

**KIMBERLEY DIAMONDS LTD 2014 ANNUAL GENERAL MEETING**  
**MANAGING DIRECTOR'S ADDRESS TO SHAREHOLDERS**

---

Today, the **task of rebuilding KDL moves forward** – and it moves forward because of you, the shareholders of Kimberley Diamonds!

**You have reaffirmed:**

- The spirit that has triumphed over extreme challenges that KDL has faced the past six months.
- The belief that whilst each of us have our own individual dreams, we are all part of KDL's family, **and we rise and fall as one unit, pursuing the same goal.**

Our road has been hard, our journey has been long – but we have picked ourselves up and fought our way back.

**And we know in our hearts that for KDL – the best is yet to come!**

2014 was indeed a year of **highs and lows** for the shareholders of Kimberley Diamonds.

The **first half of the year** will be remembered for the steadily rising share price, whilst the **2<sup>nd</sup> half of the year was disappointing** in many respects. To this end, a significant amount of shareholders' value was lost, and the board and management are acutely aware of the need to rebuild the company and recover the value lost last year.

**But, rather than dwelling on the past**, let me move on to what we want and need to achieve with the company this year.

**Our plan has to start with our people.** Over the past six months, Kimberley Diamonds has had significant turnover at the executive level. This presented a sizable challenge to the new incumbents, but we have managed to rebuild the team in a short period of time and firmly believe that we have the right capabilities in the right areas at this time. The executive team has settled down well, are keen to embrace a major rebuilding year and are ready to execute the business strategy with enthusiasm.

**The closure of the Perth office this month** also created some challenges, but there was never any doubt that the decision, as well as the timing thereof, was correct. In order for us to create cohesiveness, maximise the skills and talents of the individual team members, increase our efficiencies and decrease our overhead costs, it became abundantly clear that we all needed to be in one location. Although we are losing some of our staff, who were unable to make the transition - resourcing efforts, in the context of our new structure and future plans, are already well developed. The outcome of these resourcing efforts will be completed well in advance of restarting Lerala, giving the team ample opportunity to establish all the controls we need for this new phase in the company. Initial indications are that the closure of the Perth office will result in savings approaching \$1m in the current year, with even bigger savings in the following year.

**At Ellendale**, we needed to focus on re-establishing standards and a strong drive to finding a solution that would make the treatment of the coarse tailing stockpiles economically viable. Ellendale will run out of low grade stockpiles to treat, in February 2015. Beyond that date, we have at least two more options to extend the life of Ellendale:

- One option that we have investigated, is to haul the ore stockpile, located at the E4 mine to the E9 plant and recover the diamonds there. This will add another 3 months, to Ellendale's life.
- The biggest opportunity lies in finding a solution to treat the coarse tailings stockpiles, economically. Depending on which cut off point we come to, there could be between 10 and 12 million tons that could be treated. **Carmen Letton**, our GM at Ellendale, and her team - have done a huge amount of work pursuing this goal and we believe that we are close to making a breakthrough that has eluded us for so long with regards to reducing our unit operating cost, which is the core requirement for the treatment of the coarse tailings stockpiles.

**Lerala is our longer-term future.** The delay we experienced, whilst we worked on funding the project, was used to complete the detail design of the processing plant, and getting ahead of the critical path with regards to the required environmental approvals. Overnight we received notification from the Botswana Department of Environmental Affairs that the EIA was transferred to Kimberley Diamonds. This is a major step forward for us, as this now allows us to commence all the planned recommissioning activities on site within the current approved footprint. We still need to complete the agreed process, but with the approval received overnight, we cleared a major stumbling block. The tender requests for the mining contract will be sent out next week, and we are using the 'down time' to improve our operational readiness. Assuming we complete the funding process in December, we are aiming to have Lerala operational by August/September 2015.

**In the mean-time**, we will continue with our **diamond exploration activities in Botswana in the Tilwane Joint Venture**, where we are awaiting the results of the soil chemistry surface samples taken during October. As previously announced, we expect these results in December.

We will also engage in our **first phase of exploration at our new copper/gold exploration project in Spain (the Lomero-Pouatos Project)**, in order to fulfil our first year's commitment. In parallel we are already working on enabling the spin-off of the copper/gold assets into a new company, to be called Alto Minerals Ltd.

We have a **strong focus on cash flow and profitability**. We are facing some challenges with regards to our revenue, as we reach the end of the low grade stockpiles. The grade in the stockpiles is inconsistent, which means that at the operational level, we are facing constant pressure. The progress we have made to date in reducing operating costs and increasing our ability to improve production, gives us reason to believe that we will be able to offset the impact of the low grades. As an example of the progress made to reduce costs, we have reduced our total headcount since May this year from 187 to the current 156 – a reduction of 17% in total labour.

**Kimberley Diamonds was built on our ability to identify undervalued assets with upside opportunities and then acquire them at prices that add value for our shareholders.** We now also have the operational and technical capability to add further value when we identify opportunities. We will therefore continue to search for these opportunities in order to grow the company further.

**Let me conclude by making some comments about corporate governance.** Corporate governance is most often viewed as both the structure and the relationships, which determine corporate direction and performance. We understand that the board of directors is central to corporate governance. It is public knowledge that the company has not had a cohesive board since earlier this year, and that a well-balanced and cohesive board is a requirement for any company to be able to perform to shareholders' expectations.

We have already made significant progress in improving our corporate governance, and will continue to focus strongly on further improvements. During last year, the role of Chairman and CEO were separated. An Audit Committee was established, and 14 board meetings were held. In order to meet the latest ASX standards and industry guidelines, **we updated:**

- The KDL Authorities and Delegations Policy.
- The Audit & Risk Committee Charter.
- The Code of Conduct for Directors and Senior Executives.
- The Risk Management Statement; and
- Our Diversity Policy. **Just to give you an indication of how far we have progressed with regards to Diversity:** At the executive level in Kimberley Diamonds, we have 7 positions, and 4 of the 7 are currently filled by women.

**As a company,** we strive to foster a culture that values and rewards exemplary standards, personal and corporate integrity and respect for others.

**Our leadership team exemplifies** the diversity, strength and accountability of our company.

Our key challenges over the next year include unleashing the full potential of our employees and driving operational excellence and innovation – which remain vitally important for driving business growth and ensuring a sustainable future.

**We thank you for being here today and I look forward to your continued support as we take this company to the next level.**

Noel Halgreen  
Managing Director