligned with risks and a summary of the key risks, related internal controls, accountabilities and further mitigating actions are tabled and approved by the Audit Committee. The Committee at times delegates its authority to the Board for completeness. The Audit Committee and the Board, where appropriate, are kept informed on progress against the plans and any significant changes to review the risk profile. This enables the suitable management and non-Executive Directors to holistically review the risk, mitigate and implement controls as necessary.

Investment appraisal

Capital expenditure is managed through a budgetary process and authorisation levels. For expenditure beyond specified levels, detailed written proposals are submitted to the Board. There is an approval procedure for investment, which includes a detailed calculation of return based on current assumptions that are consistent with those included in management reports.

Post-investment reviews are carried out after the project is completed and, for material projects, steering committees are established to monitor the progress against the approved plan.

Commercial, legal and financial due diligence are carried out, using external consultants as appropriate, in respect of acquisitions and disposals.

Whistleblowing programme

The Company has formal means of reporting suspected fraud, corruption and irregularities via independently operated and confidential toll-free phone hotlines in each country in which the Group operates. Employees can report any breach of the Group's business principles, including, but not limited to, bribery, breaches of ethics and fraud.

All whistleblowing incidences reported are distributed by the Group internal auditor or Company Secretary for investigation by the relevant operations.

All incidents reported are fully investigated and the results are reported to the boards of local operations and the Group's Audit Committee. Group internal audit periodically reviews the design and effectiveness of the hotline and reports the results to the Audit Committee.

The Board continues to be satisfied the whistleblowing programme is being utilised in the correct manner by concerned individuals and that all queries raised during the year have been properly investigated and reported.

Shareholder and stakeholder engagement

Communication with industry analysts, institutional investors and shareholders and wider groups of stakeholders is of great importance to the Board. Understanding the views of stakeholders and shareholders has proven to be highly beneficial to the Group.

Investor seminars and analyst presentations, including those following the Group's announcement of the year end and half-year results, are available as webcasts and other presentations made to institutional investors and at external events are available on the Company's website.

Shareholders have direct access to the Chairman to address their views and concerns. The Chairman has continued to engage with a number of significant shareholders over the year. Shareholder views are communicated to the Board and are tabled at each Board meeting. The Company's Senior Independent Director is available to shareholders if contact through normal channels fails to resolve their concerns, or if such contact would be inappropriate.

The Executive Directors conduct regular roadshows to engage with several of the Group's larger investors creating a suitable platform for them to express any concerns. The responsibility of investor relations is that of the Chief Legal and Commercial Officer.

The shareholder base comprises 138.9 million issued ordinary shares of US$0.01 each. There are institutional shareholders that hold 128.9 million shares (93%) and private shareholders who hold 10.1 million shares (7%).

The Company has regularly engaged with employees throughout the Business Transformation process. The Sustainable Development Review gives further details on this. The Board will review whether any further mechanism is required for ongoing employee engagement. Details of the Board's engagement with other stakeholder groups, such as local communities and employees are set out on pages 39 and 42.

Annual General Meeting (AGM)

The AGM is an opportunity for investors to engage with the Directors. All Directors attend the AGM, and shareholders are invited to ask questions during the meeting and to meet Directors after the formal proceedings have closed. Shareholders attending the Company's next scheduled meeting will be advised as to the level of proxy votes received, as well as the percentages for and against in respect of each resolution. The results of the resolutions will be announced through the Regulatory News Services and on the Company's website.

In accordance with the updated Code, if any resolution put to our members receives over 20% votes against, we will seek to actively engage with investors to understand their concerns and publish a report on the actions taken and any next steps within six months of the meeting. At the AGM held in 2018 no resolutions received 20% votes against.

All shareholders can access the Group's annual and half-year reports, trading updates and other published information about the Group through the Company's website.

The 2019 AGM will be held on Tuesday, 4 June 2019. Details of the resolutions to be proposed at the AGM can be found in the Notice of AGM which will be published on the Company's website (www.gemdiamonds.com), or sent to shareholders who requested to continue to receive paper copies, a minimum of 20 business days before the meeting. Therefore shareholders who receive electronic communications can access the Annual Report and the AGM documentation through the Company's website.

Shareholders

Majority interest in shares

On 15 February 2019, the Company was notified of the following major interests (at or above 3%) in the issued ordinary shares of the Company in accordance with the DTR 5:

Majority interests in shares

Shareholders	Number of ordinary shares	% shareholding
Graff Diamonds International	20 861 931	15.0
Lansdowne Partners	20 721 413	14.9
Sustainable Capital	16 879 773	12.2
Aberforth Partners	11 328 096	8.2
Gem Diamonds Holdings	9 325 000	6.7
Majedie Asset Management	7 466 037	5.4
Hosking Partners	6 234 762	4.5
Dimensional Fund Advisors	4 623 660	3.3

AUDIT COMMITTEE

> The skill set of the Audit Committee guarantees that all accounting, risk and internal control issues are addressed in such a manner to ensure high standards of corporate governance and to continue to uphold shareholders' interests. **Michael Lynch-Bell** – Chairman

Composition, experience, and skill set

In accordance with provision C.3.1 of the Code, at least two members of the Audit Committee are non-Executive Directors, independent in character and judgement, and free from relationships or circumstances which are likely to affect, or could appear to affect, their judgement.

The skill set of the Audit Committee guarantees that all accounting, risk and internal control issues are addressed in such a manner to ensure high standards of corporate governance and to continue to uphold shareholders' interests.

Michael Lynch-Bell has recent and relevant financial experience for the purpose of the Code, having spent 27 years as a partner at Ernst & Young (EY) of which six years were spent leading its Global Oil and Gas and Mining transaction advisory practices. For more information about Michael's experience, refer to the directorate on pages 46 and 47.

In January 2018, Mike Brown was appointed as a member of the Committee. Mike possesses a wealth of financial and operating experience in the mining industry and meets the requirements of the updated FRC Guidance. For more information about Mike's experience, refer to the directorate on pages 46 and 47.

New members to the Committee receive the required induction to ensure they are properly equipped to discharge their duties; this includes the standard Board induction process, including site visits to operations, as well as information specific to the Committee such as its Terms of Reference, internal and external auditor reports and Committee meeting minutes.

Terms of Reference

The Audit Committee's Terms of Reference are reviewed annually and are then subsequently considered and approved by the Board to ensure they continue to be fit for purpose and in line with best practice and governance principles. The last review was performed in March 2019. They can be viewed on the Company's corporate website.

The Committee comprises:

- **M Lynch-Bell – Chairman**
- **H Kenyon-Slaney**
- **M Brown (appointed 1 January 2018)**

Meetings

Four meetings of the Audit Committee were held in 2018. The Chief Executive Officer, the Chief Financial Officer, the Group's internal auditor, and a representative of the Group's external auditors attend each meeting by invitation. Other Directors of the Company and Senior Executives may also attend by invitation. Only members of the Committee vote on resolutions. The full Committee also met with the Audit Partner and the Group's internal auditor at each meeting without the Executive Directors being present.

The Chairman of the Committee allocates a significant amount of time to this role. In addition to chairing formal meetings of the Committee and attending sessions with the external auditors, he travelled to the Group's mining operation in Lesotho and the Company's offices in Johannesburg in November 2018 where he was able to meet with the Group's internal auditor, Chief Financial Officer and the financial team. Harry Kenyon-Slaney and Mike Brown accompanied Michael Lynch-Bell on the site visit to the Group's mining operation in Lesotho and the Company's offices in Johannesburg in November 2018. Such meetings and site visits enable the Chairman and the Committee members to uphold a comprehensive understanding of corporate and finance developments and activities, any associated risks, as well as the controls in place at the operations.

Mike Brown was appointed to the Board in January 2018 and shortly after, he carried out site visits to the Group's operations in Lesotho and to Johannesburg where he met with the Chief Financial Officer and the financial team. Mike Brown also carried out site visits to the Group's operation in Lesotho in May and August.

Following each meeting, the Committee communicates its main discussion points and findings to the Board.

Role and activities

The principal functions, in line with the Committee's Terms of Reference, are listed below, along with the corresponding activity and performance during 2018.

Role	Activities in 2018
To provide advice to the Board on whether the Half-year Report and Annual Report and Accounts are fair, balanced and understandable and to monitor the integrity of the published financial information of the Company and review and report to the Board on the significant financial reporting issues and judgements made in connection with the preparation of the published financial information of the Company	The Committee formally reviewed the Group's Annual Report and Accounts and Half-year Report and considered that they present a fair, balanced and understandable assessment of the Group's performance and prospects and provide information necessary for shareholders to assess the Company's performance, business model and strategy. The Committee reviewed the key auditing and financial reporting matters which typically focused on areas of significant judgement, estimation or accounting policy selection. These areas of focus were assessed through discussions with the Group's Audit Partner and Group Chief Financial Officer, ahead of and/or during Committee meetings, in which the Committee, where appropriate, challenged the basis for such judgements and estimates. Details of the significant matters considered by the Committee in respect of the 2018 Half-year and the 2017 and 2018 Annual Report and Accounts are set out on page 61. The Committee reviewed and assessed the systems and processes in place required to formulate the viability statement and support its conclusions and recommended the statement to be issued in the Annual Report and Accounts to the Board for approval. The Committee considered amendments to be incorporated in the 2018 Annual Report and Accounts arising from institutional comments received on prior years' annual reports. Further published information which was reviewed by members of the Committee included the following: • quarterly trading announcements; and • report on payments to governments for the year ended 31 December 2017, satisfying the requirements of the Disclosure and Transparency Rules of the Financial Conduct Authority in the United Kingdom.
To review the effectiveness of the internal control and risk management processes and provide input to the Board's consideration of risk and risk appetite	The Committee assesses the Company's risk management systems and internal controls on an ongoing basis. The Committee received reports from the external auditors and the Group's internal auditor on their assessment of the control environment. The Committee was provided with updates on the Group's risk management activities and the members considered the risk and control implications on an ongoing basis. Additionally, the Board received quarterly presentations and reports by management on operational and financial performance that allowed for assessment of risk and internal controls. Presentations by EY regarding planning and outcomes of the annual audits and interim review were included in the Committee meetings during the year.

AUDIT COMMITTEE CONTINUED

Role	Activities in 2018
To review the adequacy of the Company's whistleblowing system, controls for ethical behaviour and prevention of bribery, and procedures to detect fraud	The Committee reviewed matters and reports on the findings of the investigations reported through the whistleblowing programme. There were no matters reported which were considered significant. There were no incidences of bribery or fraud and irregularities during the year. In the event there are instances of bribery or fraud and irregularities, the Committee reviews the reports on investigations undertaken and monitors the implementation of corrective controls where appropriate.
To give consideration to relevant laws and regulations, the provisions of the Code and the requirements of the UK Listing Rules	The Committee received timely information from EY relating to significant audit, accounting and governance developments during the year. The Company Secretary provided assurance with regard to compliance with the Financial Reporting Council, the UK Listing Authority and other regulatory and governance obligations including the new reporting requirements introduced by the 2018 UK Corporate Governance Code, in the preparation of the Annual Report and Accounts and Regulatory News Services announcements.
To monitor and review the effectiveness and independence of the internal audit function	At the end of the previous year the Committee considered and approved the internal audit plan that included audits of an operational, financial and governance compliance nature across the Group. During the year the Committee reviewed findings from these internal audits, the actions taken to implement the recommendations made in the reports and the status of progress against previously agreed actions. In November 2018, the Committee reviewed and approved the 2019 internal audit plan.
To consider the appointment and reappointment of the external auditors, to recommend the remuneration and terms of engagement of the external auditors and to assess the external auditors' independence and objectivity	During the year the Committee considered the performance and audit fees of the external auditors, and the level of non-audit work undertaken. With the aim of improving efficiencies and reducing costs, without compromising the scope of quality of the audit process, the Committee considered and recommended to the Board that the audit be completed through EY in South Africa (EY SA) as opposed to EY in the United Kingdom (EY UK). In advance of the 2018 audit, the Committee reviewed and approved the external auditors' audit plan and assessed the appropriateness of the audit strategy, scoping, materiality and audit risks. The key focus remained broadly consistent with previous years. As part of audit planning process, the Committee considered and approved the audit fees. The effectiveness of the external auditors was assessed and the details thereof are provided on page 63.
To review the engagement of the external auditors to ensure the provision of non-audit services by the external audit firm does not impair their independence and objectivity	The Committee regularly monitors non-audit services performed by the external auditor in line with the Group's policy and the details thereof are provided on page 63. As part of the cost efficiencies and business optimisation through the Business Transformation process, the Committee concluded that a review by EY on the Half-Year Report would not be required.

Significant issues considered by the Committee relating to the 2017 and 2018 financial years

The Committee considers the following to be the significant issues in respect of the Group's 2018 Annual Report and Accounts, based on its interaction with management. These areas also represent areas of audit emphasis for EY and, accordingly, the Committee was provided with detailed reports and conclusions on these areas to ensure there are no inconsistencies or misstatements of the financial statements.

Role	Activities in 2018
Revenue recognition	The judgement applied to revenue recognition is based on the timing of the satisfaction of the Group's performance obligations, at the time the buyer obtains control of the diamonds and in particular on the uplift element of rough diamonds sold into partnership arrangements, if any. The Committee received detailed verbal and written reports from EY regarding management's appropriate application of its revenue recognition policy as disclosed in Note 1.2.1, Basis of preparation and Note 2, Revenue of the financial statements.
Annual property, plant, equipment and goodwill impairment assessment	The judgements in relation to asset impairment largely relate to the assessment of whether indicators of impairment exist and the key assumptions used in the impairment review. For both impairment and going concern, the achievement of the long-term business plan and macro-economic assumptions underlying the valuation process and going concern assumptions are primary judgements. The Committee addressed these matters through receiving reports from management outlining the basis for the assumptions used, of which the business plan is the most significant, which is approved by the Board. In addition, this area is a key audit focus and accordingly EY provides detailed reporting to the Committee.
Going concern and viability statement	The Committee considered the appropriateness to continue to adopt the going concern basis of accounting in preparing the financial statements for the year ended 31 December 2018. In addition, the Committee considered and approved the underlying assumptions used in the preparation of the viability statement. In reaching these conclusions, the Committee considered the financial position of the Group, its cash flows and liquidity position and the assumptions and judgements made by management. Refer Note 1.2.2, Going concern and Note 25, Financial risk management of the financial statements. The Committee considered the viability statement and going concern statement and approved management's disclosures. The 2018 Annual Report and Accounts includes the viability statement in compliance with the UK Corporate Governance Code as set out on page 50.

AUDIT COMMITTEE CONTINUED

Annual review

The Committee's performance is reviewed through the broader Board evaluation process and, at least annually, the Committee reviews its own Terms of Reference to ensure it is operating at maximum effectiveness and recommends any changes it considers necessary to the Board for approval.

Overall, the Board evaluation performed during the year concluded that the Committee is responding appropriately to its Terms of Reference. Priorities for the forthcoming year will include continuing to monitor the effectiveness of risk management processes and internal controls and to continue to assess the quality and effectiveness of the external audit and the procedures and controls to ensure auditor independence.

Risk management and internal controls

Risk management

The Committee continued to consider the process for managing risk within the business and assisted the Board in relation to compliance with the Code and development of the risk appetite framework.

The Committee considered management's response to risk, including the level of assurance provided around the risk and how the risk is tracked using key risk indicators.

The Committee also receives management reports satisfying the adequacy of asset and liability and Director and Officer's insurance cover across the Group.

Further information on the strategic risks and uncertainties and risk management process is included within the Strategic Report on pages 11 to 15.

Internal controls

The Board has overall responsibility for the Group's systems of internal control and for regularly reviewing the effectiveness of those systems. The Committee assists the Board in reviewing the systems of internal control. The primary responsibility for the operation of these systems is delegated to management. Such systems can only provide reasonable and not absolute assurance against material misstatement or loss. Key control procedures are designed to manage rather than eliminate risk.

The Committee regularly reviews the adequacy and effectiveness of the Group's internal control procedures through regular reports from the Group's internal auditor and Chief Financial Officer, and through consideration of the external auditors' audit reports and face to face discussion between the Audit Partner, the Committee Chairman and Committee members.

For 2018, the Committee remained satisfied that no material weaknesses in internal control systems were identified. While being satisfied that controls and risk management remain appropriate for the Group's activities, the Committee continues to undertake a thorough review and to challenge internal controls, risk management procedures and internal audit strategy to ensure that its practices develop and remain appropriate. When internal control reviews identified necessary or beneficial improvements, appropriate steps have been taken to ensure the control environment is effective. This includes systems to track management's responses to the areas for improvement and follow-up internal audits to test their implementation.

Whistleblowing

The Group has a whistleblowing programme in place that enables employees to raise concerns in confidence about any possible risks to employees or the Company. The Committee considers the process and procedures each year and is of the view that they are operating appropriately and that colleagues are aware of and trust the process. All whistleblowing incidents are reported to the Committee.

Our auditors

Internal audit

The Group's established internal audit function is staffed by a Group internal auditor who reports directly to the Committee. The Group's internal auditor meets with the Chairman before each Audit Committee meeting held and attends all meetings. At the end of every Committee meeting, the Committee meets with the internal auditor independently to obtain assurance that management is adequately addressing the internal audit report findings. The Committee approves the annual internal audit plan, reviews findings from internal audit reports, actions taken to implement the recommendations made and the status of progress against previously agreed actions. All internal audit reports are available to the Committee.

External auditor

Appointment of EY SA

The Committee considers the performance and audit fees of the external auditors, and the level of non-audit work undertaken. The Committee reviews the external auditors' audit plan and assessed the appropriateness of the audit strategy, scoping, materiality and audit risks.

In preparing the 2018 year end audit, the Committee approved the proposal to move the audit to EY SA from EY UK, with the aim of improving efficiencies and reducing costs. The Committee recommended to the Board that a resolution for the appointment of EY SA as the Company's auditor be proposed to shareholders at the AGM in June 2019.

As part of the transition, EY SA will consult EY UK on various matters where appropriate to ensure there is a sufficient transfer of knowledge of UK reporting matters, ensuring full compliance with all laws and regulations applicable to the Group's financial reporting. Additional time to cater for the transition has been factored into the 2018 audit fees.

Engagement

The Committee is responsible for agreeing the terms of the engagement letter. Throughout the year, the Committee received reports from EY on its plans, progress and results of its review and audit. The Committee considers carefully the scope of planned work and the assessment of risk and materiality on which it is based. The Committee reviews the negotiated audit fee arrangements to ensure that there is an appropriate balance between the scope of work and the cost of assurance. The Committee's aim is to support a robust and effective audit and strong reporting lines to the Committee.

Effectiveness and quality

Although the primary audit function has moved from EY UK to EY SA, audit quality with regards to effectiveness, objectivity, skills, capacity and independence was considered for EY as a global firm. As part of its reappointment as a global firm, the Committee was satisfied that all these criteria were met.

Prior to the audit, the Committee received formal planning documentation from EY regarding the proposed audit strategy and the Chairman met separately with the Audit Partner to discuss the audit strategy in detail. These forums enabled the Committee to assess the extent to which the audit strategy was appropriate for the Group's activities and addressed the risks the business faces. In addition, the following factors were discussed:

- independence;
- materiality;
- the auditors' risk assessment;
- the extent of the Group auditors' participation in the subsidiary component audits;
- the planned audit procedures to mitigate risks; and
- regulatory updates affecting the Company.

Following the audit, EY presented its findings to the Committee and met separately with the Committee Chairman to discuss key audit judgements and estimates and its report. This provided an opportunity to assess the audit work performed, understand how management's assessments had been challenged and assess the quality of conclusions drawn. The Committee also made enquiries of senior management to obtain their feedback on the audit process and considered this feedback in its assessment.

Each of the key attributes for audit effectiveness was considered to be appropriately met by the Group's auditors and the Committee considers the external audit to be robust and effective.

Independence, objectivity and fees

The Committee seeks to ensure the objectivity and independence of the auditor through:

- focus on the assignment and rotation of key personnel;
- the adequacy of audit resource; and
- policies in relation to non-audit work.

The Lead Engagement Partner, Wickus Botha was appointed in 2018 and will serve no more than five years continuously. The Engagement Quality Review Partner serves no more than seven years continuously. Other key partners serve for no longer than seven consecutive years. The Committee monitors the tenure of partners and senior staff.

The Committee, together with management, regularly monitors the non-audit services being provided to the Group by its external auditor in line with its policy on the provision of non-audit services by the external auditor, updated and approved in 2016, to ensure this does not impair their independence or objectivity.

Other than in exceptional circumstances, management and the Committee do not expect non-audit fees to be in excess of fees for audit and audit-related services. The fees for such work amounted to US$22 260 in total. This was against external audit fees of US$560 769 representing 4% of external audit fees. The significant non-audit engagements relate mainly to corporate tax services. Full details are set out in Note 4 of the financial statements. A report on the level of non-audit work provided by the auditor is given to the Committee half-yearly.

The Committee has formally reviewed the work undertaken by EY throughout the Group and is satisfied that the advice it has received has been objective and independent and that the independence of the external audit was not impacted.

NOMINATIONS COMMITTEE

Succession planning remained a key agenda item for the Committee in 2018.

Harry Kenyon-Slaney – Chairman

The Committee comprises:

- **H Kenyon-Slaney – Chairman**
- **M Brown (appointed 5 June 2018)**
- **M Lynch-Bell**
- **CT Elphick**

Composition and meetings

The Nominations Committee comprises three non-Executive Directors and one Executive Director. The Committee's Terms of Reference provide for a formal and transparent procedure for the Committee to follow in executing its responsibilities. The Terms of Reference of the Nominations Committee are reviewed annually and subsequently reviewed and approved by the Board to ensure they continue to be fit for purpose and in line with best practice and governance principles. The last review was performed in March 2019 in order to ensure they were compliant with the new Code.

Four meetings were held in 2018 with succession planning being the key focus for the Committee.

Mike Brown joined the Board on 1 January 2018. He was appointed Chairman of the HSSE Committee in March 2018 and was appointed to both the Nomination and Remuneration Committees from 5 June 2018. Johnny Velloza was appointed to the Board on 1 July 2018 in an executive capacity and following his resignation as Chief Operating Officer on 15 September 2018 was appointed as a non-Executive Director. In recognition of his skills and experience, the Nominations Committee recommended that Johnny Velloza remain on the Board. Gavin Beevers a former non-Executive Director, joined the Company as Technical Adviser until a successor to Johnny has been employed. The search for a successor to Johnny has been a central piece of the Committee's work.

The Committee continued to assess the Board's composition, evaluate the composition of the various Committees and monitor developments in corporate governance to ensure the Group remains at the forefront of good governance practices.

The Nominations Committee has reviewed the provisions of the new Code and over the course of the coming year will address any relevant matters to ensure compliance with the Code. In addition to continuing its work on succession planning, the Committee will also consider how to enhance diversity and inclusion across the Group as well as consider the appointment process to the Board. The Committee has also agreed to engage Prism Boardroom, an independent party, to conduct a formal evaluation of the Board in early 2019 the results of which will be reviewed in June 2019. This Board evaluation exercise aims to provide a good opportunity to consider how the Company's governance processes are working and how they could be taken to the next level, particularly taking into account the expectations set by the new Code. A summary of the evaluation approach can be found on page 54.

Role and activities

The principal functions, in line with the Committee's Terms of Reference, are listed below, along with the corresponding activity and performance during 2018.

Role	Activities in 2018
To review the structure, size and composition of the Board (including appropriate skills, knowledge, experience and diversity), and to make recommendations to the Board with regard to any changes that are deemed necessary	Mike Brown was appointed a non-Executive Director from 1 January 2018 replacing Gavin Beevers following his retirement. Johnny Velloza was appointed to the Board from 1 July in an executive capacity and from 15 September 2018 as a non-Executive Director. The Committee remains committed to ensuring there is a balance of skills and independence on the Board and there remains three independent non-Executive Directors and a fourth non-Executive director, who all bring a wealth of external industry experience, and two Executive Directors. For more detail on each member's experience, refer to the directorate on pages 46 and 47.
To satisfy itself, with regard to succession planning, that plans are in place for Board and Senior Management positions	Succession planning remained a key agenda item for the Committee over the year. Focusing on short and long-term succession planning was a key topic for the Committee during the year. For the short term, an emergency succession plan is in place to ensure that suitably qualified and experienced executives and senior members of the management team would step in to fill vacancies arising from unforeseen circumstances and thereby provide business continuity. The Company appointed Gavin Beevers, a former non-Executive Director, as Technical Adviser to the Group while the Committee continues to consider suitable replacements for Johnny Velloza and for an additional non-Executive Director should this be deemed desirable.
To identify, nominate and recommend, for the approval of the Board, appropriate candidates to fill Board and Committee vacancies as and when they arise	The Board evaluation process reviews the current skills and experience of the members of the Board, as well as its composition and structure. This process enables the Nominations Committee to identify what knowledge and competencies are needed for the business in the future and it therefore supports the search process for future Board members. In appointing Mike Brown, the Committee carried out an extensive search and interviewed a range of potential candidates with the appropriate skills, knowledge and experience to ensure a suitable replacement for the outgoing non-Executive Director is found, ensuring that he had the requisite skills, experience and attributes which complemented the current Board composition and structure.
To recommend to the Board the re-election by shareholders at the AGM of any Director under the retirement and re-election provisions of the Company's by-laws	Johnny Velloza was appointed during the year and therefore will be standing for election at the 2019 AGM. The Committee recommended all other Directors for re-election to the Board at the 2019 AGM.
To ensure all new Directors undertake appropriate training and induction to ensure that they are fully informed about strategic and commercial issues affecting the Company and the markets in which it operates as well as their duties and responsibilities as a Director	Following his appointment in January 2018, Mike Brown visited the Letšeng mining operation in Lesotho, and the Company's offices in Johannesburg and London to meet staff and build an understanding of the Company's operations as part of his induction process. Mike Brown was also supplied with copies of Company governance and disclosure policy documents and was encouraged to speak directly to the Company Secretary for any further assistance that he may require to perform his role and duties as a non-Executive Director. Johnny Velloza was Chief Operating Officer prior to being appointed to the Board and therefore was familiar with all commercial and strategic decisions affecting the Company. He was given all Company literature relating to his duties and responsibilities as a Director and the Company Secretary was available to answer any questions and provide additional information. Site visits to the Letšeng mining operation and the Company's offices in Johannesburg were undertaken by Harry Kenyon-Slaney, Mike Brown and Michael Lynch-Bell in November 2018. The Executive and non-Executive Directors also undertook their biennial training on UK Anti-Bribery and Corruption in November 2018. The Company Secretary provides regular updates and information to the Board concerning new legislation and governance related issues that have come into effect or are coming into effect in the future. This includes information concerning the new Code and the Directors' statutory reporting requirements duties under s172 of the Companies Act 2006, both of which come into effect for financial periods starting on 1 January 2019.

NOMINATIONS COMMITTEE CONTINUED

Role	Activities in 2018
To keep under review potential conflicts of interests of Directors disclosed to the Company and develop appropriate processes for managing such conflicts if considered necessary	The Committee was satisfied with the process of disclosure of any conflicts of interest. There were no instances of any conflicts during the year.
To assist the Chairman of the Board with the implementation of an annual evaluation process to assess the overall and individual performance and effectiveness of the Board and its Committees	The Board evaluation for the 2017 year was conducted in March 2018 by an external adviser, Bruce Wallace Associates. It was acknowledged that further work was to be done on succession planning both to improve diversity and to continuously refine the composition of the Board to ensure it includes the appropriate skills set, experience and competencies needed to discharge its duties and responsibilities effectively. The Board appointed Prism Boardroom, an external adviser to undertake a comprehensive board evaluation to assess the performance and effectiveness of the Board and the Committees for the 2018 year.

Experience and skills of the directors

The Committee is satisfied that the Directors add the relevant skills to the Board that is required for the Company to succeed in achieving its strategy of growth, value creation and sustainability through diamond mining. All the Directors worked in the mining and/or financial and capital market sector prior to joining the Group and their key skills and experience can be found in the directorate section, pages 46 and 47.

Diversity

The Board continues to work on ensuring that the Company builds a diverse and highly qualified workforce beyond the boardroom and supports management in its efforts to build diversity throughout the Group. Diversity brings different perspectives, which in turn aids thorough decision-making. The Board endorses the Group's policy, to ensure that all appointments are based on merit and recruitment activities are fair, non-discriminatory and that due diligence is performed. The Committee recognises that to further enhance the effectiveness of the Board there must be a combination of available qualities, capabilities and skill sets gained from different geographical and cultural backgrounds. It is important to note that 96% of total Group workforce are Lesotho citizens and 20% of the total workforce is female. The Nominations Committee continues to encourage and support diversity of business skills and experience. Details including the proportion of women in Senior Management, can be found in the Sustainable Development Review on pages 37 and 44.

HSSE COMMITTEE

The Group continues to pursue its goal of zero harm.

Mike Brown – Chairman

The Committee comprises:

- **M Brown – Chairman (appointed 1 January 2018)**
- **GE Turner**
- **H Kenyon-Slaney (appointed 20 February 2018)**
- **M Lynch-Bell (appointed 20 February 2018)**
- **JA Velloza (appointed 15 September 2018)**

Composition, experience and skill set

The wealth of knowledge and experience held by the HSSE Committee members supports the Committee in fulfilling its role and ensuring that HSSE risks are mitigated through the application of best practice.

Mike Brown, the Chairman of the Committee, brings with him more than 35 years' experience and in-depth knowledge of operating in the resources industry. Glenn Turner has in-depth knowledge and understanding of local and international law, thus enabling the Company to have relevant HSSE policies and agreements in place. Harry Kenyon-Slaney has over 33 years of experience in the mining and energy industries and brings in-depth knowledge of governance and stakeholder engagement. Michael Lynch-Bell brings a wealth of operating and financial knowledge following 38 years of experience in the oil, gas, mining and metals industries. Johnny Velloza has over 25 years of experience across various commodities and brings in-depth mining and operating knowledge. For more information about each member's experience, refer to the directorate on pages 46 and 47.

Terms of reference

The Terms of Reference for the HSSE Committee are reviewed annually and subsequently considered and approved by the Board. During 2018, the Board considered the Terms of Reference to be fit for purpose and in line with best practice and no amendments to these were necessary. The next review will be performed in June 2019. They are available on the Company's corporate website.

Meetings

Four meetings of the HSSE Committee were held in 2018. The Chief Operating Officer or the Group Technical Adviser and the Group's HSSE Superintendent attend by invitation.

Mike Brown visited Letšeng in January, August and November 2018 to obtain first-hand knowledge of current HSSE challenges and practices. The HSSE management team ensures policies and procedures remain current, effective and in line with industry best practice.

HSSE COMMITTEE CONTINUED

Role and activities

The principal functions, in line with the Committee's Terms of Reference, are listed below, along with the corresponding activity and performance during 2018.

Role	Activities in 2018
To evaluate the effectiveness of the Group's policies and systems in identifying and managing HSSE risks as well as ensuring compliance with applicable legal and regulatory requirements	To evaluate the effectiveness of the Group's policies and systems in identifying and managing HSSE risks as well as ensuring compliance with applicable legal and regulatory requirements. The Committee considered HSSE performance reports on the findings of internal and external audits, as well as legal and regulatory compliance, on a quarterly basis. The Chairman and Committee members received quarterly updates on the management of critical HSSE matters. The Committee identified critical HSSE matters following discussions ahead of and/or during Committee meetings and took into consideration activities within the Group as well as the global mining environment. Some of the critical matters monitored by the Committee during 2018 included: • community engagement and grievance management; • injury reporting, classification and investigation; • corrective action implementation and management; and • tailings and water storage facility management.
To assess the impact of HSSE decisions and actions on the Group's employees, project affected communities (PACs) and other stakeholders as well as the reputation of the Group	The Committee identifies, assesses and monitors the potential impact of HSSE decisions on the Group's reputation and social licence to operate. The Committee considered reports on eight significant safety incidents. No significant or major environmental or social incidents were recorded. Corporate social investment projects are closely monitored by the Committee to ensure stakeholder relationships are safeguarded and projects are managed in a fair and transparent manner.
To review reports from management concerning all fatalities and serious accidents within the Group and actions taken by management because of such serious accidents	No fatalities occurred during 2018, however the Committee reviewed incident investigation reports relating to eight significant safety incidents and found the reports to adequately identify the root causes of these incidents. The Committee received reports on, and monitored, the implementation of appropriate corrective actions recommended by the incident investigations to mitigate against the reoccurrence of such incidents.
To evaluate and oversee the quality and integrity of any reporting to external stakeholders concerning HSSE issues and review the Group's HSSE performance indicators	The Committee reviewed the Group HSSE performance indicators following an assessment of performance trends to ensure that the indicators remain relevant and appropriate. The performance indicators are heavily influenced by the Group's past performance, the United Nations Sustainability Goals as well as the Global Reporting Initiative's Sustainability Guidelines. HSSE data is reported to and evaluated by the Committee on a quarterly basis. The Committee reviews HSSE reports and annual sustainable development reports.

Role	Activities in 2018
To review the results of independent audits of the Group's performance in respect of HSSE matters	The Committee considered external audit reports regarding the performance of operational HSSE systems, management and legal compliance during 2018. The Committee monitored the close out of HSSE-related findings and corrective actions resulting from the below independent audits through quarterly status reports. Feedback on the following independent audits was received by the Committee: • tailings storage facilities management; • HSSE systems and management; • HSSE legal compliance; • social and environmental management plan (SEMP) compliance; • carbon and water footprints; • ISO 14001 environmental management system; and • ISO 45001 occupational health and safety management.
To review any strategies and action plans developed by management in response to issues raised in terms of HSSE and where appropriate, make recommendations to the Board	The Committee assessed the appropriateness and effectiveness of HSSE action plans and strategies, developed by operational management, to address HSSE matters and recommended further actions to the Board where appropriate. During 2018 the Committee monitored, among others, the following action plans and strategies: • nitrate management action plan; • surface water management strategy; • community engagement strategy; • waste management strategy; • consequence management strategy; • tailings and water storage facility management; and • incident management strategy.

ANNUAL STATEMENT ON DIRECTORS' REMUNERATION

Our remuneration policy is designed to drive a high-performance culture and support our strategy to deliver maximum value for all shareholders.

Michael Lynch-Bell – Chairman

The Committee comprises:

- **M Lynch-Bell – Chairman**
- **H Kenyon-Slaney**
- **M Brown (appointed 5 June 2018)**

Dear shareholders

On behalf of the Board I am pleased to present the Remuneration Committee's Directors' Remuneration Report for 2018.

In line with last year, this report is split into three sections: the Annual Statement, the Directors' Remuneration Policy and the Annual Report on Remuneration.

During 2018, the Remuneration Committee reviewed the appropriateness and effectiveness of the existing Remuneration Policy, which was approved by the shareholders at the 2017 Annual General Meeting (AGM) and took effect from that date. The Committee believes that on the whole, the policy has served the Company well to motivate and reward Senior Executives and align their interests with those of the Company and the shareholders.

Remuneration decisions for 2018

At Letšeng, a review of a number of practices has enabled a revised mine plan which will lead to a reduced waste profile and reduced capex. The Group's net cash[1] position improved US$16.1 million during the year from US$1.4 million at 1 January 2018 to US$17.5 million at 31 December 2018. The share price showed a positive movement of 54% for 2018 with the earnings per share exceeding target by 270%. Underlying EBITDA is 69% higher than 2017 mainly due to the increase in revenue generated, coupled with the successful implementation of various Business Transformation initiatives and by maintaining strict cost discipline.

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

In this context, the Committee's key decisions during the year related to the following areas:

Annual bonus

For 2018, achievement against annual bonus targets was strong, both in terms of performance against the business scorecard and personal objectives. The Committee felt that the annual bonus outcome reflected the Company's overall performance and therefore did not apply any discretion, save for its discretion exercised on the subjective elements of the scorecard. The Chief Executive Officer and Chief Financial Officer will respectively receive 83% and 85% of the maximum bonus. Further detail on annual bonuses can be found on pages 72 to 75 of this report.

ESOP

Based on performance to 31 December 2018, 21.43% of the share awards made under the 2016 Employee Share Option Plan (ESOP) will vest in March 2019. In respect of the relative Total Shareholder Return (TSR) element measured over a three-year period (25% of the award), the Company's performance over the period was below that of the FTSE 350 Mining Index, and as such, 0% of the element will vest. In respect of the profit and production element (75% of the award), 28.58% will vest. The Committee felt there was no need to apply any discretion as the formulaic outcome reflected the company's performance over the three-year period to 31 December 2018.

In March 2018, Executive Directors were granted awards under the ESOP which will vest based on performance over the three financial years to 31 December 2020. In line with the prior year, these awards will vest to the extent that challenging relative TSR, production and profit targets are achieved and further has an added element which measures achievement against Business Transformation targets over the performance period.

Implementation of the Remuneration Policy in 2019

The Executive Directors' salaries were reviewed in February 2019 and all received an inflationary increase of 3% effective 1 April, in line with the general practice of applying inflation as a base for salary increases across the Group. Consideration was also given to current market conditions, relevant benchmarks and that Executive Directors' salaries were last increased in 2016.

For 2019, the annual bonus opportunity will remain 100% of salary in line with the current Remuneration Policy. Group performance will continue to be measured with reference to a business scorecard linked to three key priorities: Preparing for Our Future; Extracting Maximum Value from Our Operations; and Working Responsibly and Maintaining Our Social Licence. Group performance will be weighted 80% of maximum and personal performance will be weighted 20% of maximum. Malus and clawback provisions will apply during the performance period and for a period of two years following payment.

In terms of the long-term incentive, the CEO and CFO will be granted awards under the ESOP in 2019 of respectively 55% and 61% of salary. Awards will vest on performance over the three financial years to 31 December 2020. The performance conditions will remain 25% on relative TSR with the remainder of 75% based on business efficiencies and operational performance. The Committee reconsidered the appropriate TSR benchmark and found that a specific comparator peer group would be more fitting than the previous TSR benchmark against the FTSE 350 Mining Index. This measurement will be applied to 2018 awards onwards. Business efficiencies carries a weighting of 25% for Business Transformation and 50% for operational performance (profit and production). Malus and clawback provisions will apply during the vesting period and for a period of two years following vesting.

Chairman and non- Executive Directors' fees were reviewed in February 2019 and an increase of 9.1% was awarded to the Chairman's fees following consideration of fees in similar size companies. No change was made to non-Executive Directors' fees.

The new UK Corporate Governance code was released in July 2018 and will apply to financial years starting from 1 January 2019. The main new provisions affecting remuneration policy relate to pensions and post-employment shareholding requirements. The Remuneration Committee will be reviewing the evolving market practice following the changes to the code, as well as changes in investor sentiment, and will make the applicable amendments to the Directors' Remuneration Policy which will be put to a shareholder vote as scheduled In 2020.

Further details on the implementation of the Policy for 2019 are included on pages 72 to 78.

A resolution to approve the Annual Report on Remuneration (subject to an advisory vote) will be put to our shareholders at the forthcoming AGM. As always, I am available to meet and discuss our remuneration arrangements with shareholders. We continue to value feedback from our shareholders and hope to receive your support at the AGM.

Michael Lynch-Bell
Chairman of the Remuneration Committee

12 March 2019

DIRECTORS' REMUNERATION POLICY

The Company's Remuneration Policy is designed to provide a level of remuneration which attracts, retains and motivates executives of a suitable calibre to carry out the Company's business strategy and maximise long-term shareholder wealth.

The report has been prepared in accordance with the principles of the Companies Act 2006 and Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The Regulations require our auditors to report to shareholders on the audited information within this report and to state whether, in their opinion, the relevant sections have been prepared in accordance with the Act. The auditors' opinion is set out on pages 95 to 97 and we have clearly marked the audited sections of the report.

The Company's Remuneration Policy was approved by the shareholders at the AGM on 6 June 2017 and became effective from this date. The report is as originally disclosed in the 2017 Directors' Remuneration Report save for some non-significant changes as follows:

- References to financial years have been updated where appropriate;
- New non-Executive Directors' appointment and expiry dates have been updated;
- References to performance measures have been updated for the latest business strategy, as appropriate; and
- Pay-for-performance charts have been updated to reflect 2019 salaries.

The Company's Remuneration Policy

The Company's Remuneration Policy is designed to provide a level of remuneration which attracts, retains and motivates executives of a suitable calibre to carry out the Company's business strategy and maximise long-term shareholder wealth. It is intended that, as far as possible, remuneration policies and practices will conform to best practice in the markets in which the Company operates and will be aligned with shareholder interests and promote effective management of business risk.

The Committee takes into account the UK Listing Rules, the principles and provisions of the Code and the guidance provided by institutional investor representative bodies in determining executive remuneration arrangements. In deciding on the appropriate structure and quantum of remuneration, the Committee reviews remuneration practices at comparator companies, comprising mining companies and UK-listed companies of a similar size and complexity, to ensure remuneration policies reflect, as appropriate, prevailing industry and market conditions. Furthermore, remuneration policies have taken, and will continue to take, account of pay and employment conditions elsewhere in the Group.

The Committee's policy is to weight remuneration towards variable pay. The aim is to provide base salaries and benefits that are fair, and variable pay incentives linked to the achievement of realistic performance targets relative to the Company's strategy and corporate objectives.

Policy table for Executive Directors

Element	Purpose and link to strategy	Operation	Opportunity	Performance measures
Salary	To offer a market competitive base salary to recruit and retain individuals of the necessary calibre to execute the Company's business strategy.	Base salaries are reviewed annually with changes effective from 1 April. Salaries are typically set after considering the salary levels in companies of a similar size, complexity and risk profile, the responsibilities of each individual role, progression within the role, and individual performance. In setting salaries for Executive Directors, the Committee takes note of the overall approach to salary reviews for the wider workforce.	No prescribed maximum annual increase. It is expected that salary increases for Executive Directors will ordinarily be (in percentage of salary terms) in line with those of the wider workforce in countries of a similar inflationary environment. In certain circumstances (for example where there is a change in responsibility, role size or complexity, or progression in the role), the Committee has discretion to award a higher increase to ensure salary levels remain competitive.	N/A

Element	Purpose and link to strategy	Operation	Opportunity	Performance measures
Benefits	To provide competitive benefits taking into account market value of role and benefits offered to the wider UK management population, in line with the Company's strategy to keep remuneration simple and consistent.	Executive Directors receive a cash allowance in lieu of non-cash benefits.	Benefit value may vary by role to reflect market practice. It is not anticipated that the current cost of benefits (as set out in the Annual Report on Remuneration) will increase materially over the term of this Policy, though the Committee retains discretion to approve a higher cost in exceptional circumstances (for example relocation or increase in insurance premiums).	N/A
Pension	To provide retirement benefits that are appropriately competitive.	No formal pension provision is made by the Company.	Executive Directors receive a cash allowance in lieu of pension which is currently equal to 14.5% and 13.0% of base salary for the CEO and other Executive Directors, respectively. It is not anticipated that the cash allowance in lieu of pension will exceed this level over the term of this Policy, though the Committee retains discretion to approve a higher cost if deemed appropriate.	N/A
Annual bonus	To drive and reward performance against personal objectives and selected financial and operational KPIs which are directly linked to business strategy.	The executive incentive scheme is reviewed annually by the Committee at the start of the year to ensure the opportunity and performance measures are appropriate and continue to support business strategy. The Committee has discretion to adjust the formulaic outcome of the bonus to more accurately reflect business and personal performance during the year. The annual bonus is paid entirely in cash. Malus and clawback provisions may be applied for a period of two years following payment in exceptional circumstances, including but not limited to misstatement, misconduct or error.	Maximum opportunity of up to 100% of base salary. For threshold level and target level performance, the bonus earned is 50% and up to 68% of maximum opportunity, respectively.	Performance is determined by the Committee on an annual basis by reference to a scorecard of Group targets as detailed in the Group's business plan and encapsulated in specific key performance indicators (KPIs), as well as a discretionary assessment of personal performance. Group scorecard targets may include one or more of the three key priority areas of Preparing for Our Future, Extracting Maximum Value from Our Operations, and Working Responsibly and Maintaining Our Social Licence. The Group scorecard will typically be weighted at least 70% in any one year. Details of the measures and weightings for the current year are provided in the Annual Report on Remuneration.

DIRECTORS' REMUNERATION POLICY CONTINUED

Element	Purpose and link to strategy	Operation	Opportunity	Performance measures
ESOP	To balance the delivery of absolute and relative returns to shareholders in the long term, support alignment with shareholders, and attract, retain and motivate executives of the appropriate calibre.	Executive Directors are granted awards of performance shares and/or options as determined by the Committee, which vest after a minimum of three years based on performance. Awards are normally made annually after the announcement of the full-year results but may be made at other times deemed appropriate by the Committee. The Committee may vary the ratio of performance shares and options from year to year, but it is the current intention of the Committee that only awards of performance shares are made over the term of this Policy. The Committee will consider the impact of any external factors when determining the final vesting outcome of awards under the ESOP. Any such discretion would be disclosed and explained in the following year's Annual Report on Remuneration. For performance shares, any dividends paid would accrue over the vesting period and would be paid only on those awards that vest. Malus and clawback provisions may be applied for a period of two years post-vesting in exceptional circumstances, including but not limited to misstatement, misconduct or error. For future awards, the Committee may introduce a holding period of up to two years (or such other period the Committee may determine) for vested awards, during which time Executive Directors may not sell shares save to cover tax.	Maximum opportunity is up to 125% of salary in performance shares and 250% in performance options (subject to overall maximum with fair value equivalent to 125% of salary in performance shares). For threshold performance, 20% of the maximum award vests.	Awards vest based on continued employment and the Company's performance measured over a minimum of three years. It is the Committee's current intention that the performance measures be based on relative TSR, profit and production, but may for future awards include additional measures such as HSSE or strategic objectives, as determined by the Committee. Vesting is ultimately also subject to the Committee's assessment of the Company's underlying performance.

Notes to policy table

Payments from existing arrangements

Executive Directors will be eligible to receive remuneration or other payments in respect of any award granted or payment agreed prior to the approval and implementation of the 2017 Policy, or prior to the individual becoming a Director. Details of any such awards or payments are disclosed in the Annual Report on Remuneration.

Selection of performance measures (annual bonus and ESOP)

The performance measures used in the Company's executive incentive scheme have been selected to ensure incentives reinforce the Company strategy and align executive interests closely with those of shareholders. The Committee considers that the financial and operational measures used in the annual bonus support the strategic priorities of Preparing for Our Future, Extracting Maximum Value from Operations, and Working Responsibly and Maintaining Our Social Licence, and are well accepted measures for the mining sector. In the ESOP, the use of profit and production targets as well as the delivery of the Business Transformation targets are consistent with the Company's KPIs, and the use of relative TSR is strongly aligned with shareholders and ensures that executives are rewarded only if they exceed the returns which a shareholder could achieve elsewhere in the sector.

Performance targets are set to be stretching and achievable, considering the Company's strategic priorities and the economic environment in which the Company operates. Targets are set taking into account a range of reference points including the Group's business plan. The Committee believes that the performance targets set are adequately stretching and that the maximum outcomes are achievable only for exceptional performance.

Remuneration Policy for other employees

The approach to salary reviews is consistent across the Group, with consideration given to the level of responsibility, experience, individual performance, market levels and the Company's ability to pay.

Below Board level, Senior Management employees participate in an annual bonus scheme on a similar basis as the Executive Directors, although the weighting on Group performance measures increases with seniority. A number of management level employees also receive ESOP awards. Performance conditions and award sizes vary to be appropriate to the organisational level.

Shareholding guidelines

The guideline for Executive Directors is that they hold 100% of salary in beneficially owned shares. Until the guideline has been met, Executive Directors will be required to retain 50% of vested awards under the ESOP or any other share-based incentive.

Pay for performance: scenario analysis

The graph on the following page provides an estimate of the potential future remuneration for the Executive Directors and the potential split between the different elements of pay under three performance scenarios: 'fixed', 'at target' and 'maximum'. Potential remuneration is based on incentive opportunities as set out in the 2017 Policy, applied to the salaries effective 1 April 2019. For the annual bonus, the maximum is 100% of salary. ESOP values are based on the proposed number of shares to be awarded in 2019 and the three-month average share price to 31 December 2018 of 111 pence (equivalent to 53% and 59% of 2019 salary). Note that the projected values exclude the impact of any share price movements.

The 'fixed' scenario includes base salary, pension and benefits only.

The 'at target' scenario includes fixed remuneration as above, plus target pay-out of annual bonus, and threshold vesting for the ESOP.

The 'maximum' scenario includes fixed remuneration, plus full pay-out and vesting of all incentives.

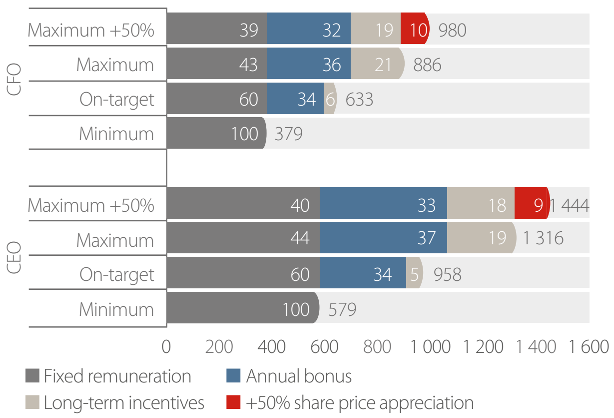
The 'maximum + 50% share price appreciation' scenario includes fixed remuneration, plus full pay-out and vesting of all incentives, plus 50% share price appreciation on the ESOP.

The assumptions are summarised in the table below.

Component	Fixed	At target	Maximum	Maximum + 50% share price appreciation
Salary	Base salary for 2019			
Benefits	Taxable value of annual benefits provided			
Pension	14.5% and 13% of salary for the CEO and other Executive Directors, respectively			
Annual bonus	0% of maximum	68% of maximum	100% of maximum	
ESOP	0% of maximum	20% of maximum	100% of maximum	100% of maximum + 50% share price appreciation

DIRECTORS' REMUNERATION POLICY CONTINUED

Performance



Approach to remuneration on executive recruitment

In recruiting new Executive Directors, the Committee will follow the Remuneration Policy as set out in the Policy Table. On appointment of an external Executive Director, any arrangement specifically established to recruit an individual would be capped at the limits described in the Policy Table. The Committee does not envisage a payment such as a 'golden hello' would be offered, although the Committee may consider it appropriate to compensate for incentive arrangements the Director forfeits on leaving their current employer. Any such buy-out compensation would be on a comparable basis taking into account factors including the performance conditions attached to these awards, the likelihood of conditions being met, and the remaining vesting period of these awards. The Committee would normally use the remuneration components under the regular Policy to make such buy-out awards but may also exercise its discretion under Listing Rule 9.4.2 if an alternative incentive structure were required.

In the case of internal promotions, any commitments made prior to promotion and the approval of the Remuneration Policy will be honoured. Where the new appointee has an initial salary set below market, any shortfall will be managed with phased increases over a period of several years, subject to the individual's performance and development in the role.

Service contracts

The Company's policy is to limit termination payments to pre-established contractual arrangements. In the event that the employment of an Executive Director is terminated, any compensation payable will be determined in accordance with the terms of the service contract between the Company and the employee, as well as the rules of any incentive plans. Details of the Executive Directors' service contracts are summarised in the table below.

Director	Contract date	Unexpired	Notice period	Contractual termination payment[1]
CT Elphick M Michael	13 February 2007 22 April 2013	Rolling contract	12 months	Pay basic salary on summary termination. Benefits are payable only at the Committee's discretion.

[1] *There are no special provisions in the contracts extending the notice period on a change of control or other corporate events.*

Payments for loss of office under all service contracts

If an Executive Director's contract is terminated, payments equal to salary in lieu of notice can be made monthly during the notice period. Benefits are payable only at the Committee's discretion. Payment in lieu of unused annual leave entitlement can be made at the effective salary rate at the point of termination.

If employment is terminated by the Company, the departing Executive Director may have a legal entitlement (under statute or otherwise) to additional amounts, which would need to be met. Where the Company wishes to enter into a settlement agreement and the individual must seek independent legal advice, the Committee retains discretion to settle any claims by or on behalf of the Executive Director in return for making an appropriate payment and contributing to the legal fees incurred by the Executive Director in connection with the termination of employment.

In exceptional circumstances, the Committee may approve new contractual arrangements with departing Executive Directors including (but not limited to) settlement, confidentiality, outplacement services, restrictive covenants and/or consultancy arrangements. These will be used only in circumstances where the Committee believes that it is in the best interests of the Company and its shareholders to do so.

The table below provides details of exit payments under different leaver scenarios.

Incentive plan	Scenario	Time of payment/vesting	Calculation of payment/vesting
Annual bonus	Death, disability, ill health, redundancy, retirement, or any other reasons the Committee may determine (normally not including resignation or where there are concerns as to performance).	Normal payment date, although the Committee has discretion to accelerate (eg in relation to death).	Performance against targets will normally be assessed by the Committee at the end of the year and any resulting bonus is normally pro-rated for proportion of the year worked.
	Change of control (whether or not employment is terminated as a result).	Immediately, on change of control.	Performance against targets will normally be assessed by the Committee up to the date of change of control and any resulting bonus is normally pro-rated for time.
	All other reasons.	Not applicable.	No bonus is paid.
ESOP	Death, disability, ill health, redundancy, retirement, or any other reasons the Committee may determine (normally not including resignation or where there are concerns as to performance).	Normal vesting date, although the Committee has discretion to accelerate.	Unvested awards will normally be pro-rated for time unless the Committee decides otherwise and based on performance.
	Change of control (whether or not employment is terminated as a result).	Immediately, on change of control.	Unvested awards will normally be pro-rated for time unless the Committee decides otherwise and based on performance up to the date of change of control. Executive Directors can elect to exchange ESOP awards for those of the acquiring company, if offered.
	All other reasons.	Not applicable.	Awards lapse.

DIRECTORS' REMUNERATION POLICY CONTINUED

Non-Executive Directors

Non-Executive Directors do not receive benefits from the Company and they are not eligible to participate in any bonus or share incentive scheme.

Details of the Policy on non-Executive Director fees are set out in the table below.

Element	Purpose and link to strategy	Operation	Opportunity
Directors' fees	To attract and retain a high-calibre Chairman and non-Executive Directors with experience relevant to the Company.	Fees are reviewed annually, with any changes effective from 1 April. Fees are typically set after considering current market levels and taking into account time commitment and responsibilities involved. All non-Executive Directors, including the Chairman, are each paid an all-inclusive fee. No additional fees are paid for chairmanship of Committees. All fees are payable in cash in arrears. The non-Executive Directors do not participate in any of the Group's incentive plans. No other benefits or remuneration are provided to non-Executive Directors	No prescribed maximum annual increase. It is expected that fee increases will typically be in line with market levels of fee inflation. In certain circumstances (for example where there is a change in time commitment required or a material misalignment with market), the Committee has the discretion to make adjustments to fee levels to ensure they remain competitive. The maximum aggregate annual fee for all non-Executive Directors, including the Chairman, allowed by the Company's Articles of Association is £750 000.

Director	Contract date	Unexpired term	Notice period	Contractual termination payment
H Kenyon-Slaney	6 June 2017	Rolling appointment	Three months	No provision for payment of compensation
M Brown	1 January 2018			
MD Lynch-Bell	15 December 2015			
J Velloza	15 September 2018			

Considerations of conditions elsewhere in the Group

The Committee considers the remuneration and employment conditions elsewhere in the Group when determining remuneration for Executive Directors. Although the Committee does not currently consult specifically with employees on the executive Remuneration Policy, it receives regular updates from the Chief Financial Officer on the pay conditions for employees across the Group and takes these into account when determining Executive Director remuneration.

Considerations of shareholder views

When determining remuneration, the Committee considers shareholder views and the guidelines of investor bodies. The Committee always welcomes feedback from shareholders on the Company's Remuneration Policy and commits to undergoing shareholder consultation in advance of any significant changes to Policy. Details on the votes received on the Directors' Remuneration Report at the prior AGM is provided in the Annual Report on Remuneration.

External directorships

Executive Directors are permitted to accept external directorships with prior approval of the Chairman. Approval will only be given where the appointment does not present a conflict of interest with the Group's activities and the experience gained will be beneficial to the development of the individual. Where fees are payable in respect of such appointments, these would be retained by the Executive Director. Refer to page 89 for further details.

THE ANNUAL REPORT ON REMUNERATION

The following section provides details of how the Company's 2018 Remuneration Policy was implemented during the financial year ended 31 December 2018, and how the Remuneration Committee intends to implement the proposed Policy in 2019.

Composition and role of the Remuneration Committee

Committee member	Member throughout 2018	Number of meetings
MD Lynch-Bell[1]	Yes	4/4
H Kenyon-Slaney	Yes	4/4
M Brown[2]	No	2/4

[1] *Chairman.*
[2] *Appointed 5 June 2018*

Mike Brown was appointed to the Board as a non-Executive Director on 1 January 2018 and subsequently took up a role as a member of the Remuneration Committee on 5 June 2018.

The Chief Executive Officer and the Chief Financial Officer attend Committee meetings by invitation and assist the Committee in its deliberations except when issues relating to their own remuneration are discussed. Representatives of Mercer Kepler also attend the meetings by invitation.

The Committee is a formal Committee of the Board. Its Terms of Reference are available on the Company's website and comply with the UK Corporate Governance Code.

The Committee's main responsibilities for 2018 were to:
- determine individual remuneration packages for the Chairman, the Executive Directors and the Company Secretary;
- monitor and recommend the level and structure of remuneration for Senior Management;
- approve the design of performance-related pay schemes operated by the Group and approve total annual payments;
- review the design of all share-based incentive plans and approve the awards to be made;
- determine the basis for calculating bonuses payable to the Executive Directors and Senior Management;
- make recommendations to the Board on the fees offered to the non-Executive Directors;
- review workforce remuneration; and
- select and appoint consultants to advise the Committee.

The Committee's main responsibilities will be updated for 2019 to, in addition to the above, include the following:
- ensure remuneration policies are aligned with strategy, purpose and values;
- develop a formal policy for post-employment shareholding requirements encompassing both unvested and vested shares;
- review workforce remuneration and related policies and the alignment of incentives and rewards with culture and take these into account when setting the executive directors remuneration policy; and
- set senior management remuneration along with those of Executive Directors.

The Committee's policy is to encourage an open and transparent dialogue with shareholders on remuneration matters and would seek to consult with major shareholders prior to implementing any significant changes to the Remuneration Policy.

Activities of the Remuneration Committee in 2018

During the year, activities undertaken by the Committee included:
- review and approval of the Directors' Remuneration Report for 2017, and preparation of the Directors' Remuneration Report for 2018;
- review and approval of incentive outcomes for Executive Directors for 2017;
- determination of the Executive Directors' annual bonus and ESOP opportunities and performance targets for 2018;
- review of recent developments in remuneration market trends and best practice;
- review of the Chairman's fee;
- review and approval of base salaries and total remuneration for the Executive Directors and the Company Secretary; and
- review of the remuneration for employees across the Group.

Advisers to the Remuneration Committee

Mercer Kepler was appointed by the Committee in February 2010 and provided independent remuneration advice to the Committee and attended Committee meetings during 2018. Mercer Kepler provides remuneration advice to a large portfolio of clients including many in the FTSE 350 and FTSE Small Cap; this gives the Committee comfort that the advice provided is appropriate and relevant. Mercer Kepler is a signatory to, and abides by, the Remuneration Consultants Group Code of Conduct. Further details can be found at www.remunerationconsultantsgroup.com.

THE ANNUAL REPORT ON REMUNERATION CONTINUED

Neither Mercer Kepler nor Mercer Kepler's parent company, the MMC Group, provides non-remuneration services to the Group or is in any other way connected to the Group, and Mercer Kepler is therefore considered to be independent. The fees payable in relation to work for the Committee in 2018 were £50 500 (US$67 340) excluding VAT.

Summary of shareholder voting at the 2018 AGM

The table below shows the results of the advisory vote on the 2017 Annual Report on Remuneration at the 5 June 2018 AGM.

		For	Against	Total votes cast	Withheld
2017 Annual Report on Remuneration	Total number of votes	104 469 202	1 598 639	106 067 841	12 194 523
	Percentage of votes cast	98.5	1.5	–	–

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Total single figure of remuneration for Directors

The table below sets out the total single figure remuneration received by each Director for 2018 and the prior year. Although the Group's reporting currency is US dollar, these figures are stated in sterling as the Directors' emoluments are paid in sterling.

	Salary and fees[1]		Cash payments in lieu of other non-cash benefits[2]		Cash payments in lieu of pension[2]		Bonuses[3]		Long-term incentives[4]		Total	
	2018 £	2017 £	2018 £	2017 £	2018 £	2017 £	2018 £	2017 £	2018 £	2017 £	2018 £	2017 £
Executive Directors as at 31 December 2018												
CT Elphick	**468 211**	468 211	**25 752**	25 752	**67 891**	67 891	**389 430**	93 642	**54 719**	30 083	**1 006 003**	685 579
M Michael	**309 000**	309 000	**18 540**	18 540	**40 170**	40 170	**263 188**	61 800	**40 444**	22 236	**671 342**	451 746
Total	**777 211**	777 211	**44 292**	44 292	**108 061**	108 061	**652 618**	155 442	**95 163**	52 319	**1 677 345**	1 137 325
Non-Executive Directors as at 31 December 2018												
H Kenyon-Slaney	**110 000**	63 037	**–**	–	**–**	–	**–**	–	**–**	–	**110 000**	63 037
MD Lynch-Bell	**55 000**	55 000	**–**	–	**–**	–	**–**	–	**–**	–	**55 000**	55 000
M Brown	**55 000**	–	**–**	–	**–**	–	**–**	–	**–**	–	**55 000**	–
J Velloza[5]	**15 865**	–	**–**	–	**–**	–	**–**	–	**–**	–	**15 865**	–
Total	**235 865**	118 037	**–**	–	**–**	–	**–**	–	**–**	–	**235 865**	118 037
Executive and non-Executive Directors retired/ resigned												
J Velloza[6]	**65 048**	–	**3 902**	–	**8 456**	–	**37 105**	–	**30 878**	–	**145 389**	–
GE Turner[7]	**–**	273 443	**–**	16 407	**–**	35 548	**–**	54 689	**40 444**	22 236	**40 444**	402 323
RW Davis[8]	**–**	47 525	**–**	–	**–**	–	**–**	–	**–**	–	**–**	47 525
M Salamon[9]	**–**	45 833	**–**	–	**–**	–	**–**	–	**–**	–	**–**	45 833
GA Beevers[10]	**–**	55 000	**–**	–	**–**	–	**–**	–	**–**	–	**–**	55 000
A Ashworth[11]	**–**	–	**–**	–	**–**	–	**–**	–	**–**	9 252	**–**	9 252
Total	**65 048**	421 801	**3 902**	16 407	**8 456**	35 548	**37 105**	54 689	**71 322**	31 488	**185 833**	559 933
Total of all Directors	**1 078 124**	1 317 049	**48 194**	60 699	**116 517**	143 609	**689 723**	210 131	**166 485**	83 807	**2 099 043**	1 815 295

Audited

1 *Salary and fees: amount earned for the year.*
2 *Benefits and pension: cash payments in lieu.*
3 *Annual bonus: payments in relation to performance for the year.*
4 *ESOP: the 2018 figures relate to the values at vesting of awards vesting on performance over the three-year period ended 31 December 2018. The share price on the vesting date is currently unknown, therefore the awards are valued using the three-month average share price to 31 December 2018 of 111 pence. The 2017 figures have been trued up for the share price on the vesting date of 90 pence.*
5 *J Velloza was appointed as non-Executive Director on 15 September 2018. The 2018 remuneration reported in the table relates to the period 15 September 2018 to 31 December 2018.*
6 *J Velloza was appointed to the Board on 1 July 2018 and subsequently resigned from the Board as an Executive Director on 15 September 2018. The 2018 remuneration reported in the table relates to the period 1 July 2018 to 15 September 2018.*
7 *GE Turner resigned from the Board on 14 November 2017. The 2017 remuneration reported in the table relates to the period 1 January 2017 to 14 November 2017.*
8 *RW Davis stepped down from the Board on 6 June 2017. The 2017 remuneration reported in the table relates to the period 1 January 2017 to 6 June 2017.*
9 *M Salamon passed away in November 2017. The 2017 remuneration reported in the table relates to the period 1 January 2017 to 30 November 2017.*
10 *G Beevers retired form the Board on 31 December 2017. The 2017 remuneration reported in the table relates to the period 1 January 2017 to 31 December 2017.*
11 *AR Ashworth retired from the Board on 30 June 2016. The 2017 remuneration reported in the table relates to the vesting of the pro-rated ESOP award.*

Pension and other benefits

No formal pension provision is made by the Company. Instead, Executive Directors receive a cash allowance in lieu of pension which was equivalent to 14.5% and 13% of base salary for the Chief Executive Officer and other Executive Directors, respectively. Executive Directors received a cash allowance in lieu of other non-cash benefits, the value of which ranged between 5.5% and 6% of base salary during 2018.

Incentive outcomes for the financial year ended 31 December 2018

Annual bonus in respect of 2018 performance

Executive Directors participate in a discretionary annual bonus arrangement designed to focus participants on the following business critical factors: (i) growth strategy implementation, (ii) funding, (iii) financial and operational performance, (iv) health, safety, social, environment, sustainability, image and relationships, and (v) sales, marketing and manufacturing, all of which are underpinned by specific KPIs and included in the business plan approved by the Board.

In 2018, the maximum bonus opportunity for Executive Directors was 100% of base salary, with 80% linked to a business scorecard and 20% linked to a discretionary assessment of personal performance.

The performance measures, targets and actual outturn in respect of 2018 are disclosed in full in the table below.

Performance measure		Weighting (% of max)	Threshold target	Stretch targets	Actual performance	Payout (% of max)
Preparing For our Future		20.0	Judged by Committee on a discretionary basis			10.0
Extracting Maximum Value from Operations		60.0				
BT	BT target (US$) (millions)[1]	15.0	20.5	30.7	28.6	13.4
	Organisational Health	5.0	Judged by Committee on a discretionary basis			5.0
Operating performance	Underlying EBITDA (US$) (millions)	6.7	43.5	65.2	82.3	6.7
	Earnings per share (US$ cents)	6.7	5.44	8.16	18.80	6.7
	Cash flows from operating activities (US$) (millions)	6.7	78.8	118.2	138.3	6.7
	Waste tonnes mined (tonnes) (millions)	6.7	23.7	25.0	25.8	6.7
	Ore tonnes treated (tonnes) (millions)	6.7	6.4	7.1	6.5	3.7
	Carats recovered (carats)	6.7	106 104	143 552	126 875	5.1
Working Responsibly and Maintaining Our Social Licence		20.0				
HSSE	Fatalities	5.0	0	0	0	5.0
	All injury frequency rate	5.0	4.20	3.50	1.45	5.0
	Major environmental or community incidents	5.0	0	0	0	5.0
	HSSE legal compliance	5.0	Judged by Committee on a discretionary basis			5.0
Total score achieved		100.0				84.0

[1] *The BT targets and actual performance is based on cumulative gross values. The equivalent net values will be 14.0 for threshold, 21.1 for stretch and 20.7 for actual performance resulting in 97% achievement and a payout of 14 out of 15.*

THE ANNUAL REPORT ON REMUNERATION CONTINUED

Preparing For our Future
Various organic growth projects form part of the strategy to extract maximum value from Letšeng. A review of blasting practices and techniques has enabled pit designs to be based on steeper slopes and has been independently verified from a safety and geotechnical perspective. The impact of this has resulted in a revised mine plan (incorporated into the 2019 BP) which will lead to a resequencing of the waste depletion profile, reducing waste and capital costs. The new mine plan (although part of the Business Transformation initiatives) resulted in a decrease of 95 million tonnes of waste for similar ore extraction and allowed Satellite tonnes to the brought forward over time, enhancing the overall NPV of the mine. The advancement of innovative technologies to detect diamonds within kimberlite and liberate diamonds using non-mechanical means has progressed and its success would be a significant value driver. As part of increasing maximum value, the early negotiations for the Letšeng lease extension commenced and was well progressed by year end.

During the year, a formal sale process for the sale of the Ghaghoo mine in Botswana commenced and was at an advanced stage at year end.

The Group moved from a net cash position[1] of US$1.4 million at the end of 2017 to a net cash position of US$17.5 million in 2018, signifying an improvement of US$16.1 million.

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

HSSE legal compliance
This was well managed during the year with no major compliance matters identified or raised. This was further evidenced and confirmed by independent reviews performed during the year during which Letšeng obtained ISO 45001 certification (replacing the OHSAS 18001 certification) and retained its ISO 14001 certification. The independent reviews once again highlighted Letšeng's notable achievements in environmental management.

Organisational health
The results of the scheduled follow up OHI survey during 2018, saw an overall improvement across the Group (Corporate moved into the top quartile/Letšeng moved up into the 3rd quartile), which exceeded expectations when benchmarked against the market.

Personal performance
Objectives under the personal element of the bonus were linked to each Executive Director's individual areas of responsibility and designed to collectively support the achievement of the Group's strategic targets for the year. Individual targets comprised contributions to the Group's overall performance and the delivery of strategic projects and initiatives as set out by the Board, including but not limited to: operational performance, strengthening of key stakeholder relationships, bank financing and treasury management and HSSE objectives.

Clifford Elphick

Measures	Performance
Strengthening key stakeholder relationships	Strengthening of key relationships with stakeholders in order to mitigate political in-country instability
Operational performance	Increased focus on operational efficiencies resulted in EBITDA increase of 69%
Business Transformation	Continuous focus on Business Transformation and removed obstacles to successful implementation of initiatives
Organisational health	Championed the drive to increase organisational health, to realise achievement that exceeded benchmarked expectations
HSSE	Demonstrated strong leadership and commitment to the safety agenda
Innovation	Increased strides into innovative measures to reduce diamond breakage

Michael Michael

Measures	Performance
Bank financing and treasury management	On-time risk avoidance through the successful review and mitigation of any tax and legal exposures
	Robust cash position with the timeous refinancing of facilities
Operational performance	Increased cash position with an improvement of US$16.1 million
Business Transformation	Ensured continuous focus on Business Transformation and removed obstacles to successful implementation of initiatives
Organisational health	Sponsored this workstream to ensure achievement that exceeded benchmarked expectations
Risk management and governance	Successfully monitored appropriate risk and governance processes and responses consistent with the Group's risk appetite.

The Committee agreed that each Executive Director successfully carried out their duties and collectively achieved the Group's objectives.

Discretion applied

The committee discussed whether the formulaic outcome of the annual bonus was reflective of the holistic performance of the company and determined that no discretion needed to be applied to the annual bonus for 2018.

Actual bonuses awarded for 2018

Based on the business scorecard, the formulaic outcome for Group performance was 84%; the mechanical application of the Group score triggers a payment of 67% out of 80%, with the assessment of personal performance ranging from a possible 0% to 20%. Based on business and personal performance, actual bonuses for 2018 were as follows:

	% of salary	Bonus £
CT Elphick	83	389 430
M Michael	85	263 188
J Velloza[1]	83	37 105

Audited

[1] J Velloza was appointed to the Board as an Executive Director on 1 July 2018 and resigned on 15 September 2018. The bonus has been pro-rated to reflect the period as an Executive Director.

ESOP: 2016 awards vesting in 2019

The Executive Directors were granted awards of performance shares in March 2016, which are set out in the table below.

Directors as at 31 December 2018

Executive Director	Date of grant	Awards made during 2016	Share price on date of award (£)	Face value on date of award (£)	Face value as % of salary	Vesting date
CT Elphick	15 March 2016	230 000	1.10	253 000	56	15 March 2019
M Michael		170 000		187 000	62	

Directors retired or resigned from Board

Executive Director	Date of grant	Awards made during 2016	Share price on date of award (£)	Face value on date of award (£)	Face value as % of salary	Vesting date
GE Turner[1]	15 March 2016	170 000	1.10	187 000	61	15 March 2019

[1] Resigned from Board 14 November 2017, award pro-rated to date of cessation.

Vesting of the awards was dependent on relative TSR versus the constituents of the FTSE 350 Mining Index (25% of the award), profit (37.5%) and production (37.5%), measured over the three-year performance period ended 31 December 2018. Relative TSR was measured over the period 1 January 2016 to 31 December 2018. Profit and production were measured on an annual basis with respect to the business plan for the year, with final vesting based on the average achievement of targets over the three years. The performance conditions that applied to these awards are summarised in the table on the following page.

ESOP scorecard

	Profit		Production		
Annual performance	Underlying EBITDA 25%	Earnings per share 25%	Ore tonnes treated 25%	Carats recovered 25%	Total vesting 100%
2016	0.00%	0.00%	0.00%	0.00%	0.00%
2017	0.00%	5.95%	0.00%	9.87%	15.82%
2018	25.00%	25.00%	6.60%	13.32%	69.92%
Average vesting outcome					**28.58%**

THE ANNUAL REPORT ON REMUNERATION CONTINUED

Performance measure		Weighting (% of max)	Perform-ance period	Threshold (20% vesting)	Stretch (80% vesting)	Super-stretch (100% vesting)	Actual perform-ance	Vesting outcome (% of max)
TSR versus FTSE 350 Miners		25%		Median	75th percentile	85th percentile	9th percentile	0.00%
Profit	Underlying EBITDA (US million)	18.75%		**80% of business plan**	**120% of business plan**	**132% of business plan**		
			2016	84.2	126.3	139	62.8	0.00%
			2017	55.1	82.7	91	48.6	0.00%
			2018	43.5	65.2	71.8	82.3	18.75%
			Average					6.25%
	EPS (US cents)	18.75%		**80% of business plan**	**120% of business plan**	**132% of business plan**		
			2016	14.65	21.97	24.17	12.8	0.00%
			2017	6.23	9.35	10.28	6.50	4.46%
			2018	5.44	8.16	8.98	18.80	18.75%
			Average					7.74%
Production	Ore tonnes treated (millions)	18.75%		**95% of business plan**	**105% of business plan**	**115.5% of business plan**		
			2016	6.9	7.6	9.6	6.9	0.00%
			2017	6.7	7.4	8.1	6.4	0.00%
			2018	6.4	7.1	7.8	6.5	4.95%
			Average					1.65%
	Carats recovered	18.75%		**85% of business plan**	**115% of business plan**	**126.5% of business plan**		
			2016	164 937	223 149	248 036	149 182	0.00%
			2017	100 320	135 728	149 300	111 811	7.40%
			2018	106 104	143 552	157 907	126 875	9.99%
			Average					5.80%
Total award		100%						21.43%

For each measure, for achievement between threshold and stretch, and stretch and super-stretch, the award vested on a straight-line basis. For achievement of less than threshold, vesting was nil.

Based on performance to 31 December 2018, 21.43% of the maximum award will vest for CT Elphick and M Michael in March 2019, subject to continued employment. J Velloza resigned as an Executive Director on 15 September 2018 and therefore his 2016 ESOP award was reduced on a pro-rata basis to reflect the period of employment. As a result 16.36% of his maximum award will vest.

ESOP awards granted in 2018

On 20 March 2018, performance shares with a face value of between 47% and 53% of salary were awarded to the Executive Directors, as summarised in the table below.

Executive Directors as at 31 December 2018

Executive Director	Date of grant	Awards made during 2018	Share price on date of award (£)	Face value on date of award (£)[1]	Face value as % of salary
CT Elphick	20 March 2018	230 000	0.96	221 720	47
M Michael		170 000		163 880	53

[1] The face values of awards as a percentage of salary are based on the actual share price on the date of award.

Executive Director resigned during 2018

Executive Director	Date of grant	Awards made during 2018	Share price on date of award (£)	Face value on date of award (£)[1]	Face value as % of salary
J Velloza[2]	20 March 2018	170 000	0.96	163 880	53

[1] The face values of awards as a percentage of salary are based on the actual share price on the date of award.
[2] J Velloza resigned as an Executive Director on 15 September 2018. The award will be time pro-rated to 16% of the maximum award.

The performance conditions that apply to these awards are summarised in the table below.

Performance measure		Weighting (% of award)	Threshold (20% vesting)	Stretch (80% vesting)	Super-stretch (100% vesting)
TSR	Measured over three-year performance period	25%	Median	75th percentile	85th percentile
BT (three-year target)	BT target	25%	90%	100%	110%
Operating performance (measured annually)	Underlying EBITDA	10%	80%	120%	132.0%
	Earnings per share	10%	80%	120%	132.0%
	US$ p/ct	10%	85%	115%	126.5%
	Ore tonnes treated	10%	95%	105%	115.5%
	Carats recovered	10%	85%	115%	126.5%

For each measure, for achievement in between threshold and stretch, and stretch and super-stretch, the award will vest on a straight-line basis. For achievement of less than threshold, vesting will be nil. As before, TSR will be measured over three years, from 1 January 2018 to 31 December 2020. Business Transformation was introduced as a new element and will be measured over the same period as TSR. Operating performance will be measured on an annual basis with respect to the business plan for the year, with final vesting based on the average achievement of targets over the three years. The operating performance targets are considered commercially sensitive as they relate to the Company's business plan and strategy and will therefore be disclosed in full after the performance period has ended.

Implementation of Remuneration Policy for 2019

The Committee approved the following salary increases from 1 April 2019:

Executive Director	2018 salary (£)	2019 salary (£)	% increase
CT Elphick	**468 211**	482 257	3
M Michael	**309 000**	318 270	3

Audited

Pension and benefits

The Executive Directors will continue to receive cash supplements in lieu of pension and benefits in 2019. The values will remain unchanged from 2018.

THE ANNUAL REPORT ON REMUNERATION CONTINUED

Annual bonus

For 2019, the maximum annual bonus opportunity will remain 100% of salary. Performance measures will continue to include a range of financial, operational and personal objectives that support the delivery of the Group's key strategic priorities as set out on page 6 of the Annual Report, with 80% linked to business performance and 20% to personal performance. For the business performance element, performance will be linked to the Group's three key priorities of Preparing for Our Future, Extracting Maximum Value from Our Operations, and Working Responsibly and Maintaining Our Social Licence. Performance measures and targets will be disclosed in full on a retrospective basis in next year's report.

ESOP

In advance of each ESOP cycle, the Committee reviews the performance measures and corresponding targets to ensure they are appropriately stretching over the performance period. For 2019 the ESOP will continue to operate on the same basis as in 2018. The Chief Executive Officer will receive an award of 230 000 performance shares (equivalent to 55% of salary at the time of award) and the Chief Financial Officer will receive an award of 170 000 performance shares (equivalent to 61% of salary at the time of award).

The performance conditions remain 25% on relative TSR, measured against a tailored diamond mining peer group. There will be consideration for the achievement of the Business Transformation target with 25% of the award weighted against this element. The balance of 50% will be weighted towards operational performance which includes profit and production elements. Achievement against target will be measured over the three-year performance period ending on 31 December 2021. The relative TSR targets remain unchanged from 2018 and further detail on the Business Transformation target can be found in page 27 to page 29. The operating performance targets will be disclosed after the performance period has ended as these targets relate to the Company's business plan and are therefore considered commercially sensitive. Malus and clawback provisions will apply during the vesting period and for a period of two years following vesting, respectively.

Shareholding guidelines

In order to further align Executive Directors' interests with those of the Company's other shareholders, the Company introduced a shareholding guideline of 100% of salary from 1 January 2017. Until the guideline has been met, Executive Directors will be required to retain at least 50% of vested awards under the ESOP or any other share-based incentive.

Chairman and non-Executive Director fees

Chairman and non-Executive Director fees were reviewed in March 2015 when it was agreed that the Chairman's fee would be increased by 10% from £100 000 to £110 000 and the non-Executive Directors' fees by 4.8% from £52 500 to £55 000 to bring the fees more in line with market fee levels for companies of similar size and sector. The fees remained unchanged in 2017 and were reviewed again in March 2018, where it was decided that no changes will be made at that time. Chairman and non-Executive Director fees were again reviewed in February 2019 and in light of the freezing of the fees over the last three years agreed that the Chairman's fee would be increased by 9.1% from £110 000 to £120 000 to bring the fees more in line with market fee levels for companies of similar size and sector. No change will be made to non-Executive Director fees at this time.

The percentage increase in Chief Executive Officer remuneration compared with other employee pay

The table below shows the percentage change in the Chief Executive Officer's remuneration from 2017 compared with the average percentage change in remuneration for all other 'own employees' (ie excluding contractors). It is important to note that due to a change in operational requirements throughout various companies in the Group, remuneration in 2017 included retrenchment packages which are not visible in 2018. The employees' remuneration reflects the average number of own employees in the Group for 2018 totalling 412. Employees throughout the Group are remunerated in different denominations but reported in GBP. Lower exchange rates influence remuneration in 2018 as reflected in this table.

	CT Elphick			Other employees		
	2018 £	2017 £	% change	2018 £	2017 £	% change
Base salaries	**468 211**	468 211	0	**11 951 578**	14 406 585	(17)
Benefits	**93 642**	93 642	0	**840 850**	1 544 784	(46)
Annual bonuses	**389 430**	93 642	316	**1 582 235**	660 892	139
Total	**951 283**	655 495	45	**14 374 663**	16 612 261	(13)

Audited

Relative importance of spend on pay

The table below shows the percentage change in total employee pay expenditure and shareholder distributions (ie dividends, share buy-backs and return of capital) from the financial year ended 31 December 2017 to the financial year ended 31 December 2018.

	2018 US$	2017 US$	% change
Distribution to shareholders	–	–	–
Employee remuneration[1]	**22 158 284**	24 017 414	(8)
Return of capital	**n/a**	n/a	n/a

Audited

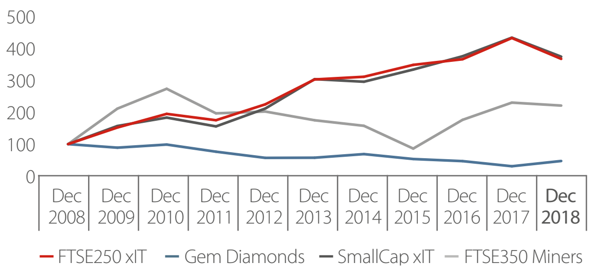
[1] Includes salary, pension and benefits, bonus, accounting charge for the ESOP, and employer national insurance contribution.

Pay for performance

The graph shows the Company's TSR performance compared with the performance of the FTSE 250 (excluding investment trusts) and the FTSE 350 Mining Index over the nine-year period to 31 December 2018. The FTSE 250 has been selected to provide a broad market comparator group, and the FTSE 350 Mining Index has been selected because the Group and the constituents of the index are affected by similar commercial and economic factors. The table below the graph details the Chief Executive Officer's single figure of remuneration and actual variable pay outcomes over the same period.

Value of £100 invested on 1 January 2009

(Gem Diamonds versus FTSE350 Mining Index, FTSE250 xIT and FTSE SmallCap xIT Index) (£)



	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Chief Executive Officer single figure of remuneration (£)	640 150	726 050	797 755	564 419	776 406	892 935	879 719	611 314	681 191	**1 006 003**
Annual bonus outcome (% of maximum)	54	67	75	13	61	83	74	0	20	**83**
ESOP vesting outcome (% of maximum)	Nil	Nil	Nil	Nil	Nil	Nil	Nil	28.26	14.54	**21.43**

Dilution

ESOP awards may be satisfied with newly issued shares subject to aggregate dilution limits. The issue of shares to satisfy awards under the Company's share schemes will not exceed 10% of the Company's issued ordinary share capital in any rolling 10-year period. As of 31 December 2018, a total of 13 889 622 shares (10% of issued share capital) may be issued pursuant to all current awards outstanding over the last 10 years.

THE ANNUAL REPORT ON REMUNERATION CONTINUED

Details of outstanding awards of performance shares to Directors

Directors	Date of grant	Performance shares[1] as at 1 January 2018	Granted in the year	Vested in the year	Lapsed in the year	Exercised in the year	Exercise price USD	Market value at date of grant (USD)	Earliest normal exercise date	Expiry date	Performance shares outstanding as at 31 December 2018
CT Elphick	10 June 2014	58 209	–	–	–	–	0.01	556 200	10 June 2017	10 June 2024	**58 209**
	1 April 2015	230 000	–	33 425	196 575	–	0.01	453 100	1 April 2018	1 April 2025	**33 425**
	15 March 2016	230 000	–	–	–	–	0.01	322 000	15 March 2019	15 March 2026	**230 000**
	04 July 2017	230 000	–	–	–	–	0.01	253 000	4 July 2020	04 July 2027	**230 000**
	20 March 2018		230 000	–	–	–	0.01	308 200	20 March 2021	20 March 2028	**230 000**
Total		**748 209**	**230 000**	**33 425**	**196 575**	**–**					**781 634**
M Michael	11 September 2012	18 544	–	–	–	–	0.01	68 400	1 January 2016	31 December 2023	**18 544**
	10 June 2014	31 648	–	–	–	–	0.01	302 400	10 June 2017	10 June 2024	**31 648**
	1 April 2015	170 000	–	24 706	145 294	–	0.01	334 900	1 April 2018	1 April 2025	**24 706**
	15 March 2016	170 000	–	–	–	–	0.01	238 000	15 March 2019	15 March 2026	**170 000**
	4 July 2017	170 000	–	–	–	–	0.01	187 000	4 July 2020	4 July 2027	**170 000**
	20 March 2018		170 000	–	–	–	0.01	227 800	20 March 2021	20 March 2028	**170 000**
Total		**560 192**	**170 000**	**24 706**	**145 294**	**–**					**584 898**

[1] *Conditional right to acquire shares.*

Director resigned during 2018

Director	Date of grant	Performance shares[1] as at 1 January 2018	Granted in the year	Vested in the year	Lapsed in the year	Exercised in the year	Exercise price USD	Market value at date of grant (USD)	Earliest normal exercise date	Expiry date	Performance shares outstanding as at 31 December 2018
J Velloza[1]	1 June 2016	170 000	–	–	40 210	–	0.01	238 000[2]	1 June 2019	1 June 2026	**129 790**
	4 July 2017	170 000	–	–	102 000	–	0.01	187 000	4 July 2020	4 July 2027	**68 000**
	20 March 2018		170 000	–	142 210	–	0.01	227 800	20 March 2021	20 March 2028	**27 790**
Total		**340 000**	**170 000**	**–**	**284 420**	**–**					**225 580**

Audited

[1] *J Velloza resigned as an Executive Director on 15 September 2018. Awards have been pro-rated to date of cessation.*

[2] *Issued under March 2016 performance conditions.*

Details of outstanding awards of performance options to Director

Director	Performance options as at 1 January 2018[1]	Granted in the year	Vested in the year	Vested in the year	Lapsed in the year	Exercise price GB pence	Date of grant	Earliest normal exercise date	Expiry date	Performance options outstanding at 31 December 2018
M Michael	**37 088[2]**	–	–	–	–	177.60	11 September 2012	1 January 2016	31 December 2023	**37 088**

Audited
[1] *Option is a right to acquire shares granted under the plan including, unless indicated otherwise, a nil-cost option. The three-month average share price to December 2018 was 111 pence. The highest and lowest closing prices in the year were 125 pence and 71.4 pence respectively. Details of the vesting conditions, which are subject to audit, for awards made under the ESOP are included in Note 26 of the financial statements and a full set of the rules will be available for inspection at the AGM.*
[2] *These awards were granted to M Michael before he became a Director.*

Directors' shareholdings and interests in shares

Details of interests in the share capital of the Company of those Directors in office as at 31 December 2018 are given below. It is confirmed that there were no changes to the Directors' holdings between 31 December 2018 and up to the date of this report. No Director held an interest in the shares of any subsidiary company.

		Performance shares held			Performance options held			
Executive Directors	Shares owned outright as at 31 December 2018	Subject to performance conditions	Unvested and subject to continued employment only	Vested but not exercised	Subject to performance conditions	Vested but not exercised	Total shareholding as a % of salary	Shareholding guideline met
CT Elphick	**9 325 000**	**690 000**	**49 300**	**91 634**	**0**	**0**	**2232**	**√**
M Michael	**10 000**	**510 000**	**36 439**	**74 898**	**0**	**37 088**	**44**	**2**

Audited
[1] *CT Elphick is interested in these ordinary shares by virtue of his interest as a potential beneficiary in a discretionary trust which has an indirect interest in those ordinary shares.*
[2] *In terms of the shareholding guidelines, M Michael is required to retain at least 50% of his vested awards until the guideline has been met. Year-on-year shareholding has increased with 20%.*

Currently the only non-Executive Director with a shareholding is Johnny Velloza, by virtue of his employment before taking up a non-Executive position on 15 September 2018. His shareholding is set out on page 88.

Directors' external appointments

Apart from private Group interests listed in the prospectus dated 1 April 2009, no Executive Director holds any significant executive directorship or appointments outside the Group with the exception of Clifford Elphick, who was appointed non-Executive Chairman of Zanaga Iron Ore Co Limited, which listed on the AIM Market of the London Stock Exchange in November 2010. Total fees paid to Clifford Elphick by Zanaga are £83 000. Any fees paid to Clifford Elphick in fulfilling these external roles are retained by him.

By order of the Board

Michael Lynch-Bell
Chairman of the Remuneration Committee

12 March 2019

DIRECTORS' REPORT

The Directors are pleased to submit the financial statements of the Group for the year ended 31 December 2018.

As a British Virgin Islands (BVI) registered company, Gem Diamonds Limited is not obliged to conform with the Companies Act, 2006. However, the Directors have elected to conform to the requirements of the Companies Act, 2006.

This requires that the Directors present a Strategic Report and a Directors' Report to inform shareholders of the Company and help them assess the extent to which the Directors performed their fiduciary duty. The 2019 Annual Report and Accounts will include disclosure on how the Directors have performed their duty to promote the success of the Company, in line with the incoming changes to the Companies Act, 2006.

For the purposes of compliance with DTR 4.1.5R(2) and DTR 4.1.8R, the required content of the Management Report can be found in the Strategic Report and the Directors' Report, including the sections of the Annual Report and Accounts which are incorporated by reference.

The Strategic Report can be found on pages 1 to 44 and has been prepared to provide the Company's shareholders with a fair review of the business of the Company and a description of the principal risks and uncertainties facing it. It may not be relied upon by anyone, including the Company's shareholders, for any other purpose.

The Strategic Report and other sections of this report contain forward-looking statements. By their nature, forward-looking statements involve several risks, uncertainties and future assumptions because they relate to events and/or depend on circumstances that may or may not occur in the future which could cause actual results and outcomes to differ materially from those expressed or implied by the forward-looking statements. No assurance can be given that the forward-looking statements in the Strategic Report will be realised. Statements about the Directors' expectations, beliefs, hopes, plans, intentions and strategies are inherently subject to change and are based on expectations and assumptions about future events, circumstances and other factors which are, in some cases, outside the Company's control. The information contained in the Strategic Report has been prepared based on the knowledge and information available to Directors at the date of its preparation and the Company does not undertake any obligation to update or revise the Strategic Report during the financial year ahead. It is believed that the expectations set out in the forward-looking statements are reasonable, but they may be affected by a wide range of variables which could cause actual results or trends to differ materially. The forward-looking statements should be read in context with actual historic information provided. The Company's shareholders are cautioned not to place undue reliance on the forward-looking statements. Shareholders should note that the Strategic Report has not been audited, but the Auditor's Report does include a statement that the Strategic Report is consistent with the financial statements herein.

Corporate governance

The UK Financial Conduct Authority's Disclosure Guidance and Transparency Rules (DTR 7.2) require that certain information be included in a corporate governance statement set out in the Directors' Report. The Group has an existing practice of issuing a separate Corporate Governance Code Compliance Report as part of its Annual Report. The information required by the Disclosure Guidance and Transparency Rules and the UK Financial Conduct Authority's Listing Rules (LR 9.8.6) is located on pages 50 to 57.

Directors

The Directors, as at the date of this report, are listed on pages 46 and 47 together with their biographical details. Details of the Directors' interests in shares and share options of the Company can be found on page 89.

Directors who held office during the year and date of appointment/resignation

	Appointment	Resignation
Executive Directors		
CT Elphick	20 January 2006	n/a
M Michael	22 April 2013	n/a
Non-Executive Directors		
H Kenyon-Slaney	6 June 2017	n/a
M Brown	1 January 2018	n/a
MD Lynch-Bell	15 December 2015	n/a
J Velloza	1 July 2018	n/a

Mike Brown was appointed as an independent non-Executive Director on 1 January 2018. Johnny Velloza joined the Board on 1 July 2018 initially in an executive capacity and then from 15 September 2018 as a non-Executive Director.

Re-election of Directors

The Articles of Association (81) provides that a third of Directors retire annually by rotation and, if eligible, offer themselves for re-election. However, in accordance with the Code, at each AGM all the Directors retire and, subject to being eligible, offer themselves for re-election.

Protection available to Directors

By law, Directors are ultimately responsible for most aspects of the Group's business dealings. Consequently, they face potentially significant personal liability under criminal or civil law, or the UK Listing, Prospectus and Disclosure and Transparency Rules and face a range of penalties including private or public censure, fines and/or imprisonment. In line with normal market practice, the Group believes that it is in its best interests to protect the individuals prepared to serve on its Board from the consequences of innocent error or omission, as this enables the Group to attract prudent individuals to act as Directors.

The Group therefore has, and continues to maintain, at its expense, a Director and Officer's liability insurance policy to provide indemnity, in certain circumstances, for the benefit of Directors and other Group personnel.

In accordance with the Company's Articles of Association, the Company has, and continues to maintain, indemnities granted by the Company to the Directors of the Company and the Company's associated companies to the extent permitted by and consistent with BVI law and the UK Companies Act, 2006 and rules made by the UK Listing Authority.

Neither the insurance nor the indemnity provides cover where the Director or Group personnel member has acted fraudulently or dishonestly.

Directors' interests

No Director had, at any time during the year, a material interest in any contract of significance in relation to the Company's business. The interest of Directors in the shares of the Company is included on page 89.

Related-party transactions

Other than those disclosed in Note 24 of the financial statements, the Company did not have any transactions with, nor made loans to, related parties during the period in which any Director is or was interested.

Results and dividends

The Group's attributable profit after taxation amounted to US$26.0 million (2017: profit of US$5.5 million).

The Group's detailed financial results are set out in the financial statements section on pages 98 to 143.

The Board has adopted a dividend policy that determines the appropriate dividend each year, based on consideration of the Company's cash resources; the level of free cash flow and earnings generated during the year; and expected funding commitments for capital projects relating to the Group's operational requirements. The Board has decided that no dividend will be paid in respect of the 2018 financial year. We believe that the focus on strengthening our balance sheet and positioning ourselves for the future will be to the benefit of our shareholders going forward.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report on pages 1 to 44. The financial position of the Company, its cash flows and liquidity position are described in the Strategic Report on pages 21 to 26. In addition, Note 25 and Note 27 to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit and liquidity risk.

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

Viability statement

In accordance with provision C.2.2 of the 2016 UK Corporate Governance Code, the Directors have assessed the prospect of the Company over a longer period of 12 months as required by the 'going concern' provision. The viability statement can be found in the Strategic Report on page 10.

Business development

The Group continued its Business Transformation process over the year and remains on track to deliver on its cumulative four-year target to 2021 of US$100 million in revenue, productivity improvements and cost savings. Further detail relating to the Business Transformation is set out on pages 27 to 29.

The Group continues to explore and evaluate new technologies to enhance diamond recovery and extract maximum value. During 2018 progress was made on the development of innovative technologies designed to identify diamonds within kimberlite prior to the crushing process and liberating these diamonds through electric pulse technologies. Following the successful proof of concept of detecting diamonds within kimberlite using X-ray transmission scanning technology, the Company approved US$3.0 million for the construction of a pilot plant at Letšeng, to be commissioned during Q2 2019. The pilot project will also include the use of an inhouse developed high-pulse generator as a non-mechanical means of liberating diamonds. Further detail on these innovative technologies is set out on pages 35 and 36.

Subsequent events

Refer to Note 30 of the financial statements for details of events subsequent to the reporting date.

Annual General Meeting

Details of the resolutions which will be put to the AGM are given in the Notice of AGM, which is a separate document from the Annual Report. For those shareholders who elected to receive company documentation electronically, an announcement will be released when the AGM documents are available to download from the Company's website (www.gemdiamonds.com).

Share capital and voting rights

Details of the authorised and issued share capital of the Company, including the rights pertaining to each share class, are set out in Note 16 to the financial statements.

As at 11 March 2019, there were 138.9 million fully paid ordinary shares of US$0.01 each in issue and listed on the official list maintained by the FCA in its capacity as the UK Listing Authority.

The Company has one class of ordinary shares. Shareholders have the right to receive notice of and attend, speak and vote at any general meeting of the Company. Each shareholder who is present in person (or, being a corporation, by representative) or by proxy at a general meeting on a show of hands has one vote and, on a poll, every such holder present in person (or, being a corporation, by representative) or by proxy shall have one vote in respect of every ordinary share held by them. To be valid, the appointment of a proxy to vote at a general meeting must be received not less than 48 hours before the time appointed for holding the meeting. In addition, the holders of ordinary shares have the right to participate in dividends and other distributions according to their respective rights and interests in the profit of the Company.

There are no shareholders who carry any special rights with regard to the control of the Company. The Company is not aware of any agreements between holders of securities which may result in restrictions on transfers or voting rights, save as mentioned below.

There are no restrictions on the transfer of ordinary shares other than:

- as set out in the Company's Articles of Association;
- certain restrictions may from time to time be imposed by laws and regulations; and
- pursuant to the Company's share dealing code whereby the Directors and employees of the Company require approval to deal in the Company's ordinary shares.

At the AGM held in 2018, shareholders authorised the Company to make on-market purchases of up to 13 868 554 of its ordinary shares, representing approximately 10% of the Company issued share capital at that time. During 2018, the Company did not make any on-market or off-market purchases of its shares or shares under any buy-back programme. Shareholders will be asked at the 2019 AGM to renew this authority. The Directors have no present intention to exercise this authority, if granted. Details of deadlines for exercising voting rights and proxy appointments will be set out in the 2019 Notice of AGM.

Major interests in shares

Details of the major interests (at or above 3%) in the issued ordinary shares of the Company are set out in the UK Corporate Governance Code Compliance Report on page 50.

Resource development

The core drilling project started in 2017 was concluded in December 2018. Further detail on this project can be found in the Letšeng Operating Review on page 30. Resource development activities were concentrated on improving the understanding of existing resources at Letšeng, and no additional resources and reserves were added. For more information on the Resources and Reserves statement refer to the Company's website (www.gemdiamonds.com).

Corporate social responsibility and sustainability

A review of health, safety, corporate social responsibility, environmental performance and community participation is presented in the Sustainable Development Review on pages 37 to 44.

Corporate social investment (CSI) expenditure

During 2018 the Group invested US$0.8 million towards social initiatives, exceeding the contribution of US$0.5 million made in 2017. The Group supports initiatives that benefit its PACs in the areas of health, education, infrastructure development, development of small to medium enterprises and also makes donations to relevant causes. Infrastructure development was recorded as the category receiving the most investment, followed by small and medium enterprise development and education.

Political donations

The Group made no political donations during 2018.

Greenhouse gas (GHG) emissions
Carbon Footprint Assessment (CFA) summary

In 2018, the total carbon footprint for the Group was 161 491tCO2e (2017: 155 106tCO_2e), primarily driven by electricity consumption and mobile and stationary fuel combustion. This figure includes the direct Greenhouse Gas (GHG) emissions (Scope 1), indirect GHG (Scope 2) emissions, and material Scope 3 emissions, and was calculated with boundaries clearly defined by the GHG Protocol Corporate Accounting and Reporting Standard. The total carbon footprint for Scope 1 and Scope 2 emissions was 135 385tCO_2e (2017: 131 752tCO_2e).

The 4% increase in the total carbon footprint, across all three scopes, can be attributed to longer truck haul distances at Letšeng which resulted in an increase in mobile diesel combustion as well as increased grid electricity consumption. Intensity reporting is required to report on the Group's carbon efficiency performance, therefore the Group tracks tonnes of CO_2e emitted per employee and per carat recovered. The tonnes of CO_2e per employee improved from 74.2 tonnes of CO_2e per employee in 2017 to 73.7 tonnes of CO_2e per employee in 2018. The ratio for tonnes of CO_2e per carat also improved during 2018 to 1.27 tonnes of CO_2e per carat (2017: 1.29). The observed carbon intensity improvements can be attributed to an increase in carats recovered as well as an increase in Group employees which offsets the increase in carbon emissions.

Water footprint

Gem Diamonds understands the risks related to water scarcity and pollution. Fresh water is one of the most important commodities on earth and the Group undertakes to ensure that water is managed sustainably. Caring for water sources and monitoring water usage are crucial practices in both a commercial and moral respect and helps the Group maintain its social licence to operate. The mining sector has long been associated with the perception of negative impacts on land and water resources. The sustainable management of the Group's water reduces the risks associated with water use and the impacts within the catchments in which the Group operates.

A water footprint can be defined as a measure of freshwater appropriation underlying a certain product, including fresh surface water, groundwater incorporated in the product or lost during the manufacturing of the product. The Group's total water footprint during 2018 technical year was 8 383 339m^3, slightly down from the reported 2017 footprint of 8 496 384m^3. Total water footprint, in relation to carats mined and tonnes of ore treated, was 37.6m^3 (2017: 42.9m^3) per carat and 1.28m^3 per tonne treated ore (2017: 1.31m^3 per tonne treated ore).

Employee policies and involvement

To gain a fuller understanding of matters related to employee policies and involvement, this segment should be read in conjunction with the information on employment matters contained in the Sustainable Development Review in this report on pages 37 to 44 together with the information contained on the Sustainable Development Platform, available on the Company's website.

The Group prioritises the health, safety and effective performance of employees, in conjunction with maintaining positive employee relations. The Group encourages a direct relationship with open communication between employees and management. Employees are informed about the Group's performance and objectives through direct and continuous communication with management as well as the Company's website, published information, the circulation of press cuttings and Group announcements. Equal opportunity forms the foundation of employment within the Group and the Gem Diamonds is committed to achieving equality irrespective of gender, religion, race or marital status. Full consideration is given to applications from people with disabilities who apply for positions which they can adequately fill, having regard for their abilities and aptitude. Where existing employees become disabled, it is the Group's policy, where practical, to provide continuing employment under normal terms and conditions and to provide training, career development and promotion to disabled employees wherever possible.

Employment practices within the Group are aimed at attracting and retaining top calibre management and staff by creating a work environment that incentivises enhanced performance. Guidelines and frameworks in respect of remuneration benefit, performance management, career development, succession planning, recruitment, expatriate employment and the alignment of human resources management and policy have been implemented by the Group and are in line with international best practice. Each operating unit manages its human resources requirements locally, within the Group's guidelines and framework.

Disclosure of information and auditor re-election

The Lead Audit Partner is based in Johannesburg, RSA. Further information regarding the appointment of EY SA are detailed in the Audit Committee Report on pages 58 and 63.

As required under section 418 of the Companies Act, 2006, to which the Directors have voluntarily elected to conform, each Director confirms that to the best of his knowledge and belief, there is no information relevant to the preparation of the Auditor's Report of which the Company's auditors are unaware of and that each Director has taken all reasonable steps as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

A resolution to appoint EY SA as the Company's auditors and to authorise the Board to determine the auditors' remuneration will be proposed at the 2019 AGM.

The Strategic Report, the Directors' Report and the Directors' Remuneration Report were approved by the Board on 12 March 2019.

By order of the Board

Glenn Turner
Company Secretary

12 March 2019