Remuneration Committee Report

INTRODUCTION

The Remuneration Committee is pleased to present its report for the year ended 31 December 2020, as recommended by the King IV Corporate Governance Code. The Committee is constituted by the Board, has an independent role, and is accountable both to the Board and to shareholders. The Committee's mandate is set out in its terms of reference and includes the following responsibilities:

- Determining levels of remuneration for each member of the Board;
- Determining levels of remuneration for senior members of management or staff; and
- Monitoring and maintaining the Company's Remuneration Policy.

COMPOSITION

The Committee comprises the following Independent Non-Executive Directors, who have the requisite skills and experience to fulfil the Committee's duties:

- Mr Kwape Mmela (Chair)
- Mr Martin Tolcher
- Mr Lumkile Mondi

MEETINGS

The Committee meets as often as is required, but not less than once a year. Six formal meetings were held during 2020 and a further meeting was held in January 2021, although the Committee deliberated on matters, as necessary, on an ad hoc basis. Members of the Remuneration Committee do not participate when the level of their personal remuneration is considered.

GEMFIELDS GROUP LIMITED REMUNERATION POLICY

The Board, with input from the Remuneration Committee, created a Remuneration Policy (the "Remuneration Policy") and a Remuneration Implementation Report ("the Implementation Report"), which were put to shareholders, as non-binding advisory votes, at the Company's AGM on 24 June 2020. 53.7% of votes were cast against endorsing the Remuneration Policy and 47.8% of votes were cast against endorsing the Implementation Report. As more than 25% of shareholders voted against these non-binding advisory resolutions, the resolutions did not pass.

In response to these votes, the Remuneration Committee and broader Board has considered the Company's remuneration arrangements in detail and engaged with shareholders in accordance with the principles of King IV. To assist in this process, the Renumeration Committee engaged the services of h2glenfern Remuneration Advisory, an independent remuneration consultancy with extensive experience advising listed international resources companies.

Shareholders' conference calls were held in July and December 2020. Points considered included executive salary levels, the workings of the annual bonus plan and outstanding share option awards. The Remuneration Committee explained to shareholders how Executive salaries, along with Non-Executive Director fees and the salaries of UK employees, had been reduced by 20% in response to the COVID-19 crisis. These have not yet been restored to contractual levels.

No bonuses will be paid to Executive Directors in respect of 2020. The Company carried out a detailed review of its annual bonus arrangements and will implement a KPI-based annual bonus structure from 1 January 2021, the detail of which is set out below.

Outstanding share options represent legally binding agreements. To provide reassurance to shareholders in relation to the level of dilution arising from the existing arrangements the Company set out further detail on the outstanding options' exercise prices and lapsing schedule. Gemfields may in due course consider a new approach to long-term share incentive awards. The Company will consult with as many shareholders as possible in advance of any proposed amendments and will seek formal shareholder approval for any new plans in advance of implementation.

The revised Remuneration Policy and Remuneration Implementation Report will be put to shareholders, again as non-binding advisory votes, at the Company's next AGM to be held on or around 24 June 2021.

THE REMUNERATION POLICY

Elements of Executive Director remuneration

Executive Director remuneration is broken down into two key elements: fixed compensation and performance-related awards.

The fixed remunerative elements comprise the base remuneration and employee benefits. The performance-related awards include short- and long-term incentives.

Fixed Compensation

In response to the COVID-19 crisis, all Executive and Non-Executive Directors agreed to a 20% reduction in base remuneration, effective from 1 May 2020. This reduction, which was also applied more broadly across the Company's employees including the entire UK workforce, is still in place at the time of writing. The Board will consider when it is appropriate to restore base remuneration to contractual levels, taking into account all relevant circumstances. The Company will also implement a base remuneration freeze in respect of the two Executive Directors for the duration of 2021.

Performance-Related Awards

Again, as a result of the impact of the COVID-19 crisis on the Company, there will be no annual cash bonus paid to the two Executive Directors in respect of financial year 2020, irrespective of performance. There were no awards of share options to Executive Directors during 2020. There will be no further awards of share options to the Executive Directors under the Company's Long Term Incentive Plan ("LTIP").

Annual Cash Bonus

With effect from 1 January 2021, Gemfields will terminate the existing share price based annual cash bonus structure and adopt a balanced scorecard structure. The central methodology for the new structure is an assessment of performance improvement across 11 Key Performance Indicators ("KPIs") against performance in the previous year and performance over the previous three years. These KPIs are, in order of weighting:

1. Free Cash Flow – 17.5%;
2. Revenue – 15%;
3. Total Cash Operating Cost – 15%;
4. HSEC (Health, Safety, Environment, Community) – 12.5%;
5. Total Premium Carats Produced – 12.5%;
6. Total Rock Handling – 7.5%;
7. Fabergé Cash Consumption from the Gemfields Group – 5%;
8. Balance Sheet (net cash/net debt, treasury, financing, tax) – 5%;
9. Strategy/Business Development/Development Projects/Organic Growth – 5%;
10. Leadership/Organisational/People Development/Staff Turnover – 2.5%; and
11. Financial and Shareholder Reporting/Auditors/Accounting/Controls – 2.5%.

Performance against each KPI will be scored in a matrix against previous performance, including negative scoring, which the Committee will assess.

All bonus payments are at the discretion of the Remuneration Committee. Under the new structure, the Committee will have an overriding discretion to adjust bonus payments from formulaic outcomes in light of the Committee's overall assessment of (1) overall performance and (2) HSEC matters. The new structure will have malus and clawback provisions which will be incorporated into the Executive Directors' contracts of employment.

Outside exceptional circumstances, the maximum annual cash bonus will remain capped at 100% of base remuneration.

The Committee determined that the approach of comparing performance against prior performance was more effective and appropriate than setting forward targets for a number of reasons, including that a number of central KPIs, such as carat production and rock handling, and so free cash flow, revenue and cash costs, are outside the scope of management control and that the setting and measuring of targets involves a significant degree of judgement and subjectivity and can create perverse incentives.

The new scheme benchmarks performance against prior years across a broad and balanced range of KPIs, requiring less judgement or subjectivity. The scheme effectively sets a "measurement benchmark" as the level of performance attained in prior years. The new scheme would typically pay no bonus for merely attaining the same performance as in prior years. This creates a strong focus on constantly improving the business as captured by the various KPIs, giving a clear message to management on their objectives.

FCF will be calculated in a consistent manner as the cash flow from operating activities (taken from the Consolidated Statement of Cash Flows) less sustaining and expansionary capital expenditure and with working capital movements excluded. If the Company performs positively in respect of operational, financial (including FCF) performance, return on capital/equity will follow. FCF is a pertinent metric and takes into account the capital being "invested" in the business in the form of expansionary and sustaining capex.

The Committee will keep the matter of bonus deferral under review.

Given this is a new scheme, an overall review will be carried out after its first year of operation in order to assess its functioning and suitability, with changes made where and to the extent recommended by the Committee (and subject to Board approval).

LTIP

Outstanding options represent legal binding agreements. Details of outstanding options are set out in the Implementation Report below.

The Company made no changes to any existing awards and made no new awards to Executive Directors during 2020.

Depending on how events unfold, the Company may consider a new approach to its LTIP. The Company will consult with as many shareholders as possible in advance of any proposed new awards or changes to existing awards and will seek formal shareholder approval for any new plans in advance of implementation.

Executive Directors' Contracts of Employment

At the time of writing, new contracts of employment for the Executive Directors were being finalised, on like terms, and based on UK market practice.

Non-Executive Directors

At the Company's EGM held on 26 June 2017, shareholders resolved that the maximum amount payable as Non-Executive Directors' fees be increased to USD100,000 per Director per annum. Since the cap on the Non-Executive Director fees had been at the same level since the 2010 AGM, this increase not only brought the Company's remuneration more in line with prevailing market practice but has improved the Company's ability to attract candidates with appropriate qualifications and experience to the Board.

	Component	Objective	Link to business strategy	Policy
Element 1: Guaranteed pay and benefits	**Base compensation** Akin to a salary, base compensation is received monthly, based on an annual figure decided by the Remuneration Committee.	To engage the best talent at Executive Director level.	Ensures market competitiveness, helps to attract and retain key talent, and provides fair reward for individuals.	Executive Director base compensation was initially determined by former holders of the equivalent office within Gemfields plc, and at prevailing market rates. Future reviews will be based on skill, experience, responsibilities and market rates, with particular emphasis on shareholder engagement.
	Insurance benefits Executive Directors receive life insurance, medical and dental insurance and travel insurance policies for themselves and their families.	The benefits package is comparable with others on the market, the aim being to attract and retain the best talent.	The Company recognises the need for a holistic approach to an Executive Director's guaranteed pay package.	Insurances are comparable with those offered to the wider employee base within the Group, and are reviewed annually.
Element 2: Short- and long-term incentives	**Annual bonus** At the end of each calendar year, Executive Directors may receive a cash bonus dependent on the success of their work over the previous year, based on the value of their base compensation. Outside exceptional circumstances, the maximum annual cash bonus will remain capped at 100% of base remuneration.	To encourage performance over each one-year operating cycle.	Rewards Executive Directors for a measurable contribution to the Company.	A balanced scorecard approach has been adopted from 1 January 2021. Performance across the various metrics is compared against previous years' performance.
	Share options At instatement, Executive Directors were granted share options, which they can exercise at set dates over the subsequent four years.	The incentive is twofold: retention of key talent, and incentivising delivery of excellent performance in the long term.	Aligns Executive Director interests with those of shareholders, and with growth in the share price year-on-year. Motivates long-term performance. Rewards Executive Directors for their tangible successes.	Share options are exercisable in set tranches per year, and at a predetermined date.

EVALUATION OF WHETHER THE REMUNERATION POLICY MEETS ITS OBJECTIVES

When developing the Remuneration Policy, the Remuneration Committee focussed on three key areas.

Performance incentives

The objectives of performance incentives are to ensure that:

1. The elements of Director remuneration are a good foundation for both the short- and long-term success of the Company;
2. The fixed remunerative elements (base compensation, benefits and Non-Executive Director fees) are competitively set to both attract and retain the key talent required by the Company; and
3. The performance-related elements of variable remuneration (annual bonuses and share options) ensure that the interests of the shareholders are at the forefront of the minds of Executive Directors, all of whom would stand to benefit by short- and long-term growth of the Company's business and the share price.

Shareholder engagement

Shareholder engagement has been key to developing and revising the Remuneration Policy and applying it to Executive Director remuneration. Shareholder advisory votes are a key means of shareholder feedback from which the Committee can tailor both practical remuneration and the Remuneration Policy. Consequently, the Company commits to engaging shareholders about remuneration each financial year. The two votes held during 2020 were important for the Committee to collate shareholder feedback.

Should any shareholder advisory vote conclude in a result of less than 75% in favour of the remuneration matter under vote, the Committee will re-examine the matter. Where possible, the Committee will engage in direct discussion with shareholders in order to understand the motivation behind such a vote, that is, to better understand their concerns. However, a number of shares are held anonymously, thus creating an obstacle to shareholder engagement. The Committee will also consider communicating with shareholders individually, also via the Company's website and via SENS and RNS, encouraging shareholders to come forward should they believe their view is yet to be represented. This is what occurred during 2020.

King IV standard

The Committee is satisfied that the Remuneration Policy complies with the King IV Code and that the robust principles of governance encouraged by King IV have been implemented.

Remuneration Policy availability

A link to the GGL Remuneration Policy is available online at www.gemfieldsgroup.com.

REMUNERATION IMPLEMENTATION REPORT

Key decisions made in 2020

Following extensive shareholder feedback, the Committee has continued to develop the Renumeration Policy, which will be put forward to shareholders at the 2021 AGM.

Schedule of fees and remuneration

Throughout the 2020 financial year, the Executive Directors' remuneration consisted of their base compensation only. No annual bonuses were paid in respect of the 2020 financial year, nor any share options awarded in 2020. The table below sets out the remuneration of Executive Directors in respect of the 2020 financial year.

At the Company's EGM held on 26 June 2017, shareholders resolved that the maximum amount payable as Non-Executive Director fees be increased to USD100,000 per Director per annum. With effect from 14 September 2017, the fee payable for each Non-Executive Director increased from USD35,000 per annum to USD40,000 per annum. There was no change to this in 2018, 2019 and 2020. An additional fee of USD5,000 is payable for each member of the Audit, Nomination and Remuneration Committees with a further USD2,500 for the Chairman of each Committee and USD2,500 for the Lead Independent Director.

1 January 2020 to 31 December 2020	Base compensation USD'000	Benefits USD'000	Pension USD'000	Bonus USD'000	Total USD'000
Sean Gilbertson	488	5	–	0	493
David Lovett	286	2	14	0	302
Total	**774**	**7**	**14**	**0**	**795**

On 1 May 2020, all UK-based staff members and the Board of Directors agreed to a 20% base remuneration reduction with UK-based employees being placed on a four-day working week, in light of the COVID-19 pandemic.

The Non-Executive Director fees vary based on the individuals' involvement and role within the various committees of the Company's Board. The fees payable to Non-Executive Directors for the year ended 31 December 2020 are as follows:

1 January 2020 to 31 December 2020	Group Director fees USD'000	Board committees USD'000	Lead Independent Director USD'000	Total USD'000
Martin Tolcher	87	–	–	87
Dr Christo Wiese	35	–	–	35
Lumkile Mondi	35	15	2	52
Kwape Mmela	35	10	–	45
Carel Malan	35	6	–	41
Mary Reilly[1]	3	–	–	3
Total	**230**	**31**	**2**	**263**

1 *Appointed effective 4 December 2020.*

Share options

The table below illustrates the number of options issued and forfeited during the year in respect of the Executive Directors.

	Options held at 1 January 2020	Issued date	Exercise price	Options granted during the year	Options forfeited during the year	Options exercised during the year	Options held at 31 December 2020
Sean Gilbertson	27,890,213	September 2017	ZAR3.45	–	–	–	27,890,213
David Lovett	1,184,200	January 2018	ZAR2.97	–	–	–	1,184,200
David Lovett	7,000,000	July 2018	ZAR2.30	–	–	–	7,000,000

No share options were granted to or exercised by the Executive Directors during the year ending 31 December 2020.

The Company's Share Option Plan was approved by shareholders on 26 June 2017. Under the terms of the plan, the Company can issue a maximum of 167,341,278 options.

In September 2017, Mr Sean Gilbertson was awarded 27,890,213 share options at an option price of ZAR3.45 cents. These options represent 2.4% of the Company's current issued share capital. In 2018, Mr Lovett was granted: (i) 1,184,200 share options on 4 January 2018 at an option price of ZAR2.97; and (ii) 7,000,000 share options on 27 July 2018 at an option price of ZAR2.30, together representing approximately 0.70% of the Company's issued share capital.

All share options vest over a four-year period in tranches of 20%. One-fifth of the options granted vest immediately, with the remaining 80% vesting annually on the grant date over the following four years, during which the grantee has to remain in employment.

Share options which have not been exercised shall lapse:

- the first tranche of options (one-fifth), vesting on the issue date; will lapse on the expiry of five years from the issue date;
- the second tranche of options (one-fifth), vesting on the one-year anniversary of the issue date, will lapse on the expiry of four years from the vesting date;
- the third tranche of options (one-fifth), vesting on the two-year anniversary of the issue date; will lapse on the expiry of three years from the vesting date;
- the fourth tranche of options (one-fifth), vesting on the three-year anniversary of the issue date, will lapse on the expiry of three years from the vesting date; and
- the fifth tranche of options (one-fifth), vesting on the four-year anniversary of the issue date, will lapse on the expiry of three years from the vesting date.

Issue date – the date at which the options are granted to the option holder.

Vesting date – the date that each tranche of the options is available for exercising.

Share options for employees of the wider Group

In 2018, the Group established a share option programme for the employees of the wider Group within the parameters of the scheme approved by shareholders on 26 June 2017. In the same manner that the Company has used share options as a long-term incentive for its Executive Directors, the Board extended this benefit to a wider number of its employees. Awards are granted in five equal tranches, with the first tranche of share options vesting immediately and thereafter on an annual basis.

- A total of 21.6 million share options were granted to Group employees at ZAR2.97 cents on 4 January 2018.
- A total of 44.8 million share options were granted to Group employees at ZAR2.30 cents on 20 July 2018.
- A total of 1.6 million share options were granted to Group employees at ZAR1.90 cents on 15 March 2019.

At 31 December 2020, the following share options had been granted and were outstanding in respect of the ordinary shares:

Issue date	Exercise price	Outstanding at 1 January 2020	Granted	Forfeited/lapsed	Exercised	Outstanding at 31 December 2020
September 2017	ZAR3.45	55,780,428	–	–	–	55,780,428
January 2018	ZAR2.97	17,472,255	–	(91,680)	–	17,380,575
July 2018	ZAR2.30	43,168,000	–	(300,000)	–	42,868,000
March 2019	ZAR1.91	1,580,000	–	–	–	1,580,000
Total		**118,000,683**	**–**	**(391,680)**	**–**	**117,609,003**

The table above includes those share options held by the Executive Directors.

To provide reassurance to shareholders in relation to the level of dilution arising from the existing awards, the Company sets out the following summary points.

- 117.6 million awards are outstanding, representing 10.1% of the Company's current shares in issue.
- While this percentage is significant, dilution may be lower given the structure of the awards (including exercise price and lapsing profile).
- 55.8 million awards (47% of the outstanding awards) have a ZAR3.45 exercise price. These options commence lapsing from September 2022 and are fully lapsed by September 2024. Of these 55.8 million awards, 50% are held by leavers and the balance (27.9 million/or 2.4% of the Company's issued shares) are held by the Chief Executive Officer. Of the current total outstanding awards, approximately 38% lapse by December 2022 and 74% lapse by December 2023.
- Total awards with exercise prices between ZAR1.91 and ZAR2.97 amount to 62 million, representing 5.3% of the Company's issued shares. The weighted average exercise price of the outstanding options is ZAR2.94 (GBP0.132).

Should an Executive Director cease to be employed by the Company, then the manner of their departure and the date any options were granted to them would determine how those options are treated.

No share options were granted to or exercised by Group employees during the year ending 31 December 2020.

Success of the Remuneration Policy throughout 2020

The Committee is committed to implementing a Remuneration Policy that is robust and delivers for the Company and for shareholders, and will continue to engage with shareholders to implement the best possible policy.

Future focus areas

During 2021, the Board and the Remuneration Committee have two main priorities:

1. To maintain good communication with shareholders. The implementation of the Remuneration Policy and the Executive Director remuneration throughout 2020 benefited from shareholder engagement. The Committee remains committed to continuing this dialogue to the benefit of all parties.
2. To continue ensuring that employees of the wider Group feel engaged with Gemfields by having their remunerative rewards closely tied to the success of the Company, which in turn will encourage employees to perform as active stakeholders and have their efforts at work appropriately rewarded. Consequently, the Company and its shareholders can be confident that employees will continue to perform at a superior standard, with all parties focussed on a unified aim.

Approval of the Remuneration Committee Report for 2020

All decisions undertaken in the 2020 financial year were compliant with the Remuneration Policy as determined by the Committee. Accordingly, this report was recommended by the Committee and was approved by the Board on 29 March 2021.

Kwape Mmela
Chair of the Remuneration Committee