PetraDiamonds

Annual Report and Accounts 2011

Discover Petra Diamonds

Petra Diamonds is a leading independent diamond mining group and an increasingly important supplier of rough diamonds to the international market. The Company has a well-diversified portfolio, with interests in eight producing mines: seven in South Africa (Finsch, Cullinan, Koffiefontein, Kimberley Underground, Helam, Sedibeng and Star) and one in Tanzania (Williamson).

Petra offers an exceptional growth profile, with a core objective to steadily increase annual production to over 5 million carats by FY 2019. The Group has a major resource base in excess of 300 million carats.

Petra conducts all its operations according to the highest ethical standards and will only operate in countries which are members of the Kimberley Process. The Company is quoted on AIM (AIM: PDL) and has announced its plans to apply for admission, with a premium listing, of its entire issued share capital to the Official List of the UK Listing Authority and for admission to trading on the London Stock Exchange's Main Market.

Image above: The 507 carat Cullinan Heritage diamond.
Cover image: The Finsch mine in South Africa.

Discover more about Petra
www.petradiamonds.com

Overview

Discover Petra Diamonds
01 2011 Highlights: at a Glance
02 Our Assets: at a Glance
04 Our Strategy: at a Glance
04 The Diamond Market
06 Chairman's Statement

Business Review

08 CEO's Review
10 The Diamond Market
12 Operational Review
12 Cullinan
14 Finsch
16 Koffiefontein
18 Kimberley Underground
20 Williamson
22 Fissure Mines
23 Exploration
24 Reserves and Resources
28 Financial Review
31 Key Performance Indicators

Corporate Governance

32 Risk Management
34 Corporate Social Responsibility
36 Board of Directors
38 Directors' Report
41 Corporate Governance Statement
46 Directors' Remuneration Report

Financial Statements

49 Independent Auditor's Report
50 Consolidated Income Statement
51 Consolidated Statement of Other Comprehensive Income
52 Consolidated Statement of Changes in Equity
54 Consolidated Statement of Financial Position
55 Consolidated Statement of Cashflows
56 Notes to the Annual Financial Statements
Glossary

2011 Highlights: at a Glance

Financial Highlights

- Revenue: US$220.6 million (FY 2010[1]: US$163.7 million)
- Profit from mining activity[2]: US$76.4 million (FY 2010: US$67.2 million)
- Operating cashflow: US$50.6 million (FY 2010: US$48.8 million)
- Adjusted EBITDA[3]: US$67.1 million (FY 2010: US$70.9 million)
- Profit after tax: US$59.2 million (FY 2010[1]: US$70.2 million)
- EPS[4]: 12.83 cents per share, post the issue of 136,698,212 new shares in January 2011 (FY 2010: 22.65 cents per share)
- Cash at bank at 30 June 2011[5]: US$324.9 million (FY 2010: US$34.5 million)

Operations Highlights

- Production of 1,117,795 carats (FY 2010: 1,164,856)
- Expansion plans on target to increase production to over 5 Mcts by FY 2019
- Sound cost control despite inflationary pressures
- Diamond prices rose steadily from October 2010 to highs in June 2011; since July 2011, rough prices have adjusted downwards and economic uncertainty may continue to cause volatility in the short term

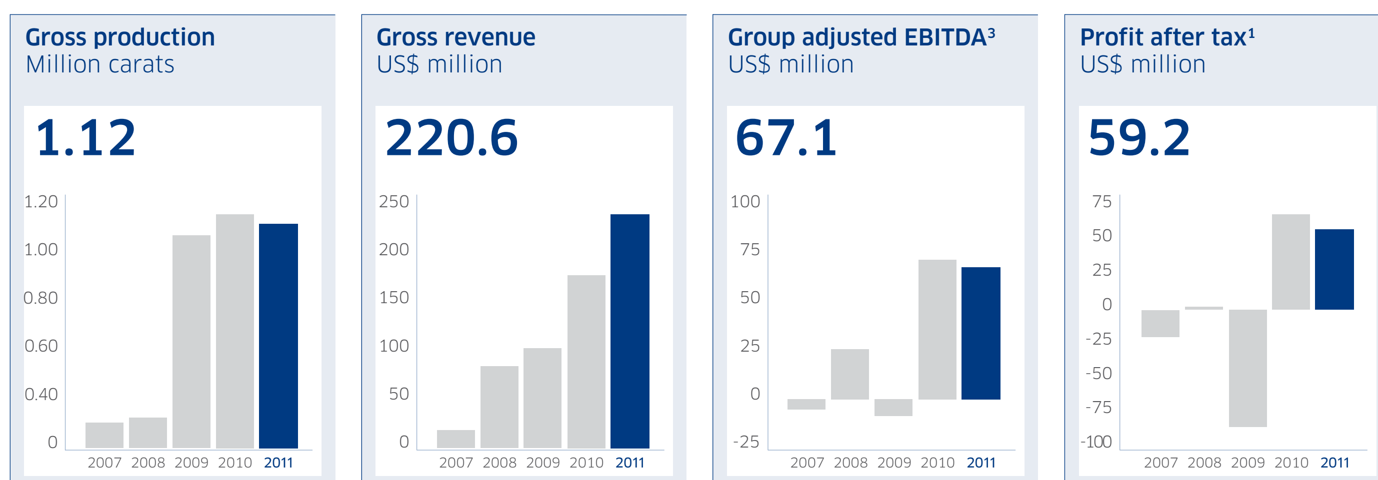
Corporate Highlights

- Acquisition of world-class Finsch mine for R1.425 billion (ca. US$192 million) completed post year end on 14 September 2011
- Equity fundraising of US$325 million to fund Finsch acquisition and strengthen Company balance sheet
- US$83 million debt facilities in place with IFC and Rand Merchant Bank

Outlook

- After an initial bedding down period, Finsch is expected to add ca. 125,000 carats per month to Petra's output, adding at least 1 Mcts for FY 2012
- The Group gross resources (including Finsch) have increased to over 300 Mcts
- London Stock Exchange Main Market step-up expected in December 2011
- Long-term outlook for diamond market remains positive due to strong supply and demand fundamentals

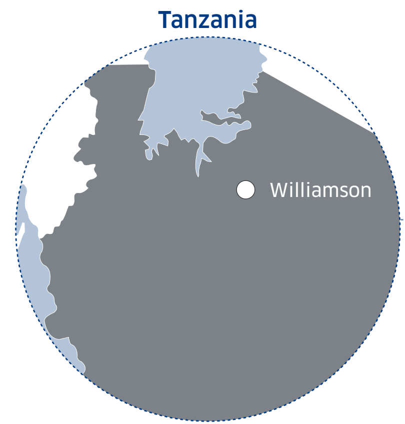
1. For the Period 1 July to 16 November 2009, Petra accounted for its interest in Cullinan under the gross method of proportional consolidation, recognising 50% of revenue and 13% minority interests. With effect from 17 November 2009, the effective date of control for accounting purposes that Petra acquired the remaining 50% interest in Cullinan Investment Holdings Limited from Al Rajhi Holdings W.L.L., Petra consolidates 100% of revenue and 26% minority interests in line with IFRS.
2. Stated before impairments, depreciation, amortisation, share based expense, foreign exchange gains, interest paid, inventory fair value adjustment and deferred taxation on inventory fair value adjustment.
3. EBITDA disclosures are "adjusted EBITDA", being stated before impairments, share based expense, foreign exchange gains and recycling of foreign exchange differences on exploration projects.
4. Stated after non-controlling interests (representing black economic empowerment ("BEE") partners' interests in the Group) of US$6.0 million (FY 2010: US$6.7 million).
5. Cash at bank comprises unrestricted cash and restricted cash balances of US$96.9 million and US$228 million respectively (30 June 2010: US$24.8 million and US$9.7 million). The restricted balance of US$228 million as at 30 June 2011 included the consideration held in escrow for the acquisition of Finsch, which completed post Period end.

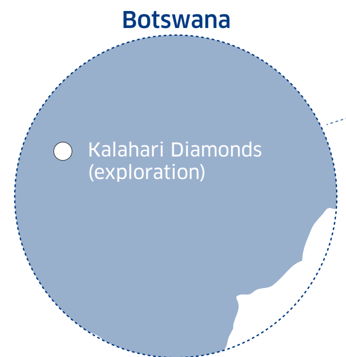


Our Assets: at a Glance

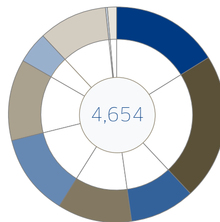
Petra has a well-diversified portfolio, with controlling interests in eight producing mines: seven in South Africa and one in Tanzania

Focus on Africa – source of ~60% of the world's gem diamonds by value





Employees (excluding contractors) (as at 30 October 2011)



Cullinan

The world's most celebrated diamond mine

Cullinan earned its place in history as the source of the Cullinan diamond in 1905, the largest gem diamond ever at 3,106 carats rough

Key facts:

- Renowned for large, top quality gem diamonds – has produced 745 diamonds of +100 carats and a quarter of all diamonds of +400 carats
- Only reliable source of highly prized, rare blue diamonds
- World-class resource base of 203.7 Mcts (including tailings)
- Expansion plan to increase production from ca. 895,000 ctpa to 2.4 Mctpa by FY 2019 (underground and tailings)
- 16 year initial mine plan

Petra ownership

74%

26% BEE partners (14% Thembinkosi Mining Investments (Pty) Ltd, 12% Petra Diamonds Employee Share Trust)

Finsch

South Africa's second largest diamond mine

A major producer with world-class infrastructure and modern plant

Key facts:

- Major resource base of 43.7 Mcts, incl. 25.8 Mcts in reserves
- Known to produce large, special diamonds – produced ca. 27 stones of +45 carats pa over last four years
- Expansion plan to increase production from ~1.5 Mctpa to just under 2 Mctpa by FY 2018 (underground and tailings)
- 18 year initial mine plan

Petra ownership

74%

26% BEE partners (21% Senakha Diamonds Investments (Pty) Ltd, 5% Petra Diamonds Employee Share Trust)

Koffiefontein

One of the world's top kimberlite mines by average diamond value

Exceptional infrastructure and underground operation

Key facts:

- Regularly produces exceptional white diamonds of between five and 30 carats in size
- Resource base of 6.1 Mcts
- Expansion plan to increase production from ca. 48,000 ctpa to +100,000 ctpa by FY 2017 (underground and tailings)
- 14 year initial mine plan

Petra ownership

74%

26% BEE partner Re-Teng Diamonds (Pty) Ltd

South Africa

Helam
Cullinan
Sedibeng
Finsch
Star
Kimberley Underground
Koffiefontein

p12 For more information on **our operational performance**

Kimberley Underground

Kimberley is the heart of South Africa's diamond industry

Operation comprises three mines: Bultfontein, Dutoitspan and Wesselton

Key facts:

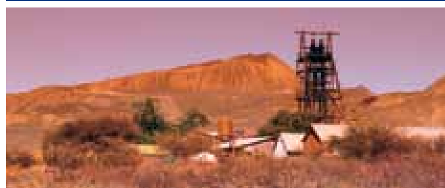
- Historic source of large diamonds and fancy yellows
- Resource base of 7.1 Mcts
- Expansion plan to increase production from ca. 57,000 ctpa to ca. 150,000 ctpa by FY 2013
- 11 year initial mine plan

Petra ownership

74%

26% BEE partner Sedibeng Mining (Pty) Ltd

Fissure Mines



Portfolio of three fissure mines: Helam, Sedibeng and Star

Narrow vein, low tonnage "fissure" mines

Key facts:

- Fissures are the narrow root zones of kimberlites (after the main pipe has been eroded away)
- Low tonnage operations but high grade
- Expansion plan to increase production from ca. 87,000 ctpa to ca.140,000 ctpa by FY 2015
- Resource base of 5.0 Mcts
- >11 year initial mine plan

Petra ownership

Helam:	**74% Petra, 26% BEE partner Sedibeng Mining (Pty) Ltd**
Sedibeng:	**74.5% Petra, 17.85% BEE partner Sedibeng Mining (Pty) Ltd, 7.65% BEE partner Bokone Properties (Pty) Ltd**
Star:	**74% Petra, 26% BEE partner Sedibeng Mining (Pty) Ltd**

Williamson

Petra's only open pit operation

At 146 hectares, Williamson is the largest kimberlite pipe ever to be mined economically on a continuous basis, having been operated for over 70 years

Key facts:

- Renowned for high value white and "bubblegum" pink diamonds
- Major resource base of 40.1 Mcts
- 3 Mtpa plant to come into production in Q3 FY 2012
- 17 year initial mine plan

Petra ownership

75%

25% United Government of the Republic of Tanzania

Our Strategy: at a Glance

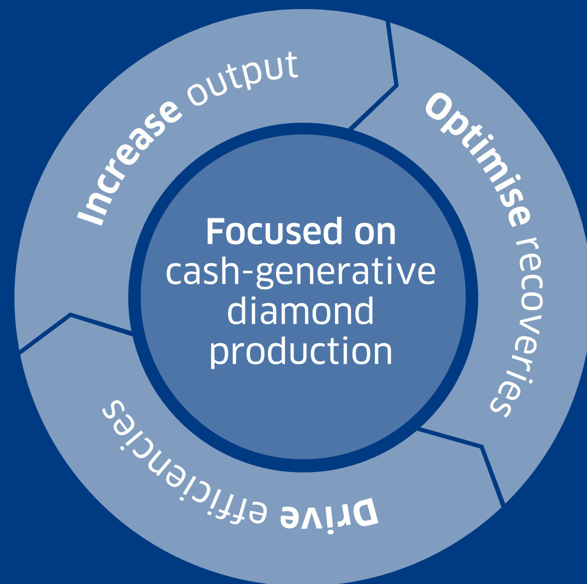
Our focus

Our objectives

Our vision is to develop a diamond mining group of global significance

The Group is focused on cash-generative diamond production, with a core objective to continue to grow rough diamond output and increase its stature as a leading diamond mining group.

Petra's planned growth in production will place the Group in a strong position to benefit from the positive long term fundamentals of the diamond industry.



The Diamond Market

Although current economic uncertainty may continue to impact on diamond pricing in the short term, there is a positive long term outlook for the rough diamond market due to inherent production constraints which suggest that supply will struggle to keep pace with demand.

Many of the world's major diamond mines are in decline and cannot maintain previous high levels of output. Whilst some new mines are coming on stream in the next few years, there is nothing of significant size to make up for this shortfall and there have been no important new discoveries since the early 1990s.

Meanwhile, demand for diamonds continues to rise, in both established and new markets. The fastest growing new consumer markets for diamonds are China and India, both of which are recording double digit growth year-on-year.

Market facts:

- Diamond market performed very strongly in FY 2011 – prices reached all-time highs in H2; since Period end, rough prices have adjusted downwards due to global economic uncertainty
- Robust market underscored by firm retail demand, causing shortfalls in certain categories
- Liquidity in pipeline continued to improve in FY 2011 and added further confidence to rough market
- Exceptional growth seen in prices of smaller gem diamonds in line with trend to use them across luxury goods, especially watches
- Global diamond jewellery market grew +8% in 2010
- US remains dominant market accounting for 38% of worldwide consumption
- China and India continued exceptional growth in 2010, up +25% and +31% in local currency respectively
- Far East (China, Hong Kong, Taiwan, India and Gulf) expected to account for ~40% of global demand by 2015

How we are achieving our objectives

Steadily growing annual production, with a target of over 5 million carats by FY 2019

- Acquisition of Finsch mine – expected to more than double Petra's production in its first full year of operation
- Petra has built a world-class resource base, which forms the bedrock of future production growth
- Utilise all of the resources under Petra management including tailings deposits

Aiming to improve operating margins at each mine over time

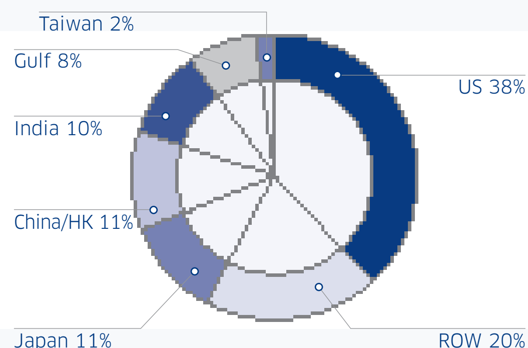
- Programmes to deepen underground mines to establish new block caves and provide access to undiluted ore
- Focus on "value" as opposed to "volume" production – i.e. monitor the market to establish the optimal rough diamond size and quality ranges to be recovered
- Optimise plant processing and security to ensure recovery of the full spectrum of diamonds

Maintaining a culture of effective cost control

- Contain costs on a unit basis despite inflationary pressures
- Utilise in-house skills wherever appropriate to execute capex programmes
- Keep tight control on corporate overhead

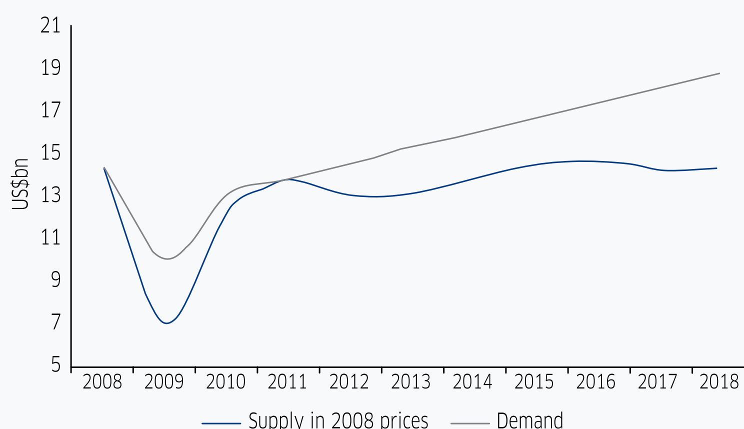
Maximise returns

Breakdown of global diamond consumer demand in 2010



Source: De Beers 2010 Results – 11 February 2011

Rising demand
Strong demand growth opportunities from China and India



Source: Deutsche Bank and Alrosa – "Diamonds set to sparkle" – 19 April 2011

Chairman's Statement

We are working together to further establish our status as one of the world's leading diamond mining groups

Summary of Chairman's Statement

- » Acquisition of Finsch, one of the world's important diamond mines, in line with our strategy to acquire long-life assets with substantial diamond resources.
- » Petra is focused on Africa, which is the source of some 60% of the world's diamonds by value. We have established a significant marketing operation in Johannesburg where we sell the bulk of our production.
- » Petra is moving to the next stage of its corporate development as we prepare for our step-up from AIM to the Main Market of the London Stock Exchange in December 2011.
- » The long term outlook for the rough diamond market remains positive due to inherent production constraints, which suggest that supply will struggle to keep pace with demand.

Dear shareholder,

It gives me great pleasure to introduce Petra's 2011 Annual Report and to provide an overview of the key highlights of the year. This was a period of significant progress for Petra Diamonds, which is now firmly established as London's largest quoted diamond mining company.

An exceptional growth profile

The major milestone since my previous Chairman's Report in October 2010 was undoubtedly the acquisition of Finsch, the second largest diamond mine in South Africa. Finsch is an important diamond producer and its addition to Petra's portfolio is in line with our strategy to acquire long-life assets with substantial diamond resources which can deliver strong cashflows and earnings to the Group. Petra was chosen by De Beers as the winning bidder for Finsch in a competitive bidding process, a reflection of our strong track record, technical capacity and the emphasis we place on sustainability. Our focus is to now deliver on our core objective to increase Group production to over 5 million carats by FY 2019.

Petra was delighted to win several quoted company awards in 2010 and 2011 as recognition of the Company's continued successful development, both from an operational and corporate perspective.

"AIM Transaction of the Year" – (2010 AIM Awards)

About the category:

2010 was a highly successful year for Petra, when the Company raised US$120 million in an equity fundraising, acquired a further 37% of its flagship Cullinan mine, completed the acquisition of the Kimberley Underground mines and sold the 507 carat Cullinan Heritage diamond for US$35 million, the highest price on record for a rough diamond.

Picture shows:

Chairman Adonis Pouroulis accepting the 2010 award.

"AIM Transaction of the Year" – (2011 AIM Awards)

About the category:

Petra completed the landmark acquisition of the Finsch mine in 2011 for US$192 million, further to an equity placing in which the Company raised US$325 million. The acquisition was a continuation of Petra's strategy to build a world-class miner, adding an eighth producing mine to the Company's portfolio and consolidating Petra's position as London's largest quoted diamond mining group.

Picture shows:

Finance Director David Abery accepting the 2011 award.

Adonis Pouroulis, Chairman

An African success story

Petra is focused on Africa, which is the source of some 60% of the world's diamonds by value, and where we have built up a first-rate team, in terms of the depth of its skill-set and its experience in the management of diamond mining operations. With a portfolio encompassing eight producing mines – seven in South Africa and one in Tanzania – as well as a prospective exploration programme in Botswana, Petra is a significant employer on the continent, with over 4,600 employees.

We have established a significant marketing operation in Johannesburg, where we sell the bulk of our South African production, and have a sales office in Antwerp, where we sell production from the Williamson mine in Tanzania. Due to the quality and growing size of our output, which includes world-class gems such as the 7 carat, flawless, fancy vivid blue "Star of Josephine" and the 507 carat "Cullinan Heritage", we now count many of the world's foremost manufacturers as regular Petra clients, who travel from all over the world to South Africa to participate in our tenders.

We have secured the future for several of Africa's important diamond mines, which are at the heart of their local communities. As well as providing employment to our workforce, our mines have a wider positive impact in terms of stimulating social and economic upliftment, as outlined in our annual Sustainability Report, which is available on the Petra Diamonds website.

We see Africa growing in stature on the world stage as the continent continues to develop at a rapid rate and we are proud that Petra is one of its many modern success stories.

Corporate development

Petra is moving to the next stage of its corporate development as we prepare for our move from AIM to the Main Market of the London Stock Exchange in December 2011. The Company joined AIM in 1997 and the market has provided an ideal platform for the high growth achieved by Petra in recent years.

In line with our continued corporate development, we have today appointed two independent Non-Executive Directors to the Petra Board, Dr Patrick Bartlett and Gordon Hamilton, who both bring a wealth of relevant experience and expertise in the financial and mining worlds. Following these appointments, I moved from Executive to Non-Executive Chairman, though my commitment to Petra will, of course, remain unchanged. I very much look forward to working with the enlarged Board and to taking the Company forward after Petra's step up to the Main Market.

Sadly, I must also mark the loss of long-time Petra Non-Executive Director Charles Segall, who passed away in July 2011. Charles was a great friend and loyal colleague, who inspired all with the enthusiasm he felt for his life and work. He will be much missed.

A sparkling outlook

Although current economic uncertainty may continue to impact on diamond pricing in the short term, the long term outlook for the rough diamond market remains positive due to inherent production constraints, which suggest that supply will struggle to keep pace with demand. Many of the world's largest diamond mines are now past their peak and are moving underground in order to sustain their mine lives, meaning that they will see significant drops in production as surface tonnages are curtailed. At the same time, rising prosperity and the growth in consumption from emerging economies such as China and India should ensure that demand continues to rise, leading many commentators to predict a likely scenario of rising rough diamond prices in the medium to long term. Petra is very well placed to benefit from these fundamentals.

Partnerships are key to Petra's continued success and I would like to especially thank our host Governments of South Africa, Tanzania and Botswana, as well as our main black economic empowerment partners, Sedibeng Mining (Pty) Ltd, Umnotho weSizwe Group (Pty) Ltd, Namoise Mining (Pty) Ltd and the Petra Diamonds Employee Share Trust.

Finally I would like to thank all our employees for the hard work which is the driving force behind Petra. We are all aware that we are building a truly special Group, but the journey often requires extra effort and dedication. We have a first-rate team in place, with an emphasis on getting the job done, and we are working together to further establish our status as one of the world's leading diamond mining groups.

Adonis Pouroulis
Non-Executive Chairman
28 November 2011

"Best Investor Communications" (2011 UK Stockmarket Awards)

About the category:
This category recognises those companies which have most effectively disseminated information to existing and potential shareholders across the full range of media – official RNS press releases, their annual report, webcasts, their website and via their public relations representative – regarding all aspects of their financial performance, strategy and market positioning.

Picture shows:
Corporate Communications Manager Cathy Malins accepting the award.

CEO's Review

The 2011 financial year has seen a further remarkable period of progression for Petra

Summary of CEO's Review

» The Group recorded significant revenue growth and a net profit after tax of US$59.2 million; agreed to acquire the major Finsch mine in South Africa from De Beers; and significantly strengthened its balance sheet.

» Petra is now following an accelerated growth path. Our core objective is to deliver on our expansion plans and we continue to strengthen our mine management teams and internal skills-set appropriately.

» The Group's Lost Time Injury Frequency Rate in FY 2011 was 0.80, an improvement on FY 2010's performance of 1.03 and demonstrating management's focus on this area across all of our operations.

» We plan to move to the Main Market of the London Stock Exchange in December 2011 and are targeting to enter the FTSE 250.

The 2011 financial year ("FY 2011" or "the Period") saw a further remarkable period of progression for Petra: the Company recorded significant revenue growth and a net profit after tax of US$59.2 million; agreed to acquire the major Finsch mine in South Africa from De Beers; and significantly strengthened its balance sheet, all set against the backdrop of a healthy rough diamond market.

The acquisition of Finsch completed post year end on 14 September 2011 and is a landmark development for Petra. Finsch is a long-life, major diamond producer which introduces another flagship asset to complement and balance the Cullinan mine in Petra's portfolio. The acquisition increases the Company's gross resource base to over 300 million carats, which is one of the world's largest diamond resources.

Petra is now following an accelerated growth path. Whereas previously we targeted annual production of 3 million carats by FY 2019, the Group is now on track, due to the inclusion of Finsch, to reach over 5 million carats by FY 2019. Our core objective is to deliver on our expansion plans and we continue to strengthen our mine management teams and internal skills-set appropriately.

With regards to financing the roll-out of the expansion plans, Petra completed debt facilities with IFC and RMB of approximately US$83 million in November 2010. Both banks carried out detailed due diligence on Petra; the IFC's involvement is particularly notable as it reflects the important socio-economic benefits Petra can bring to the Mwadui area of Tanzania by providing a long-term, sustainable future for the Williamson mine.

In order to satisfy the Finsch acquisition consideration of R1.425 billion (US$192 million as at 14 September 2011, when the acquisition consideration was settled), Petra completed an equity fundraising with new and existing investors, raising £205 million (approximately US$325 million as at 21 January 2011, when the raising was completed). The Company enjoyed a positive response to the fundraising, which was significantly oversubscribed, and the high quality names on our share register show that Petra is supported by some of the UK's most reputable institutional investors.

Petra is now London's largest quoted diamond mining group. We have used the AIM market well to facilitate our ambitious growth plans, and we are now preparing to develop the Company's stature further by stepping up to the Main Market of the London Stock Exchange. In line with the Company's continued corporate development, we have today appointed two independent Non-Executive Directors, Dr Patrick Bartlett and Gordon Hamilton, and we are looking to appoint one or more further independent Non-Executive Directors to the Board as soon as is practicable in FY 2012.

In terms of our safety performance, the Group's Lost Time Injury Frequency Rate in FY 2011 was 0.80, an improvement on FY 2010's performance of 1.03 and demonstrating management's focus on this area across all of our operations. It is with deep regret that an employee lost his life in an accident on 31 January 2011 in an underground production section of the Koffiefontein mine. No other employees were injured or endangered in the incident. Petra is striving for a zero harm environment across all its operations and works closely with the relevant regulatory bodies in South Africa, Tanzania and Botswana in order to fully comply with all health and safety legislation.

Visit this report online
ar11.petradiamonds.com

Johan Dippenaar, CEO

Petra is London's largest quoted diamond mining group

Production remained relatively flat for FY 2011 versus FY 2010 due to:

- a strategic focus (as part of Petra's core objective to maximise revenues) on "value production" as opposed to "volume production", which led the Company to raise the bottom-cuts in the treatment plants of the Cullinan, Koffiefontein and Kimberley Underground mines during FY 2011;
- the planned stoppage of main pit production at Williamson whilst the expansion plan is underway;
- the planned depletion of high grade OSP tailings material at Cullinan;
- lower than projected volumes treated at Kimberley Underground due to initial commissioning difficulties at the Joint Shaft plant, which have now been largely overcome; and
- unseasonably heavy rainfall – Petra, like many other mining companies with South African operations, was affected by the very high rainfall levels during FY 2011, especially where processing wet stockpile and tailings material.

Further information on Petra's operational performance for the year can be found in the individual mine reviews which commence on page 12 of this Annual Report.

Outlook

Looking forward to the coming financial year, we will see a step-change in production further to the integration of the Finsch mine. We plan to step up to the Main Market of the London Stock Exchange in December 2011 and are targeting to enter the FTSE 250, further stimulating investment and liquidity. We foresee medium to long term health in the diamond market, despite any short-term volatility caused by current economic uncertainty, due to the sound long-term fundamentals in place and the continued growth in demand from both established and emerging markets.

I would like to extend my thanks to the Petra team, which encompasses my fellow Board members, our Senior Management team, all of our Group employees and our valued Government and BEE partners, for the hard work and spirit which is driving our Company forward.

Petra is focused on excelling in all areas – striving to be a "best-in-class" operator, a responsible corporate citizen and a pre-eminent diamond investment opportunity – and we believe that we will go on to deliver positive returns to all our stakeholders.

Johan Dippenaar
CEO
28 November 2011

Note: the Diamond Market and Operational Reviews to follow form part of the CEO's Review.

Production
Combined operations

	Unit	FY 2011	FY 2010	Variance
Sales				
Gross revenue	US$m	**220.6**	177.7[1,2]	+24%
Diamonds sold	carats	**1,174,825**	1,125,098	+4%[3]
Production				
ROM diamonds	carats	**1,027,609**	1,050,874	-2%
Tailings and alluvial diamonds	carats	**90,186**	113,982	-21%
Total diamonds	carats	**1,117,795**	1,164,856	+4%

Notes:
1. The revenue for FY 2010 included the sale of the 507 carat Cullinan Heritage diamond for US$35.3 million.
2. Gross revenue for FY 2010 was US$177.7 million; Group revenue for FY 2010 was US$163.7 million due to the partial consolidation of Cullinan during FY 2010.
3. Although overall production fell by 4%; carats sold increased by 4% due to the movement in opening and closing stock levels.

CEO's Review
The Diamond Market

The Diamond Market

Petra anticipated a positive outlook for the diamond industry in FY 2011 and the market did indeed perform strongly, with rough prices in all categories increasing throughout the year. The robust market was underscored by firm retail demand, particularly from China, India and, to a lesser degree, the US.

Rough diamonds produced globally in 2010

133m carats

+6%

Average value per carat mined globally in 2010

US$90

+30%

Source: Kimberley Process Certification Scheme

The table below sets out the tender prices per carat achieved during the Period:

Mine	Average price for H2 FY 2011 (US$)	Average price for H1 FY 2011 (US$)	Average price for FY 2011 (US$)	Average price for FY 2010 (US$)
Cullinan	178	120	148	141 (101 excluding the Cullinan Heritage)
Koffiefontein	756	470	564	402
Kimberley Underground	355	285	333	n/a
Fissures	289	192	244	185
Williamson	314	264	302	157

Note: the prices above, as in the mine by mine tables to follow, are the average of the mix of ROM and tailings production, as Petra tenders production from each mine on a mixed ROM/tailings parcel basis.

Petra anticipated a positive outlook for the diamond industry in FY 2011 and the market did indeed perform strongly, with rough prices in all categories increasing throughout the year. The robust market was underscored by firm retail demand, particularly from China, India and, to a lesser degree, the US.

In calendar year 2010, some 133 million carats of rough diamonds were produced globally, worth just under US$12 billion (Source: Kimberley Process Certification Scheme). This is up around 6% from 2009's total of 125 million carats, worth US$8.6 billion, with much of the rise in value being attributable to a strong increase in rough diamond prices from year to year and an increase in production caused by producers ramping up operations following strategic shut-downs during the global economic downturn of late 2008/early 2009. The average value per carat mined in 2010 globally was US$90 per carat (2009: US$69 per carat).

The 2010 production level of 133 million carats remains below the previous highs of 176 million carats in 2005 and 2006 (Source: Kimberley Process Certification Scheme) and it is forecast to remain flat or start to decline in the coming years as new sources of production cannot make up for the decrease in supply from the world's ageing major diamond mines. It is possible that the world has already seen peak diamond production.

Whilst supply to the market is forecast to remain constrained, demand for diamonds continues to rise in both established and new markets as global wealth and consumer spending increase. De Beers calculates that the global diamond jewellery market grew by over 8% in 2010, whilst the US, which remains the largest single consumer market for diamonds with around 38% of global demand, grew by over 7% in 2010. Demand in emerging markets grew at substantially higher rates. The fastest growing new consumer markets for diamonds are China and India, both of which recorded double digit growth in 2010, up over 25% and 31% in local currency respectively. These markets are predicted to continue their rapid expansion, accounting for more than 50% of incremental growth over the next five years, and the Far East (China, Hong Kong, Taiwan, India and the Gulf) is expected to eventually account for around 40% of global demand by 2015 (source: De Beers).

As far as Petra's tender results are concerned, prices rose steadily from October 2010 to the end of FY 2011.

Since July 2011, the industry has seen rough diamond prices adjust downwards from the June 2011 highs. Petra (along with many other industry participants) is confident that prices will stabilise in the near future, although the Company does not expect to see the price highs of June 2011 for some time.

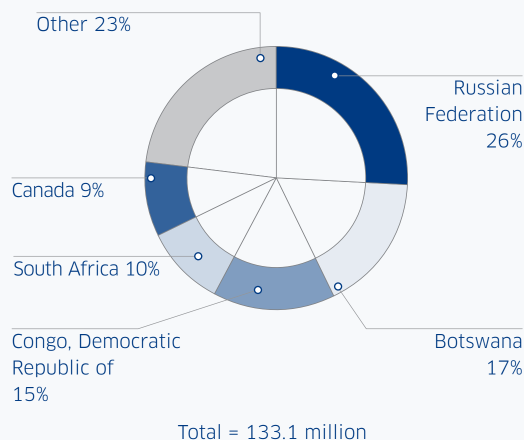
The long term fundamentals of the market remain strong. Positive results from industry bellwethers Tiffany's and Signet demonstrate that consumer demand remains robust. In China and India, many new diamond jewellery stores need inventory and this is driving a large portion of the wholesale demand. Investment demand for diamonds is also rising, given their appeal as a hard asset investment class, and several new physical diamond investment funds launched during the Period. Global economic uncertainty may, however, continue to cause some volatility in rough pricing in the short term.

Petra sells the majority of its South African production in Johannesburg and its Tanzanian production in Antwerp. Many of the world's foremost manufacturers are regular Petra clients and interest is expected to increase further now that the Finsch production is incorporated into the Group. Petra manages all of its sales internally and has recently expanded its marketing team to manage the level of activity further to the completion of the Finsch acquisition, which is expected to add ca. 125,000 carats per month to Petra's output after an initial bedding down period.

2010 showing global production by volume and by value

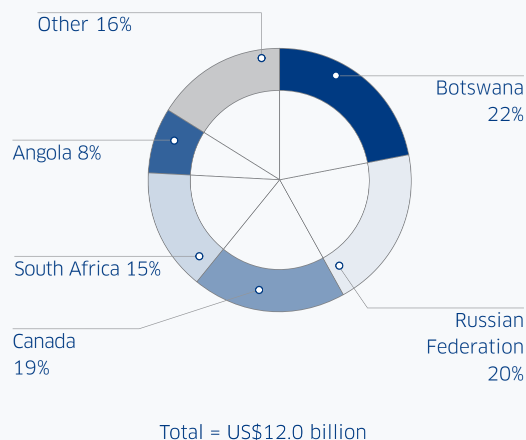
Source: Kimberley Process Certification Scheme

By volume (carats)



Total = 133.1 million

By value (US$)



Total = US$12.0 billion

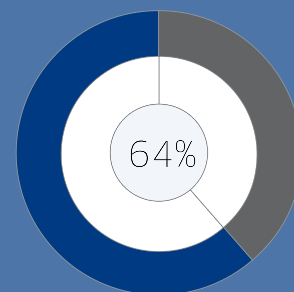
Cullinan: At a Glance

Cullinan is renowned as an important source of large and high value Type II diamonds and in its history has produced four of the world's top 20 high quality large diamonds, 745 stones of +100 carats and more than a quarter of all diamonds +400 carats. In FY 2011, 11 stones from Cullinan each sold for in excess of US$1 million; such stones are regarded as a regular feature of Cullinan's production profile.

Performance summary:

- The average value per carat at Cullinan was US$148 for FY 2011, up 47% in comparison to the US$101 achieved in FY 2010 (after adjusting for the sale of the Cullinan Heritage for US$35 million).
- Cullinan performed well in terms of throughput, with total tonnages treated (ROM and tailings) exceeding expectations.
- Expansion programme at the mine to take annual production to 2.4 Mcts by FY 2019.
- Capex at Cullinan increased to US$33.9 million for the Period.

Revenue contribution:



Revenue
US$140.2m
+10%

Diamonds sold
944,405 carats
+4%

Average price per carat
US$148
+5%

The average value per carat (ROM and tailings combined) at Cullinan was US$148 for FY 2011, up 47% in comparison to the US$101 achieved in FY 2010 (being the average for FY 2010 of US$141 after adjusting for the sale of the 507 carat Cullinan Heritage for US$35 million).

Cullinan is renowned as an important source of large and high value Type II diamonds and in its history has produced four of the world's top 20 high quality large diamonds, 745 stones of +100 carats and more than a quarter of all diamonds +400 carats. In FY 2011, 11 stones from Cullinan each sold for in excess of US$1 million; such stones are regarded as a regular feature of Cullinan's production profile.

Cullinan performed well in terms of throughput, with total tonnages treated (ROM and tailings) exceeding expectations. ROM grade of 36.6 cpht was approximately 6% lower than the prior year of 38.9 cpht, due to:

- an increase of the bottom-cut for slimes discard from 0.8mm to 1.3mm (partially contributing to the increased average value per carat achieved); and
- the far higher than average rainfall experienced in many parts of South Africa, including Cullinan, which results in ore-handling difficulties relating to the clay, mud and moisture content of the ore.

ROM grade at Cullinan is expected to remain under pressure whilst production continues to be from the mature areas of the mine, due to the significant dilution of the ore drawn in these older production zones. However, the grade is forecast to rise to 50 cpht once the new cave is established from FY 2015 onwards as part of the C-Cut development programme on the 830m level and undiluted ore is mined and treated.

Although tailings throughput increased significantly to 575,605t during the Period, carats produced from tailings dropped by 49% to 44,246 carats as the high grade OSP tailings dump was depleted as planned in the preceding year. The Company is now processing the regular tailings material. The tailings grade of 7.7 cpht achieved for the Period is expected to rise to approximately 10 cpht from FY 2012, once a re-crush system of material larger than 6mm has been incorporated into the operation.

Despite South African cost pressures, unit costs per tonne at Cullinan decreased by 2% due to increased volumes and other initiatives to mitigate cost pressures. Longer term, once the development plan has significantly progressed, further unit cost efficiencies are expected to be driven by initiatives such as a simplified ore-handling system underground and further streamlining of the plant.

Development plan update

Cullinan contains a world-class resource base of 203.7 Mcts (including 16.9 Mcts in tailings), and the Company is planning to capitalise on this by undertaking an expansion programme at the mine to take annual production to 2.4 Mcts by FY 2019 (comprising 2.0 Mcts ROM and 0.4 Mcts tailings). This expansion plan will eventually access the first portions of the major C-Cut resource (estimated to contain some 133.1 Mcts) and will also involve a large tailings operation.

The C-Cut development programme at Cullinan is on track to access a new block cave which will produce at a rate of 2.0 Mcts per annum for around 16 years. The decline to access the new production level has passed the 839m level below surface, with the breakaway for the 830m undercut level having been established. Tenders have been received for shaft deepening (and related infrastructure) to 930m below surface and the award of this contract is imminent.

Petra is currently investigating the addition of a decline on the northern side of the pit which has the potential to fast-track the kimberlite development of the new block cave and subsequent production build-up.

Whilst the C-Cut development programme is underway, Petra has established new drawpoints in both the BB1E and AUC South sections of the Cullinan pipe. This will allow the Company to draw from these production areas to maintain volumes and manage the grade whilst the new block cave is established in the C-Cut.

Capex at Cullinan increased to US$33.9 million for the Period, predominantly applied to the underground development work, the continued upgrading of the plant and the new underground fleet equipment.

Petra continues to ramp up a major tailings operation at Cullinan to treat the 165 Mt tailings deposit and a new modular, tailings plant is currently under construction. The Company plans to treat 1 Mt of tailings in FY 2012, gradually increasing to ca. 4 Mt from FY 2014.

FY 2011 – gross numbers

	Unit	FY 2011	FY 2010	Variance
Sales				
Revenue	US$m	**140.2**	127.0	+10%
Diamonds sold	carats	**944,405**	903,861	+4%
Average price per carat	US$	**148**	141	+5%
ROM production				
Tonnes treated	tonnes	**2,323,403**	2,160,907	+8%
Grade	cpht	**36.6**	38.9	-6%
Diamonds recovered	carats	**851,193**	841,293	+1%
Tailings production				
Tonnes treated	tonnes	**575,605**	248,380	+132%
Grade	cpht	**7.7**	34.9	-78%
Diamonds recovered	carats	**44,246**	86,638	-49%
Total production				
Tonnes treated	tonnes	**2,899,008**	2,409,287	+20%
Diamonds recovered	carats	**895,439**	927,931	-4%
Costs				
On-mine cost per tonne	ZAR	**164**	167	-2%
Total capex	US$m	**33.9**	20.4	n/a

CEO's Review
Operational Review Continued

Finsch: At a Glance

Finsch is one of the world's major diamond mines and is expected to more than double Petra's annual production (steady state), contributing ca. 1.5 Mctpa initially to Group production, rising to nearly 2 Mctpa by FY 2018.

Highlights:

» Acquisition completed on 14 September 2011 and Petra assumed management immediately.

» Finsch contributes a major resource base to the Group of 43.7 Mcts, including 25.8 Mcts in the reserve category.

» Petra's current mine plan forecasts initial diamond production of approximately 1.5 Mctpa in its first full year of ownership.

» Petra foresees a long life for the operation and has a current mine plan of 18 years, though the orebody remains open-ended at depth.

» Capex over the next six years for the underground and infrastructure development programme is estimated to be approximately US$348 million (in 2011 money terms).

Purchase consideration
US$192m

Major reserves and resources contribution
43.7 Mcts

Initial annual production contribution
1.5 Mctpa

+45 carat stones
Average of 27 stones of +45 carats recovered per annum over the last four years

A further flagship mine for Petra

In January 2011, Petra announced that it (together with its empowerment partners) had entered into an agreement to acquire the Finsch diamond mine in South Africa from De Beers Consolidated Mines ("DBCM") for R1.425 billion. The acquisition completed on 14 September 2011 and as the mine was acquired as a going concern, Petra assumed management (including production, revenues and cashflow) immediately.

Rationale for the acquisition

Finsch offers a seamless fit with Petra's current operations in South Africa. As the asset is situated approximately 165km north-west of Kimberley, the location affords regional operational management synergies with Petra's Koffiefontein, Kimberley Underground and Sedibeng (fissure) operations. The addition of another major mine to Petra's portfolio also serves to increase the Group's critical mass, with numerous benefits across areas such as the sharing of technical expertise, personnel and economies of scale in procurement. Petra will leverage off its experience of extracting optimal value from previous acquisitions.

Finsch mine plan

The Finsch orebody is mined using the high volume, low cost block-cave mining technique, also used at Petra's Cullinan and Kimberley Underground operations. Mining at Finsch is currently taking place in Block 4 of the orebody at a depth of 630m. Finsch currently mines approximately 3.2 Mtpa from Block 4 at a current grade of over 35 cpht. The Block 4 cave is towards the end of its life and is expected to be depleted by FY 2015.

Subsequent to the depletion of Block 4, underground production will be derived principally from Block 5, a new block cave beneath the current operations. Petra intends to maintain production levels from underground during the transition from the Block 4 cave to the Block 5 cave by developing smaller sub-level caves within the Precursor orebody (adjacent to the main orebody) at Block 4 level and within Block 5 itself. By so doing, Petra expects to maintain underground production levels at approximately 3.2 Mtpa, ramping up to around 3.5 Mtpa by FY 2018 once the Block 5 cave is fully operational.

Underground production is supported by tailings retreatment. Finsch is currently treating the Pre-1979 tailings, which have a recovered grade of approximately 19 cpht. The Pre-1979 tailings are expected to be treated at a rate of approximately 3.5 Mtpa until depleted in FY 2015. Thereafter, tailings from later mining operations, which carry a lower grade of approximately 10 cpht, remain available for treatment. It is expected that tailings production will cease in FY 2020.

Petra's current mine plan forecasts initial diamond production of approximately 1.5 Mctpa (comprising approximately 900,000 carats from underground and 600,000 carats from tailings) in its first full financial year of ownership, increasing with the commencement of the Block 5 cave to a steady state production of nearly 2 Mctpa. Given the major resource of 43.7 Mcts at Finsch (including 25.8 Mcts in the reserve category and 2.5 Mcts in tailings), Petra foresees a long life for the operation and has a current mine plan of 18 years, though the orebody remains open-ended at depth.

For planning purposes, Petra had originally assumed an average of US$135 per carat for ROM production and US$80 per carat for tailings. Management subsequently upgraded its medium term price expectations to US$180 per carat for ROM and US$95 per carat for tailings.

Whilst diamond prices have fallen from the highs of June 2011 when management upgraded its medium term price expectations, management remains confident that when the rough diamond market recovers, its medium term price expectations for Finsch will be comfortably achieved.

Financing

The purchase consideration for Finsch of R1.425 billion (US$192 million) was settled out of Petra's internal cash resources, further to the equity placing in January 2011 which raised £205 million (ca. US$325 million).

Petra has fully funded the BEE partners' 26% share of the acquisition consideration via loans, which will be repaid by the BEE partners from their share of future Finsch cashflows.

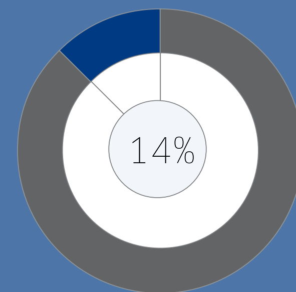
The capex over the next six years for the underground and infrastructure development programme is estimated to be approximately US$348 million (in 2011 money terms, assuming a constant exchange rate of R6.75:US$1) and is expected to be financed from a combination of the Group's debt facilities and operational cashflow.

CEO's Review
Operational Review Continued

Koffiefontein: At a Glance

Koffiefontein is one of the world's top kimberlite mines by average value per carat, achieving US$564 for FY 2011, up 40% on the comparative period despite the fact that the overall average was to some extent reduced by the higher proportion of lower value tailings production in the total sales mix.

Revenue contribution:



Performance summary:

» Post-Period end, a six carat pink diamond from Koffiefontein was sold for US$601,000.

» The high average value per carat achieved in FY 2011 caused revenue at Koffiefontein to rise by 35%.

» Reduced underground production was mainly due to a greater than expected level of waste ingress in the current mining areas.

» Unit costs per tonne improved during the Period due to the higher volumes of lower cost tailings tonnages processed.

Revenue
US$30.8m
+35%

Diamonds sold
54,640 carats
-4%

Average price per carat
US$564
+40%

Koffiefontein is one of the world's top kimberlite mines by average value per carat, achieving US$564 for FY 2011, up 40% on the comparative period despite the fact that the overall average has to some extent been reduced by the higher proportion of lower value tailings production in the total sales mix.

Post-Period end, a six carat pink diamond from Koffiefontein was sold for US$601,000, illustrating the exceptional fancy pinks that this mine can produce.

The high average value per carat achieved in FY 2011 caused revenue at Koffiefontein to rise by 35% to US$30.8 million for the Period, despite the fall in production. ROM production for the year was 35,139 carats (H1 FY 2011: 27,390 carats; H2 FY 2011: 7,749 carats). Tailings production was 12,817 carats for the Period (H1 FY 2011: 7,110 carats; H2 FY 2011: 5,707 carats).

The reduced underground production at Koffiefontein was mainly due to a greater than expected level of waste ingress from the remnant columns at 48 Level resulting in revised plans and reduced extraction in H2. The tonnage shortfalls at Koffiefontein were exacerbated by the production stoppages, remedial actions and retraining at the mine following the fatality in January 2011. Production at the high grade 52 Recovery Level was interrupted for most of H2 FY 2011 as a result.

Whilst the waste ingress and reduced production from 52 Level have significantly affected the ROM grade at Koffiefontein (3.1 cpht in H2 FY 2011 as compared to 5.9 cpht in H1 FY 2011), the development work to access high grade ore at the 58 Level front cave has been expedited and cave initiation is planned for H2 FY 2013. As at Cullinan, Petra's development plan at Koffiefontein will eventually establish new production levels where the Company will have access to fresh, undiluted ore. Once this has been achieved, in the longer term Petra expects the overall grade at Koffiefontein to improve to ca. 8 cpht, but it is expected that lower grades will be reported until FY 2014.

To give operational flexibility, Petra has recommenced production at the satellite Ebenhaezer pipe, which is an open-cast operation at a maximum depth of 35m and with a surface area of five hectares. The Company will use tonnages from Ebenhaezer to augment the capacity of the plant at Koffiefontein.

The ramping up of the tailings programme at Koffiefontein is now complete, with the Company reaching its targeted throughput tailings material.

Unit costs per tonne improved during the Period due to the higher volumes of lower cost tailings tonnages processed.

Development plan update

Petra is well advanced in the establishment of an expansion plan at Koffiefontein and annual production is expected to exceed 1 Mtpa in approximately three years and reach 1.2 Mtpa in approximately five years. This will deliver over 100,000 carats per annum (ROM and tailings) by FY 2017.

Capex of US$11.0 million for the Period was mostly spent on underground development and mining equipment.

FY 2011 – gross numbers

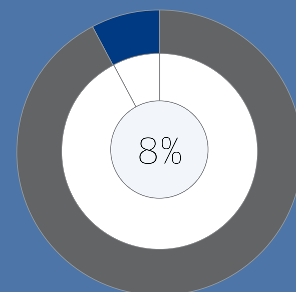
	Unit	FY 2011	FY 2010	Variance
Sales				
Revenue	US$m	**30.8**	22.8	+35%
Diamonds sold	carats	**54,640**	56,707	-4%
Average price per carat	US$	**564**	402	+40%
ROM production				
Tonnes treated	tonnes	**712,988**	884,058	-19%
Grade	cpht	**4.9**	6.0	-18%
Diamonds recovered	carats	**35,139**	53,026	-34%
Tailings/Ebenhaezer production				
Tonnes treated	tonnes	**675,147**	243,714	+177%
Grade	cpht	**1.9**	3.0	-36%
Diamonds recovered	carats	**12,817**	7,234	+77%
Total production				
Tonnes treated	tonnes	**1,388,135**	1,127,772	+23%
Diamonds recovered	carats	**47,956**	60,260	-20%
Costs				
On-mine cost per tonne	ZAR	**115**	123	-7%
Total capex	US$m	**11.0**	4.6	n/a

CEO's Review
Operational Review Continued

Kimberley Underground: At a Glance

FY 2011 marked the first full year for Kimberley Underground under Petra management, following completion of the acquisition in May 2010. The Company was particularly encouraged by the prices achieved for Kimberley Underground production, with the average per carat of US$333 for the Period considerably exceeding initial expectations.

Revenue contribution:



Performance summary:

- Kimberley Underground comprises three kimberlite pipe mines: Bultfontein, Dutoitspan and Wesselton.
- The slimes and tailings disposal difficulties were largely addressed during the Period and tonnages processed increased in H2.
- Petra has constructed a new plant at Joint Shaft to service the Bultfontein and Dutoitspan pipes.
- Petra announced a revised business plan for processing at Wesselton at the time of the Company's full year Trading Update in July 2011.
- Production ramping up to 150,000 ctpa by FY 2013.

Revenue
US$18.2m

Diamonds sold
54,733 carats

Average price per carat
US$333

FY 2011 marked the first full year for Kimberley Underground under Petra management, following completion of the acquisition in May 2010. The Company was particularly encouraged by the prices achieved for Kimberley Underground production, with the average of US$333 per carat for the Period considerably exceeding initial expectations.

The Kimberley Underground operation comprises three kimberlite pipe mines: Bultfontein and Dutoitspan (serviced by Joint Shaft and the newly built Joint Shaft plant) and Wesselton (serviced by the Wesselton Shaft, though currently without processing facility). A substantial stockpile of ore, estimated to be 0.3 Mt, has been built up on surface at Wesselton whilst no processing facility has been available.

The slimes and tailings disposal difficulties with the new plant at Joint Shaft were largely addressed during H2 FY 2011 and tonnages processed increased from 176,527 in H1 FY 2011 to 267,128 in H2 FY 2011. At the current bottom-cut discard size of 2mm, the grade is expected to revert to the planned 14 cpht during FY 2012 as the oversize circuit has now been brought into production. The Joint Shaft plant is expected to deliver approximately 80,000 carats for FY 2012.

Petra announced a revised business plan for processing at Wesselton at the time of the Company's full year Trading Update in July 2011, which involves a combination of a mobile pan plant together with a new plant (similar to that constructed at Joint Shaft). The mobile pan plant operation is currently being commissioned and is expected to process some 40,000 tpm. Subsequently, the main plant at Wesselton is expected to be commissioned in April 2012 and will treat a further 40,000 tpm. Wesselton is expected to contribute approximately 50,000 carats during FY 2012.

Unit costs of approximately R191 per tonne were negatively impacted by reduced throughput. Management expects the unit costs to improve once the Wesselton plant is fully operational.

Of the US$13 million capex, approximately US$9.5 million was spent on improvements to the Joint Shaft treatment plant. A further US$3.5 million was applied to the acquisition of adjacent land, buildings and infrastructure relating to water reticulation and slimes handling facilities (by assuming a rehabilitation guarantee).

FY 2011 – gross numbers

	Unit	**FY 2011**	FY 2010[1]	Variance
Sales				
Revenue	US$m	**18.2**	n/a	n/a
Diamonds sold	carats	**54,733**	n/a	n/a
Average price per carat	US$	**333**	n/a	n/a
Total production (all ROM)				
Tonnes treated	tonnes	**443,655**	9,141	n/a
Grade	cpht	**12.9**	14.9	n/a
Diamonds recovered	carats	**57,402**	1,362	n/a
Costs				
On-mine cost per tonne[2]	ZAR	**191**	n/a	n/a
Total capex	US$m	**13.0**	10.2	n/a

Notes:

1. The acquisition of Kimberley Underground completed in May 2010 and therefore comparable FY 2010 results are not available.

2. On-mine cash costs exclude costs assigned to ROM stockpiles.

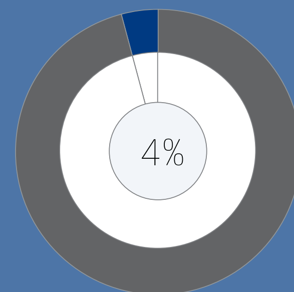
CEO's Review
Operational Review Continued

Williamson: At a Glance

The rebuild of the original plant at Williamson has progressed well. As previously announced, Petra revisited its plans with regards to this plant, deciding to carry out an enhanced rebuild rather than a lower key refurbishment. The rebuilt plant is expected to be in production in Q3 FY 2012. It is anticipated that this 3 Mtpa plant will treat approximately 0.5 to 0.9 Mt in FY 2012, at an expected grade of 6 cpht.

Performance summary:
- No treatment of main pit material at Williamson in FY 2011, as the project to rebuild the 3 Mtpa plant was underway.
- Contract mining of alluvial diamonds recovered 29,510 carats, sold for an average value of US$302.
- The ROM stockpile at Williamson increased to approximately 900,000 tonnes, estimated to contain in excess of 45,000 carats.
- Rebuild of the original plant at Williamson progressed well and it is expected to be in production in Q3 FY 2012.

Revenue contribution:



Revenue
US$9.5m
-34%

Diamonds sold
31,555 carats
-66%

Average price per carat
US$302
+92%

There was no treatment of main pit material at Williamson in FY 2011, as the project to rebuild the 3 Mtpa plant was underway. Contract mining of alluvial diamonds recovered 29,510 carats, sold for an average value of US$302. Alluvial production is expected to be lower in FY 2012 due to the depletion of available alluvial gravels.

The ROM stockpile at Williamson, which has been established by Petra due to the pit-shaping operations, increased to approximately 900,000 tonnes as at 30 June 2011, estimated to contain in excess of 45,000 carats.

Development plan update

The rebuild of the original plant at Williamson has progressed well. As previously announced, Petra revisited its plans with regards to this plant, deciding to carry out an enhanced rebuild rather than a lower key refurbishment. The rebuilt plant is expected to be in production in Q3 FY 2012. It is anticipated that this 3 Mtpa plant will treat approximately 0.5 to 0.9 Mt in FY 2012, at an expected grade of 6 cpht.

Capex at Williamson of US$36.6 million (including US$0.8 million borrowing costs capitalised) was spent as follows:

- US$18.8 million on the rebuild of the 3 Mtpa plant; and
- US$17 million on other production related activities, including pit shaping/shale removal, haul road construction and slime handling facilities.

Over recent months, there have been power supply issues in Tanzania which have impacted upon likely power supply to the mine. The Government of Tanzania is addressing these power supply issues and the Company continues to monitor the situation carefully. Due to these power disruptions that have been experienced on mine, orders were placed for generators that will provide sufficient power to run the 3 Mtpa plant. The anticipated production for FY 2012 is therefore lower than the guidance given in Petra's Trading Update of 19 July 2011 as the planned start-up of the rebuilt plant has been deferred until the standby electricity is available.

These electricity supply issues have also meant that the Company is revisiting the timing of the longer-term expansion project, where the Company has previously announced that it is planning to establish a 10 Mtpa operation. Further information will follow in due course when the Company has completed its analysis, including the revised timing of the roll-out of the new plant.

FY 2011 – gross numbers

	Unit	FY 2011[1]	FY 2010[1]	Variance
Sales				
Revenue	US$m	**9.5**	14.4	-34%
Diamonds sold	carats	**31,555**	91,901	-66%
Average price per carat	US$	**302**	157	+92%
ROM production				
Tonnes treated	tonnes	**n/a**	1,334,656	n/a
Grade	cpht	**n/a**	6.3	n/a
Diamonds recovered	carats	**n/a**	84,241	n/a
Alluvial production				
Tonnes treated	tonnes	**530,689**	423,665	+25%
Grade	cpht	**5.6**	4.0	+40%
Diamonds recovered	carats	**29,510**	16,830	+75%
Total production				
Tonnes treated	tonnes	**530,689**	1,758,321	-70%
Diamonds recovered	carats	**29,510**	101,071	-71%
Costs				
Cash cost per tonne[1]	US$m	**n/a**	n/a	n/a
Total capex	US$m	**36.6**	11.6	n/a

Note:

1. During FY 2010 the mine was in a bulk sampling phase and in FY 2011 the mine results represent alluvial production only; neither period reflects conditions associated with normal production.

CEO's Review
Operational Review Continued

Fissure Mines: (Helam, Sedibeng, Star)

Helam and Sedibeng put in a strong performance for the Period, with revenue for the Fissures unit as a whole up 62% to US$21.8 million and overall production up 18% to 87,488 carats. The average value per carat achieved also increased 32% to US$244.

Revenue
US$21.8m
+62%

Diamonds sold
89,491 carats
+23%

Average price per carat
US$244
+32%

For FY 2012, Petra expects a similar level of combined production across the fissure portfolio to FY 2011.

At Star, where operations are challenging, a disappointing performance was recorded for the year, as reflected in the impairment charge noted in the financial review on page 29.

Unit costs remained flat despite cost pressures specifically relating to electricity and labour. The majority of the US$5.2 million capex was spent on continuing underground development across the fissure mines, including a head gear installation at Sedibeng's Dancarl shaft.

Fissure mines
FY 2011 – gross numbers

	Unit	FY 2011	FY 2010	Variance
Sales				
Revenue	US$m	**21.8**	13.5	+62%
Diamonds sold	carats	**89,491**	72,629	+23%
Average price per carat	US$	**244**	185	+32%
ROM production				
Tonnes treated	tonnes	**183,506**	168,840	+9%
Grade	cpht	**45.7**	42.0	+9%
Diamonds recovered	carats	**83,876**	70,950	+18%
Tailings production				
Tonnes treated	tonnes	**52,389**	30,640	+71%
Grade	cpht	**6.9**	10.7	-36%
Diamonds recovered	carats	**3,612**	3,282	+10%
Total production				
Tonnes treated	tonnes	**235,895**	199,480	+18%
Diamonds recovered	carats	**87,488**	74,232	+18%
Costs				
On-mine cost per tonne	ZAR	**684**	669	+2%
Total capex	US$m	**5.2**[1]	2.5	n/a

Note:
1. Capex for the fissure mines was US$5.2 million; a further US$11.0 million capex spend was incurred in respect of the Helam projects manufacturing facility for equipment under construction that had not yet been invoiced to the respective Petra Group operation.

Exploration:

Kalahari Diamonds:
Exploration programme in Botswana

Best address in the world for diamond exploration

- Botswana is world's largest producer of diamonds by value
- Petra has one of the largest diamond exploration land holdings in the country
- Current landholding of 22,250km^2

Kalahari Diamonds Limited is a diamond exploration company that has been active in Botswana since 2002.

Initially formed to explore for diamonds under an exploration alliance with BHP Billiton, it has achieved considerable success under Petra's management as evidenced by the discovery of five new kimberlites since 2006.

Kalahari Diamonds holds its exploration licences in Botswana through its wholly owned subsidiary Sekaka Diamonds (Pty) Ltd ("Sekaka Diamonds").

The map on the right shows Sekaka Diamonds' current landholding in Botswana (as at 30 June 2011).

Botswana – Kalahari Diamonds

Petra's exploration activity is focused on Botswana, which is considered to be one of the best addresses in the world for diamond exploration, given its stability, its attractive fiscal regime and its superb geological prospectivity.

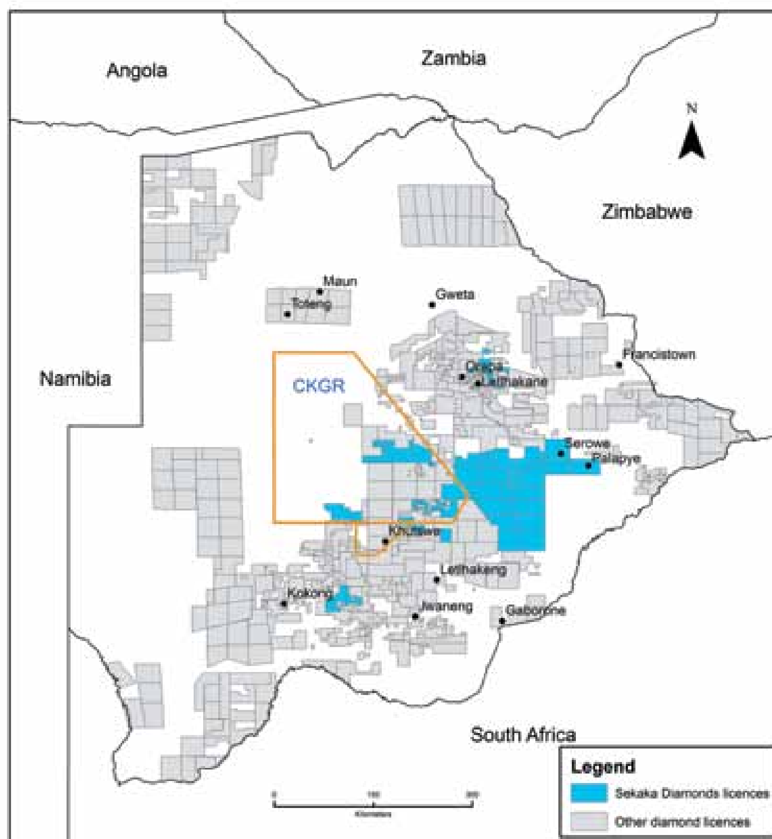
During FY 2011, large tracts of well-explored ground that had come to the end of their seven year licence tenure were relinquished, resulting in a total current landholding of some 22,250km^2, which is one of the largest diamond exploration holdings in the country.

Geophysical ground follow-up and Heavy Mineral Analysis of 46 high priority targets selected from High Resolution Airborne Magnetic data were completed across Petra's various project areas. At the end of the Period, six targets had been drilled as part of an ongoing exploration drilling campaign – no additional kimberlites were discovered.

In addition, a 4,500 line km Xcalibur HiRes Airborne Magnetic Gradiometer survey was successfully commissioned and conducted over historical kimberlite indicator mineral recoveries in the Kukama East project area. The application of Xcalibur Airborne Geophysics' horizontal gradient magnetic acquisition system remains Petra's primary exploration tool to be utilised in clearly defined areas of interest and a 22,000 line km survey covering newly acquired ground is planned.

Delineation/evaluation drilling (five boreholes, totalling 1,730m) undertaken on the diamondiferous KX36 kimberlite discovered last year was completed by Period end. All boreholes were surveyed (directional) and a down-hole geophysical wireline logging programme was successfully completed. Following detailed lithological logging of all drillcore retrieved, samples were submitted for petrographic and micro-diamond analyses. All results (expected early FY 2012) will be used to update the existing 3D geological (Gemcom) model to assist with the calculation of material volumes and a preliminary grade estimate.

Significant progress has also been made with both the geophysical and geological 3D modelling of the portion of kimberlite BK1S discovered on Petra ground adjoining the Damtshaa Mining Licence in mid-2008. Results will be used for the calculation of material volumes for the portion of the kimberlite body BK1 that falls outside the Debswana Mining Lease and within Petra's prospecting licence.



Reserves and Resources

The Petra Group controls one of the largest diamond resources in the world

Petra controls one of the world's largest diamond resources and the consolidation of this major carat base has been a key strategic objective for the Group. Taking into account the rough diamond supply/demand imbalance which is forecast to emerge in the coming years, Petra's "carats in the ground" are expected to become increasingly valuable over time and the Group's growing production will be an ever more important source of supply.

The careful management of such a large resource will ensure sustainable, long-life mining operations for the Petra Group for many years to come. It also provides flexibility in terms of organic growth, dependent on diamond and capital market conditions.

Whilst quoted on AIM, Petra had previously reported resources exclusive of reserves. The Company now reports resources inclusive of reserves in line with best practice for a company of Petra's size and complexity. Carats in the Probable and Proved Reserve categories are now also reported in the Indicated and Measured Resource categories without the application of modifying factors, which has resulted in an apparent increase in the total carats base from 302.7 million carats to 305.7 million carats. Both reporting formats are compliant with the guidelines of the SAMREC Code.

Gross Reserves and Resources

As at 30 June 2011 (on this revised reporting basis), the Group's total resource was 305.7 million carats (stated inclusive of Finsch which contributed a total of 43.7 million carats on a gross basis to the Group), including 49.2 million carats in reserves.

Attributable Reserves and Resources

As at 30 June 2011, the Group's attributable resource was 226.6 million carats (stated inclusive of Finsch which contributed 32.3 million carats on an attributable basis to the Group), including 36.4 million carats in reserves.

Summary of reserves and resources by status as at 30 June 2011 (stated inclusive of Finsch)

	Gross			Net attributable		
Category	Tonnes (millions)	Grade (cpht)	Contained diamonds (Mcts)	Tonnes (millions)	Grade (cpht)	Contained diamonds (Mcts)
Reserves						
Proved	16.623	7.03	1.169	12.304	7.04	0.866
Probable	111.789	42.99	48.062	82.726	42.99	35.566
Subtotal	**128.412**	**38.34**	**49.231**	**95.030**	**38.34**	**36.432**
Resources						
Measured	15.726	8.29	1.304	11.638	8.30	0.966
Indicated	463.302	48.35	223.999	343.830	48.22	165.809
Inferred	1,248.126	6.44	80.397	932.496	6.42	59.847
Total Resources inclusive of Reserves	**1,727.154**	**17.70**	**305.701**	**1,287.965**	**17.60**	**226.622**

Cullinan

	Gross			Net attributable		
Category	Tonnes (millions)	Grade (cpht)	Contained diamonds (Mcts)	Tonnes (millions)	Grade (cpht)	Contained diamonds (Mcts)
Reserves						
Proved	—	—	—	—	—	—
Probable	41.082	48.58	19.958	30.400	48.58	14.769
Subtotal	**41.082**	**48.58**	**19.958**	**30.400**	**48.58**	**14.769**
Resources						
Measured	—	—	—	—	—	—
Indicated	265.339	70.39	186.780	196.351	70.39	138.217
Inferred	168.502	10.04	16.918	124.692	10.04	12.519
Total Resources inclusive of Reserves	**433.842**	**46.95**	**203.698**	**321.043**	**46.95**	**150.736**

Notes:

1. Resource bottom cut-off: 1mm.
2. Reserve bottom cut off: 1mm.
3. Resource tonnes and grade in current mining blocks are based on block cave depletion modelling and include external waste.
4. Reserve carats and grades are factorised as per the following resource to reserve liberation factors: "Brown" kimberlite 75.8%, "Grey" kimberlite 71.4% and Hypabyssal kimberlite 71.8%.
5. Probable Reserves have increased in accordance with the mine planning for the C-Cut Phase 1 and the addition of 18 new drawpoints in the current mining blocks.

Jim Davidson, Technical Director

Business Review

Finsch

Category	Gross Tonnes (millions)	Gross Grade (cpht)	Gross Contained diamonds (Mcts)	Net attributable Tonnes (millions)	Net attributable Grade (cpht)	Net attributable Contained diamonds (Mcts)
Reserves						
Proved	—	—	—	—	—	—
Probable	58.598	43.99	25.779	43.362	43.99	19.076
Subtotal	**58.598**	**43.99**	**25.779**	**43.362**	**43.99**	**19.076**
Resources						
Measured	—	—	—	—	—	—
Indicated	54.408	47.98	26.102	40.262	47.98	19.316
Inferred	43.132	40.71	17.558	31.917	40.71	12.993
Total Resources inclusive of Reserves	**97.539**	**44.76**	**43.661**	**72.179**	**44.76**	**32.309**

Notes:
1. Resource bottom cut-off: 1.47mm.
2. Reserve bottom cut-off 1.47mm.
3. Reserve tonnes and grade are based on block cave depletion modelling and include external waste.

Koffiefontein

Category	Gross Tonnes (millions)	Gross Grade (cpht)	Gross Contained diamonds (Mcts)	Net attributable Tonnes (millions)	Net attributable Grade (cpht)	Net attributable Contained diamonds (Mcts)
Reserves						
Proved	15.179	3.20	0.485	11.232	3.20	0.359
Probable	6.551	9.57	0.627	4.848	9.57	0.464
Subtotal	**21.730**	**5.12**	**1.112**	**16.080**	**5.12**	**0.823**
Resources						
Measured	15.179	3.20	0.485	11.232	3.20	0.359
Indicated	34.702	8.35	2.898	25.679	8.35	2.144
Inferred	90.412	3.04	2.751	66.905	3.04	2.036
Total Resources inclusive of Reserves	**140.293**	**4.37**	**6.135**	**103.817**	**4.37**	**4.540**

Notes:
1. Resource bottom cut-off (Koffiefontein underground and Ebenheazer): 0.5mm.
2. Resource bottom cut-off (Eskom tailings): 1mm.
3. Reserve bottom cut-off: 1mm.
4. 690L Probable Reserve moved back to Indicated Resource pending mine plan re-evaluation based on numerical modelling.

Reserves and Resources
Continued

Petra's "carats in the ground" are expected to become increasingly valuable over time and the Group's growing production will be an ever more important source of supply

Kimberley Underground

	Gross			Net attributable		
Category	Tonnes (millions)	Grade (cpht)	Contained diamonds (Mcts)	Tonnes (millions)	Grade (cpht)	Contained diamonds (Mcts)
Reserves						
Proved	—	—	—	—	—	—
Probable	3.515	12.98	0.456	2.601	12.98	0.338
Subtotal	**3.515**	**12.98**	**0.456**	**2.601**	**12.98**	**0.338**
Resources						
Measured	—	—	—	—	—	—
Indicated	9.393	18.97	1.782	6.951	18.97	1.318
Inferred	56.303	9.44	5.314	41.664	9.44	3.932
Total Resources inclusive of Reserves	**65.696**	**10.80**	**7.095**	**48.615**	**10.80**	**5.251**

Notes:
1. Resource bottom cut-off (Dutoitspan West Extension): 1mm.
2. Resource bottom cut-off (all other underground blocks): 0.5mm.
3. Reserve bottom cut-off: 1mm.
4. Changes in Probable Reserves due to a reduction in ROM grade based on accurate waste measurements taken from producing drawpoints at Bultfontein and Dutoitspan. Wesselton ROM grade based on 1060L bulk sampling, adjusted for external waste.

Williamson

	Gross			Net attributable		
Category	Tonnes (millions)	Grade (cpht)	Contained diamonds (Mcts)	Tonnes (millions)	Grade (cpht)	Contained diamonds (Mcts)
Reserves						
Proved	—	—	—	—	—	—
Probable	—	—	—	—	—	—
Subtotal	**—**	**—**	**—**	**—**	**—**	**—**
Resources						
Measured	—	—	—	—	—	—
Indicated	98.634	5.00	4.928	73.975	5.00	3.696
Inferred	888.123	3.96	35.158	666.092	3.96	26.368
Total Resources inclusive of Reserves	**986.756**	**4.06**	**40.086**	**740.067**	**4.06**	**30.065**

Notes:
1. Resource bottom cut-off: 1mm.
2. Resource depletion calculated from in-pit survey.
3. Stockpile of 955,000 tonnes of RVK and BVK accumulated since plant shutdown at the end of March 2010.
4. Increase in total carats based on an increase in RVK tonnages in the northern section of the open pit delineated by diamond drilling during 2010.

Fissure mines combined (Helam, Sedibeng, Star)

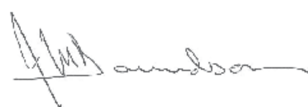
Category	Gross			Net attributable		
	Tonnes (millions)	Grade (cpht)	Contained diamonds (Mcts)	Tonnes (millions)	Grade (cpht)	Contained diamonds (Mcts)
Reserves						
Proved	1.444	47.35	0.684	1.071	47.29	0.507
Probable	2.044	60.78	1.242	1.514	60.74	0.920
Subtotal	**3.488**	**55.22**	**1.926**	**2.586**	**55.17**	**1.426**
Resources						
Measured	0.547	149.61	0.82	0.406	149.39	0.606
Indicated	0.827	182.60	1.509	0.612	182.46	1.117
Inferred	1.654	163.12	2.698	1.226	163.00	1.998
Total Resources inclusive of Reserves	**3.028**	**166.00**	**5.026**	**2.244**	**165.85**	**3.722**

Notes:

1. Resource bottom cut-off: 1mm.
2. Reserve bottom cut-off: 1mm.
3. Measured Resources are classified as one level below current workings or where a block is bounded above and below by current workings.
4. Indicated Resources are classified as two levels below Measured Resources.
5. Inferred Resources are classified as three levels below Indicated Resources.
6. Measured and Indicated Resources have been converted to Reserves by applying historically derived external dilution and in-stope loss factors to resource tonnages and grades.
7. Increase in Inferred Resource based on the diamond drilling programme at Sedibeng.

General notes on reporting criteria

1. Resources are reported inclusive of Reserves.
2. Tonnes are reported as millions; contained diamonds are reported as million carats.
3. Tonnes are metric tonnes and are rounded to the nearest 1,000 tonnes; carats are rounded to the nearest 1,000 carats; rounding off of numbers may result in minor computational discrepancies.
4. Resource tonnages and grades are reported exclusive of internal waste, unless where otherwise stated.
5. Reserve tonnages and grades are reported inclusive of external waste, mining and geological losses and plant modifying factors; reserve carats will generally be less than resource carats on conversion and this has been taken into account in the applicable statements.
6. The Reserves and Resources Statement shown above is based on information compiled internally within the Group under the guidance and supervision of Jim Davidson, Pr. Sci. Nat. (reg. No. 400031/06). Jim Davidson has over 30 years' relevant experience in the diamond industry and is a full-time employee and Director of Petra.
7. All Reserves and Resources have been independently verified by Dr Patrick Bartlett, Pr. Sci. Nat. (reg. No. 400060/87) as a competent person, in his report dated 23 November 2011. Dr Bartlett is a competent person with over 30 years' relevant experience in the diamond mining industry, who was appointed as an independent consultant by the Company for this purpose. A Competent Person's Report was not produced in arriving at the Reserves and Resources independent verification. Dr Bartlett was subsequently appointed as an independent Non-Executive Director of the Company on 28 November 2011; the Company is of the clear opinion that prior to Dr Bartlett's appointment to the Board, he was an independent consultant to the Company and there were no conflicts of interest or other matters arising that would affect his independence as an expert consultant.



Jim Davidson
Technical Director
28 November 2011

Financial Review

Gross revenue of US$220.6 million was recorded for the Period, an increase of 24% on the prior year

Summary of Financial Review

» Gross revenue of US$220.6 million was recorded for the Period, an increase of 24% on the US$177.7 million gross revenue recorded in the 12 months to 30 June 2010.

» Gross mining and processing costs (before depreciation) for the South African operations increased in ZAR terms by approximately 25%.

» A profit on mining activity of US$76.4 million was recorded for the Period, against a profit of US$67.2 million for the corresponding period.

» Petra maintains a focused and cost-effective exploration programme in Botswana.

» In January 2011, Petra completed a successful placing of 136,698,212 shares at 150 pence per share with institutional and other investors, raising gross proceeds of £205 million.

» After settling the Finsch consideration and trading to 16 September 2011, Petra had cash at bank of approximately US$78.6 million.

Revenue

Gross revenue of US$220.6 million was recorded for the Period, an increase of 24% on the US$177.7 million gross revenue recorded in the 12 months to 30 June 2010 (Group revenue for FY 2010 was US$163.7 million due to partial consolidation of Cullinan during FY 2010; for FY 2011, gross revenue and Group revenue are the same).

The increase in gross revenue was mainly due to the steady rise in rough diamond prices from October 2010, as evidenced by revenue of US$90.0 million in H1 FY 2011, rising to US$130.6 million in H2 FY 2011. Adjusting for the exceptional sale of the US$35 million Cullinan Heritage diamond in FY 2010, revenue would have been up by 55% year-on-year.

Mining and processing costs

Gross mining and processing costs (before depreciation) for the South African operations increased in ZAR terms by approximately 25% due to:

- upwards pressure on electricity and labour costs (accounting for 11% of the increase);
- treatment of higher tonnages across the operations in FY 2011 versus the previous year (accounting for 8% of the increase); and
- the ramp-up of production at the Kimberley Underground mine (accounting for the remaining 6% of the increase).

The volatility in the rand is a significant factor in reporting the Group's costs on a US$ basis. In US$ reporting terms, consolidated mining and processing costs increased due to the strengthening of the rand during the Period (by approximately 8%).

Certain cost categories in South Africa increased significantly in excess of South African inflation (South African CPI stood at 5.0% by 30 June 2011). However, Petra's low cost culture, coupled with higher tonnage throughput, enabled the Group to partially mitigate the direct effect of the high inflationary pressures experienced during the Period. Costs on a unit basis across the South African operations were therefore well contained, as demonstrated by the on-mine cost per tonne figures reported in the Operational Review.

Two key areas where costs are under pressure in South Africa are:

Energy

Inflationary pressures on costs can mainly be ascribed to electricity prices, which rose by 25% in FY 2011. A further increase has been approved by the National Energy Regulator in excess of 25% for FY 2012. Petra's electricity usage accounted for approximately 13% of cash on-mine costs for the Period. Petra continuously endeavours to manage its electricity consumption as the Group's production profile increases and the Company has achieved good success in this area.

Labour

Labour currently accounts for approximately 47% of cash on-mine costs at the pipe mines and 63% of cash on-mine costs at the fissure mines. Going into FY 2012, we anticipate that labour cost increases will continue to be above inflation.

Mining profit

A profit on mining activity of US$76.4 million was recorded for the Period, against a profit of US$67.2 million for the corresponding period (the profit for FY 2010 included the profit on the sale of the 507 carat Cullinan Heritage). This mining profit reflects the strengthening in diamond prices throughout the Period, combined with Petra's stringent cost control.

Exploration

Petra maintains a focused and cost-effective exploration programme in Botswana and exploration expenditure before depreciation of US$0.1 million (FY 2010: US$0.1 million)) remained relatively flat for the Period at US$1.3 million (FY 2010: US$1.2 million income due to Angolan withdrawal). Please refer to page 23 in this report for comment on exploration activities.

David Abery, Finance Director

A net profit after tax of US$59.2 million was recorded for the year

Corporate overhead

Corporate overhead increased slightly to US$8.0 million for the Period (FY 2010: US$7.5 million), reflecting the increasing size of the Group. Tight control of corporate overhead remains of key importance to management.

Net impairment charge and reversal

In FY 2009, as required in accordance with IAS 36 "Impairment of Assets", the Company impaired the carrying value of the Helam and Star mines by US$12.9 million and US$10.8 million respectively. These impairments arose due to the significant downward adjustment in diamond prices that was experienced in the global economic downturn at the time.

Rough diamond prices recovered significantly since the FY 2009 impairment, and therefore, in accordance with IAS 36, the Directors have reviewed the carrying value of both mines.

The impairment recorded in FY 2009 for Helam of US$12.9 million was reversed in the Period with an impairment reversal of US$11.7 million being recognised (the difference of US$1.2 million is due to depreciation adjustment on the impairment from FY 2009 to FY 2011). With regards to Star, where operations continue to be challenging, the Directors further impaired the carrying value by US$5.2 million. The net effect of the reversal at Helam and the further impairment at Star is a net impairment reversal of US$6.5 million.

Depreciation

Depreciation for the Period was US$22.4 million (FY 2010: US$11.9 million). The increase was mainly attributable to:

- Cullinan (US$5.7 million) due to additions to fixed assets and the consolidation of 100% of expenses following the acquisition of a further 37% interest in Cullinan in November 2009; and
- Kimberley Underground (US$2.6 million) due to significantly increased production during the Period, as compared to FY 2010; depreciation is applied on a units of production basis.

Net unrealised foreign exchange gain

During the Period, the Group reported net unrealised foreign exchange gains of US$18.6 million (FY 2010: US$0.8 million) which arose on the annual retranslation of foreign subsidiary intercompany loans.

Net finance expense

The Group incurred net finance expense of US$3.5 million (FY 2010: US$0.5 million). This was comprised of:

- interest payable on the Group's IFC/RMB debt facility of US$0.7 million (stated after the capitalisation of interest of US$3.5 million in accordance with IAS 23); interest on the Al Rajhi loan (which was settled in November 2010) of US$0.9 million; interest on the Group's working capital facility of US$0.3 million;
- interest accretion on the Al Rajhi/Cullinan deferred cash consideration of US$1.8 million; and
- the charge for the unwinding of the present value adjustment for Group rehabilitation costs of US$3.8 million.

These interest charges are offset by:

- interest received on the Group's cash balances of US$2.2 million;
- net interest receivable from BEE partners' loans of US$1.5 million; and
- realised foreign exchange gains of US$0.3 million.

Tax charge

A tax charge of US$5.2 million (FY 2010: credit of US$1.2 million) is comprised of a deferred tax charge (net of charges and credits) of US$6.4 million and a South African income tax credit of US$1.2 million resulting from a reversal of a prior period provision.

Group profit

A net profit after tax of US$59.2 million was recorded for the year (FY 2010: US$70.2 million). The Company recorded a profit of 12.83 cents per share, after the issue of 136,698,212 new shares in January 2011 (FY 2010: 22.65 cents per share).

Cash

As at 30 June 2011, Petra had cash at bank of US$324.9 million (30 June 2010: US$34.5 million). In January 2011, Petra completed a successful placing of 136.7 million shares at 150 pence per share with institutional and other investors, raising gross proceeds of £205 million (approximately US$325 million).

The placing proceeds were utilised as follows:

- US$192 million for the acquisition of Finsch (completed on 14 September);
- US$30 million for working capital requirements at Finsch;

Financial Review
Continued

Operating cashflows generated

US$50.6m

Profit on mining activity

US$76.4m

Net profit after tax

US$59.2m

Cash continued

- US$15 million to settle part of the deferred Al Rajhi/Cullinan consideration (remaining balance of US$20 million due December 2011); and
- the remainder being applied to accelerate capex and for general Group working capital purposes.

After settling the Finsch consideration and trading to 16 September 2011, Petra had cash at bank of approximately US$78.6 million.

As at 30 June 2011, cash at bank comprised unrestricted cash and restricted cash balances of US$96.9 million and US$228 million respectively (30 June 2010: US$24.8 million and US$9.7 million). The restricted balance of US$228 million was high as US$213.2 million was defined as restricted whilst the Finsch consideration remained in escrow. An additional US$14.8 million of the 30 June 2011 balance is held by Petra's bankers as security for environmental rehabilitation bonds lodged by the bankers with the South African Department of Mineral Resources.

Diamond inventories

As at 30 June 2011, Petra also had diamond inventories of approximately US$13.3 million (FY 2010: US$15.0 million), being production post the cut-off date for the Company's tender in June 2011.

Debt

In November 2010, Petra agreed terms with IFC (a member of the World Bank Group) and RMB, a division of FirstRand Bank Limited, with regards to a new five and a half year debt facility of approximately US$83.5 million (US$40 million to be provided by IFC and approximately US$43.5 million (R300 million) to be provided by RMB).

As at 30 June 2011, debt of US$90.1 million (FY 2010: US$64.5 million) was mainly comprised of:

- US$69.6 million drawn down on the IFC/RMB facilities (net of a US$8.6 million adjustment in accordance with IAS 32 and IAS 39 for the accounting treatment of facility fees and warrant costs associated with the IFC/RMB facilities, and US$2.7 million in interest accretion on the facilities); the gross cash drawn down on the facilities was US$75.5 million; and
- US$18.7 million (US$20 million gross) due to Al Rajhi in December 2011 (the deferred Cullinan consideration).

With regards to the IFC/RMB debt facilities, US$8.0 million remains available for draw-down by the Company before November 2012. Repayment of capital is by way of eight semi-annual payments commencing in November 2012. The interest rates on the facilities are: IFC US$ loan – six month US$ LIBOR plus 4.5% margin; RMB ZAR loan – three month JIBAR plus 4.5% margin. The deferred consideration owed to Al Rajhi is interest free.

The BEE loans due to Petra arise from:

- Petra having financed the BEE partners' share of the acquisition costs of Cullinan, Koffiefontein and Kimberley Underground; and
- Petra having financed working and development capital that has been required for certain of the mines.

All BEE loans are repayable out of free cashflow from the operations, with Petra having the first call on such cash until the BEE loans are repaid.

Operating cashflow

Petra's management is focused on cashflow generation from its operations. Operating cashflows of US$50.6 million were generated for the Period (FY 2010: US$48.8 million).

Capital expenditure

Total capex for the Period was US$110.9 million (FY 2010: US$33.4 million), being capex of US$107.4 million (refer to the Operational Review for a breakdown of this spend by operation) and capitalisation of capex related borrowing costs of US$3.5 million. This increased capex spend reflects the acceleration of the Company's development programmes, most notably at Cullinan, Williamson and additional assets of US$3.5 million at Kimberley Underground assumed in exchange for the environmental rehabilitation liability specific to these assets.

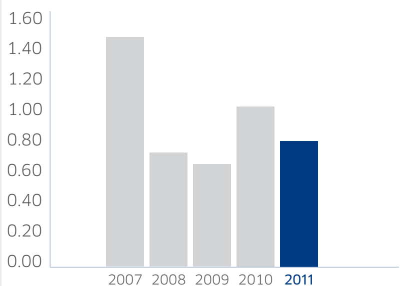
David Abery
Finance Director
28 November 2011

Key Performance Indicators

Petra uses various performance measures to help evaluate the performance of the business on a continuous basis and the following performance measures are those the Board believe most effectively evaluate the performance of the Group as a whole.

Safety
Group Lost Time Injury Frequency Rate ("LTIFR")

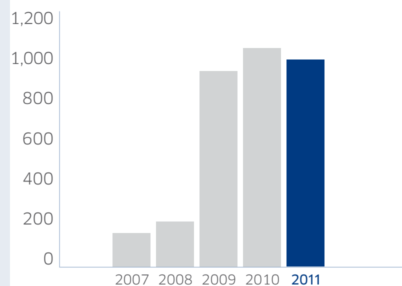
0.80



The safety of employees is the top priority for Petra's management. FY 2011's LTIFR showed an improvement on the prior year's performance, demonstrating management's focus on this area across all of Petra's operations. However, very regrettably, there was a fatality at the Koffiefontein mine in January 2011. Management is striving for zero harm in the workplace.

Rough diamond production (gross)
Carats ('000s)

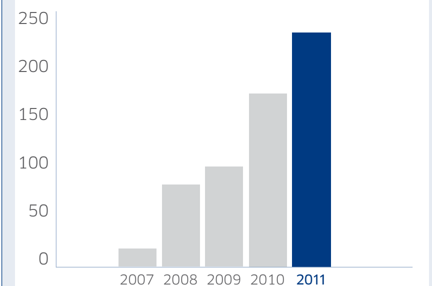
1,117,795



After several years of strong growth, production was relatively flat in FY 2011 due to a strategic focus on "value" as opposed to "volume" production, issues at Koffiefontein and Kimberley Underground, and unseasonably heavy rainfall in South Africa. The completion of Finsch in September 2011 means that the Company expects to increase production to over 2 Mcts in FY 2012.

Revenue (gross)
US$ million

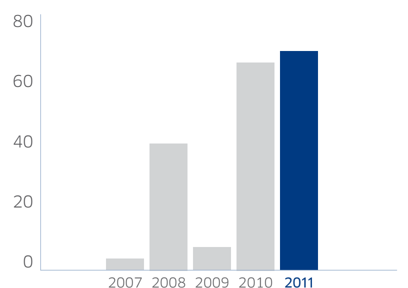
220.6



Gross mine revenue was up 24% to US$221 million, being mainly due to the steady increase in rough diamond prices from October 2010 to the of end June 2011, as evidenced by revenue of US$90 million in the first half rising to US$131 million in the second half. Adjusting for the exceptional sale of the US$35 million Cullinan Heritage diamond in FY 2010, revenue would have been up 55%.

On-mine profit
US$ million

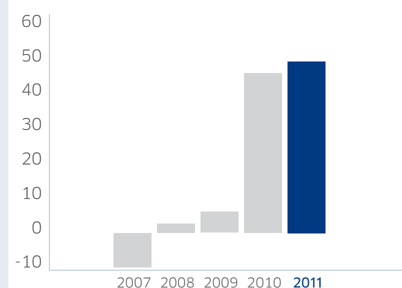
76.4



FY 2011's mining profit reflects the strengthening in diamond prices throughout the year, combined with Petra's stringent cost control. The generation of an on-mine profit in FY 2009 at the height of the global economic downturn demonstrates the robustness of Petra's assets and the quality of its management team.

Operating cashflows
US$ million

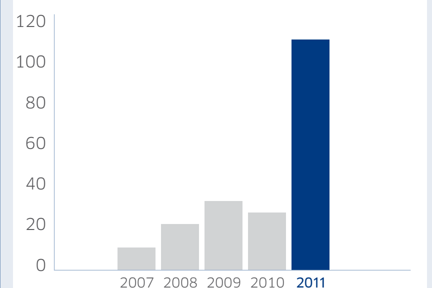
50.6



Petra is focused on generating strong operating cashflows and as Finsch comes on-line and production increases, substantial operating cashflow growth is expected. Petra's strategy is to apply these operating cashflows to fund the Group's capex profile which will lay the foundations for long-term sustainable production growth.

Capex
US$ million

110.9



Petra's strategy is to substantially increase its production profile, which will be achieved by the expansion and development of its major mines, specifically Cullinan, Finsch and Williamson. It is key to the Group's production expansion that capex spend is achieved and development rolled out in line with stated business plans.

Risk Management

The Group is exposed to a number of risks and uncertainties which could have a material impact on its long-term development and performance and management of these risks is an integral part of the management of the Group.

The Board has identified the following as being the principal strategic and operational risks (in no order of priority).

Risk	Description	Mitigation/Comments
Mining and Production	The mining of diamonds from underground kimberlite deposits involves an intrinsic degree of risk from various factors, including geological, geotechnical and seismic factors, industrial and mechanical accidents, unscheduled plant shutdowns, technical failures, ground or water conditions and inclement or hazardous weather conditions.	All of Petra´s existing kimberlite operations have long histories of production and therefore the geology and economics of each mine are well understood. This knowledge of the deposits allows management to eliminate much of the risk associated with operating a diamond mine.
Diamond Prices	The Company's financial performance is closely linked to diamond prices which are influenced by numerous factors beyond the Company's control, including international economic conditions, world production levels and consumer trends.	The management of the Group closely monitors developments in the international diamond market (across the pipeline from the rough market to the retail consumer market) to be in a position to react in a timely manner to changes in rough diamond prices and demand.
Expansion and Project Delivery	Petra has set out a clear and transparent growth profile to increase annual production to over 5 million carats by FY 2019. Actual production may vary from estimates of future production for a variety of reasons and it should be noted that long term assumptions may be subject to change as the Company continually evaluates its projects to optimise efficiency and production profitability.	Petra has an enviable track record in the management of underground diamond operations and is respected as one of the "best in class" teams in the diamond mining industry. With regards to potential budget or time overruns that could impact the completion of these expansion projects, the Group has established procedures to control, monitor and manage the roll-out of its development plans.
Retention of Key Personnel	The successful achievement of the Group's strategies, business plans and objectives depends upon its ability to attract and retain certain key personnel.	Part of Petra's success is due to the fostering of a management culture where management is empowered and where innovation and creativity in the workplace is encouraged. Petra's employment terms are designed to attract, incentivise and retain individuals of the right calibre.

Risk	Description	Mitigation/Comments
Financing	Petra has a significant capex programme over the years to FY 2019, with capex forecast to peak in FYs 2012 to 2015. The Company plans to mainly finance this capex from operating cashflows. Lack of adequate available cashflows could delay development work.	Whilst management prepares detailed plans, actual capex may differ from estimates. In order to mitigate this, capex requires a tiered level of approval and variances to capex plans are monitored on a timely basis. The Company continually and regularly reviews its cashflow planning to ensure that capex plans are adequately financed.
Country and Political	Petra's operations are predominantly based in South Africa, with lesser exposure to Tanzania and Botswana. Emerging market economies could be subject to greater risks, including legal, regulatory, economic and political risks, and are potentially subject to rapid change.	The Petra team is highly experienced at operating in Africa. Petra routinely monitors political and regulatory developments in its countries of operation. In addition the Company actively engages in dialogue with relevant Government representatives in order to keep abreast of all key legal and regulatory developments applicable to its operations. Petra has a number of internal processes and checks in place to ensure that it is wholly compliant with all relevant regulations in order to maintain its mining or exploration licences within each country of operation.
Currency	With Petra's operations mainly in South Africa, but diamond sales based in US dollars, the volatility and movement in the rand is a significant factor to the Group. Also, the Group undertakes transactions in a number of different currencies. Fluctuations in these currencies may have a significant impact on the Group's performance.	The Group continually monitors the movement of the rand against the US dollar and takes expert advice from its bankers in this regard. It is the Group's policy to hedge a portion of future diamond sales when weakness in the rand deems it appropriate. Such contracts are generally short term in nature. Management seeks to mitigate other transaction risks by matching assets and liabilities in the same currency and where appropriate hedging material exposure.
Social, Safety and Environmental	The Group's success may depend upon its social, safety and environmental performance, as failures can lead to delays or suspension of its mining activities.	The Group takes its responsibilities in these areas seriously and monitors its performance across these areas on a regular basis.

Corporate Social Responsibility

Corporate social responsibility and sustainability is very important to Petra and is integral to the way the Group structures and operates its mining, development and exploration projects. The Petra Group now encompasses over 4,600 people in South Africa, Tanzania and Botswana, and as such is a significant employer in Africa. Petra is proud to have taken over various operations and to have put in place long mining lives, which will ensure continuous stable employment for the Company's workforce.

Petra recognises that its business and operations have an impact on a wide range of stakeholders. These include broader economic, social and environmental impacts. The Company recognises that it has a responsibility to mitigate potential negative impacts and to actively endeavour to initiate and support positive impacts that are sustainable after mining has ceased.

Petra's Sustainable Development Reports can be accessed on the Petra website **www.petradiamonds.com**

The Company has outlined its key sustainable development policies and practices below, but for more information shareholders should review Petra's Sustainable Development Report, which is available on the Group's website.

HSSE Committee

Petra recently formed the Group's Health, Safety, Social and Environmental ("HSSE") Committee. The HSSE Committee's role is to formulate and recommend to the Board the Group's policy on all relevant health, safety, social and environmental issues as they affect the Group's operations and it will ensure that the Board is cognisant of, and takes account of, mining corporate social responsibility best practice. In particular it will focus on ensuring that effective systems and standards, procedures and practices are in place and will monitor the correct and legal implementation of these procedures across the Group.

The HSSE Committee is also responsible in conjunction with the Executive Committee for reviewing management's investigation of incidents or accidents that occur in order to assess whether policy improvements are required.

Operational Health and Safety

The health and safety of employees is a priority for Petra and the Company adheres to the most stringent practices for health and safety. In addition to appropriate risk management processes, Petra has various strategies and systems in place to ensure that working places are safe and that employees are equipped to work safely. A great emphasis is based on training in this area and Petra's management continually strives to raise safety awareness at all levels. Petra encourages the active participation of employees and their representatives in health and safety issues and aims to encourage a healthy lifestyle for its workforce.

Community and Social

Petra is cognisant that, as a mining company, it is exploiting a finite resource and that there is a window of opportunity for the Company to play a role in the social and economic upliftment of the communities in which it operates. Petra is committed to identifying sustainable projects in conjunction with local communities themselves, as well as local authorities. The Group takes a holistic and structured approach to corporate social responsibility and uses training and skills development to enhance the lives of employees and community members alike.

Environment

Petra recognises and acknowledges the need to conduct environmentally sustainable exploration, mining and related activities. It is dedicated to promoting and maintaining high standards of environmental management within all of our operations by means of advocating environmental awareness to our employees as well as implementing sound and solid procedures and monitoring processes. The Company's operations are subject to significant environmental regulation under according to applicable local legislation.

The Kimberley Process

Petra will only ever operate in countries which are members of the Kimberley Process. The Kimberley Process is a collaboration between Governments, NGOs and the diamond industry, who joined together to stem the flow of "conflict diamonds" – rough diamonds used by rebel movements to finance wars against legitimate governments. It was set up to assure consumers that by purchasing diamonds they were not financing war and human rights abuses and the Kimberley Process Certification Scheme imposes extensive requirements on its members to enable them to certify shipments of rough diamonds as conflict free.

The nursery at Williamson has the capacity to raise 500,000 seedlings annually.

This rhino at the Cullinan nature reserve has been de-horned to protect it from poachers.

Petra's corporate social responsibility principles are as follows:

Principle	Description
Petra conducts itself according to the highest ethical and corporate governance standards	Petra will operate according to the highest ethical and corporate governance standards and is committed to conducting itself in a way that is mindful of the economic, social and environmental impacts on society.
Petra is a fair employer	Petra is a fair employer and treats it employees with respect and dignity. The Company will uphold the basic human rights of employees, contractors and community members.
Health and safety of employees is of the utmost priority	The health and safety of employees is of the utmost priority for the Company. Health and safety committees, comprising both management and employee representatives, as well as health and safety collective agreements, are in place at all operations, in line with the relevant legislation in the Company's countries of operation. These committees meet on a regular basis to discuss and resolve health and safety related challenges.
A strong commitment to local economic development	Petra has a strong commitment to local economic development and to having a positive impact on the social, economic and institutional development of its host communities. The Company works to purposefully identify sustainable projects in conjunction with local leaders and authorities, which will serve the community, making a long term contribution to the sustainability of the local communities.
Emphasis on environmental stewardship throughout life cycles of operations	Petra places a great deal of emphasis on environmental stewardship throughout the life cycle of its operations – from exploration to closure. The Company will, as a minimum, comply with the environmental regulations in the countries in which it operates and will implement environmental management and auditing systems based on good practice.
The responsible mining and sale of our diamonds	Petra believes in the responsible mining and sale of its diamonds. Petra will only operate in countries which are members of the Kimberley Process and, as a legitimate diamond miner operating in South Africa and Tanzania, 100% of Petra's production is fully traceable and conflict free.
Engagement with stakeholders	Petra will engage with stakeholders – employees and unions, shareholders, community members, representatives from Government and regulators – in an open and transparent manner and will voluntarily report on its objectives and performance in respect of sustainable development on a regular basis.

Board of Directors

Adonis Pouroulis

Age 41

Non-Executive Chairman

(Mr Pouroulis moved to Non-Executive Chairman on 28 November 2011)

Year of Appointment: 1997

Committees: Nomination Committee (Chairman)

Qualifications: Mining Engineer – University of Witswatersrand, South Africa

Expertise: Mr Pouroulis is a mining entrepreneur whose expertise lies in the discovery and exploration of natural resources across Africa, including diamonds, precious/base metals, coal and oil and gas, and bringing these assets into production. Mr Pouroulis founded Petra Diamonds in 1997 and it became the first diamond company to float on AIM. He has since chaired Petra as it has developed into a mid-tier diamond producer of global significance and London's largest quoted diamond mining group.

Johan Dippenaar

Age 54

Chief Executive Officer

Year of Appointment: 2005

Committees: Executive Committee; HSSE Committee

Qualifications: Chartered Accountant – member of the South African Institute of Chartered Accountants

Expertise: Mr Dippenaar has over 20 years' experience in the leadership and management of producing diamond mining companies. Prior to his appointment as CEO of Petra, he was CEO of ASX-quoted Crown Diamonds which merged with Petra in 2005. Mr Dippenaar built Crown Diamonds' portfolio up from one fissure mine to three and, since the merger, has led Petra through a period of extraordinary growth, taking the Group's portfolio of producing diamond mines from three to eight and firmly establishing the Company as a leading independent producer.

David Abery

Age 49

Finance Director

Year of Appointment: 2003

Committees: Executive Committee

Qualifications: Chartered Accountant – member of the Institute of Chartered Accountants in England and Wales

Expertise: Mr Abery brings to Petra extensive experience as a Chief Financial Officer in both the South African and UK business environments. He has been integral to the structuring and delivery of strategic Group corporate development and acquisitions at Petra, as well as the instigation of a number of innovative financing transactions. Mr Abery is responsible for all matters pertaining to Petra's UK listing and maintains regular communication with the UK market.

Jim Davidson

Age 67

Technical Director

Year of Appointment: 2005

Committees: Executive Committee

Qualifications: Geologist – member of the Geological Society of South Africa and registered with the South African Council for Natural Scientific Professions

Expertise: Mr Davidson is an acknowledged world authority on kimberlite geology and exploration, who has pioneered research into kimberlite indicator mineral chemistry and microdiamond analysis. He has spent in excess of 30 years associated with diamond exploration and mining, of which over 20 years have included mine management in South Africa, and was formerly Head of Diamond Exploration in Southern Africa for BP Minerals (subsequently Rio Tinto) before joining Crown Diamonds.

Independent Non-Executive Directors

Dr Pat Bartlett

Age 66
Year of Appointment: 2011
Committees: Audit Committee; Remuneration Committee; Nomination Committee
Qualifications: Ph.D. Mining Engineering; Member of the South African Institute of Mining and Metallurgy; registered Professional Natural Scientist

Dr Bartlett is an acknowledged expert on kimberlite geology and on the design and geotechnical aspects of block cave mining. He has presented numerous technical papers at international mining conferences throughout the world on all aspects of the geotechnical design of block cave mines and the geotechnical risks associated with massive mining operations. He was formerly a Chief Geologist for De Beers with responsibility for all De Beers kimberlite mines in South Africa; he retired from De Beers in 2003 in order to pursue consulting work. Dr Bartlett has previously acted as an independent technical adviser to Petra. Dr Bartlett has extensive experience working across Southern Africa and has an in-depth knowledge of several of Petra's mines, having previously worked at Finsch, Koffiefontein, Kimberley Underground and Cullinan, where he was a geologist from 1983 to 2003, responsible for all geological and geotechnical aspects of this major diamond mine. Since retiring he has been involved in block caving projects for BHP Billiton, Anglo American and Rio Tinto. He was elected to the Board of Trustees for the De Beers Benefit Society in 2010 and the De Beers Pension Fund in 2011.

Gordon Hamilton

Age 66
Year of Appointment: 2011
Committees: Audit Committee (Chairman); Remuneration Committee (Chairman – pending the appointment of a third independent Non-Executive Director); Nomination Committee
Qualifications: Chartered Accountant – ICAEW

Mr Hamilton has extensive experience as a non-executive director across a wide range of businesses including the Johannesburg Stock Exchange listed Barloworld, Fairbairn Private Bank and other related companies within the Nedbank Group, and the London Stock Exchange listed Lloyd's of London insurance underwriter Beazley, for all of which he also chairs their audit committees. Mr Hamilton retired from Deloitte & Touche LLP in 2006 after more than 30 years as a partner primarily responsible for multinational and FTSE 100 listed company audits, mainly in the mining, oil and gas and aerospace and defence industries, as well as heading the Deloitte South Africa desk in London. He served for nine years until 2011 as a member of the UK Financial Reporting Review Panel.

Non-Executive Director

Dr Kamal is not considered to be "independent" as he represents Al Rajhi Holdings W.L.L. ("Al Rajhi"), Petra's largest shareholder, which holds 13% of the Company's issued share capital.

Dr Omar Kamal

Age 38
Year of Appointment: 2010
Committees: n/a
Qualifications: Ph.D. Management (Banking and Finance)

Expertise: Dr Kamal is a Managing Director of Investments for Al Rajhi, Petra's largest shareholder, where his main responsibility is co-managing the international investments in various asset classes with a focus on equities, private equity, and real estate. In addition, Dr Kamal possesses a broad spectrum of expertise and knowledge ranging from his past experience as an academic, working in the financial industry (both in Islamic banking and in conventional banking) and as a strategy consultant with a global financial services firm.

Directors' Report

The Directors present their report together with the audited financial statements of the Group for the year ended 30 June 2011.

Principal activities

Petra Diamonds is a leading independent diamond mining group and an increasingly important supplier of rough diamonds to the international market. The Company has a well-diversified portfolio, with controlling interests in eight producing mines: seven in South Africa (Finsch, Cullinan, Koffiefontein, Kimberley Underground, Helam, Sedibeng and Star) and one in Tanzania (Williamson). In addition, Petra has an exploration operation in Botswana.

Business review

A detailed review of the Group's operational and financial performance for the year and events subsequent to the year end is set out in this Annual Report in the Overview on pages 1 to 7, the Business Review on pages 8 to 31 (which includes a section on Key Performance Indicators on page 31) and note 29 to the financial statements.

Results and dividends

The Group's net profit after tax for the year amounted to US$59.2 million (2010: US$70.2 million). The Directors do not recommend the payment of a dividend for the year (2010: US$nil).

Board of Directors and their interests

The interests of the Directors and their families in the issued share capital of the Company (other than in respect of options to acquire ordinary shares which are detailed in the Directors' Remuneration Report on pages 46 to 48 and note 21 to the financial statements) were as follows:

	Number of shares at 30 June 2011	Number of shares at 30 June 2010
Adonis Pouroulis[1,2]	**9,564,650**	9,564,650
Johan Dippenaar	**640,000**	640,000
David Abery[2]	**1,979,649**	1,979,649
Jim Davidson	**640,000**	640,000
Charles Segall[2]	**1,380,122**	1,380,122
Dr Patrick Bartlett[3]	**Nil**	Nil
Gordon Hamilton[3]	**Nil**	Nil
Dr Omar Kamal	**Nil**	Nil

Notes:

1. 7,735,000 ordinary shares in the Company are held by a trust of which Mr Pouroulis is a beneficiary.
2. 5,037,421 ordinary shares in the Company are held by a trust of which Mr Pouroulis, Mr Abery and the estate of Mr Segall are beneficiaries (Mr Segall passed away in July 2011, post-year end).
3. Dr Bartlett and Mr Hamilton were appointed post-year end on 28 November 2011.

Other than noted above with regards to the passing of Mr Segall, there were no changes in Directors' share interests between the year end and the date of this report.

Share capital

Details of changes to share capital during the year can be found in note 21 to the financial statements.

Substantial shareholdings

At 31 October 2011 the interests as indicated in the table below in the ordinary shares of the Company represented more than 3% of the issued share capital (other than interests set out above in the Board of Directors' interests).

Significant shareholders (insofar as the Company is aware)	Number of ordinary shares	Percentage of issued share capital
Al Rajhi Holdings W.L.L.	66,525,600	13.3%
Saad Investments Company Limited/Awal Bank	60,844,185	12.2%
JP Morgan Asset Management U.K. Limited	43,231,516	8.6%
Capital Group International, Inc	36,691,116	7.3%
Scottish Widows Investment Partnership	32,216,384	6.4%
BlackRock Investment (UK) Limited	20,994,369	4.2%
T. Rowe Price	20,471,750	4.1%
M&G Investments	18,086,225	3.6%
Kames Capital	16,439,120	3.3%
Ignis Investment Services Limited	14,915,549	3.0%
Directors	14,204,421	2.8%

Employees

The Group's employment policies have been developed to ensure that the Group attracts and retains the required calibre of management and staff by creating an environment that rewards achievement, enthusiasm and team spirit. Effective communication and consultation is key to this and the Group endeavours to ensure the appropriate level of employee involvement and communication.

The Group is committed to the principle and achievement of equal opportunities in employment irrespective of sex, religion, race or marital status. Full consideration is given to applications from disabled persons who apply for employment where the requirements of the position can be adequately filled by a disabled person, having regard to their particular abilities and aptitude.

Creditors' payment policy

It is the Group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Group and its suppliers, provided that all terms and conditions have been complied with.

Financial instruments

The Group makes use of financial instruments in its operations as described in note 26 of the financial statements.

Going concern

Following a review of the Group's financial position, the Directors have concluded that sufficient financial resources will be available to meet the Group's current and foreseeable working capital requirements. On this basis, they consider it appropriate to prepare the financial statements on a going concern basis.

Directors' responsibilities

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company, for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in Bermuda governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with the Bermuda Companies Act 1981. The Directors are also required to prepare financial statements for the Group in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and the rules of the London Stock Exchange for companies trading securities on AIM. The Directors have chosen to prepare financial statements for the Group in accordance with IFRS, as adopted by the European Union.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS, as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

Directors' Report
Continued

Directors' responsibilities continued
The Directors are responsible for keeping accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company. They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication
The Directors are responsible for ensuring the Annual Report and financial statements are made publically available on the Company's website. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Auditors
As far as each of the Directors is aware, at the time this report was approved:

- there is no relevant available information of which the auditors are unaware; and
- they have taken all steps that ought to have been taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

In accordance with Section 89 of the Bermuda Companies Act, a resolution to confirm the appointment of BDO LLP as auditors of the Company is to be proposed at the Annual General Meeting to be held in January 2012.

By order of the Board

David Abery
Director
28 November 2011

Corporate Governance Statement

Petra Diamonds Limited is incorporated in Bermuda. There is no formal corporate governance code in Bermuda but the Company subscribes to the principles of the UK Corporate Governance Code ("the Code"). Although the Company does not at the present time comply with all of the Code requirements, the Directors are committed to making the appropriate changes to meet the Code's requirements wherever possible and appropriate for Petra.

As Petra continues to grow, the Board carries out regular reviews of its corporate governance policy and practices, with the objective that these will continue to evolve in line with the Group's increasing size and stature. Integral to these reviews are appraisals of the Group's system of internal controls, including financial, operational and compliance controls and risk management systems. Petra is committed to maintaining the highest standards of business conduct and ethics, as well as compliance with all applicable laws, rules and regulations, corporate reporting and disclosure, and all other matters deemed to protect the best interests of the Company's shareholders.

FY 2012 is an important year in terms of Petra's corporate development, given the Company's step-up to the Main Market of the London Stock Exchange and anticipated inclusion in the FTSE 250. In accordance with the Company's objective of adhering with the Code, the Company has significantly strengthened its Board with the appointment of two independent Non-Executive Directors ("NEDs"), Dr Bartlett and Mr Hamilton. At the same time as these two appointments, Mr Pouroulis moved from Executive to Non-Executive Chairman, in line with best practice. The Company will be appointing one or more further independent NEDs as soon as is practicable in FY 2012.

Following the appointment of the new NEDs, Petra revised its Board Committee Charters and these are available on Petra's website at www.petradiamonds.com. Petra has, following the appointment of the independent NEDs, changed the composition of its Audit and Remuneration Committees and has established a Nomination Committee and a Board represented Health, Safety, Social and Environmental ("HSSE") Committee for the first time.

Board of Directors

Role of the Board

The Board's primary role is the protection and enhancement of shareholder value. To fulfil this role, the Board (and Board Committees where appropriate) is responsible for the overall corporate governance of the Group, including formulating the Group's strategic direction, appointing Directors and Senior Management, setting remuneration, establishing goals for management and monitoring the achievement of these goals, approving and monitoring capital expenditure, and ensuring the integrity of internal control and management information systems. The Board is also ultimately responsible for approving and monitoring financial and other reporting.

The Chairman is responsible for the leadership of the Board. At each Board meeting, the Chairman ensures significant time is devoted to key strategic issues. When setting Group strategy, the Board agrees a shared vision of what the Company is aiming to achieve and over what time period, as well as an understanding of what is required in order to achieve the objectives. This strategy is communicated to Petra's Senior Management and to the various employee groups in each division of the Company. Externally, strategy is communicated to shareholders via direct meetings or public materials (such as Stock Exchange announcements and the Company website). The Executive Directors of Petra are ultimately responsible for executing the strategy as laid out by the Board. All Directors bring independent judgement to bear on issues of strategy, performance and standards of conduct.

One of the roles of the independent NEDs is to scrutinise the performance of the Executive Directors in terms of meeting agreed goals and objectives and to monitor the reporting of performance. In addition, they play a key role with regards to ensuring that the financial information, controls and systems of risk management within the Group are robust and defensible, as well as with regards to determining the appropriate levels of remuneration of Executive Directors, and they are integral to the appointment or removal of Executive Directors to or from the Board, when necessary.

As covered above, Petra intends to appoint one or more additional independent NEDs as soon as is practicable in FY 2012. Although at this time Petra has not formally appointed a Senior Independent NED, this decision will be made when the new candidate(s) is/are appointed. Petra fully appreciates the need to appoint a Senior Independent NED, who will provide a sounding board for the Chairman and serve as an intermediary for the other Directors as necessary. The Senior Independent NED will be available to shareholders if they have concerns which contact through the normal channels of Chairman, CEO or other Executive Directors has failed to resolve or for which such contact is inappropriate.

Composition of the Board

The Board currently consists of three Executive Directors, the Non-Executive Chairman, one NED and two independent NEDs. The Non-Executive Chairman is Mr Pouroulis (who stepped down from Executive Chairman to Non-Executive Chairman on 28 November 2011), the CEO is Mr Dippenaar, the Finance Director is Mr Abery, the Technical Director is Mr Davidson, the NED, who is not deemed to be independent, is Dr Kamal (as he represents Al Rajhi Holdings W.L.L. which holds 13% of Petra's issued share capital) and the independent NEDs are Dr Bartlett and Mr Hamilton (both appointed 28 November 2011).

Post-year end, the Board lost a long-serving member, being Mr Charles Segall, who sadly passed away in July 2011. Mr Segall had served on the Board of Petra as a NED since it listed on the AIM market in 1997.

The composition of the Board is reviewed on an ongoing basis to ensure that the Board has the appropriate mix of expertise and experience. Directors appointed by the Board are subject to election by shareholders at the following Annual General Meeting and thereafter Directors are, in accordance with the Company's bye-laws, subject to re-election on an annual basis. When a Board vacancy exists, through whatever cause, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Board determines the selection criteria for the position based on the skills deemed necessary for the Board to best carry out its responsibilities.

Corporate Governance Statement
Continued

Board of Directors continued

Composition of the Board continued

As noted above, on 28 November 2011, Petra appointed two independent NEDs in order to strengthen its Board. The Board allocated a considerable amount of time to the identification and selection process for the new independent NEDs by undertaking a structured and focused search process to identify appropriate candidates and took advice from its London corporate advisers in this regard. The Board is satisfied that it has identified candidates with the appropriate mix of financial and technical expertise to suit the specific requirements of the Petra team. Further to the appointment of the new independent NEDs, a Nomination Committee was formed and this committee will consider and nominate candidates for Board approval going forward.

Board process

The Board believes that all Directors need to be able to allocate sufficient time to the Company in order to discharge their responsibilities effectively. The full Board meets formally at least four times per year, at such other times as may be necessary to address any significant matters that may arise, and also communicates regularly between these meetings.

The Board is supplied on a regular basis with appropriate and timely information relating to all aspects of the Group and has regular opportunities, including visits to operations, for contact with a wider group of employees, including Senior Management. In addition, the Directors are free to seek any further information they consider necessary in order to discharge their duties effectively. The collective responsibility of the Board ensures that all Directors are involved in the process of arriving at significant decisions.

The agenda for full Board meetings is prepared in conjunction with the Chairman and the Executive Directors and all documents that are relevant to the agenda of the Board meeting are distributed to the Board in advance of the meeting. Standing items include the CEO's Review, Finance Director's Review, management accounts, strategic matters, long-term business planning, governance and compliance. Senior Management are involved in the preparation of Board papers and submissions and are able to contact any member of the Board should they feel the need to do so.

Board meetings take place away from the Group's offices and typically last for the whole day and are arranged so as to allow the Board time to engage in informal discussions regarding the activities of the Group, its competitors, the capital markets and the diamond and mining sectors in general.

To assist in the execution of the Company's strategy, the Board has established an Executive Committee to manage the Company on a day-to-day basis. Members of this Committee are Mr Dippenaar, Mr Abery and Mr Davidson. Further to the appointment of the independent NEDs as noted above, the Chairman will hold meetings with the NEDs without Mr Dippenaar, Mr Abery and Mr Davidson present, in compliance with the Code.

Board performance

The Company has adopted self-evaluation processes to measure Board performance. The performance of Directors is assessed through analysis, review and specific discussion by the Board of issues relating to individual Director's attendance at and involvement in Board meetings, interaction with management, performance of allocated tasks and any other matters identified by the Board or individual Directors. Any significant issues identified are actioned by the Board on an ongoing basis. In addition, the independent NEDs will meet without the Chairman at least annually to appraise the Chairman's performance and on such other occasions as are deemed appropriate. The evaluation of key Senior Management is carried out by the Executive Committee.

Conflict of interest

Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes that a significant conflict exists, the conflict is clearly recorded in the Board minutes and if considered appropriate (due to the nature of the conflict) by the rest of the Board, the Director concerned is not present at the meeting whilst the item is considered.

Director dealings in Company shares

Company policy prohibits Directors and Senior Management from dealing in shares or exercising share options whilst in possession of price sensitive information. Directors and Senior Management must notify and get approval from the Chairman/Finance Director before they deal in shares or exercise share options in the Company.

Independent professional advice and access to company information

Each Director has right of access to all relevant Company information and to the Company's Senior Management.

All Directors have access to advice from the Company's retained auditors, legal advisers and NOMAD (whilst on AIM), as well as to other independent professional advisers (as appropriate), at the expense of the Company if considered necessary in the performance of their duties.

Director education

The Group educates new Directors about the nature of the business, current issues, the corporate strategy and timeline for key objectives to be met, and the expectations of the Group concerning the performance of the Directors. Directors also have the opportunity to visit Group operations and meet with the operational management to gain a better understanding of Petra's business.

Directors are given access to continuing education opportunities to update and enhance their skills and knowledge.

Remuneration of NEDs

When setting fees for NEDs, the Board takes independent professional advice and applies appropriate benchmarks. Directors' fees cover all NED activities and membership of committees. Further information is contained in the Directors' Remuneration Report on page 47.

D&O Insurance

The Company has arranged appropriate Directors' and Officers' insurance cover in respect of legal claims against its Directors.

Board Committees

The Board currently has an Audit Committee, a Remuneration Committee, a Board-level HSSE Committee and on 28 November 2011 it formed a Nomination Committee. The purpose of these committees is to delegate responsibility to Directors with specific skills and knowledge and to facilitate the Board's overall role. The Board periodically reviews the membership of its committees to ensure that committee membership is refreshed; with the appointment of new independent NEDs, membership of these committees will become more appropriate and relevant. The Group provides the committees with sufficient resources to undertake their duties. The Committee Charters are available on Petra's website at www.petradiamonds.com.

Audit Committee

For FY 2011, Petra's Audit Committee comprised Dr Kamal and Mr Segall and was chaired by Dr Kamal. Further to the appointment of the independent NEDs on 28 November 2011, Petra changed the composition of its Audit Committee, which now comprises Mr Hamilton and Dr Bartlett, and is chaired by Mr Hamilton. Mr Hamilton is considered to have the appropriate financial expertise and experience for this role as he was formerly a Senior Audit Partner at Deloitte & Touche LLP specialising in UK-listed company audits. Upon the appointment of one or more additional independent NEDs, Petra will expand the number of members in this Committee.

The Audit Committee meets formally at least twice per year; three Audit Committee meetings were held during FY 2011. The Audit Committee invites the Finance Director and Senior Financial Management to attend the meetings as appropriate; the invitees would leave the meeting on matters relevant to their own performance or duties.

The Audit Committee also meets with the external auditors independent of Executive Management. The Audit Committee may, if considered necessary, take independent advice at the expense of the Company.

The Audit Committee makes recommendations to the Board on the appointment of the external auditors, their independence and the level of their fees; it reviews the findings of the external auditors and ensures appropriate action is taken by management; it reviews and monitors the integrity of financial reporting and reviews the Group's interim and full year results prior to submission to the Board; it reviews the Group's statement on internal control systems, considers the effectiveness of internal financial controls and any internal audit resource, making recommendations for changes if appropriate; assesses the Company's arrangements for staff whistle-blowing and the detection of internal fraud; and institutes and reviews special projects and investigations on any matter as it sees fit.

Remuneration Committee

For FY 2011, Petra's Remuneration Committee comprised Mr Segall and Dr Kamal and was chaired by Mr Segall. Further to the appointment of the independent NEDs on 28 November 2011, Petra changed the composition of its Remuneration Committee, which now comprises Mr Hamilton and Dr Bartlett, and is chaired by Mr Hamilton (pending the appointment of a further independent NED to the Board).

The Remuneration Committee meets formally at least twice per year and two Remuneration Committee meetings were held during FY 2011. The Remuneration Committee invites Executive Directors to attend the meetings as appropriate; the invitees would leave the meeting on matters relevant to their own remuneration or performance.

The Remuneration Committee may meet with the Company's external remuneration consultants independent of Executive Management. The Remuneration Committee may, if considered necessary, take further independent advice at the expense of the Company.

The main responsibilities of the Remuneration Committee are to determine on behalf of the Board and shareholders the overall policy for executive remuneration; to determine the base salary, benefits, performance-related bonus and any equity participation schemes for each of the Executive Directors and other Senior Management of the Group; and to approve all Directors' service contracts.

No Director or Senior Manager is involved in deciding their own remuneration.

The Chairman and other Executive Directors may accept external appointments subject to the Board's consent to act as NEDs of other companies and would normally retain any fees for such appointments.

Mr Hamilton is currently chairing both the Audit Committee and the Remuneration Committee and when the appropriate additional independent NED is appointed, it is expected that this new Director will chair the Remuneration Committee.

Nomination Committee

Although corporate governance guidelines recommend that the Company should have a Nomination Committee, prior to November 2011 the Board had not established such a committee as the Board had considered that a separately established committee of this nature was not warranted in relation to the Company's size and stage of development, as its functions and responsibilities were adequately and efficiently discharged by the Board as a whole.

However, the Petra Board now considers such a committee to be appropriate to the Group's increased scale and stature and therefore a Nomination Committee was formed on 28 November 2011 upon the appointment of the new independent NEDs to the Board.

Petra's Nomination Committee comprises Mr Pouroulis, Mr Hamilton and Dr Bartlett and is chaired by Mr Pouroulis. The Nomination Committee will meet formally at least twice a year.

The main responsibilities of the Nomination Committee are evaluating the balance of skills, knowledge and experience of the Board, the size, structure and composition of the Board, retirements and appointments of additional and replacement Directors and will make appropriate recommendations to the Board on such matters.

Corporate Governance Statement
Continued

Board Committees continued

HSSE Committee

The HSSE Committee comprises one Executive Director (Mr Dippenaar) and appropriate members of Petra Senior Management; it is chaired by Mr Dippenaar. This is a new Board-level Committee that was established in September 2011. The HSSE Committee will meet formally at least twice a year.

The HSSE Committee's role is to formulate and recommend to the Board the Group's policy on all relevant HSSE issues as they affect the Group's operations and it will ensure that the Board is cognisant of, and takes account of, mining corporate social responsibility best practice. In particular it will focus on ensuring that effective systems and standards, procedures and practices are in place and will monitor the correct and legal implementation of these procedures across the Group.

The HSSE Committee is also responsible in conjunction with the Executive Committee for reviewing management's investigation of incidents or accidents that occur in order to assess whether policy improvements are required.

Internal controls and risk management

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. It should be recognised that such a system can only provide reasonable and not absolute assurance against material misstatement or loss, as it is designed to manage rather than eliminate those risks that may affect the Company in achieving its business objectives. The Code requires that the effectiveness of the system of internal control be reviewed by the Directors, including financial, operational and risk management.

The Board, on an ongoing basis, conducts reviews of the effectiveness of the Company's risk management and internal control systems and reports to shareholders that they have done so. The review covers all material controls, including financial, operational and compliance controls.

The Group has not established a separate Board-level risk committee. Instead, the Board, as part of its usual role and through direct involvement in the management of the Group's operations, ensures risks are identified, assessed and appropriately managed. Where necessary, the Board will draw on the expertise of appropriate external consultants to assist in dealing with or mitigating risk.

Please refer to pages 32 and 33 where the Group has identified key risks and how they are mitigated.

The Board's internal control processes are comprehensive and comprise:

- operating unit controls – operating units confirm compliance with financial controls and procedures including information system controls;
- functional reporting – key areas subject to regular reporting (on a quarterly basis) to the Board include operations/production, finance, investor relations, technical, safety, human resources, corporate social responsibility, environment and legal matters;
- internal audit function – the Group has an internal audit function. The internal audit manager operates under the direction of the Finance Director and any matters arising of a material nature are brought to the attention of the Board. The Board ensures compliance with the internal controls and risk management procedures previously mentioned; and
- Group Code of Conduct – the Group has established a documented Code of Conduct. The Group has induction procedures to inform newly appointed employees of their rights and their duty to act with utmost integrity and objectivity. The Code of Conduct is designed to guide compliance with legal and other obligations to the Company's stakeholders.

Practices have been established to ensure:

- capex commitments above a certain size obtain prior Board approval;
- financial exposures are controlled, including the potential use of derivatives;
- environmental performance is regularly monitored to ensure the Group is in compliance with all environmental regulation under international law and the laws of the jurisdictions in which the Group's operations are based in relation to its exploration and mining activities;
- occupational health and safety standards and management systems are monitored and reviewed to achieve high standards of performance and compliance with regulations;
- ethical standards are monitored as all Directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Group;
- business transactions are properly authorised and executed; and
- financial reporting accuracy and compliance with the financial reporting regulatory framework.

Communication with shareholders and continuous disclosure

The Company supports open dialogue between shareholders and the Board so that the Board understands shareholders' needs and objectives and their views on the Company's performance. Investor relations is an important aspect of the Company's overall communications strategy and Petra has a dedicated in-house communications and investor relations function based in London to ensure that any investor query or concern is responded to and dealt with efficiently and in a timely manner. Petra's investor relations team regularly provides feedback to management on all such shareholder communication.

As part of Petra's proactive investor relations approach, management and the investor relations team commit time to hold regular formal and informal meetings in person with the Company's shareholders in order to get direct feedback and input on strategy and performance. The Company also hosts financial results webcasts at least twice a year which are broadcast live on the Company's website to ensure that all shareholders can participate in the presentation, regardless of their location, and stored thereafter at www.petradiamonds.com.

The Board encourages all members, including its NEDs, to develop an understanding of the views of major shareholders about the Company, either through direct meetings in person, analysts' or brokers' briefings or through the submission of regular feedback documents following shareholder interaction.

The Board encourages full participation of shareholders at shareholder meetings to ensure a high level of accountability and identification with the Group's strategy and goals. Shareholders are requested to vote on the appointment of Directors and changes to the Company's bye-laws. Copies of the bye-laws are available on the Company website at www.petradiamonds.com. The Board ensures that the external auditors attend the Company's Annual General Meeting and other meetings where it is appropriate to do so. The Chairman arranges for the Chairmen of its various committees to be available to answer questions at the Annual General Meeting.

Petra ensures that all shareholders and investors have equal access to the Company's information and has procedures to ensure that all price sensitive information is disclosed to shareholders in accordance with the continuous disclosure requirements of the AIM Rules. Once Petra steps up to the Main Market of the London Stock Exchange, it will comply in full with both the Listing Rules and the Disclosure and Transparency Rules. All public announcements are immediately posted to the Company's website at www.petradiamonds.com.

The Company's Annual Report is made available to all shareholders. The Board ensures that the Annual Report includes relevant information about the operations of the Group during the year, changes in the state of affairs of the Group and details of future developments, as well as all required disclosures. Notices of shareholder meetings and associated explanatory material are placed on the Company's website.

Directors' Remuneration Report

The Remuneration Committee is responsible for determining the remuneration and incentive packages for the Executive Directors and Senior Management.

Remuneration Committee

Details of the Remuneration Committee are set out in the Corporate Governance Statement on pages 41 to 45 of this report. The Committee seeks independent advice from external consultants as appropriate. The Committee has engaged the services of Deloitte LLP, Global Employer Services, London in providing remuneration advisory services.

Remuneration policy

The employment terms for Executive Directors and Senior Management are designed to attract, motivate and retain individuals of the right calibre. Incentives are structured so as to align their interests with those of the shareholders by rewarding Executive Directors and Senior Management for enhancing shareholder value.

The Group competes for management talent with other major mining companies and the remuneration strategy is designed to allow the Company to attract and retain high quality executives. The Committee ensures that a significant proportion of the Executive Directors' remuneration is directly related to the performance of the Group, in order to promote the long-term success of the Company.

In setting the remuneration policy and levels for the Executive Directors, the Committee takes into account the pay and employment conditions of the wider employee population within the Company.

Review of Executive Directors' remuneration in 2011/12

Given the planned move to a Main Market listing on the London Stock Exchange and potential entry to the FTSE 250, the Board is mindful that the Company's remuneration arrangements will need to reflect both the forward-looking strategy of the business and its status as a fully listed company. Accordingly, the Company is undertaking a review of the remuneration arrangements for the Executive Directors and Senior Management team. An important part of this review will be to ensure that remuneration practices reflect UK corporate governance best practice in relation to executive pay.

Base salaries

The policy of the Company is to pay base salaries which are competitive with those paid to Executive Directors and Senior Management in organisations of similar size and complexity in the mining sector.

Performance-related bonuses

In order to retain and incentivise the Executive Directors and Senior Management, performance-related bonuses, as approved by the Remuneration Committee, are awarded based on the performance of the Company and the individual for the Period under review. It is the policy of the Board that bonuses will only be paid on achieving performance and results which are stretching.

To date, the Petra Group has grown rapidly by the acquisition of world-class assets which have then been integrated into the Group. In this context the Board has been of the view that, rather than set static targets, it was in the best interests of the Group to assess performance at the end of the year based on achievements in relation to integration and delivery on newly acquired mines as well as existing assets. Bonuses were therefore based on a subjective but challenging assessment of the performance of the Company and individual.

However, now that the Group has matured after several years of acquisitions and asset integration and has a clearly stated production growth profile, the Board and Remuneration Committee will now include performance measures that are applicable, relevant and stretching in the context of the Group's stated production growth profile and other strategic goals. It is intended that, following the review of remuneration, the performance conditions will take account of certain key operational deliverables, as well as health and safety performance. The Committee will provide shareholders with appropriate disclosure of the new framework and bonus out-turns.

Whilst there is no formal maximum limit under the current bonus plan, bonuses have traditionally been no higher than 100% of salary. Going forward, it is intended that the Company will set a maximum bonus potential as a percentage of salary, subject to pre-determined performance targets.

Share incentives

The Board believes that the granting of share incentives encourages a broad alignment of the interests of the Executive Directors and Senior Management with the creation of shareholder value. The Company operates an Employee Share Option Scheme (introduced in 2005), whereby it can issue options to eligible employees (including Executive Directors and Senior Management) to subscribe for shares in the Company at set prices.

Options awarded to Executive Directors are subject to performance conditions. Share options granted to date have been subject to the performance condition that, in order to vest and be exercisable, the market value of the Company's shares must increase in value by an amount greater than 10% in excess of the UK Retail Price Index rise ("RPI") in year one for one-third of the grant to vest, by 20% over the RPI between the date of grant and the second anniversary of grant for the second third of the grant to vest, and by 30% over the RPI between the date of grant and the third anniversary of grant for the final third of the grant to vest. The Board considered that a performance condition based on share price growth targets was aligned with shareholders and appropriate for the Company's strategy at the time that the share options were granted.

Share incentives continued

Petra intends to consider the introduction of new share plans as part of the 2011/12 review of executive remuneration, taking into account best practice for a Main Market FTSE company. This will include consideration of the performance metrics and targets which are appropriately aligned to Petra's future strategy. It is also intended that the share plans will include dilution and individual limits.

As at 30 June 2011 the following share options were in issue to the Executive Directors to subscribe for ordinary shares in the Company.

Grant date	Expiry date	Exercise price (pence)	Mr Pouroulis	Mr Dippenaar	Mr Abery	Mr Davidson	Senior Management	Total
05/09/03	05/09/13	44.0	500,000	n/a	500,000	n/a	—	1,000,000
13/09/04	13/09/14	56.75	—	n/a	—	n/a	50,000	50,000
24/09/04	24/09/14	46.5	—	n/a	—	n/a	75,000	75,000
28/01/05	28/01/15	56.5	—	n/a	—	n/a	23,750	23,750
16/06/05	16/06/15	85.0	250,000	750,000	250,000	750,000	—	2,000,000
27/11/05	27/11/15	65.75	—	—	—	—	84,300	84,300
31/05/06	31/05/16	79.5	250,000	250,000	250,000	250,000	166,388	1,166,388
31/07/06	31/07/16	96.0	—	—	—	—	236,812	236,812
12/03/09	12/03/19	27.5	250,000	750,000	750,000	750,000	4,470,000	6,970,000
30/09/09	30/09/19	45.5	100,000	350,000	350,000	350,000	2,117,671	3,267,671
17/03/10	16/03/20	60.5	100,000	350,000	350,000	350,000	3,060,002	4,210,002
25/11/10	25/11/20	92.8	—	—	—	—	500,000	500,000
Total			**1,450,000**	**2,450,000**	**2,450,000**	**2,450,000**	**10,783,923**	**19,583,923**

As at 30 June 2011, the total number of Petra shares under option was 19,583,923 (representing 3.9% of the Company's issued share capital) of which the number granted to the Directors is 8,800,000 (representing 1.8% of the Company's issued share capital).

The Company is cognisant of best market practice, including the guidelines of the Association of British Insurers (ABI), and therefore the number of Petra shares under option is significantly less than 10% of the Company's issued share capital and the Petra shares under option are appropriately split between grants to Executive Directors and other employees, including Senior Management.

Shareholding guidelines

It is the Company's policy that each of the Executive Directors holds a meaningful number of Petra shares, a minimum being equal to one year's basic salary for the applicable Director.

Directors' remuneration

The Board determines the NEDs' fees in the absence of the relevant NED. The NEDs are paid fees for their services; no bonuses or other amounts are paid. The following table gives a breakdown of the remuneration of the individual Directors who held office during the year ended 30 June 2011. Although the Company's reporting currency is US dollars, these figures are stated in pounds sterling as the Directors' service contracts denominate the payments in pounds sterling.

	Base remuneration £	Non-cash benefits[1] £	Performance-related bonus £	**2011 Total £**	2010 Total £
Executive Directors					
A Pouroulis[2]	120,000	2,129	90,000	**212,129**	216,000
J Dippenaar	230,000	4,800	170,000	**404,800**	405,000
D Abery	230,000	4,800	170,000	**404,800**	405,000
J Davidson	230,000	3,792	170,000	**403,792**	405,000
				1,425,521	1,431,000
Non-Executive Directors					
C Segall[3]	25,000	—	—	**25,000**	25,000
O Kamal	35,000	—	—	**35,000**	13,125
				60,000	38,125

1. Non-cash benefits comprise contributions made by the Company to the Group life assurance, disability and critical illness scheme.
2. Mr Pouroulis was Executive Chairman for FY 2011 and became Non-Executive Chairman with effect from 28 November 2011.
3. Mr Segall sadly passed away in July 2011.

Directors' Remuneration Report
Continued

Directors' service contracts and appointment letters

On 28 November 2011, the Executive Directors each entered into updated employment agreements with the Company. Each of these agreements is terminable by 12 months' written notice on either side and contain non-compete, non-solicitation and dealing with customers/clients and non-solicitation of Directors or senior employees restrictions following termination. In the event of termination by the Company of an Executive Director's employment, the contractual Remuneration Package (incorporating base salary and benefits), reflecting the 12 month notice period, would normally be payable. The Remuneration Committee's policy is to emphasise the duty of the terminated party to mitigate any loss caused by the early termination to the fullest extent possible. In these circumstances, any payments may be made on a monthly basis.

On 28 November 2011, the Non-Executive Directors entered into letters of appointment with the Company. Other than Dr Kamal (who entered into an updated letter of appointment), the appointments are for an initial term of three years which is terminable by one month's written notice on either side at any time and the appointment letter contains appropriate confidentiality provisions. On termination, the Non-Executive Directors (other than Dr Kamal) would be entitled to payment of fees for the 1 month contractual notice period. Dr. Kamal's appointment is terminable on Al Rajhi Holdings W.L.L ceasing to have a right to appoint a Director under the Al Rajhi Holdings W.L.L. Option Agreement. Dr. Kamal's appointment also contains a confidentiality provision.

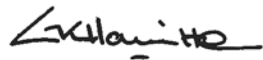
Details of all Directors' contracts are summarised below:

Directors	Date of contract	Unexpired term	Notice period by Company or Director
Executive Directors			
Mr Dippenaar	28 November 2011	n/a	12 months
Mr Abery	28 November 2011	n/a	12 months
Mr Davidson	28 November 2011	n/a	12 months
Non-Executive Directors			
Mr Pouroulis	28 November 2011	36 months	1 month
Mr Hamilton	28 November 2011	36 months	1 month
Dr Bartlett	28 November 2011	36 months	1 month
Dr Kamal	28 November 2011	n/a	

Pensions

Petra operates a defined benefit scheme and a defined contribution scheme. The defined benefit scheme was acquired as part of the acquisition of Cullinan Diamond Mine (Pty) Limited and is closed to new members. The assets of the pension schemes are held separately from those of the Group's assets.

By order of the Board



Gordon Hamilton
Remuneration Committee Chairman
28 November 2011

Independent Auditor's Report

To the shareholders of Petra Diamonds Limited

We have audited the financial statements of Petra Diamonds Limited ("Petra") for the year ended 30 June 2011 which comprise the Consolidated Income Statement and Consolidated Statement of Other Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Financial Position, the Consolidated Statement of Cashflows and the related notes. The financial reporting framework that has been applied in their preparation is the Bermuda Companies Act 1981 and International Financial Reporting Standards as adopted by the European Union ("IFRS").

Our report has been prepared pursuant to the requirements of the Bermuda Companies Act 1981 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of the Bermuda Companies Act 1981 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Directors' responsibility for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation and fair presentation of the financial statements in accordance with the Bermuda Companies Act 1981 and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to audit and express an opinion on these financial statements in accordance with the Bermudan Companies Act 1981 and International Standards on Auditing (as issued by the International Federation of Accountants). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design repetition audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on financial statements

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group and its financial performance and cashflows for the year then ended in accordance with IFRS and have been prepared in accordance with the Bermuda Companies Act 1981.

Report on other legal and regulatory requirements

We read the other information contained in annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises the three other main sections of Petra's 2011 Annual Report: the 'Overview', the 'Business Review' and the 'Corporate Governance' section. Our responsibilities do not extend to any other information.

BDO LLP
Chartered Accountants
London
United Kingdom
28 November 2011

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated Income Statement
For the year ended 30 June 2011

US$ million	Notes	2011	2010
Revenue		**220.6**	163.7
Other income	4	**—**	5.4
Total operating income		**220.6**	169.1
Fair value uplift on acquisition of Cullinan Investment Holdings Limited ("CIHL")		**—**	31.0
Recycling of foreign exchange differences on exploration projects		**—**	12.3
Total income		**220.6**	212.4
Mining and processing costs	5	**(169.7)**	(137.7)
Other direct income	6	**2.7**	2.4
Exploration expenditure	7	**(1.4)**	0.2
Corporate expenditure	8	**(9.4)**	(8.6)
Impairment reversal	9	**11.7**	—
Impairment charge	9	**(5.2)**	—
Total costs		**(171.3)**	(143.7)
Financial income		**42.5**	27.6
Financial expense		**(27.4)**	(27.3)
Net financing income	10	**15.1**	0.3
Profit before tax		**64.4**	69.0
Income tax (charge)/credit	11	**(5.2)**	1.2
Profit for the year		**59.2**	70.2
Profit for the year attributable to:			
Equity holders of the parent company		**53.2**	63.5
Non-controlling interest		**6.0**	6.7
		59.2	70.2
Profit per share attributable to the equity holders of the parent during the year			
From continuing operations:			
Basic profit – US$ cents	13	**12.83**	22.65
Diluted profit – US$ cents	13	**12.35**	22.20

Consolidated Statement of Other Comprehensive Income
For the year ended 30 June 2011

US$ million	2011	2010
Profit for the year	**59.2**	70.2
Exchange differences recognised on translation of the share-based payment reserve	**0.2**	(0.5)
Recycling of foreign exchange differences on exploration projects	**—**	(12.3)
Exchange differences on translation of foreign operations	**15.4**	(6.9)
Exchange differences on non-controlling interest	**4.0**	—
Valuation loss on available-for-sale financial asset	**(0.4)**	(0.1)
Total comprehensive income for the year	**78.4**	50.4
Total comprehensive income for the year attributable to:		
Equity holders of the parent company	**68.4**	43.7
Non-controlling interest	**10.0**	6.7
	78.4	50.4

There is no taxation arising from items of other comprehensive income.

The notes on pages 56 to 96 form part of these financial statements.

Consolidated Statement of Changes in Equity
For the year ended 30 June 2011

US$ million	Share capital	Share premium account	Foreign currency translation reserve	Share-based payment reserve	Other reserves	Retained losses	Attributable to the parent	Non-controlling interest	Total equity
At 1 July 2010	61.4	347.5	(26.1)	4.6	(0.1)	(130.0)	257.3	33.6	290.9
Profit for the year	—	—	—	—	—	53.2	53.2	6.0	59.2
Other comprehensive income	—	—	15.4	0.2	(0.4)	—	15.2	4.0	19.2
4% non-controlling interest purchased – Koffiefontein (note 3(a))	—	—	—	—	—	0.9	0.9	(1.7)	(0.8)
26% disposal of Helam[1]	—	—	—	—	—	6.0	6.0	(6.0)	—
26% disposal of Star[1]	—	—	—	—	—	3.9	3.9	(3.9)	—
Transfer between reserves for exercise of options and warrants	—	—	—	(4.1)	—	4.1	—	—	—
Equity-settled share-based payments	—	—	—	1.9	—	—	1.9	—	1.9
Share-based payments cancelled[2]	—	—	—	(0.8)	—	—	(0.8)	—	(0.8)
Equity warrants issued[3]	—	—	—	7.9	—	—	7.9	—	7.9
Allotments during the year:									
– Fundraising	21.7	304.2	—	—	—	—	325.9	—	325.9
– Share options exercised	0.4	1.3	—	—	—	—	1.7	—	1.7
– Warrants exercised	1.3	10.2	—	—	—	—	11.5	—	11.5
Share issue costs	—	(17.6)	—	—	—	—	(17.6)	—	(17.6)
At 30 June 2011	**84.8**	**645.6**	**(10.7)**	**9.7**	**(0.5)**	**(61.9)**	**667.0**	**32.0**	**699.0**

1. During the year, the Group disposed of 26% of its shareholding in Helam and Star to Petra's black economic empowerment ("BEE") partners which represented a change in ownership interest in which the Group retained control.
2. Employees received cash payments of US$0.8 million during the year in respect of options cancelled. The payments equate to the fair value at the date of cancellation and the Group recognised a charge to equity in accordance with IFRS 2 together with the acceleration of the remaining unamortised fair value in respect of the options of US$0.1 million in the Consolidated Income Statement.
3. The fair value of warrants granted during the year is disclosed in note 28.

The notes on pages 56 to 96 form part of the financial statements.

Consolidated Statement of Changes in Equity
For the year ended 30 June 2011 Continued

US$ million	Share capital	Share premium account	Foreign currency translation reserve	Share-based payment reserve	Other reserves	Retained losses	Attributable to the parent	Non-controlling interest	Total equity
At 1 July 2009	33.5	212.9	(6.9)	1.8	4.0	(197.5)	47.8	9.5	57.3
Profit for the year	—	—	—	—	—	63.5	63.5	6.7	70.2
Other comprehensive income	—	—	(19.2)	(0.5)	(0.1)	—	(19.8)	—	(19.8)
Non-controlling interest acquired	—	—	—	—	—	—	—	17.4	17.4
Equity-settled share-based payments	—	—	—	1.7	—	—	1.7	—	1.7
Transfer of equity portion of convertible bond	—	—	—	—	(4.0)	4.0	—	—	—
Allotments during the year:									
– Fundraising	20.0	99.9	—	—	—	—	119.9	—	119.9
– Settlement of loans and borrowings	1.9	9.0	—	—	—	—	10.9	—	10.9
– Acquisition of second 50% of CIHL	6.0	33.8	—	—	—	—	39.8	—	39.8
– Share options exercised	—	0.1	—	—	—	—	0.1	—	0.1
Share issue costs	—	(8.2)	—	1.6	—	—	(6.6)	—	(6.6)
At 30 June 2010	61.4	347.5	(26.1)	4.6	(0.1)	(130.0)	257.3	33.6	290.9

Share capital
The share capital comprises the issued ordinary shares of the Company at par.

Share premium account
The share premium account comprises the excess value recognised from the issue of ordinary shares at par.

Foreign currency translation reserve
The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of foreign entities and foreign exchange differences on net investments in foreign operations.

Share-based payment reserve
The share-based payment reserve comprises:

- the fair value of employee options as measured at grant date and spread over the Period during which the employees become unconditionally entitled to the options;
- the fair value of warrants as measured at grant date and recognised immediately to reflect the vesting conditions; and
- amounts transferred to retained losses in respect of exercised and lapsed warrants and options.

Other reserves
The other reserves comprise the cumulative gains or losses arising from available for sale financial assets of US$0.5 million (30 June 2010: US$0.1 million).

Retained losses
The retained losses comprise the Group's cumulative accounting losses incurred since incorporation.

Non-controlling interest
Non-controlling interest comprises amounts attributable to third party shareholders in the Cullinan, Kimberley Underground, Koffiefontein, Star, Helam and Sedibeng mines. The non-controlling interest of total comprehensive income includes US$10.0 million (30 June 2010: US$6.7 million) of profit for the year.

Consolidated Statement of Financial Position

At 30 June 2011

US$ million	Notes	2011	2010
ASSETS			
Non-current assets			
Property, plant and equipment	14	**501.4**	371.0
Available-for-sale financial assets	17	**0.4**	0.8
Loans and other receivables	19	**51.1**	32.2
Total non-current assets		**552.9**	404.0
Current assets			
Inventories	18	**32.9**	29.4
Trade and other receivables	19	**49.8**	23.5
Derivative financial assets	26	**6.0**	—
Cash and cash equivalents – unrestricted	20	**96.9**	24.8
Cash and cash equivalents – restricted	20	**228.0**	9.7
Total current assets		**413.6**	87.4
Total assets		**966.5**	491.4
EQUITY AND LIABILITIES			
Equity			
Share capital	21	**84.8**	61.4
Share premium account		**645.6**	347.5
Foreign currency translation reserve		**(10.7)**	(26.1)
Share-based payment reserve		**9.7**	4.6
Other reserves		**(0.5)**	(0.1)
Retained losses		**(61.9)**	(130.0)
Attributable to equity holders of the parent company		**667.0**	257.3
Non-controlling interest		**32.0**	33.6
Total equity		**699.0**	290.9
LIABILITIES			
Non-current liabilities			
Loans and borrowings	22	**71.4**	47.1
Trade and other payables	23	**29.0**	23.2
Provisions	24	**63.1**	50.0
Deferred tax liabilities	25	**37.7**	30.3
Total non-current liabilities		**201.2**	150.6
Current liabilities			
Loans and borrowings	22	**18.7**	17.4
Other current liabilities – firm commitment	26	**6.0**	—
Trade and other payables	23	**39.4**	29.2
Current tax payable	23	**—**	1.1
Provisions	24	**2.2**	2.2
Total current liabilities		**66.3**	49.9
Total liabilities		**267.5**	200.5
Total equity and liabilities		**966.5**	491.4

The notes on pages 56 to 96 form part of the financial statements.

The financial statements were approved and authorised for issue by the Directors on 28 November 2011.

Consolidated Statement of Cashflows

US$ million	Notes	2011	2010
Profit before taxation for the year from continuing operations		**64.4**	69.0
Depreciation of property, plant and equipment – exploration		**0.1**	0.1
Depreciation of property, plant and equipment – mining		**22.2**	11.6
Depreciation of property, plant and equipment – other		**0.1**	0.2
Amortisation of intangible assets		**—**	1.0
Reversal of impairment		**(11.7)**	—
Impairment		**5.2**	—
Profit on sale of Kono project		**—**	(0.8)
Loss/(profit) on sale of property, plant and equipment		**0.3**	(3.7)
Recycling of foreign exchange differences on exploration projects		**—**	(12.3)
Release of fair value uplift on sales of inventory acquired through second 50% acquisition of CIHL		**—**	26.4
Fair value uplift on acquisition of additional 50% of CIHL		**—**	(31.0)
(Increase)/decrease in provisions		**1.4**	(2.1)
Finance income		**(7.7)**	(7.8)
Finance expense		**11.5**	12.6
Share-based payment provision		**1.9**	0.9
Payments for share options cancelled		**(0.8)**	—
Foreign exchange gain	10	**(18.9)**	(5.1)
Operating profit before working capital changes		**68.0**	59.0
Increase in trade and other receivables		**(24.8)**	(0.3)
Increase in trade and other payables		**12.5**	4.6
Increase in inventories		**(3.5)**	(11.2)
Cash generated from operations		**52.2**	52.1
Finance expense		**(1.2)**	(1.6)
Taxation paid		**(0.4)**	(1.7)
Net cash generated from operating activities		**50.6**	48.8
Cashflows from investing activities			
Proceeds from sale of property, plant and equipment		**0.1**	3.9
Cash acquired with acquisition of subsidiary		**—**	0.4
Acquisition of assets at Kimberley Underground net of cash		**0.3**	(2.0)
Acquisition of assets at Kimberley Underground pre-acquisition		**—**	(16.6)
Acquisition of 4% interest in Koffiefontein	3	**(0.8)**	—
Finance income		**2.2**	0.4
Acquisition of property, plant and equipment		**(105.2)**	(33.4)
Loans advanced to BEE partners		**(8.7)**	—
Transfer to restricted cash deposits		**(218.3)**	(5.3)
Net cash utilised in investing activities		**(330.4)**	(52.6)
Cashflows from financing activities			
Proceeds from the issuance of share capital		**339.1**	120.1
Payment of share placing costs		**(17.6)**	(6.6)
Increase in non-current borrowings		**75.6**	—
Repayment of non-current borrowings		**(15.0)**	(43.8)
Repayment of current borrowings		**(32.3)**	(48.0)
Net cash generated from financing activities		**349.8**	21.7
Net increase in cash and cash equivalents		**70.0**	17.9
Cash and cash equivalents at beginning of the year		**24.8**	6.7
Effect of exchange rate fluctuations on cash held		**2.1**	0.2
Cash and cash equivalents at end of the year		**96.9**	24.8

The notes on pages 56 to 96 form part of the financial statements.

Significant non-cashflow transactions which are not reflected in the Consolidated Statement of Cashflows are set out in note 31.

Notes to the Annual Financial Statements
For the year ended 30 June 2011

1. Accounting policies

Petra Diamonds Limited ("Petra" or "the Company" or "the Group"), a limited liability company quoted on AIM, is registered in Bermuda with its group management office domiciled in Jersey. The Company's registered address is 2 Church Street, Hamilton, Bermuda. The financial statements incorporate the principal accounting policies set out below, which are, except as noted below, consistent with those adopted in the previous financial statements.

1.1 Basis of preparation

The Group financial statements are prepared in accordance with International Financial Reporting Standards (IFRS and IFRIC Interpretations) issued by the International Accounting Standards Board ("IASB"), as adopted by the European Union ("IFRS").

Going concern

The Group's business activities, together with factors likely to affect its future development, performance and position are set out in the CEO's Review and the Business Review. The financial position of the Group, its cashflows and borrowing facilities are set out in the CEO's Review and the Financial Review. The notes to the financial statements set out the Group's objectives, policies and processes for managing its capital, exposures to credit risk and liquidity risk. As detailed in note 22(vii), the Group is to repay the deferred Al Rajhi Holdings W.L.L./Cullinan consideration of US$18.7 million in December 2011.

The Directors have reviewed the Group's current cash resources, funding requirements and ongoing trading of the operations. As a result of the review, the going concern basis has been adopted in preparing the financial statements and the Directors have no reason to believe that the Group will not be a going concern in the foreseeable future based on forecasts and available cash resources.

Currency reporting

The functional currency of the Company is pounds sterling (GBP) and the functional currency of the Group's business transactions in Botswana and Tanzania is US dollars. The functional currency of the South African operations is South African rand (ZAR); reference to transactions in South African rand in the Annual Report is denoted by an R. The Group financial statements are presented in US dollars. Also refer to the foreign currency accounting policy in note 1.14. ZAR balances are translated to US dollars at R6.83 (30 June 2010: R7.65) as at 30 June 2011 and at an average rate of R7.00 (30 June 2010: R7.61) for transactions during the year ending 30 June 2011.

1.2 New standards and interpretations applied

The IASB has issued the following new standards, amendments to published standards and interpretations to existing standards with effective dates prior to 1 July 2010 which have been adopted by the Group for the first time this year:

		Effective period commencing on or after	Impact on Group
IAS 32	Amendment – Classification of Rights Issues	1 February 2010	No
IFRS 1	Amendment – First-time Adopters of IFRS	1 July 2010	No
IFRS 1	Additional Exemptions for First-time Adopters	1 January 2010	No
IFRS 2	Amendment – Group Cash-settled Share-based Payment Transactions	1 January 2010	No
General	Improvements to IFRS (2009)	1 January 2010	No
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010	No

New standards and interpretations not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning after 1 July 2011 or later periods and which the Group has decided not to adopt early. These are:

		Effective period commencing on or after
IAS 24	Revised – Related Party Disclosures	1 January 2011
IFRIC 14	Amendment – IAS 19 Limit on a Defined Benefit Asset	1 January 2011
	Improvements to IFRSs (2010)	1 January 2011
IFRS 7*	Amendment – Transfer of Financial Assets	1 July 2011
IFRS 1*	Amendment – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	1 July 2011
IAS 12*	Amendment – Deferred Tax: Recovery of Underlying Assets	1 January 2012
IAS 1*	Amendment – Presentation of Items of Other Comprehensive Income	1 July 2012
IFRS 9*	Financial Instruments	1 January 2013
IFRS 10*	Consolidated Financial Statements	1 January 2013
IFRS 11*	Joint Arrangements	1 January 2013
IFRS 12*	Disclosure of Interests in Other Entities	1 January 2013
IFRS 13*	Fair Value Measurement	1 January 2013
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2013
IAS 27*	Amendment – Separate Financial Statements	1 January 2013
IAS 28*	Amendment – Investments in Associates and Joint Ventures	1 January 2013
IAS 19*	Amendment – Employee Benefits	1 January 2013

* Not yet adopted by the European Union.

The Group is currently assessing the impact of these standards on the financial statements.

1. Accounting policies continued

1.3 Basis of consolidation

Subsidiaries

Subsidiaries are those entities over which financial and operating policies the Group has the power to exercise control. The Group financial statements incorporate the assets, liabilities and results of operations of the Company and its subsidiaries. The results of subsidiaries acquired and disposed of during a financial year are included from the effective dates of acquisition to the effective dates of disposal. Where necessary, the accounting policies of subsidiaries are changed to ensure consistency with the policies adopted by the Group.

Business combinations

The results of business combinations are accounted for using the purchase method. In the Consolidated Statement of Financial Position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the Consolidated Statement of Other Comprehensive Income from the date on which control is obtained. Business combinations are deconsolidated from the date control ceases. The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholders' proportion of the fair value of the assets, liabilities and contingent liabilities recognised. All costs incurred on business combinations are charged to the Consolidated Income Statement.

Changes in the Group's ownership interests that do not result in a loss of control are accounted for as equity transactions.

Non-controlling interests

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling shareholder's share of changes in equity since the date of the combination. As a result of the revision to IAS 27 "Consolidated and Separate Financial Statements", the non-controlling interests' share of losses, where applicable, are attributed to the non-controlling interests irrespective of whether the non-controlling shareholders have a binding obligation and are able to make an additional investment to cover the losses.

Associates

An associate is an enterprise over whose financial and operating policies the Group has the power to exercise significant influence and which is neither a subsidiary nor a joint venture of the Group. The equity method of accounting for associates is adopted in the Group financial statements. In applying the equity method, account is taken of the Group's share of accumulated retained earnings and movements in reserves from the effective date on which an enterprise becomes an associate and up to the effective date of disposal.

The share of associated retained earnings and reserves is generally determined from the associate's latest audited financial statements. Where the Group's share of losses of an associate exceeds the carrying amount of the associate, the associate is carried at nil.

Additional losses are only recognised to the extent that the Group has incurred obligations or made payments on behalf of the associate.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any gains or losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the enterprises. Unrealised gains arising from transactions with associates are eliminated against the investment in the associates. Unrealised losses on transactions with associates are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

1.4 Property, plant and equipment

Property, plant and equipment are stated at historic cost less accumulated depreciation and accumulated impairment losses. Where an item of property, plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of property, plant and equipment. Depreciation is provided on the straight-line basis over the estimated useful lives of assets.

The depreciation rates are as follows:

Mining assets:

Plant, machinery and equipment	Units of production method
Mineral properties	Units of production method

Exploration and other assets:

Plant and machinery	10%–20% straight-line basis
Office equipment	10% straight-line basis
Computer equipment	25% straight-line basis
Motor vehicles	20% straight-line basis

Mineral properties for the Group's operating mines, Cullinan, Williamson, Koffiefontein, Kimberley Underground, Helam, Sedibeng and Star are based on current life of mine plans. The current mine plans indicate useful life of mines of between 12 and 22 years. Resources remaining after the current life of mine plans have not been included in depreciation calculations.

Cullinan mining assets relating to the C-Cut block of the mine have not been depreciated as the C-Cut has not yet been accessed. Assets transferable to the C-Cut phase one development are being depreciated over the specific tonnes associated with the identified areas. All other Cullinan assets are being depreciated over the life of mine of specific areas mined.

Notes to the Annual Financial Statements
For the year ended 30 June 2011 Continued

1. Accounting policies continued

1.4 Property, plant and equipment continued

Subsequent expenditure relating to an item of property, plant and equipment is capitalised when it is probable that future economic benefits from the use of that asset will be increased. All other subsequent expenditure is recognised as an expense in the Period in which it is incurred.

Expenditure relating to an item of property, plant and equipment considered to be an asset under construction is capitalised when it is probable that future economic benefits from the use of that asset will be realised.

Surpluses/(deficits) on the disposal of property, plant and equipment are credited/(charged) to the Consolidated Income Statement. The surplus or deficit is the difference between the net disposal proceeds and the carrying amount of the asset.

1.5 Leases

Finance leases

Leases that transfer substantially all the risks and rewards of ownership of the underlying asset to the Group are classified as finance leases. Assets acquired under terms of finance leases are capitalised at the lower of fair value and the present value of the minimum lease payments at inception of the lease and depreciated over the estimated useful life of the asset. The capital element of future obligations under the leases is included as a liability in the Consolidated Statement of Financial Position.

Lease payments are allocated using the effective interest rate method to determine the lease finance cost, which is charged against income over the lease period and the capital repayment, which reduces the liability to the lessor.

Operating leases

Leases where the lessor retains the risks and rewards of ownership of the underlying asset are classified as operating leases. Payments made under operating leases are charged against income on a straight-line basis over the period of the lease.

1.6 Exploration and evaluation costs

Exploration and evaluation costs on greenfield sites are written off in the year in which they are incurred. Pre-production expenditure is only capitalised once feasibility studies indicate commercial viability and the Board takes the decision to develop the project further. Capitalisation of pre-production expenditure ceases when the project is capable of commercial production where upon it is amortised on a unit of production basis.

Exploration and evaluation expenditure on brownfield sites, being those adjacent to deposits already being mined or where the economic feasibility of existing deposits has yet to be proven, is capitalised within mineral properties. Amortisation only occurs upon commencement of commercial production.

1.7 Intangible assets

Mineral rights are capitalised at cost and are amortised on a unit of production basis for operating mines and over the estimated useful life for prospecting rights. Amortisation is included within mining and processing costs or exploration expenditure as appropriate.

1.8 Impairment

The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If there is any indication that an asset may be impaired, its recoverable amount is estimated. The recoverable amount is the higher of its net selling price and its value in use.

In assessing value in use, the expected future pre-tax cashflows from the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

For an asset that does not generate cash inflows that are largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised in the Consolidated Income Statement whenever the carrying amount of the cash-generating unit exceeds its recoverable amount.

A previously recognised impairment loss is reversed if the recoverable amount increases as a result of a change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior years.

Refer to note 9 for detailed disclosure of the results of reversal of impairments and impairment reviews performed. Reversal of impairments and impairment charges and reversals are credited/(charged) to a separate line item under total costs in the Consolidated Income Statement.

1.9 Financial instruments

Financial assets

The Group classifies its financial assets into one of the following categories and the Group's accounting policy for each category is as follows:

Fair value through profit or loss

This category comprises only in-the-money derivatives that were not designated and effective for hedge accounting at inception. They are carried in the Consolidated Statement of Financial Position at fair value with changes in fair value recognised in the Consolidated Income Statement in the finance income or finance expense line. The Group does not have any assets held for trading nor does it voluntarily classify any financial assets as being at fair value through profit or loss.

1. Accounting policies continued

1.9 Financial instruments continued

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The assets arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary assets including cash and cash equivalents and loans and other receivables. They are initially recognised at the fair value plus transaction costs that are directly attributable to the acquisition or issue and subsequently carried at amortised cost using the effective interest method, less provision for impairment.

Available-for-sale

Non-derivative financial assets not included in the above categories are classified as available for sale and comprise principally of the Group's strategic investment in the entities not qualifying as subsidiaries, associates or jointly controlled entities. The assets are carried at fair value with changes in fair value recognised directly in the Consolidated Statement of Other Comprehensive Income and accumulated in other reserves. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognised in the Consolidated Income Statement. Fair values of quoted investments are based on current market prices. The Group only holds quoted investments. Available for sale financial assets are fair valued at each reported date and reviewed as set out above. As at 30 June 2011 a cumulative loss of US$0.5 million (30 June 2010: loss of US$0.1 million) was recorded in other reserves in respect of the available-for-sale financial assets.

Financial liabilities

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. Other than financial liabilities in a qualifying hedging relationship (see below), the Group's accounting policy for each category is as follows:

Fair value through profit or loss

This category comprises only out-of-the-money derivatives that were not designated and effective for hedge accounting at inception (see Financial Assets on page 58 for "in-the-money" derivatives). The liabilities are carried in the Consolidated Statement of Financial Position at fair value with changes in fair value recognised in the Consolidated Income Statement in the finance income or finance expense line.

Other liabilities

Trade payables and other short-term and long-term monetary liabilities

Trade payables and other short-term and long-term monetary liabilities, which are initially recognised at fair value, are subsequently carried at amortised cost using the effective interest method.

Interest-bearing borrowings

Bank borrowings and the debt element of convertible debt issued are recognised initially at fair value less attributable transaction costs. Such interest-bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of liability carried in the Consolidated Statement of Financial Position. "Interest expense" in this context includes initial transaction costs and premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Hedging instruments

Derivative financial instruments are initially measured at fair value on the contract date and are subsequently re-measured to fair value at each reporting date. On the date that relevant derivative contracts are entered into, the Group may designate the derivative for hedge accounting. Where a hedge instrument is designated for hedge accounting at inception, the Group formally assesses, at inception and on an ongoing basis, whether the derivatives are highly effective in offsetting changes in the fair value or cashflows of the hedged item.

Cashflow hedges

Changes in the fair value of a derivative that is effective in offsetting changes in the cashflow of the hedged item, and that is designated and qualifies as a cashflow hedge, are recognised directly in equity. Changes in the fair value of derivatives that do not qualify for hedge accounting or were not designated for hedge accounting at inception are recognised in the Consolidated Income Statement. Amounts recognised in equity are transferred to the Consolidated Income Statement in the Period during which the hedged forecast impacts net profit or loss. Any ineffective element of a cashflow hedge, which has been designated for hedge accounting, is taken to the Consolidated Income Statement. The Group has not had any hedging instruments designated as cashflow hedges for hedge accounting as at 30 June 2011 or 30 June 2010.

Fair value hedges

Where derivatives are used to hedge the Group's exposure to fair value risk and qualify and are designated as fair value hedges, both the derivative and hedged item are measured at fair value with changes in fair value recognised in the Consolidated Income Statement within financial income/(expense). During the year, the Group has designated forward currency contracts and restricted foreign currency deposits as hedging instruments; representing a fair value hedge of the foreign exchange risk on the firm commitment to purchase the Finsch mine. The hedging instruments are recognised in the Consolidated Statement of Financial Position at fair value and changes in fair value are recognised in the Consolidated Income Statement. The change in the fair value of the unrecognised firm commitment attributable to the hedged risk (foreign exchange variation) is recognised as an "other asset/(liability)" and recognised within the Consolidated Income Statement to the extent that the hedge is effective.

Notes to the Annual Financial Statements
For the year ended 30 June 2011 Continued

1. Accounting policies continued

1.9 Financial instruments continued

Impairment of financial assets

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cashflows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the Consolidated Income Statement. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Fair value hierarchy

Financial assets and liabilities measured at fair value are classified according to their fair value hierarchy as disclosed in note 26.

1.10 Revenue

Revenue comprises net invoiced diamond sales to customers excluding VAT. Diamond sales are made through a competitive tender process and recognised when significant risks and rewards of ownership are transferred to the buyer, costs can be measured reliably and receipt of future economic benefits is probable. This is deemed to be the point at which the tender is awarded.

Revenue from test production on projects pending confirmation of commercial viability is credited to revenue and an equal amount charged to cost of sales and credited to mineral properties so as to record zero margin.

1.11 Finance and other income

Finance and other income comprise income from interest and other non-operating income. Interest is recognised on a time apportioned basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is probable that such income will accrue to the Group.

1.12 Tax

Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates enacted or substantively enacted at the reporting date, and any adjustment of tax payable for previous years.

Deferred tax is provided using the balance sheet liability method, based on temporary differences. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax is charged to the Consolidated Income Statement except to the extent that it relates to a transaction that is recognised directly in Other Comprehensive Income, or a business combination that is an acquisition. The effect on deferred tax of any changes in tax rates is recognised in the Consolidated Income Statement, except to the extent that it relates to items previously charged or credited directly to Other Comprehensive Income.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

1.13 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will occur and where a reliable estimate can be made of the amount of the obligation. Where the effect of discounting is material, provisions are discounted. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Decommissioning, mine closure and environmental rehabilitation

The estimated cost of decommissioning and rehabilitation will generally occur on or after the closure of the mine, based on current legal requirements and existing technology. A provision is raised based on the present value of the estimated costs. These costs are included in the cost of the related asset. The capitalised assets are depreciated in accordance with the accounting policy for property, plant and equipment. Annual increases in the provision, as a result of the change in the net present value, are charged to the Consolidated Income Statement. Annual increases in the provision due to the unwinding of the discount are recognised as a finance expense. The cost of the ongoing programmes to prevent and control pollution, and ongoing rehabilitation costs of the Group's operations, is charged against income as incurred.

The obligation to restore environmental damage caused through operations is raised as the relevant operations take place. Assumptions have been made as to the remaining life of existing operations based on studies conducted by independent technical advisers.

1. Accounting policies continued

1.14 Foreign currency

Foreign currency transactions

Transactions in foreign currencies are recorded at rates of exchange ruling at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Gains and losses arising on translation are credited to, or charged against, income. The issue of shares are included in share capital and share premium at the prevailing US$/sterling spot rate at the date of the transaction.

Financial statements of foreign entities

Assets and liabilities of foreign entities (i.e. those with a functional currency other than US$) are translated at rates of exchange ruling at the financial year end; income and expenditure and cashflow items are translated at rates of exchange ruling at the date of the transaction or at rates approximating the rates of exchange at the date of the translation where appropriate. Fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the exchange rate ruling at the reporting date. Exchange differences arising from the translation of foreign entities are taken directly to a foreign currency translation reserve.

Foreign operations

Unrealised gains and losses arising on the translation of loans to subsidiaries into the currency in which they are denominated and that are not expected to be repaid in the foreseeable future are treated as part of the net investment in foreign operations. The unrealised foreign exchange gains and losses attributable to foreign operations are taken directly to the Consolidated Statement of Other Comprehensive Income and reflected in the foreign currency translation reserve.

Unrealised gains and losses arising on the translation of loans to subsidiaries into the currency in which they are denominated and that are expected to be repaid in the foreseeable future are recognised in the Consolidated Income Statement.

1.15 Short-term employee benefits

The cost of all short-term employee benefits is recognised during the Period in which the employee renders the related service. The provisions for employee entitlements to wages, salaries and annual leave represent the amount which the Group has a present obligation to pay as a result of employees' services provided to the reporting date. The provisions have been calculated based on current wage and salary rates.

1.16 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held on call with banks, investments in money market instruments, and net of bank overdrafts, all of which are available for use by the Group unless otherwise stated. Restricted cash represents amounts held by banks as a guarantee in respect of environmental rehabilitation obligations in respect of the Group's South African mines and deposits held in escrow accounts not freely available to the Group.

1.17 Employee pension schemes

Defined contribution scheme

Obligations for contributions to defined contribution pension schemes are recognised as an expense in the Consolidated Income Statement as incurred.

Defined benefit scheme

The defined benefit liability or asset recognised in the financial statements represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduced by the fair value of plan assets. Any net asset recognised is limited to unrecognised actuarial losses, plus the present value of available refunds and any reduction in future contributions that the Company is entitled to in terms of Section 15E of the Pension Funds Act in South Africa.

Actuarial gains and losses are recognised to the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds 10% of the greater of the present value of the projected benefit obligation and the fair value of the plan assets ("the corridor"), that portion is recognised in the Consolidated Statement of Other Comprehensive Income over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

The actuarial calculation is performed by a qualified actuary using the projected unit credit method.

1.18 Post-retirement medical fund

The Group operates a post-retirement medical fund, which is unfunded and therefore recognised as a liability on the Consolidated Statement of Financial Position within provisions. The liability is based on an actuarial valuation performed at each year-end reporting date.

1.19 Share-based payments

The fair value of options granted to employees is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the Period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured based on the Black-Scholes model, taking into account the terms and conditions upon which the instruments were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting. The exercise price is fixed at the date of grant and no compensation is due at the date of grant. On exercise, equity is increased by the amount of the proceeds received.

Notes to the Annual Financial Statements
For the year ended 30 June 2011 Continued

1. Accounting policies continued

1.20 Inventories
Inventories, which include rough diamonds, are stated at the lower of cost of production on the weighted average basis or estimated net realisable value. Cost of production includes direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business less marketing costs. Consumable stores are stated at the lower of cost on the weighted average basis or estimated replacement value. Work in progress is stated at raw material cost including allocated labour and overhead costs.

1.21 Convertible notes
Convertible notes that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments and are accordingly split between debt and equity in the Group's financial statements. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds. The equity component of the convertible notes is calculated as the excess of the fair value over the present value of the future cashflows, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option. The interest expense recognised in the Consolidated Income Statement is calculated using the effective interest rate method (also see interest-bearing borrowings in note 1.9).

1.22 Segment reporting
A segment is a distinguishable component of the Group that is engaged either in providing mining or exploration activities, or in providing products or services within a particular economic environment, which is subject to risks and rewards that are different from those of other segments. The basis of segment reporting is representative of the internal structure used for management reporting.

1.23 Borrowing costs
Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. Other borrowing costs are recognised as an expense in the period in which the borrowing cost is incurred.

1.24 Critical assumptions and judgements
The preparation of the consolidated financial statements requires management to make estimates and judgements and form assumptions that affect the reported amounts of the assets and liabilities, reported revenue and costs during the periods presented therein, and the disclosure of contingent liabilities at the date of the financial statements. Estimates and judgements are continually evaluated and based on management's historical experience and other factors, including future expectations and events that are believed to be reasonable. The estimates and assumptions that have a significant risk of causing a material adjustment to the financial results of the Group in future reporting periods are discussed below.

Judgements

Life of mine and ore reserves

There are numerous risks inherent in estimating ore reserves and the associated life of a mine. Therefore management must make a number of assumptions in making those estimates, including assumptions as to exchange rates, rough diamond and other commodity prices, recovery and production rates. Any such estimates and assumptions may change as new information becomes available. Changes in exchange rates, commodity prices, recovery and production rates may change the economic viability of ore reserves and may ultimately result in the restatement of the ore reserves and potential impairment to the carrying value of the mining assets and life of mine. The determination of the life of mine and ore reserves also impacts the depreciation of mining assets depreciated on a unit of production basis, as set out in note 1.4.

Impairment reviews

While conducting an impairment review of its assets, the Group exercises judgement in making assumptions about future rough diamond prices, ore reserves, rehabilitation costs, feasibility studies, future development and production costs. Changes in estimates used can result in significant changes to the Consolidated Income Statement. The policy in respect of impairment reviews is set out in note 1.8 and details of impairment reviews carried out during the year are set out in note 9.

Taxation judgement

The Group has received a number of historical tax claims in respect of its mining operations, relating to the period prior to the operations being acquired by the Group. Judgement is applied by management, having consulted with local tax advisers, on the probability of payments being made to settle the claims. A provision of US$2.2 million (30 June 2010: US$2.2 million) has been made in respect of these claims.

Capitalisation of feasibility and development costs at the Williamson mine

Judgement has been applied by management during the prior year in determining whether feasibility expenditure should be capitalised or expensed. The Group embarked on a feasibility study at the Williamson mine through an intensive bulk sampling programme with a view to better understanding the ore-body. This was done to optimise the design of the treatment plant to further increase production in the future. Based on management's judgements, direct expenditure was considered to be capital in nature and was capitalised on the basis that the future economic benefits of the mining assets were expected to flow to the Group in line with guidance from IAS 16. All other costs are expensed as care and maintenance costs. During the current year, the Group incurred costs as part of its refurbishment and expansion project to upgrade the plant. All direct costs incurred by the Group, including internal development costs, which are directly attributable to bringing the asset into use and which increase the future economic benefits that will flow to the Group, have been capitalised.

1. Accounting policies continued

1.24 Critical assumptions and judgements continued

Assumptions and estimates

Provision for rehabilitation

Significant estimates and assumptions are made in determining the amount attributable to rehabilitation provisions. These deal with uncertainties such as the legal and regulatory framework, timing and future costs. In determining the amount attributable to rehabilitation provisions, management used a discount rate range of 8%–9% (30 June 2010: 6%–9%), current life of mine plans of 11 to 53 years (30 June 2010: 11 to 53 years) and an inflation rate range of 6.9%–7.0% (30 June 2010: 5.5%–7.0%). The carrying value of rehabilitation provisions at the reporting date is US$55.8 million (30 June 2010: US$44.7 million).

Valuation of share options

In determining the fair value of share-based payments made during the year to employees, a number of assumptions have been made by management. The details of these assumptions are set out in note 28. The total charge to the Consolidated Income Statement in respect of share-based payments for the year is US$1.9 million (30 June 2010: US$1.7 million).

Valuation of warrants

In determining the fair value of warrants issued during the year, a number of assumptions have been made by management. The details of these assumptions are set out in note 28. The fair value of the warrants is debited against pre-payments until such time as the loan is drawn down. When the loan is drawn down, the fair value is debited against the interest bearing non-current borrowings and the effective interest rate and associated accretion charges adjusted accordingly. The fair value of the warrants for the year is US$7.9 million (30 June 2010: US$nil) of which US$6.8 million (30 June 2010: US$nil) has been debited against the interest-bearing non-current borrowings.

During FY 2010, a number of assumptions were made by management in respect of warrants issued as part of a capital raising exercise. The details of these assumptions are set out in note 28. The fair value of the warrants (US$1.6 million) was debited against the share premium account, being a directly attributable cost of the capital raising exercise.

Deferred tax

Judgement is applied in making assumptions about future taxable income, including diamond prices, production, rehabilitation costs and expenditure to determine the extent to which the Group recognises deferred tax assets.

2. Segment information

Segment information is presented in respect of the Group's operating and geographical segments:

Mining – the extraction and sale of rough diamonds from mining operations in South Africa and Tanzania.

Exploration – exploration activities in Botswana. In the prior year, the Group exited from exploration activities in Sierra Leone as a result of the disposal of its interest in Basama Diamonds Ltd. The Group exited from exploration activities in Angola during FY 2009 and realised profits on disposal of HS Angolan assets in FY 2010.

Segments are based on the Group's management and internal reporting structure. Management reviews the Group's performance by reviewing the results of the mining activities in South Africa and Tanzania, reviewing the results of the exploration activities in Botswana and reviewing the corporate administration expenses in Jersey. Each segment derives, or aims to derive, its revenue from diamond mining and diamond sales, except for the corporate and administration cost centre.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment results are calculated after charging direct mining costs and depreciation. Unallocated items comprise mainly interest-earning assets and income, interest-bearing borrowings and expenses, and corporate assets and expenses. Segment capital expenditure is the total cost incurred during the Period to acquire or construct segment assets that are expected to be used for more than one period. Eliminations comprise transactions between Group companies that are cancelled on consolidation. The results are not materially affected by seasonal variations. Revenues are generated from tenders held in Johannesburg and Antwerp for external customers from various countries, the ultimate customers of which are not known to the Group.

The Group's non-current assets are located in South Africa US$472.5 million (30 June 2010: US$358.6 million), Tanzania US$79.9 million (30 June 2010: US$44.6 million) and Jersey US$0.5 million (30 June 2010: US$0.8 million).

Notes to the Annual Financial Statements
For the year ended 30 June 2011 Continued

2. Segment information continued

Operating segments US$ million	South Africa – mining activities Cullinan 2011	Koffiefontein 2011	Kimberley Underground 2011	Fissures 2011	Tanzania – mining activities Williamson 2011	Botswana Exploration 2011	Corporate administration 2011	Inter-segment 2011	Consolidated 2011
Revenue	140.2	30.8	18.2	21.8	9.5	—	—	0.1	220.6
Segment result	47.0	(1.2)	(0.3)	(5.4)	(6.8)	(1.5)	12.1	(3.8)	40.1
Other income/(expense)	1.9	0.5	(0.4)	0.4	0.3	—	—	—	2.7
Operating profit/(loss)	48.9	(0.7)	(0.7)	(5.0)	(6.5)	(1.5)	12.1	(3.8)	42.8
Reversal of impairment – Fissures				11.7					11.7
Impairment – Fissures				(5.2)					(5.2)
Financial income									42.5
Financial expense									(27.4)
Income tax expense									(5.2)
Non-controlling interest									(5.9)
Profit attributable to equity holders of the parent company									59.2
Segment assets	409.7	57.7	71.5	110.1	90.0	8.8	1,000.7	(782.0)	966.5
Segment liabilities	199.3	30.1	77.9	140.5	196.0	27.2	320.2	(723.7)	267.5
Share-based payments	0.2	0.2	—	0.1	0.1	—	1.3	—	1.9
Capital expenditure	33.9	11.0	13.0	16.2	36.6	—	0.2	—	110.9

Capital expenditure at the Helam Projects internal equipment manufacturing operation (a division within the Fissure operations) includes work-in-progress of US$11.0 million in respect of the manufacture of plant and equipment for other mines within the Group. Other income in respect of the Fissure mines includes US$21.2 million of revenue and US$21.4 million of costs in respect of Helam projects for the manufacture of plant and equipment for other mines within the Group. Segment assets and liabilities include inter-company receivables and payables which are eliminated on consolidation. Capital expenditure at Williamson includes US$35.8 million of cash costs capitalised in respect of the plant rebuild and expansion programme.

Operating segments US$ million	South Africa – mining activities Cullinan 2010	Koffiefontein 2010	Kimberley Underground 2010	Fissures 2010	Tanzania – mining activities Williamson 2010	Angola Botswana Sierra Leone Exploration 2010	Corporate administration 2010	Inter-segment 2010	Consolidated 2010
Revenue	112.7	22.8	—	13.5	14.4	—	0.3	—	163.7
Segment result	24.2	0.2	(4.9)	(5.4)	(6.0)	(1.9)	11.4	—	17.6
Other income	1.2	0.6	0.2	0.1	0.3	0.5	4.2	0.7	7.8
Operating profit/(loss)	25.4	0.8	(4.7)	(5.3)	(5.7)	(1.4)	15.6	0.7	25.4
Fair value uplift on CIHL acquisition									31.0
Recycling of foreign exchange differences on exploration projects									12.3
Financial income									27.6
Financial expense									(27.3)
Income tax credit									1.2
Non-controlling interest									(6.7)
Profit attributable to equity holders of the parent company									63.5
Segment assets	320.4	65.6	47.5	83.6	48.9	7.2	601.4	(683.2)	491.4
Segment liabilities	177.4	40.9	54.4	112.4	144.3	37.9	213.6	(580.4)	200.5
Share-based payments	0.3	0.2	—	0.2	0.1	—	0.9	—	1.7
Capital expenditure	17.3	4.6	19.6	2.5	11.6	—	0.1	(5.9)	49.8

Capital expenditure at Kimberley Underground includes US$16.4 million of capital expenditure incurred prior to acquisition. Capital expenditure at Williamson includes US$7.8 million of feasibility costs capitalised. Other income in respect of the Fissure mines includes US$15.8 million of revenue and US$15.1 million of costs in respect of the manufacture of plant and equipment for other mines within the Group. Segment assets and liabilities include inter-company receivables and payables which are eliminated on consolidation.

3. Acquisitions

30 June 2011

(a) Increase in effective interest in the Koffiefontein mine to 74%

On 10 December 2010, the Company increased its effective interest in the Koffiefontein mine in South Africa from 70% to 74% for a cash consideration of R6.0 million (US$0.8 million).

The additional 4% interest in Koffiefontein was purchased by Blue Diamond Mines (Pty) Ltd, a wholly owned subsidiary of the Company, through the acquisition of a shareholding in Re-Teng Diamonds (Pty) Ltd, the holding company of Petra's BEE partners at Koffiefontein; the interests in Koffiefontein are now Petra 74%, BEE partners 26%.

In the year to 30 June 2011, Koffiefontein recorded a net loss before taxation of R1.4 million (US$0.2 million). If the acquisition had occurred on 1 July 2010, the Group's share of the loss from the Koffiefontein mine for the year to 30 June 2011 would have increased by R0.06 million (US$0.01 million) and the non-controlling interest share would have reduced accordingly.

Effect of the acquisition

The purchase had the following effect on the Group's assets and liabilities:

Koffiefontein net assets at acquisition date US$ million	
Book value of net assets at 10 December 2010	43.8
Book value of 4% interest acquired	1.7
Fair value of consideration paid:	
– Settled in cash	0.8
Excess of carrying value of 4% interest purchased over fair value consideration paid	0.9

In accordance with IAS 27, as the purchase represents a transaction with existing shareholders which has not resulted in the gain or loss of control, the carrying value of the 4% interest acquired of US$1.7 million as at 10 December 2010 has been deducted from the Group's non-controlling interest balance relating to Koffiefontein. The US$0.9 million excess of the carrying value of the 4% acquired in Koffiefontein over the fair value consideration of US$0.8 million has been recognised directly in equity and attributed to the Group.

30 June 2010

(b) Investment in the Cullinan mine

On 15 July 2008 Petra, as a shareholder in CIHL, acquired a 37% interest in the Cullinan mine in South Africa. Petra held a 50% interest in, and jointly controlled, CIHL. CIHL has a 74% interest in, and controls, Cullinan Diamond Mine (Pty) Ltd, the company which acquired the assets and liabilities of the Cullinan mine from De Beers Consolidated Mines Ltd ("DBCM"); CIHL consolidates the Cullinan operations and recognises a 26% non-controlling interest, being the interests of Petra's BEE partners in the Cullinan mine. In the Period ending 30 June 2009, the Group used the proportionate method of consolidation and therefore reflected 50% of the Cullinan operating results, assets and liabilities, and a 13% non-controlling interest.

On 17 December 2009, the Company acquired Al Rajhi Holdings W.L.L.'s ("Al Rajhi") 50% interest in CIHL, which in turn increased Petra's ownership in the mine to 74%. On acquisition of Al Rajhi's 50% interest in CIHL, the Company assumed responsibility for the US$80.0 million Cullinan loan (plus accrued interest of approximately US$9.6 million) that was due to Al Rajhi. The consideration was satisfied by the issue of 36 million Petra shares (fair value of US$39.8 million based on the prevailing share price at the transaction date) and a deferred consideration of US$35.0 million payable by December 2011. The deferred consideration has been discounted over a period of 24 months using a discount factor of 6% to US$31.0 million at acquisition. The discounted deferred consideration balance is being accreted over the period of 24 months to the full settlement value of US$35.0 million. During the year, the Group settled US$15.0 million of the deferred consideration and the discounted liability was adjusted accordingly. After this US$15.0 million payment, the balance of the deferred consideration that is payable by 31 December 2011 is US$20.0 million.

There are two elements to the accounting for the transaction to acquire Al Rajhi's 50% interest. Under IFRS 3 (revised), the transaction was accounted for as a stepped acquisition. Petra's original equity interest in CIHL has been revalued to fair value (based upon the fair value of the purchase consideration of the second 50%) of US$71.0 million as at the date of the acquisition of the second 50%, resulting in an income statement gain of US$31.0 million as reflected on the income statement as the fair value uplift on the acquisition of CIHL.

The second 50% of CIHL acquired was recognised at fair value on the acquisition date. The fair value of the consideration paid was used as the best estimate of the fair value of the net assets acquired; this gave rise to a fair value adjustment of US$61.8 million to the mining property, plant and equipment, mineral properties, and inventory (deferred taxation was provided on the fair value adjustment). The Group now has a 100% interest in CIHL, which has a 74% interest in and controls the Cullinan operations; CIHL consolidates the Cullinan operations and reflects a 26% non-controlling interest. The Group therefore now also consolidates the Cullinan mine as a subsidiary with a 26% non-controlling interest. Full consolidation commenced on the acquisition date of 17 November 2009, being the date on which control passed. The passing of control occurred prior to the formal completion of the transaction. Prior to this date, the Group used the gross method of proportional consolidation.

Notes to the Annual Financial Statements
For the year ended 30 June 2011 Continued

3. Acquisitions continued
30 June 2010 continued

(b) Investment in the Cullinan mine continued

In the 12 months to 30 June 2010, the CIHL group recorded a net profit before taxation of US$57.5 million. If the acquisition had occurred on 1 July 2009, the Group's profit from the CIHL group for the Period ending 30 June 2010 would have increased by US$1.4 million. The underlying Cullinan mine generated revenue for the 12 months to 30 June 2010 of R966.9 million (US$127.0 million) and revenue of R748.6 million (US$98.3 million) since the date of the acquisition of the second 50% of CIHL. Costs associated with the acquisition have been expensed in full in the income statement.

Effect of the acquisition

The acquisition had the following effect on the Group's assets and liabilities:

CIHL net assets at acquisition date US$ million	Book values	Fair value adjustments	Fair values
Mining property, plant and equipment, mineral properties and inventories	166.8	85.9	252.7
Trade and other receivables	87.2	—	87.2
Cash and cash equivalents	0.8	—	0.8
Deferred tax	5.2	(24.1)	(18.9)
Environmental liabilities	(15.0)	—	(15.0)
Long-term payables	(131.0)	—	(131.0)
Employee related payables	(11.1)	—	(11.1)
Trade and other payables	(11.3)	—	(11.3)
Net assets acquired	91.6	61.8	153.4
Non-controlling interest			(11.6)
Fair value of assets attributable to the parent company			141.8
Satisfied as follows:			
– Consideration satisfied in shares			39.8
– Present value of deferred loan consideration			31.0
– Fair value of initial 37% equity stake			71.0
Fair value cost of business combination			141.8

(c) Acquisition of the Kimberley Underground mines assets

On 19 May 2010, the Company announced the completion of its previously announced transaction with DBCM to acquire the mining and associated assets ("Assets") previously used by DBCM in the operation of the Kimberley Underground diamond mines in Kimberley, South Africa. The Company and DBCM entered into the agreement for the sale of the Kimberley Underground Assets in September 2007, however the transaction took longer than originally anticipated to complete due to complexities related to the New Order Mining Right, which have now been completely resolved.

The consideration of R78.5 million (US$10.4 million) was settled by Petra assuming DBCM's rehabilitation obligations with regards to Kimberley Underground of R63.5 million (US$8.4 million) and the payment in cash by Petra to DBCM of R15.0 million (US$2.0 million).

During the period from September 2007 to the date of acquisition, certain pre-acquisition expenditure was capitalised on the basis that the future economic benefits of the mining assets were expected to flow to the Group as disclosed in note 1.4 of the financial statements for the year ending 30 June 2009. All other costs were expensed as care and maintenance costs. Care and maintenance costs of R53.9 million (US$7.1 million) were expensed. Costs related to ore stockpiles of R37.6 million (US$4.9 million) and fixed assets costs of R204.6 million (US$27.0 million) were included in inventory and fixed assets respectively and treated as part of the consideration paid, as set out in the table below.

As set out above, the Group incurred care and maintenance costs in respect of the Kimberley Underground mine in the pre-acquisition period; these care and maintenance costs would have given rise to a loss before taxation of the same amount. In the 12 months to 30 June 2010, Kimberley Underground incurred care and maintenance costs of US$2.1 million which were recorded in the books of the Group. Therefore if the acquisition had occurred on 1 July 2009 there would have been no change to the losses recorded in respect of Kimberley Underground. Kimberley Underground recorded no revenues in the pre or post-acquisition period.

3. Acquisitions continued

30 June 2010 continued

(c) Acquisition of the Kimberley Underground mines assets continued

Effect of the acquisition

The acquisition had the following effect on the Group's assets and liabilities:

Kimberley Underground net assets at acquisition date US$ million	Book values at acquisition date	Pre-acquisition expenditure capitalised	Total acquired book values	Fair value adjustments	Fair values
Mining property, plant and equipment, mineral properties and inventories	10.0	31.9	41.9	0.5	42.4
Trade and other receivables	—	1.8	1.8	—	1.8
Cash and cash equivalents	—	0.1	0.1	—	0.1
Deferred tax	—	—	—	(0.1)	(0.1)
Environmental liabilities	(8.4)	—	(8.4)	—	(8.4)
Trade and other payables	—	(11.8)	(11.8)	—	(11.8)
Net assets acquired	1.6	22.0	23.6	0.4	24.0
Non-controlling interest					(6.2)
Fair value of assets attributable to the parent company					17.8
Satisfied as follows:					
– Consideration satisfied in cash					2.0
– Expenditure capitalised					22.0
– Contribution from non-controlling interests					(6.2)
Fair value cost of business combination					17.8

Judgement was applied by management in determining whether pre-acquisition expenditure should be capitalised or expensed. Management exercised judgement based on whether the Group exercised control over the asset, a consideration of guidance from IAS 11, and an assessment of the nature of the expenditure which was incurred to bring the mining asset back into a condition in which it can be utilised for mining and production. Based on management's judgements, expenditure was considered to be capital in nature and was capitalised on the basis that the future economic benefits of the mining assets are expected to flow to the Group. All other costs were expensed as care and maintenance costs. The Group has capitalised and expensed pre-acquisition costs during the year as set out above.

(d) Acquisition of subsidiary Williamson Diamond Mine ("Williamson")

On 10 November 2008, Petra acquired the entire share capital of Wilcroft Company Ltd from Cheviot Holdings, a wholly owned subsidiary of De Beers Société Anonyme ("De Beers") for a cash consideration of US$10 million. A fair value adjustment of US$5.7 million to mineral properties arose at the date of acquisition as a result of the premium attributable to the mineral properties purchased (grossed up for deferred taxation) from De Beers. During the Period ending 30 June 2010, the mineral properties fair value adjustment of US$5.7 million was increased to US$7.1 million gross of tax as a result of a review of the acquisition book values for trade and other receivables and inventories.

The Company continued with the feasibility study at Williamson until 31 March 2010 at which point management considered the feasibility study to be substantially complete and had achieved sufficient understanding of the orebody and plant requirements. To the date that the feasibility was confirmed, all direct costs net of associated revenue were capitalised as part of the Williamson feasibility project. Subsequently, having confirmed the commercial feasibility, a programme of plant rebuild and expansion commenced and direct costs associated with the plant rebuild and expansion have been capitalised. The plant rebuild costs are capitalised when the works are considered to have enhanced the economic returns of the asset. Williamson generated revenue for the 12 months to 30 June 2010 of US$14.4 million.

Notes to the Annual Financial Statements
For the year ended 30 June 2011 Continued

3. Acquisitions continued
30 June 2010 continued

(d) Acquisition of subsidiary Williamson Diamond Mine ("Williamson") continued

Effect of the acquisition

The effect of the fair value adjustment on acquisition had the following effect on the Group's assets and liabilities:

Williamson net assets at acquisition date (revised) US$ million	Book values	Fair value adjustments	Fair values
Fair value of net assets of entity acquired			
Mining property, plant and equipment	18.8	—	18.8
Mineral properties	—	7.1	7.1
Trade and other receivables	4.3	(0.8)	3.5
Inventory	6.4	(3.8)	2.6
Cash assets	1.2	—	1.2
Deferred tax	—	(1.7)	(1.7)
Environmental liabilities	(11.0)	—	(11.0)
Trade and other payables	(8.3)	(2.2)	(10.5)
Inter-group loans	(97.9)	97.9	—
Consideration amount satisfied in cash	(86.5)	96.5	10.0

(e) Disposal of interest in the Kono project

On 4 May 2010, Petra announced that it had reached agreement with Stellar Diamonds plc ("Stellar") to exchange its interest in the Kono Diamond Project ("Kono") in Sierra Leone for shares in Stellar, the project's joint venture partner. The Kono kimberlite fissure project, whilst at an advanced stage of exploration and demonstrating positive project parameters, was not of a suitable scale to contribute to the Group's objective on delivering substantial production and revenue growth from its portfolio of assets. Kono had no carrying value in Petra's Consolidated Statement of Financial Position and therefore there were no impairments to be recognised by Petra with regards to the divestment.

The terms of the acquisition were that Stellar issue to Petra 4,500,000 new ordinary Stellar shares (at a price of £0.14 per share) for a total consideration of £0.6 million (US$0.9 million) in return for Petra's interest in Kono, held via joint venture company Basama Diamonds Ltd. As a result of the Stellar shares being issued to Petra, Petra became a 4.45% shareholder in Stellar. Petra has agreed (subject to certain exceptions) not to dispose of any of the Stellar shares for 12 months from the date of completion of the transaction, which was 24 May 2010. As part of the transaction both Petra and Stellar agreed to form a cooperation agreement whereby Stellar will give Petra the first option to joint venture any project in the Stellar portfolio which Stellar seeks to develop with a partner. Petra's interest in the Kono project was fully impaired as at 30 June 2009 and therefore 100% of the consideration was recorded as a gain in other income of US$0.9 million (£0.6 million).

4. Other income

US$ million	**2011**	2010
Profit on sale of residual Angolan assets	—	3.7
Profit on sale of interest in the Kono project	—	0.9
Management and consulting fees	—	0.8
	—	5.4

5. Mining and processing costs

US$ million	**2011**	2010
Raw materials and consumables used	**77.7**	77.5
Employee expenses	**75.0**	53.9
Depreciation of mining assets	**22.2**	11.6
Changes in inventory of finished goods	**(5.2)**	(5.3)
	169.7	137.7

6. Other direct (income)

US$ million	**2011**	2010
Loss on disposal of fixed assets	**0.3**	0.1
Care and maintenance	—	2.0
Other mining income	**(3.0)**	(4.5)
	(2.7)	(2.4)

7. Exploration expenditure

US$ million	2011	2010
Employee expenses	0.5	0.5
Depreciation of exploration assets	0.1	0.1
Amortisation of intangible assets	—	1.0
Drilling and air survey expenses	0.5	0.1
Rental and equipment hire	0.1	0.1
Other exploration expenses	0.2	(2.0)
	1.4	(0.2)

The credit of US$2.0 million to other exploration expenses in the prior year relates to the reversal of a provision for closure costs in Angola; the Angolan assets were sold during FY 2010 which resulted in a much lower level of costs being incurred than originally anticipated.

8. Corporate expenditure

US$ million	2011	2010
Auditors' remuneration:		
– Audit services	0.4	0.4
– Non-audit services	0.1	—
Depreciation of property, plant and equipment	0.1	0.2
Operating lease rentals – buildings	0.4	0.4
Staff costs	4.3	3.6
Other charges	2.8	3.1
Share-based payments:		
– Directors	0.6	0.7
– Senior Management	0.7	0.2
	9.4	8.6

In addition to the above, the audit fee payable in 2012 in respect of the 2011 audit by the Group to its current auditors is US$0.5 million.

All share-based payments are in respect of equity-settled share option schemes as stated in note 28.

9. Impairment and reversal of impairments of operational assets and investments

In accordance with IAS 36 "Impairment of Assets", when events or changes in market conditions indicate that tangible or intangible assets may be impaired, such assets are reviewed in detail to determine whether their carrying value is higher than their recoverable value, which could lead to recording an impairment loss (recoverable value is the higher of value in use and fair value less costs to sell). Value in use is estimated by calculating the present value of the future cashflows expected to be derived from the asset. Fair value less costs to sell is based on the most reliable information available (market statistics, recent transactions, etc.). The discounted cashflow basis has been used to calculate a value in use for the mining operations for those mines for which value in use exceeds fair value less cost to sell.

Impaired assets are reviewed annually to determine whether any substantial change to their fair value amounts previously impaired would require reversal.

When determining recoverable values of investments and property, plant and equipment, assumptions and estimates are made, based primarily on historical performance, market outlooks, obsolescence and sale or liquidation disposal values. Any change in these assumptions can have a significant effect on the recoverable amount and could lead to a revision of recorded impairment losses.

30 June 2011

During the year to 30 June 2011, the Group has reviewed the carrying values of its investments and operational assets for indicators of impairment and, following that assessment, a reversal of a prior impairment to Helam's property, plant and equipment and a further impairment to Star's property, plant and equipment is considered to be appropriate. The reversal of previous impairment charges at Helam reflects improved diamond prices, production and cashflows and has been determined net of depreciation which would have arisen if the asset had not been impaired. The additional impairment to Star reflects continued production levels which are insufficient to support the carrying value on a value in use basis. The impairment of Star has been determined based on fair value less costs to sell which is considered to exceed value in use. Impairment reversals of US$11.7 million (30 June 2010: US$nil) have been recorded in the income statement for 2011 in respect of Helam's assets. Impairment charges of US$5.2 million have been recorded in the income statement in respect of Star's assets for 2011 (30 June 2010: US$nil).

Notes to the Annual Financial Statements
For the year ended 30 June 2011 Continued

9. Impairment and reversal of impairments of operational assets and investments continued

30 June 2011 continued

Impairment reversal US$ million	Asset class	Segment	Net book value[1]	Reversal of impairment	Carrying value
Helam Mining (Pty) Ltd	Property, plant and equipment	Fissure mines	9.0	15.2	24.2
	Mineral properties			7.4	
	Underground development			4.8	
	Buildings			1.0	
	Mining property, plant and equipment			2.0	
	Forex movement		—	(3.5)	(3.5)
Subtotal			9.0	11.7	20.7

1. Net book value refers to the carrying value of the amounts including the previous impairments.
2. Helam's assets were previously impaired in December 2008 by US$12.9 million (R114.5 million) using an exchange rate of US$1:R8.87. In FY 2011 the initial impairment of R114.5 million in the subsidiary was reversed less depreciation that would have been incurred had the impairment never taken place. The resulting impairment reversal was US$15.2 million (R103.7 million) using an exchange rate of US$1:R6.83. US$3.5 million of the reversal has been recognised in the foreign currency translation reserve to take into account the movement in the foreign exchange rate from the date of the initial impairment to date of the reversal when translating the rand value to US dollars, with US$11.7 million recognised as an income statement gain.

Operational assets impaired US$ million	Asset class	Segment	Net book value	Impairment raised	Carrying value
Star Diamonds (Pty) Ltd	Property, plant and equipment	Fissure mines	7.0	(5.2)	1.8
	Underground development			(1.7)	
	Land and buildings			(2.1)	
	Mining property, plant and equipment			(1.4)	
Subtotal			7.0	(5.2)	1.8
Net impairment reversal – Helam and Star				6.5	

30 June 2010

During the year to 30 June 2010, the Group reviewed the carrying values of its investments and operational assets for indicators of impairment and following that assessment no impairment of investments, property, plant and equipment or reversal of impairment losses incurred in prior periods was considered appropriate. This assessment was based on the assumptions set out in notes 9.1 and 9.2. Impairments of US$nil were recorded in 2010.

9.1 Impairment testing assumptions

a) Helam Mining (Pty) Ltd and Star Diamonds (Pty) Ltd

The key assumptions used in determining the recoverable value calculations for Helam, determined on a value in use basis, are listed in the table below in respect of the years ending 30 June 2011 and 30 June 2010:

Key assumptions	Explanation
Recoverable value of reserves and resources	Economically recoverable reserves and resources are based on management's expectations based on the availability of reserves at mine sites and technical studies undertaken in-house and by third party specialists. Refer to "Life of mine" below for further information.
Diamond prices	Long-term diamond prices are based on prevailing market conditions and the last available diamond tender price. The US$/carat price used in the calculations was US$185 (30 June 2010: US$90).
Discount rate	The discount rate used represents the before tax risk free rate per the RSA Government bonds adjusted for market risk and volatility.
Inflation rate	Long-term inflation rate of 4% (30 June 2010: 0%) above a long-term US inflation rate of 2.5% (30 June 2010: 2.5%) per annum was used for US$ diamond prices. Long-term inflation rate of 3.5% (30 June 2010: 3.5%) above the prevailing US inflation rate was used for Opex and capex valuations.
Exchange rates	Exchange rates are based on external market consensus and after considering long-term market expectations. The US$/ZAR exchange rate range used commenced at R6.99 (30 June 2009: R7.60); further devaluing at 3.5% (30 June 2010: 3.5%) per annum.
Life of mine	20 years (30 June 2010: 21 years) life of mine; total extractable resource 2.03 Mt (30 June 2010: 2.6 Mt) at extraction rate of 101 Ktpa (30 June 2010: 125 Ktpa).
Stay in business capital expenditure	Management has estimated the timing of the capital expenditure based on the Group's current and future financing plans for the operation.
Valuation basis	Discounted present value of future cashflows.
Sensitivity	Management does not consider there to be any reasonable change in assumption which may give rise to an impairment loss.

9. Impairment and reversal of impairments of operational assets and investments continued

30 June 2010 continued

9.1 Impairment testing assumptions continued

a) Helam Mining (Pty) Ltd and Star Diamonds (Pty) Ltd continued

Star's impairment has been determined based on the recoverable amount at 30 June 2011. The Directors have assessed the recoverable amount using fair value less costs to sell. The carrying value of assets was determined with reference to the plant and equipment that management considers to be saleable or transferrable to other mines within the Group for use in a manner which will generate sufficient future economic value to support the carrying value of those specific assets. The carrying value of these assets approximates fair value less cost to sell for the cash generating unit.

9.2 Impairment tests – other mining operations

The Group performs impairment testing on an annual basis of all operations and when there are potential indicators which may require impairment. In addition to Helam Mining (Pty) Ltd and Star Diamonds (Pty) Ltd, the Group also performed impairment testing for Cullinan Diamond Mine (Pty) Ltd, Koffiefontein Mine JV, Kimberley Underground Mines JV, Sedibeng JV and Williamson Diamonds Ltd. The results of the impairment testing performed did not indicate any additional impairments on the remaining mining operations. The key assumptions used in determining the recoverable value calculations, determined on a value in use basis, are listed in the table below:

Key assumptions	Explanation
Recoverable value of reserves and resources	Economically recoverable reserves and resources are based on management's expectations based on the availability of reserves at mine sites and technical studies undertaken in-house and by third party specialists. Refer to "Life of mine" below for further information.
Diamond prices	Long-term diamond prices are based on prevailing market conditions and the last available diamond tender price. The US$/carat price range used in the calculations was US$180–US$640 (30 June 2010: US$90–US$420).
Discount rate	The discount rate used for the South African operations represents the before tax risk-free rate per the RSA Government bonds adjusted for market risk and volatility. The discount rate used for Williamson Diamonds Ltd represents the before tax risk-free rate per the Tanzanian Government bonds adjusted for market risk and volatility.
Inflation rate	Long-term inflation rate of 4% (30 June 2010: 0%) above a long-term US inflation rate of 2.5% (30 June 2010: 2.5%) per annum was used for US$ diamond prices. Long-term inflation rates of 3.5% to 4.5% (30 June 2010: 3.5%) above the prevailing US inflation rate were used for Opex and capex valuations.
Exchange rates	Exchange rates are based on external market consensus and after considering long-term market expectations. The US$/ZAR exchange rate range used commenced at R6.99 (30 June 2010: R7.60), further devaluing at 3.5% (30 June 2010: 3.5%) per annum.
Life of mine	**Cullinan** – 16 years (30 June 2010: 17 years) life of mine plan; total extractable resource 54.4 Mt (30 June 2010: 56.6 Mt) at extraction rate of 2.4 Mtpa increasing to 4.0 Mtpa (30 June 2010: 2.4 Mtpa). **Koffiefontein** – 14 years (30 June 2010: 15 years) life of mine plan; total extractable resource 16.1 Mt (30 June 2010: 23.5 Mt) at extraction rate of 0.9 Mtpa increasing to 1.2 Mtpa (30 June 2010: 0.9 Mtpa). **Kimberley Underground Mines JV** – 11 years (30 June 2010: 12 years) life of mine plan; total extractable resource 9.4 Mt (30 June 2010: 9.9 Mt) at extraction rate of 1.0 Mtpa (30 June 2010: 0.8 Mtpa). **Sedibeng JV** – 11 years (30 June 2010: 12 years) life of mine plan; total extractable resource 1.4 Mt (30 June 2010: 1.579 Mt) at extraction rate of 126 Ktpa (30 June 2010: 126 Ktpa). **Williamson Diamonds Ltd** – 17 years (30 June 2010: 18 years) life of mine plan: total extractable resource 155.9 Mt (30 June 2010: 158 Mt) at extraction rate of 2.7 Mtpa increasing to 10.0 Mtpa (30 June 2010: 8.8 Mtpa). Resources remaining after the current life of mine plans have not been included in impairment testing for the above operations.
Stay in business capital expenditure	Management has estimated the timing of the capital expenditure based on the Group's current and future financing plans for each operation.
Valuation basis	Discounted present value of future cashflows.
Sensitivity	Management notes that a 5% movement in diamond prices as compared to the average for FY 2011 at Sedibeng would result in break-even. Sedibeng has the lowest headroom of the mines detailed above. Management does not consider there to be any reasonable change in assumption which may give rise to any impairment loss at the remaining mines.

Notes to the Annual Financial Statements
For the year ended 30 June 2011 Continued

10. Net financing income

US$ million	2011	2010
Interest expense on bank loans and overdrafts[1]	(1.0)	(1.6)
Gross interest expense on bank loans and overdrafts[1]	(4.5)	(1.6)
Interest expense on bank loans and overdrafts capitalised[1]	3.5	—
Other debt finance costs[1]	(6.7)	(8.4)
Unwinding of present value adjustment for rehabilitation costs	(3.8)	(2.6)
Realised foreign exchange losses	—	(0.1)
Other foreign exchange losses realised	(0.4)	(0.1)
Unrealised foreign exchange losses	(15.5)	(14.5)
Financial expense	(27.4)	(27.3)
Realised foreign exchange gains	0.7	4.5
Gain on partial settlement of long-term liability[2]	—	4.2
Other unrealised foreign exchange gains	34.1	15.3
Net change in fair value of hedged item and instrument	—	—
Net change in fair value of hedged item in a fair value hedge	(6.0)	—
Net change in fair value of hedging instrument in a fair value hedge	6.0	—
Interest received on loans and other receivables	5.5	3.2
Interest received on bank deposits	2.2	0.4
Financial income	42.5	27.6
	15.1	0.3

1. Calculated using the effective interest method in respect of financial liabilities calculated at amortised cost.
2. The gain is primarily on the settlement of the Al Rajhi convertible bond.

11. Taxation

US$ million	2011	2010
Current taxation		
– Current tax credit	1.2	0.1
Deferred taxation		
– Current Period	(6.4)	1.1
	(5.2)	1.2
Reconciliation of tax rate		
– Profit before taxation	64.4	69.0
Tax at Bermudan corporate rate of 0%	—	—
Effects of:		
– Tax rates in foreign jurisdictions	(6.0)	(6.2)
– Non-deductible expenses	(1.0)	(2.5)
– Adjustment in respect of prior Periods	1.1	0.2
– Assessed losses utilised	18.1	13.5
– Temporary differences	(5.6)	0.3
– Assessed losses and capital allowances not utilised	(5.4)	(5.2)
Current tax credit	1.2	0.1
Deferred tax movement	(6.4)	1.1
Total tax (charge)/credit	(5.2)	1.2

During the year, the Group realised a taxation benefit of previously unrecognised tax losses which reduced the current taxation payable by US$0.6 million (30 June 2010: US$1.7 million). Previously the Group did not recognise the tax losses as deferred tax assets (refer to note 25). Tax losses not utilised do not have an expiry period in the country in which they arise, unless the entity ceases to continue trading. Tax losses available but not utilised as at 30 June 2011 amount to US$62.2 million (30 June 2010: US$50.6 million) and primarily arise in South Africa (US$37.0 million) and Tanzania (US$25.2 million); amounts stated include both tax losses and unredeemed capital allowances and are stated at 28% being the tax rate in South Africa and 35% being the tax rate in Tanzania.

12. Directors' and employees' remuneration

Staff costs (excluding the Non-Executive Directors) during the year were as follows:

US$ million	2011	2010
Wages and salaries – mining	**75.0**	53.9
Wages and salaries – exploration	**0.5**	0.5
Wages and salaries – administration	**4.3**	3.4
Pension	**0.1**	0.1
	79.9	57.9

In addition, during the year the Group capitalised US$4.7 million of wages and salaries relating to the rebuild and expansion projects at Williamson. During the prior year, the Group capitalised US$8.2 million of salaries and wages relating to the feasibility study at Williamson.

	Number	Number
The number of employees (excluding the Non-Executive Directors and contractors) at the various mining and exploration operations of the Group at the end of the Period was 3,902 (30 June 2010: 3,701), employed as follows:		
Mining and exploration	**3,729**	3,553
Administration	**173**	148
	3,902	3,701

Remuneration in respect of Executive and Non-Executive Directors was as follows:

US$ million	Base remuneration	Performance-related bonus	2011 Total	2010 Total
Executive Directors				
A Pouroulis	0.2	0.1	**0.3**	0.3
D Abery	0.4	0.3	**0.7**	0.6
J Dippenaar	0.4	0.3	**0.7**	0.6
J Davidson	0.4	0.3	**0.7**	0.6
	1.4	1.0	**2.4**	2.1

The Directors are considered to be key management.

Non-Executive Directors

Non-Executive Directors received remuneration of US$0.1 million (30 June 2010: US$0.1 million).

Further detail in respect of Executive and Non-Executive Directors remuneration during the year is disclosed in the Directors' Remuneration Report on pages 47 and 48. The IFRS 2 charge relating to the Executive Directors for the year was US$0.6 million (30 June 2010: US$0.7 million). See note 28 in respect of share-based payments.

13. Earnings per share

Numerator	Total 2011 US$	Total 2010 US$
Profit for the year	**53,193,664**	63,485,409

Denominator	Shares	Shares
Weighted average number of ordinary shares used in basic EPS		
As at 1 July	**352,803,021**	184,005,523
Effect of shares issued during the year	**61,912,017**	96,241,934
As at 30 June	**414,715,038**	280,247,457

	Shares	Shares
Dilutive effect of potential ordinary shares	**16,034,806**	5,717,632
Weighted average number of ordinary shares in issue used in diluted EPS	**430,749,844**	285,965,089

	US cents	US cents
Basic profit per share – cents	**12.83**	22.65
Diluted profit per share – cents	**12.35**	22.20

Notes to the Annual Financial Statements
For the year ended 30 June 2011 Continued

13. Earnings per share continued
In the current year, the number of potentially dilutive ordinary shares, in respect of employee share options and warrants is 16,034,806. These potentially dilutive ordinary shares may have a dilutive effect on future earnings per share. There are no share options and warrants that have been excluded from the potentially dilutive ordinary shares of 16,034,806 (30 June 2010: 5,973,185 excluded from potentially dilutive shares). In the prior year the number of potentially dilutive ordinary shares, in respect of employee share options and warrants was 5,717,632. There have been no significant post balance sheet changes to the number of options and warrants to impact the dilutive number of ordinary shares.

14. Property, plant and equipment

US$ million	Plant and machinery mining assets[3]	Plant and machinery exploration assets	Computers and office equipment exploration assets	Motor vehicles exploration assets	Mineral properties mining assets[4]	Assets under construction mining assets[5]	Assets advanced to project Alto Cuilo	Total
Cost								
Balance at 1 July 2009	142.8	1.2	1.1	0.2	39.1	18.5	6.1	209.0
Exchange differences	1.3	—	—	—	(0.8)	0.4	0.3	1.2
Business combination[1]	95.4	—	—	—	71.3	6.4	—	173.1
Feasibility production revenue[2]	—	—	—	—	(14.4)	—	—	(14.4)
Feasibility production expenditure[2]	—	—	—	—	22.2	—	—	22.2
Additions	19.1	—	0.1	—	—	6.3	—	25.5
Disposals	(0.5)	—	—	—	—	—	(6.4)	(6.9)
Balance at 30 June 2010	258.1	1.2	1.2	0.2	117.4	31.6	—	409.7
Balance at 1 July 2010	258.1	1.2	1.2	0.2	117.4	31.6	—	409.7
Exchange differences	28.6	0.2	—	—	5.1	5.4	—	39.3
Impairment (reversed/raised) (note 9)	3.4	—	—	—	8.2	—	—	11.6
Additions	46.1	—	0.1	0.1	—	64.6	—	110.9
Disposals	(3.0)	—	—	—	—	—	—	(3.0)
Balance at 30 June 2011	**333.2**	**1.4**	**1.3**	**0.3**	**130.7**	**101.6**	**—**	**568.5**
Depreciation								
Balance at 1 July 2009	18.4	(0.1)	0.2	0.1	8.0	—	5.6	32.2
Exchange differences	0.5	—	—	—	0.2	—	0.2	0.9
Disposals	(0.3)	—	—	—	—	—	(5.8)	(6.1)
Provided in the year	11.0	—	0.2	—	0.5	—	—	11.7
Balance at 30 June 2010	29.6	(0.1)	0.4	0.1	8.7	—	—	38.7
Balance at 1 July 2010	29.6	(0.1)	0.4	0.1	8.7	—	—	38.7
Exchange differences	5.3	0.1	0.1	—	1.1	—	—	6.6
Reversal of impairment (note 9)	0.8	—	—	—	0.8	—	—	1.6
Disposals	(2.1)	—	(0.1)	—	—	—	—	(2.2)
Provided in the year	21.8	0.1	0.2	—	0.3	—	—	22.4
Balance at 30 June 2011	**55.4**	**0.1**	**0.6**	**0.1**	**10.9**	**—**	**—**	**67.1**
Net book value								
At 30 June 2010	228.5	1.3	0.8	0.1	108.7	31.6	—	371.0
At 30 June 2011	**277.8**	**1.3**	**0.7**	**0.2**	**119.8**	**101.6**	**—**	**501.4**

1. In the prior year, the Group capitalised pre-acquisition costs at Kimberley Underground. The expenditure incurred pre-completion was capitalised on the basis that it was common practice under IFRS 3 (applicable prior to 1 July 2009) for transaction costs incurred in respect of business combinations to be capitalised where the business combination has not completed by the balance sheet date and by analogy to IAS 11 (construction contracts) which permits costs incurred in respect of future activity to be capitalised where it is probable that those costs will be recovered.
2. Feasibility production expenditure and revenue are in respect of the Williamson feasibility study as disclosed in note 1.24.
3. The mining assets are secured against the loan facilities disclosed in note 22(iv) and 22(v).
4. Mineral properties are in respect of various mines within the Group and the useful life, based on current life of mine plans, is disclosed in note 1.4.
5. Assets under construction include refurbishments of mining property, plant and equipment at the Cullinan, Kimberley Underground, Koffiefontein and Williamson mines. The only contractual commitments the Group had at year end were in respect of assets under construction of US$11.6 million (30 June 2010: US$0.3 million). Borrowing costs of US$3.5 million (30 June 2010: US$nil) have been capitalised to assets under construction.

15. Intangible assets

US$ million	Total
Cost	
Balance at 1 July 2009 and 30 June 2010	14.5
Balance at 1 July 2010 and 30 June 2011	**14.5**
Amortisation	
Balance at 1 July 2009	(13.5)
Provided in the year	(1.0)
Balance at 30 June 2010	(14.5)
Balance at 1 July 2010 and 30 June 2011	**(14.5)**
Net book value	
At 30 June 2010	—
At 30 June 2011	**—**

Prospecting licences

Prospecting licences in Botswana were fully amortised in the prior year. The Group continues to conduct exploration activities in Botswana. During the year exploration expenditure of US$1.4 million (30 June 2010: US$1.8 million) was expensed in respect of exploration activities within Botswana.

16. Investments in associates

Interests in associates

At year end, the Group had interests in the following companies:

		Ownerships	
	Country	**2011**	2010
Namibia Mining House (Pty) Ltd	Namibia	**35.0%**	35.0%
Nabera Mining (Pty) Ltd	South Africa	**29.5%**	29.5%
Organizações Moyoweno – Comércio Geral Lda	Angola	**40.0%**	40.0%

Summary of financial statements of associates (US$ million):

2011	**Assets**	**Liabilities**	**Equity**	**Revenues**	**(Loss) after tax**
Namibia Mining House (Pty) Ltd	**—**	**—**	**—**	**—**	**—**
Nabera Mining (Pty) Ltd	**—**	**(1.3)**	**(1.2)**	**—**	**(0.1)**
Organizações Moyoweno – Comércio Geral Lda	**0.8**	**(0.4)**	**(0.4)**	**—**	**—**

2010	Assets	Liabilities	Equity	Revenues	(Loss) after tax
Namibia Mining House (Pty) Ltd	—	—	—	—	—
Nabera Mining (Pty) Ltd	—	(1.1)	(1.0)	—	(0.1)
Organizações Moyoweno – Comércio Geral Lda	0.8	(0.4)	(0.4)	—	(0.1)

The unrecognised share of losses in aggregate is US$nil (30 June 2010: US$nil). If the investments in associates had been included at cost, they would have been included at US$nil (30 June 2010: US$nil).

The initial investments by the Group in Namibia Mining House (Pty) Ltd, Nabera Mining (Pty) Ltd and Organizações Moyoweno – Comércio Geral Lda ("Moyoweno") have all been impaired in full in prior periods. Moyoweno's financial year end is 31 December, the statutory reporting period for companies based in Angola, and its primary asset is a 13% investment in the Alto Cuilo project in Angola, from which the Group withdrew in 2009. Interim financial information for Moyoweno has been used as at year end for the Group. The Group has no contractual or constructive obligation to fund the net deficit positions of its associates.

Notes to the Annual Financial Statements
For the year ended 30 June 2011 Continued

17. Available-for-sale financial assets

US$ million	2011	2010
Balance at 1 July	**0.8**	—
Acquisition (4.45% shareholding)	—	0.9
Fair value adjustment taken to other reserves (no tax implications)	**(0.4)**	(0.1)
Balance at 30 June	**0.4**	0.8

The Company owns 4,500,000 ordinary shares in Stellar Diamonds plc ("Stellar"). At year end the Company adjusted the fair value of its investment in Stellar to the fair market value of £0.3 million (30 June 2010: £0.5 million), being US$0.4 million (30 June 2010: US$0.8 million). The movement of US$0.4 million (30 June 2010: US$0.1 million) was taken to other reserves. The reduction in value is not considered significant by management and the fair value reached £0.6 million during the year before reducing to £0.3 million at year end.

18. Inventories

US$ million	2011	2010
Diamonds held for resale	**13.3**	15.0
Work in progress stockpiles	**14.8**	9.6
Consumables and stores	**4.9**	4.8
Livestock	**0.2**	0.1
	33.2	29.5
Provision for impairment of slow moving consumables and stores	**(0.3)**	(0.1)
	32.9	29.4

As at 30 June 2011, diamonds (inventories held for resale) with a value of US$2.6 million (30 June 2010: US$6.5 million) are carried at fair value less costs to sell (due to fair value less cost to sell being below cost), resulting in a charge to the income statement of US$1.2 million (30 June 2010: US$0.3 million).

19. Trade and other receivables

US$ million	2011	2010
Current		
Trade receivables	**20.6**	2.9
Other receivables[1]	**20.9**	12.6
Prepayments[2]	**8.3**	8.0
	49.8	23.5
Non-current		
Rehabilitation guarantee[3]	**0.2**	0.2
BEE partners[4]	**50.9**	32.0
	51.1	32.2

1. Included within other receivables are amounts related to funding advanced to joint venture BEE partners on the Koffiefontein and Kimberley Underground mines assets of US$5.3 million (30 June 2010: US$2.6 million), rehabilitation deposits and other deposits of US$5.5 million (30 June 2010: US$5.2 million) and Value Added Tax refunds of US$7.2 million (30 June 2010: US$4.9 million) receivable. The rehabilitation deposit is available to the Group in the short term or upon successful rehabilitation of the mines.
2. Included within prepayments is US$5.0 million (30 June 2010: US$4.6 million) relating to a deposit paid for further investment in the Group's South African projects. The original US$6.0 million payment, which will be deducted in full from any future acquisition consideration, was made by a Group company with pounds sterling as its functional currency, resulting in unrealised exchange rate fluctuations in the US dollar equivalent for presentational purposes only.
3. The rehabilitation guarantee comprises an insurance risk policy which will be recovered upon the successful rehabilitation at the Sedibeng JV operation.
4. Interest on loans advanced to BEE partners is charged at the prevailing South African prime interest rate plus 2%. The loans are repayable from future cashflows generated from the underlying mining operations.

The financial assets classified as loans and receivables included in receivables are as follows:

US$ million	2011	2010
Current trade receivables	**20.6**	2.9
Other receivables (excluding VAT)	**13.7**	8.9
Non-current trade receivables	**51.1**	32.2
	85.4	44.0

The trade receivables are all due within normal trading terms and there are no trade receivables classified as past due. Trade receivables are due within two days of awarding the rough diamond sales tender to the successful bidder and were significant at year end due to the tenders' proximity to year end. The trade receivables relating to the year-end tender have all been received post-year end. No other receivables are considered to be past due or impaired.

19. Trade and other receivables continued

The carrying values of these loans and receivables are denominated in the following currencies:

US$ million	2011	2010
Pounds sterling	**0.9**	1.9
South African rand	**83.2**	39.1
US dollars	**1.3**	3.0
	85.4	44.0

20. Cash

US$ million	2011	2010
Cash and cash equivalents – unrestricted	**96.9**	24.8
Cash – restricted	**228.0**	9.7
	324.9	34.5

Under the terms of the agreement to purchase the Finsch mine from DBCM (refer to note 29), the Group deposited funds to settle the purchase consideration into an escrow deposit account. At 30 June 2011, the amounts held on deposit totalled US$213.2 million.

As security for the Group's rehabilitation obligations at the Helam, Star, Sedibeng and Kimberley Underground mines, the Company has ceded US$14.8 million (30 June 2010: US$9.7 million) in a fixed deposit. The restricted cash will return to the Group's sole control when the above mentioned operations are included in the Group's rehabilitation insurance product which currently includes the Cullinan and Koffiefontein mines. The Group has a commitment to pay insurance premiums over the next three years of US$23.3 million to fund the insurance product. The rehabilitation provisions are disclosed in note 24.

A controlled entity, Helam Mining (Pty) Ltd, has a R10.0 million (US$1.5 million) (30 June 2010: R10 million (US$1.3 million)) overdraft facility with First National Bank, a division of FirstRand Bank Ltd. At year end and at 30 June 2010, the overdraft was not utilised. When utilised, the overdraft is off-set against other cash balances held with First National Bank as it forms part of the Group's operational cash balances. The weighted average interest rate for the overdraft as at 30 June 2011 is 0% (30 June 2010: 0%). For additional facilities available to the Group refer to note 22.

21. Issued capital

US$ million	Number of shares	2011	Number of shares	2010
Authorised – ordinary shares of 10p each				
As at 1 July 2010 and 30 June 2011	**650,000,000**	**115.2**	400,000,000	76.3
Issued and fully paid				
At 1 July	**352,803,021**	**61.4**	184,005,523	33.5
Allotments during the year	**147,070,988**	**23.4**	168,797,498	27.9
At 30 June	**499,874,009**	**84.8**	352,803,021	61.4

Allotments during the year were in respect of 136,698,212 shares issued as part of a capital fundraising exercise, the exercise of 8,292,777 warrants held over ordinary shares by Canaccord Genuity and RMB, and the exercise of 2,079,999 share options held by employees.

Allotments during the prior year were in respect of 121,200,000 shares issued as part of a capital fundraising exercise, the issue of 36,000,000 shares as part consideration for the acquisition of an additional 50% interest in CIHL, the issue of 11,363,636 shares in respect of a US$15 million Al Rajhi loan repayment and the exercise of 233,862 share options held by employees.

Warrants

Holder	Expiry	Exercise price (pence)	2011 Number of warrants	2010 Number of warrants
Canaccord Genuity	17 December 2011	80	**—**	4,092,777
RBC Capital Markets	17 December 2011	80	**1,364,259**	1,364,259
Rand Merchant Bank	2 November 2014	100	**2,100,000**	—
International Finance Corporation	2 November 2012	90	**2,100,000**	—
International Finance Corporation	2 November 2013	95	**2,100,000**	—
International Finance Corporation	2 November 2014	100	**2,100,000**	—

As part of the debt facilities referred to in note 22 parts (iv) and (v), 12,600,000 warrants over Petra shares were granted to IFC (6,300,000) and RMB (6,300,000), with an exercise price ranging between 90 pence – 100 pence per warrant and which vested on 3 November 2010.

During the year warrants over 4,092,777 ordinary shares at an exercise price of 80 pence were exercised by Canaccord Genuity. RMB exercised 2,100,000 warrants over ordinary shares at an exercise price of 90 pence and a further 2,100,000 warrants over ordinary shares at an exercise price of 95 pence.

The Black-Scholes methodology as outlined in IFRS 2 has been used to value the warrants, as set out in note 28.

Notes to the Annual Financial Statements
For the year ended 30 June 2011 Continued

21. Issued capital continued
Employee share options

Holder	Shares	Exercise price (pence)	Expiry
Directors			
A Pouroulis	500,000	44.0	5 September 2013
	250,000	85.0	16 June 2015
	250,000	79.5	31 May 2016
	250,000	27.5	12 March 2019
	100,000	45.5	30 September 2019
	100,000	60.5	16 March 2020
D Abery	500,000	44.0	5 September 2013
	250,000	85.0	16 June 2015
	250,000	79.5	31 May 2016
	750,000	27.5	12 March 2019
	350,000	45.5	30 September 2019
	350,000	60.5	16 March 2020
J Dippenaar	750,000	85.0	16 June 2015
	250,000	79.5	31 May 2016
	750,000	27.5	12 March 2019
	350,000	45.5	30 September 2019
	350,000	60.5	16 March 2020
J Davidson	750,000	85.0	16 June 2015
	250,000	79.5	31 May 2016
	750,000	27.5	12 March 2019
	350,000	45.5	30 September 2019
	350,000	60.5	16 March 2020
Senior Management	50,000	56.75	13 September 2014
	75,000	46.5	24 September 2014
	23,750	56.5	28 January 2015
	84,300	65.75	27 November 2015
	166,388	79.5	31 May 2016
	236,812	96.0	31 July 2016
	4,470,000	27.5	12 March 2019
	2,117,671	45.5	30 September 2019
	3,060,002	60.5	16 March 2020
	500,000	92.8	25 November 2020
Total	19,583,923		

The current number of shares reserved for issue under the share option scheme is 19,583,923, the terms and conditions of which are disclosed in note 28.

22. Interest-bearing loans and borrowings

US$ million	2011	2010
Current		
Bank loan – secured (i)	—	0.1
Bank loan – secured (ii)	—	0.3
Bank loan – secured (iii)	—	—
Bank loan – unsecured (vi)	—	17.0
Deferred consideration (vii)	**18.7**	—
	18.7	17.4
Non-current		
Bank loan – secured (i)	—	0.1
Bank loan – secured (iv)	**36.5**	—
Bank loan – secured (v)	**33.1**	—
Loan – unsecured (vi)	—	15.0
Deferred consideration (vii)	—	32.0
Associate loans	**1.8**	—
	71.4	47.1

22. Interest-bearing loans and borrowings continued

(i) Bank loans – secured

First National Bank

During the year, Helam Mining (Pty) Ltd settled its term loan facility (capital and interest) of R0.9 million (US$0.2 million) with First National Bank. The Group's borrowings at 30 June 2010 were R0.9 million (US$0.2 million) with an effective interest of 9.92%.

Helam Mining (Pty) Ltd, Star Diamonds (Pty) Ltd, Messina Diamonds (Pty) Ltd and Directors Mr Dippenaar and Mr Davidson have been released from the general notarial bond over moveable assets, unlimited letters of suretyship and letters of joint suretyship signed for the loan facility in favour of First National Bank.

(ii) Bank loan – secured

Industrial Development Corporation of South Africa

On 1 October 2010, the Sedibeng JV settled its loan (capital and interest) of R2.8 million (US$0.4 million) with the Industrial Development Corporation of South Africa ("IDC"). The Group's borrowings at 30 June 2010 were R2.2 million (US$0.3 million) with an effective interest rate of 9.92%.

Messina Diamonds (Pty) Ltd has been released from the suretyship as co-principal debtor and the general notarial bond over its moveable assets in favour of the IDC.

(iii) Bank loans – secured

First National Bank

The Company's South African subsidiaries have a total loan facility of R70.0 million (US$10.2 million) (30 June 2010: R70.0 million (US$9.1 million)) with First National Bank of which Rnil (US$nil) (30 June 2010: Rnil (US$nil)) has been drawn down.

The above facility is secured by a guarantee issued by the Company, suretyships from Star Diamonds (Pty) Ltd, Helam Mining (Pty) Ltd, Sedibeng JV and Blue Diamond Mines (Pty) Ltd, and cessions of inter-group loans payable in favour of First National Bank.

(iv) Bank loans – secured

Rand Merchant Bank ("RMB")

On 4 November 2010, the Company announced the financial close and completion of a R300 million (US$43.5 million) loan facility with RMB. The loan facility is available for the Company's draw-down for up to 24 months from the agreement date and has a capital repayment holiday period to 14 September 2012. The loan is repayable in eight semi-annual payments commencing after the capital repayment holiday period with the final payment due on 15 March 2016. The loan incurs interest at the South African three month JIBAR rate plus 4.5% and is payable in semi-annual payments from the commencement date of the loan facility. The effective interest rate for the debt facility at 30 June 2011 is 14.0%.

On 3 November 2010, as a term of the debt facility, RMB was granted 6.3 million warrants over Petra shares. The warrants vest on grant and the warrant expiry dates will be in equal tranches at the end of years two, three and four from the warrant grant date. The warrant exercise prices for each tranche are 90 pence, 95 pence and 100 pence respectively. The Black-Scholes methodology as outlined in IFRS 2 has been used to value the warrants, as set out in note 28.

The portion of facility fees and warrant fair value charges of R17.6 million (US$4.4 million) associated with the facility drawn-down have been debited against the gross draw-down value of R267.1 million (US$39.0 million), in accordance with IAS 32 and IAS 39, to reflect a net interest bearing liability of R249.5 million (US$36.5 million). The remaining R6.5 million (US$0.9 million) of facility fees and warrant fair value charges associated within the undrawn facility are held in prepayments as the loan facility is expected to be utilised.

The above facility is secured by various encumbrances and pledges, concluded in respect of certain assets belonging to the Group including the Cullinan mine mining right; moveable and immovable assets at Cullinan mine; the shares in Cullinan Diamond Mine (Pty) Ltd, Blue Diamond Mines (Pty) Ltd and Williamson Diamonds Ltd.

(v) Bank loans – secured

International Finance Corporation ("IFC")

On 4 November 2010, the Company announced the financial close and completion of a US$40.0 million loan facility with the IFC. The loan facility is available for the Company's draw-down for up to 24 months from the agreement date and a has capital repayment holiday period to 14 September 2012. The loan is repayable in eight semi-annual payments commencing after the capital repayment holiday period, with the final payment due on 15 March 2016. The loan incurs interest at the US$ six month LIBOR rate plus 4.5% and is payable in semi-annual payments from commencement date of the loan facility. The effective interest rate for the debt facility at 30 June 2011 is 8.9%.

On 3 November 2010, as a term of the debt facility, the IFC was granted 6.3 million warrants over Petra shares. The warrants vest on grant and the warrant expiry dates will be in equal tranches at the end of years two, three and four from the warrant grant date. The warrant exercise prices for each tranche are 90 pence, 95 pence and 100 pence respectively. The Black-Scholes methodology as outlined in IFRS 2 has been used to value the warrants, as set out in note 28.

The portion of facility fees and warrant fair value charges of US$4.2 million associated with the facility drawn-down have been debited against the gross draw-down value of US$36.5 million, in accordance with IAS 32 and IAS 39, to reflect a net interest bearing liability of US$33.1 million. The remaining US$0.4 million of facility fees and warrant fair value charges associated within the undrawn facility are held in prepayments as the loan facility is expected to be utilised.

The above facility is secured by various encumbrances and pledges, concluded in respect of certain assets belonging to the Group including the Cullinan mine mining right; moveable and immoveable assets at Cullinan mine; the shares in Cullinan Diamond Mine (Pty) Ltd, Blue Diamond Mines (Pty) Ltd and Williamson Diamonds Ltd.

Notes to the Annual Financial Statements
For the year ended 30 June 2011 Continued

22. Interest-bearing loans and borrowings continued

(vi) Loan – unsecured

Al Rajhi

On 20 November 2010, the Company settled its loan (capital and interest) of US$32.8 million (30 June 2010: US$32.0 million) with Al Rajhi. The Group's borrowings at 30 June 2010 were US$32.0 million with an effective interest rate of 8%.

(vii) Deferred Cullinan consideration

Al Rajhi

The deferred consideration of US$35.0 million, which formed part of the consideration paid for the acquisition of the additional 50% interest in CIHL, has been discounted over a period of 24 months using a discount factor of 6%. The discounted deferred consideration balance is being accreted over the period of 24 months to the full settlement value. During the year, a portion (US$15.0 million) of the deferred consideration capital amount was repaid leaving a capital balance of US$20 million to be settled in December 2011. At year end the discounted deferred consideration balance is US$18.7 million (30 June 2010: US$32.0 million).

There are no significant differences between the fair value and carrying value of loans and borrowings.

23. Trade and other payables

US$ million	2011	2010
Current		
Trade payables	**11.5**	9.4
Deferred consideration (i)	**2.8**	2.9
Accruals and other payables	**25.1**	16.9
	39.4	29.2
Taxation payable	—	1.1
	39.4	30.3
Non-current		
Amounts owing to BEE partners (ii)	**29.0**	23.2
	29.0	23.2

Current

(i) The Group is liable to pay US$3.2 million (30 June 2010: US$3.2 million) (US$2.8 million after deducting the deferred consideration discount (30 June 2010: US$2.9 million)) being the balance of the Helam Mining (Pty) Ltd purchase price which is payable from 50% of the cash surplus generated by Helam Mining (Pty) Ltd for the years ending 31 December 2006 and 2007.

Any shortfall in the amount payable in any one year can be carried forward to the next year until such time that the total amount payable of US$2.8 million has been extinguished. At year end no portion of the liability had been repaid and the total liability will be carried forward to June 2012.

(ii) The loans bear interest at the prevailing South African prime interest rate. The loans are repayable from future cashflows from the underlying operations only when the loans advanced to BEE partners (refer to note 19) have been repaid in full to the Group.

The financial liabilities included in trade and other payables (which exclude taxation) are as follows:

US$ million	2011	2010
Trade payables	**11.5**	9.4
Other payables (includes deferred consideration)	**27.9**	19.8
Non-current trade payables owing to BEE partners	**29.0**	23.2
	68.4	52.4

The carrying values of financial liabilities classified as other liabilities are denominated in the following currencies:

US$ million	2011	2010
Botswana pula	—	0.1
Pounds sterling	**1.8**	1.0
South African rand	**54.2**	41.7
US dollar	**12.4**	9.6
	68.4	52.4

24. Provisions

US$ million	Post-retirement medical fund and income tax	Rehabilitation	Total
Balance at 1 July 2009	4.2	26.0	30.2
Arising on business combination	2.3	15.8	18.1
Increase in provisions	0.9	—	0.9
Unwinding of present value adjustment of rehabilitation provision	—	2.6	2.6
Exchange differences	0.1	0.3	0.4
Balance at 30 June 2010	7.5	44.7	52.2
Current	2.2	—	2.2
Non-current	5.3	44.7	50.0
Balance at 30 June 2010	7.5	44.7	52.2
Balance at 1 July 2010	7.5	44.7	52.2
Increase in provisions	1.4	3.9	5.3
Unwinding of present value adjustment of rehabilitation provision	—	3.8	3.8
Exchange differences	0.6	3.4	4.0
Balance at 30 June 2011	**9.5**	**55.8**	**65.3**
Current	2.2	—	2.2
Non-current	7.3	55.8	63.1
Balance at 30 June 2011	**9.5**	**55.8**	**65.3**

Employee entitlements and other provisions

The provisions relate to provision for an unfunded post retirement medical fund and income tax. The provision for the post-retirement medical fund is further disclosed in note 34. The provision for taxation is based on estimates made, where appropriate, from historical information and professional advice.

Rehabilitation

The provision is the estimated cost of the environmental rehabilitation at each site, which is based on current legal requirements and existing technology. The Group estimates the present value of the rehabilitation expenditure at each mine as follows:

- Koffiefontein mine of US$7.8 million (30 June 2010: US$6.4 million), provided over the current life of mine plan of 14 years;
- Cullinan mine of US$18.9 million (30 June 2010: US$15.5 million) provided over the estimated total life of mine of 53 years;
- Kimberley Underground mines of US$14.1 million (30 June 2010: US$8.3 million) provided over the current life of mine plan of 11 years;
- Williamson mine of US$12.9 million (30 June 2010: US$12.1 million) provided over the current life of mine plan of 17 years; and
- Helam, Star and Sedibeng of US$2.1 million (30 June 2010: US$2.4 million) (the Fissure mines) provided over their current life of mine plan of approximately 17 years.

The majority of the rehabilitation expenditure is expected to be incurred at the end of the life of the respective mine. This is represented by the current life of mine plans for the mines, with the exception of Cullinan which is expected to be rehabilitated after 53 years, of which 16 years are included in the current life of mine plan. The 53 year period assumes mining of the C-Cut.

The significant assumptions and uncertainties are disclosed in note 1.24. Cash and cash equivalents have been secured in respect of rehabilitation provisions, as disclosed in notes 19 and 20.

Notes to the Annual Financial Statements
For the year ended 30 June 2011 Continued

25. Deferred taxation

US$ million	2011	2010
Balance at beginning of the year	**30.3**	7.4
Adjustment as a result of business combination	**—**	24.1
Income statement charge/(credit)	**6.4**	(1.1)
Foreign currency translation difference	**1.0**	(0.1)
Balance at the end of the year	**37.7**	30.3

Deferred taxation comprising:

US$ million	Total	2011 Recognised	2011 Unrecognised
Deferred tax liability:			
– Capital allowances	**88.3**	**88.3**	**—**
– Prepayments and accruals	**0.1**	**0.1**	**—**
– Foreign exchange allowances	**2.7**	**2.7**	**—**
	91.1	**91.1**	**—**
Deferred tax asset:			
– Capital allowances	**(40.4)**	**(39.0)**	**(1.4)**
– Provisions and accruals	**(9.7)**	**(9.1)**	**(0.6)**
– Foreign exchange allowances	**(1.6)**	**(1.3)**	**(0.3)**
– Tax losses	**(36.8)**	**(4.0)**	**(32.8)**
	(88.5)	**(53.4)**	**(35.1)**
Net deferred taxation liability/(asset)	**2.6**	**37.7**	**(35.1)**

US$ million	Total	2010 Recognised	2010 Unrecognised
Deferred tax liability:			
– Capital allowances	72.0	64.3	7.7
– Prepayments and accruals	0.3	—	0.3
– Foreign exchange allowances	1.4	0.3	1.1
	73.7	64.6	9.1
Deferred tax asset:			
– Capital allowances	(37.7)	(27.4)	(10.3)
– Provisions and accruals	(7.3)	(6.7)	(0.6)
– Foreign exchange allowances	(1.0)	—	(1.0)
– Tax losses	(13.0)	(0.2)	(12.8)
	(59.0)	(34.3)	(24.7)
Net deferred taxation liability/(asset)	14.7	30.3	(15.6)

2011 deferred taxation schedule of movements

US$ million	Total	Income statement	Statement of financial position
Deferred tax liability:			
– Capital allowances	**24.0**	**24.0**	**—**
– Prepayments and accruals	**0.1**	**0.1**	**—**
– Foreign exchange allowances	**2.4**	**2.4**	**—**
Deferred tax asset:			
– Capital allowances	**(11.6)**	**(11.6)**	**—**
– Provisions and accruals	**(2.4)**	**(2.4)**	**—**
– Foreign exchange allowances	**(2.3)**	**(2.3)**	**—**
– Tax losses	**(3.8)**	**(3.8)**	**—**
Net deferred tax liability movement	**6.4**	**6.4**	**—**

25. Deferred taxation continued

2010 deferred taxation schedule of movements

US$ million	Total	Income statement	Statement of financial position
Deferred tax liability:			
– Capital allowances	54.7	35.6	19.1
– Foreign exchange allowances	0.1	0.1	—
Deferred tax asset:			
– Capital allowances	(27.4)	(24.9)	(2.5)
– Provisions and accruals	(6.5)	(6.5)	—
– Foreign exchange allowances	1.2	1.1	0.1
– Tax losses	0.9	0.9	—
Net deferred tax liability movement	23.0	6.3	16.7
Less deferred tax adjustment for CIHL inventory fair value uplift[1]		(7.4)	
Income statement credit		(1.1)	

1. The deferred tax adjustment of US$7.4 million is in respect of a deferred tax asset raised by the Group on inventory that has been fair valued at the date of acquiring the additional 50% in CIHL. Subsequent to the acquisition, the inventory was sold and the deferred tax liability released.

Deferred tax assets of US$5.0 million have been recognised in respect of tax losses to be utilised by future taxable profits at Kimberley Underground. The Directors believe it is probable these tax assets will be recovered through future taxable income or the reversal of temporary differences. Losses were recorded in FY 2010 as the mine only started production in May 2010; a taxable profit was generated in FY 2011. The utilised tax losses expiry period is detailed in note 11 and deductible temporary differences have no expiry period.

26. Financial instruments

Exposures to currency, liquidity, market price, credit and interest rate risk arise in the normal course of the Group's business. The Group may from time to time use financial instruments to help manage these risks. The Directors review and agree policies for managing each of these risks. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument, are disclosed in note 1.

The details of the categories of financial instruments of the Group are as follows:

US$ million	**2011**	2010
Financial assets:		
Loans and receivables:		
– Non-current trade receivables	**51.1**	32.2
– Trade receivables	**20.6**	2.9
– Other receivables	**13.7**	8.9
– Cash and cash equivalents – restricted	**228.0**	9.7
– Cash and cash equivalents – unrestricted	**96.9**	24.8
Available-for-sale financial assets (level 1 valuation)	**0.4**	0.8
Fair value designated hedge:		
– Derivative financial instruments (level 2 valuation)	**6.0**	—
	416.7	79.3
Financial liabilities:		
Held at amortised cost:		
– Non-current amounts owing to BEE partners	**29.0**	23.2
– Loans and borrowings	**90.1**	64.5
– Trade and other payables (includes deferred consideration)	**39.4**	30.3
Fair value designated hedge:		
– Other current liabilities – firm commitment (level 2 valuation)	**6.0**	—
	164.5	118.0

There is no significant difference between the fair value of financial assets and liabilities and the carrying values set out in the table above, noting that non-current receivables bear interest and are therefore not discounted. Available-for-sale financial assets are valued based on the share price at the reporting date. A loss of US$0.4 million (30 June 2010: US$0.1 million) has been recognised in the Consolidated Statement of Other Comprehensive Income in respect of the reduction of the available-for-sale financial assets to fair value.

Notes to the Annual Financial Statements
For the year ended 30 June 2011 Continued

26. Financial instruments continued

Fair value measurement hierarchy

IFRS 7 requires certain disclosures which require the classification of financial assets and financial liabilities measured at fair value using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement. The fair value hierarchy has the following levels:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

(b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The level of the financial asset or financial liability in the fair value hierarchy is determined on the basis of the lowest level input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of the three levels. The only financial instruments held by the Group that were carried at fair value were the available for sale financial asset, forward currency contracts and South African rand deposits designated as hedging instruments for the Finsch acquisition. The available-for-sale financial assets were valued using Level 1 of the hierarchy using quoted prices. The hedging instrument and hedged item were valued by broker statements using observable market prices.

The currency profile of the Group's financial assets and liabilities is as follows:

US$ million	2011	2010
Financial assets:		
Botswana pula	**0.1**	0.1
Pounds sterling	**290.6**	6.5
South African rand	**120.5**	54.1
US dollar	**5.5**	18.6
	416.7	79.3
Financial liabilities:		
Botswana pula	—	0.1
Pound sterling	**59.7**	1.0
South African rand	**92.3**	42.2
US dollar	**12.5**	74.7
	164.5	118.0

The Group is exposed through its operations to one or more of the following risks:

- credit risk;
- foreign exchange risk;
- liquidity risk;
- interest rate risk; and
- other market price risk.

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- trade and other receivables (current and non-current);
- cash at bank;
- trade and other payables (current and non-current);
- loans and borrowings;
- hedging instruments; and
- firm commitments.

26. Financial instruments continued

Credit risk

The Group sells its rough diamond production through a tender process on a recognised bourse. This mitigates the need to undertake credit evaluations. Where production is not sold on a tender basis the Directors undertake suitable credit evaluations before passing ownership of the product.

At the reporting date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of the financial assets in the Consolidated Statement of Financial Position. The financial assets are carried at amortised cost, with no indication of impairment. The Group considers the credit quality of loans and receivables that are neither past due nor impaired to be good.

Credit risk associated with loans to BEE partners is mitigated by a contractual obligation for the loans to be repaid from future cashflows prior to any payments being paid to the BEE partners from future cashflows generated by the operations.

Group cash balances are deposited with reputable banking institutions within the countries in which it operates. Excess cash is held in overnight call accounts and term deposits ranging from seven to 30 days. Refer to note 20 for restricted cash secured in respect of rehabilitation obligations and the purchase of the Finsch mine. At year end the Group had undrawn borrowing facilities of US$18.5 million (30 June 2010: US$10.4 million).

Foreign currency risk

Foreign exchange risk arises because the Group has operations located in parts of the world where the functional currency is not the same as the Group's primary functional currency of US dollars. The Group's net assets arising from its foreign operations are exposed to currency risk resulting in gains and losses on translation into US dollars. Only in exceptional circumstances will the Group consider hedging its net investments in foreign operations, as generally it does not consider that the reduction in foreign currency exposure warrants the cashflow risk created from such hedging techniques.

Foreign exchange risk also arises when individual Group operations enter into transactions denominated in a currency other than their functional currency. The policy of the Group is, where possible, to allow Group entities to settle liabilities denominated in their local currency with the cash generated from their own operations in that currency. In the case of the funding of non-current assets, such as projects to expand productive capacity entailing material levels of capital expenditure, the central Group treasury function will assist the foreign operation to obtain matching funding in the functional currency of that operation and shall provide additional funding where required. The currency in which the additional funding is provided is determined by taking into account the following factors:

- the currency in which the revenue expected to be generated from the commissioning of the capital expenditure will be denominated;
- the degree to which the currency in which the funding provided is a currency normally used to effect business transactions in the business environment in which the foreign operation conducts business; and
- the currency of any funding derived by the Company for onward funding to the foreign operation and the degree to which it is considered necessary to hedge the currency risk of the Company represented by such derived funding.

The purchase price of Finsch was fixed in South African rands and as such created a foreign currency risk for the Group. The Group entered into forward exchange contracts and held South African rands in escrow accounts to mitigate the foreign currency risk on the Finsch purchase price.

The foreign currency effect on the Group's financial assets and liabilities is as follows:

	30 June 2011			
US$ million	Year-end US$ rate	Year-end amount	US$ strengthens 10%	US$ weakens 10%
Financial assets:				
Botswana pula	0.1523	0.1	0.1	0.1
Pounds sterling	0.6243	290.6	261.5	319.7
South African rand	0.1463	120.5	108.4	132.5
US dollar	1.0000	5.5	5.5	5.5
		416.7	375.5	457.8
Financial liabilities:				
Pounds sterling	0.6243	59.7	53.7	65.6
South African rand	0.1463	92.3	83.0	101.5
US dollar	1.0000	12.5	12.5	12.5
		164.5	149.2	179.6

Notes to the Annual Financial Statements
For the year ended 30 June 2011 Continued

26. Financial instruments continued
Foreign currency risk continued

	30 June 2010			
US$ million	Year-end US$ rate	Year-end amount	US$ strengthens 10%	US$ weakens 10%
Financial assets:				
Botswana pula	0.1390	0.1	0.1	0.1
Pounds sterling	0.6637	6.5	5.8	7.1
South African rand	0.1307	54.1	48.7	59.5
US dollar	1.0000	18.6	18.6	18.6
		79.3	73.2	85.3
Financial liabilities:				
Botswana pula	0.1390	0.1	0.1	0.1
Pounds sterling	0.6637	1.0	0.9	1.1
South African rand	0.1307	42.2	38.0	46.4
US dollar	1.0000	74.7	74.7	74.7
		118.0	113.7	122.3

The Directors consider a 10% currency movement to be the maximum likely cumulative change over the next 12 months.

Derivatives

US$ million	**2011**	2010
Derivative financial assets		
Derivatives designated as hedging instruments		
Forward foreign exchange contracts – fair value hedges	**6.0**	—
Total derivatives designated as hedging instruments	**6.0**	—
Total derivative financial assets	**6.0**	—
Less non-current portion	**—**	—
Current portion	**6.0**	—

The fair value of the derivative financial assets is split between current and non-current depending on the remaining maturity of the forward exchange contract and its contractual cashflows. The fair value of the Group's foreign exchange contracts is based on broker quotes.

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the Consolidated Statement of Financial Position.

The derivative financial assets have a maturity profile of less than three months.

The Group took out forward foreign exchange contracts and held deposits in South African Rands to manage the foreign exchange risk associated with the unrecognised firm commitment to purchase the Finsch mine for R1.425 billion (refer note 29) after the year end. The Group entered into short-term forward currency contracts to hedge the foreign currency risk.

The material principal amount of the forward contracts designated as fair value hedging instruments was US$86.4 million. The hedging instruments were effective at inception and at year end. The fair value of the hedging instruments is recognised as an asset in the Consolidated Statement of Financial Position and an equal liability ("other current liabilities – firm commitment") has been recognised reflecting the cumulative foreign exchange movement attributable to the unrecognised firm commitment. The movements (US$6.0 million gain and US$6.0 million loss) are recognised in financial income.

Liquidity risk
Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations and when necessary will seek to raise funds through the issue of shares.

It is the policy of the Group to ensure that it will always have sufficient cash to allow it to meet its liabilities when they fall due. To achieve this aim, the Group maintains cash balances and funding facilities at levels considered appropriate to meet ongoing obligations.

Cashflow is monitored on a regular basis. Projections reflected in the Group working capital model indicate that the Group will have sufficient liquid resources to meet its obligations under all reasonable expected circumstances. The maturity analysis of the actual cash payment due in respect of loans and borrowings is set out in the table opposite. The maturity analysis of trade and other payables are in accordance with those terms and conditions agreed between the Group and its suppliers. For trade and other payables, payment terms are 30 days, provided all terms and conditions have been complied with. Exceptions to agreed terms are set out in note 23, as reflected under non-current.

26. Financial instruments continued

Maturity analysis

The below maturity analysis reflects cash and cash equivalents and loans and borrowings based on actual carrying values rather than actual cashflows.

		30 June 2011					
US$ million	Notes	Effective interest rate	Total	6 months or less	6–12 months	1–2 years	2–5 years
Cash							
Cash and cash equivalents – unrestricted	20	**0.1%–5.8%**	**96.9**	**96.9**	—	—	—
Cash – restricted	20	**0.1%–5.8%**	**228.0**	**228.0**	—	—	—
Total cash			**324.9**	**324.9**	—	—	—
Loans and borrowings							
Bank loan – secured	22(iv)	**14.0%**	**36.5**	—	—	**9.8**	**26.7**
Bank loan – secured	22(v)	**8.9%**	**33.1**	—	—	**9.1**	**24**
Deferred consideration	22(vii)	**6.0%**	**18.7**	**18.7**	—	—	—
Associate loans	22	**9.5%**	**1.8**	—	—	—	**1.8**
			90.1	**18.7**	—	**18.9**	**52.5**
Cashflow of loans and borrowings			**97.4**	**20.0**	—	**18.9**	**58.5**

		30 June 2010					
US$ million	Notes	Effective interest rate	Total	6 months or less	6–12 months	1–2 years	2–5 years
Cash							
Cash and cash equivalents – unrestricted	20	0.1%–5.8%	24.8	24.8	—	—	—
Cash – restricted	20	0.1%–5.8%	9.7	9.7	—	—	—
Total cash			34.5	34.5	—	—	—
Loans and borrowings							
Bank loan – secured	22(i)	9.92%	0.2	—	0.1	0.1	—
Bank loan – secured	22(ii)	9.92%	0.3	0.3	—	—	—
Loan – unsecured	22(vi)	8%	32.0	17.0	—	15.0	—
Deferred consideration loan – unsecured	22(vii)	6%	32.0	—	—	32.0	—
			64.5	17.3	0.1	47.1	—
Cashflow of loans and borrowings			70.2	18.7	0.1	51.4	—

Interest rate risk

The Group has borrowings that incur interest at floating rates and no interest rate swaps are used. Management constantly monitors the floating interest rates so that action can be taken should it be considered necessary. An analysis of the sensitivity to interest rate changes is presented below. The Directors consider 100 basis points to be the maximum likely change in interest rates over the next 12 months.

The effect of an interest rate increase/(decrease) on the Group's interest charge in the year is as follows:

		30 June 2011			
US$ million	Notes	Year-end interest rate	Year-end interest-bearing liability	Interest rate increases 1%	Interest rate (decreases) 1%
Bank loan – secured	22(iv)	**14.0%**	**36.5**	**0.3**	**(0.3)**
Bank loan – secured	22(v)	**8.9%**	**33.1**	**0.3**	**(0.3)**
Deferred consideration loan – unsecured	22(vii)	**6%**	**18.7**	—	—
Associate loans		**9.5%**	**1.8**	**0.1**	**(0.1)**
			90.1	**0.7**	**(0.7)**

Financial Statements

Notes to the Annual Financial Statements
For the year ended 30 June 2011 Continued

26. Financial instruments continued
Interest rate risk continued

US$ million	Notes	30 June 2010 Year-end interest rate	Year-end interest-bearing liability	Interest rate increases 1%	Interest rate (decreases) 1%
Bank loan – secured	22(i)	9.92%	0.2	—	—
Bank loan – secured	22(ii)	9.92%	0.3	—	—
Loan – unsecured	22(vi)	8%	32.0	—	—
Deferred consideration loan – unsecured	22(vii)	6%	32.0	—	—
			64.5	—	—

The loans disclosed in note 22 parts (vi) and (vii) are a fixed interest rate loan or a discounted deferred consideration and therefore are not exposed to fluctuations in interest rates.

Each interest-bearing financial liability is restated to show the cashflows arising based on the respective country specific prime lending rates as disclosed in note 22.

Other market price risk
The Group generates revenue from the sale of rough and polished diamonds. The significant number of variables involved in determining the selling prices of rough diamonds, such as the uniqueness of each individual rough stone, the content of the rough diamond parcel and the ruling US$/ZAR spot rate at the date of sale, makes it difficult to accurately extrapolate the impact the fluctuations in diamond prices would have on the Group's revenue.

Capital disclosures
Capital is defined by the Group to be the capital and reserves attributable to equity holders of the parent company. The Group's objectives when maintaining capital are:

- to safeguard the ability of the entity to continue as a going concern; and
- to provide an adequate return to shareholders.

The Group monitors capital on the basis of the debt to equity ratio. This ratio is calculated as net debt to equity. Net debt is calculated as total debt (excluding provisions and deferred tax liabilities) less restricted and unrestricted cash and cash equivalents. Equity comprises all components of equity attributable to equity holders of the parent company.

The debt to equity ratios at 30 June 2011 and 30 June 2010 are as follows:

US$ million	**2011**	2010
Total debt	**164.5**	118.0
Cash and cash equivalents	**(324.9)**	(34.5)
Net debt/(funds)	**(160.4)**	83.5
Total equity attributable to equity holders of the parent company	**667.0**	257.3
Net (funds)/debt to equity ratio	**(0.24):1**	0.32:1

The Group manages its capital structure by the issue of ordinary shares, raising debt finance where appropriate, and managing Group cash and cash equivalents.

27. Contingent liabilities
Details of contingent liabilities where the probability of future payments/receipts is not considered remote are set out below, as well as details of contingent liabilities, which although considered remote the Directors consider should be disclosed. The Directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

Environmental
The controlled entities of the Company provide for all known environmental liabilities. While the Directors of each of those entities and the Company believe that, based upon current information, their current provisions for environmental rehabilitation are adequate, there can be no assurance that new material provisions will not be required as a result of new information or regulatory requirements with respect to known mining operations or identification of new rehabilitation obligations at other mine operations.

28. Share-based payments

Employee share options

The Company has an established share option programme that entitles the Remuneration Committee, at its discretion, to grant share options to Directors and Senior Management. The terms and conditions of the share options granted during the year ended 30 June 2011 are disclosed below. The share-based payment expense has been calculated using the Black-Scholes model. All share options are equity settled.

Fair value of share options granted during the year and assumptions are as follows:

	2011	2010
Fair value at measurement date	**31.0p–51.2p**	20.8p–35.7p
Exercise price	**92.8p**	45.5p–60.5p
Share price at grant date	**97.0p**	64p–66p
Expected volatility	**79.2%**	68%–71%
Vesting period	**1–3 years**	1–3 years
Option life	**10 years**	10 years
Expected dividends	**—**	—
Risk-free interest rate (based on national Government bonds)	**0.98%–2.48%**	0.98%–2.48%

The expected volatility is based on historic volatility of the Group's share price, adjusted for any extreme changes in the share price during the historic period. During the year, 2,079,999 (30 June 2010: 233,862) options held by employees were exercised and the Company expensed US$1.9 million (30 June 2010: US$1.7 million) related to the fair value of employee share options. During the year, 130,000 (30 June 2010: 492,805) options with a weighted average option price of 43.4 pence lapsed, 504,079 (30 June 2010: 16,666) share options with a weighted average option price of 42.4 pence (30 June 2010: 9.0 pence) were cancelled immediately before vesting and 500,000 (30 June 2010: 8,186,000) share options were granted at an option price of 92.8 pence.

The terms and conditions of the options in issue are as follows, whereby all options are settled by delivery of shares:

Employees entitled	Grant date	Number	Vesting period	Remaining life of options (years)
Options granted to Directors	5 September 2003	1,000,000	1/3 per annum from grant date	2
	16 June 2005	2,000,000	1/3 per annum from grant date	4
	31 May 2006	1,000,000	1/3 per annum from grant date	5
	12 March 2009	2,500,000	1/3 per annum from grant date	8
	30 September 2009	1,150,000	1/3 per annum from grant date	9
	17 March 2010	1,150,000	1/3 per annum from grant date	9
Options granted to Senior Management	13 September 2004	50,000	1/3 per annum from grant date	3
	24 September 2004	75,000	25% from grant date for two years, then 50% in third year	3
	28 January 2005	23,750	25% from grant date for two years, then 50% in third year	4
	27 November 2005	84,300	1/3 per annum from grant date	4
	31 May 2006	166,388	1/3 per annum from grant date	5
	31 July 2006	236,812	1/3 per annum from grant date	7
	12 March 2009	4,470,000	1/3 per annum from grant date	8
	30 September 2009	2,117,671	1/3 per annum from grant date	9
	17 March 2010	3,060,002	1/3 per annum from grant date	9
	25 November 2010	500,000	1/3 per annum from grant date	10

	2011		2010	
	Weighted average exercise price (pence)	**Number**	Weighted average exercise price (pence)	Number
Outstanding at beginning of the year	**48.60**	**21,798,001**	45.46	14,355,334
Cancelled during the year	**42.39**	**(504,079)**	15.92	(16,666)
Lapsed during the year	**43.42**	**(130,000)**	62.76	(492,805)
Exercised during the year	**51.05**	**(2,079,999)**	49.07	(233,862)
Granted during the year	**92.80**	**500,000**	53.08	8,186,000
Outstanding at the end of the year	**47.88**	**19,583,923**	48.60	21,798,001
Exercisable at the end of the year	**51.38**	**11,770,578**	37.73	5,052,102

Notes to the Annual Financial Statements
For the year ended 30 June 2011 Continued

28. Share-based payments continued

Employee share options continued

The weighted average market price of the shares in respect of options exercised during the year was 156.87 pence (30 June 2009: 45.72 pence). The options outstanding at 30 June 2011 have an exercise price in the range of 27.5 pence to 96 pence (30 June 2009: 27.5 pence to 96 pence) and a weighted average remaining contractual life of seven years (30 June 2010: eight years).

Employees received cash payments of US$0.8 million during the year in respect of options cancelled. The payments equate to the fair value at the date of cancellation and the Group recognised a charge to equity in accordance with IFRS 2 together with the acceleration of the remaining unamortised fair value in respect of the options of US$0.1 million in the income statement.

Warrants

As part of the debt facilities referred to in note 22 parts (iv) and (v), 12,600,000 warrants over Petra shares were granted to the IFC (6,300,000) and RMB (6,300,000). The fair value of the 12,600,000 warrants has been calculated using the Black-Scholes model and debited against pre-payments until such time as the loan is drawn down. The warrants were fair valued at US$7.9 million. When the loan is drawn down, the fair value is debited against the interest bearing non-current borrowings and the effective interest rate and associated accretion charges adjusted accordingly (refer note 22 parts (iv) and (v)).

The fair value of the 5,457,037 warrants in issue as at 30 June 2010 was debited against the share premium account being a directly attributable cost of the December 2009 capital raising exercise.

	2011	2010
Fair value at measurement date	36.2p–41.7p	18.5p
Exercise price	90p, 95p and 100p	80p
Share price at date of grant	102.0p	72.2p
Expected volatility	43%–63%	71%
Warrant life	2–4 years	2 years
Expected dividends	—	—
Risk-free interest rate (based on national Government bonds)	0.65%–1.16%	1.73%

The expected volatility is based on historic volatility of the Group's share price, adjusted for any extreme changes in the share price during the historic period. During the year nil warrants (30 June 2010: 2,000,000) lapsed and 8,292,777 (30 June 2010: nil) were exercised with option prices in the range of 80 pence to 95 pence.

The terms and conditions of the grants are as follows, whereby all warrants are settled by delivery of shares:

	2011		2010	
	Weighted average exercise price (pence)	Number	Weighted average exercise price (pence)	Number
Outstanding at beginning of the year	80.00	5,457,036	130.00	2,000,000
Lapsed during the year	—	—	130.00	(2,000,000)
Exercised during the year	86.33	(8,292,777)	—	—
Granted during the year	95.00	12,600,000	80.00	5,457,036
Outstanding at the end of the year	93.98	9,764,259	80.00	5,457,036
Exercisable at the end of the year	93.98	9,764,259	80.00	5,457,036

The warrants outstanding at 30 June 2011 have an exercise price in the range of 90 pence – 100 pence (30 June 2010: 80 pence) and a weighted average remaining contractual life of three years (30 June 2010: two years).

29. Post-balance sheet events

Acquisition of Finsch

On 21 January 2011, the Company announced that it, together with its BEE partners, had entered into an agreement to acquire the Finsch mine in South Africa as a going concern (assets and assumed liabilities) from De Beers for R1.425 billion with the Company's wholly owned subsidiary Afropean Diamonds (Pty) Ltd acquiring a 74% interest and the BEE partners a 26% interest. On 14 September 2011, the Company announced the completion of the Finsch acquisition, which represented the date the Group acquired control of the mine. As part of the transaction, the Company funded its BEE partners' share of the R1.425 billion consideration through loans to the BEE partners. The final cash consideration paid in US$ terms was US$192 million reflecting the benefit of an effective hedging strategy to hedge the foreign exchange risk on the firm commitment to acquire Finsch.

29. Post-balance sheet events continued

Acquisition of Finsch continued

Effect of the acquisition

The acquisition will have the following effect on the Group's assets and liabilities:

Finsch net assets at acquisition date US$ million	Book values	Provisional fair value adjustments	Provisional fair values
Mining property, plant and equipment	234.6	(2.5)	232.1
Land	0.7	—	0.7
Inventory consumables and stores	4.1	(1.0)	3.1
Trade and other receivables	1.6	(1.6)	—
Environmental liabilities	(16.2)	—	(16.2)
Long-term payables	(17.1)	0.1	(17.0)
Employee-related payables	(5.1)	—	(5.1)
Trade and other payables	(5.6)	—	(5.6)
Net assets acquired	197.0	(5.0)	192.0
Non-controlling interest (26%)			(49.9)
Fair value of net assets attributable to the parent company			142.1
Satisfied as follows:			
Total cash consideration paid by the Company and BEE consortium			192.0

The Company has only recently taken control of the mine and as a result the fair values presented are provisional and subject to revision in accordance with IFRS.

30. Related parties

Subsidiaries, associates and joint ventures

Details of subsidiaries, associates and joint ventures are disclosed in note 32 and note 16 respectively.

Directors

Details relating to Directors' emoluments and shareholdings in the Company are disclosed in note 12 and in the Directors' Report (page 38) and the Directors' Remuneration Report (page 47) respectively. Key management remuneration is disclosed in note 12.

There are no material loans to Directors or Senior Management that have not been disclosed in the notes.

During the year a subsidiary of the Company paid US$5.6 million (R39.2 million) (30 June 2010: US$1.2 million (R8.9 million)) to Zeren (Pty) Ltd ("Zeren") for the purchase of specialised plant and equipment. The equipment was supplied to a subsidiary of the Company at Zeren's cost and, given its specialised nature, on an exclusive basis. Mr Dippenaar, Mr Davidson and Mr Abery are all Directors of the Company and are also directors and shareholders of Zeren.

Within the balance sheet as at 30 June 2011 is an amount of US$5.0 million (2010: US$4.6 million) which was paid by the Company to Sirius Resource Fund 1 Limited ("Sirius") as part of a transaction whereby the Company intends to acquire from Sirius an increased interest in the Group's South African operations. Mr Pouroulis was previously an investment consultant to Sirius Investment Management LP ("SIM") which provides investment advisory services to Sirius. During the year to June 2011 Mr Pouroulis was appointed a director of SIM (subsequent to the payment to Sirius referred to above).

Umnotho weSizwe Group (Pty) Ltd ("Umnotho"), one of Petra's BEE partners, holds a 36% interest in the Cullinan mine BEE holding company, Thembinkosi Mining Investments (Pty) Ltd ("Thembinkosi"). The Group has a non-current receivable due from Thembinkosi of US$31.0 million and a non-current payable due to Thembinkosi of US$29.0 million. These sums arise due to the funding that the Group has provided to Umnotho to finance its interests in the Cullinan mine. Mr Abery is a director of Umnotho. Mr Pouroulis and Mr Abery are beneficiaries of a trust that is a shareholder in Umnotho.

Shareholders

The principal shareholders of the Company are detailed in the Directors' Report on page 39.

Transactions with non-controlling interests are detailed in note 22 parts (vi) and (vii).

Nabera Mining (Pty) Ltd

The Company is a 29.5% shareholder in Nabera Mining (Pty) Ltd ("Nabera"), the company that managed the Alexkor diamond mine between 1999 and 2001. During the year ended 30 June 2011, Petra did not incur any expenses on behalf of Nabera (30 June 2010: Rnil (US$nil)). Prior period expenses were incurred in relation to the recovery of the management fee and other amounts due to Nabera from Alexkor Limited and the South African Government. The total expenses incurred on Nabera's behalf of US$0.3 million will be reimbursed to the Company on receipt of the management fee and other amounts due.

Notes to the Annual Financial Statements

For the year ended 30 June 2011 Continued

31. Significant non-cash transactions

US$ million	2011	2010
Operating activities		
Share-based payments	**1.9**	0.9
Foreign exchange gain	**(18.9)**	(5.1)
Reversal of impairment	**(11.7)**	—
Impairment	**5.2**	—
Recycling of foreign exchange differences on exploration projects	**—**	(12.3)
Release of fair value uplift on sales of inventory acquired through second 50% acquisition of CIHL	**—**	26.4
Fair value uplift on acquisition of additional 50% of Cullinan	**—**	(31.0)
Increase/(decrease) in provisions	**1.4**	(2.1)
Shares issued to repay non-current liabilities	**—**	(15.0)
Depreciation of property, plant and equipment	**22.4**	11.9
Amortisation of intangible assets	**—**	1.0
Loss/(profit) on sale of property, plant and equipment	**0.3**	(3.7)
Finance income	**(7.7)**	(7.8)
Finance expense	**11.5**	12.6
	4.4	(24.2)
Investing activities		
Non-cash capital expenditure (capitalisation of borrowing costs and other)	**5.7**	—
Non-cash interest from BEE partners	**5.5**	3.2
	11.2	3.2

32. Subsidiaries

At 30 June 2011 the Group held 20% or more of the allotted share capital of the following significant subsidiaries:

	Country of incorporation	Class of share capital held	Percentage held 2011	Percentage held 2010	Nature of business
Afropean Diamonds (Pty) Ltd	South Africa	Ordinary	**74%**	100%	Mining and exploration
Autumn Star Investments (Pty) Ltd[1]	South Africa	Ordinary	**40%**	40%	Mining and exploration
Blue Diamond Mines (Pty) Ltd	South Africa	Ordinary	**100%**	100%	Mining and exploration
Crown Resources (Pty) Ltd	South Africa	Ordinary	**100%**	100%	Mining and exploration
Cullinan Diamond Mine (Pty) Ltd[2]	South Africa	Ordinary	**74%**	74%	Mining and exploration
Cullinan Investment Holdings Ltd[2]	British Virgin Islands	Ordinary	**100%**	100%	Mining and exploration
Dancarl Diamonds (Pty) Ltd[1]	South Africa	Ordinary	**40%**	40%	Mining and exploration
Ealing Management Services (Pty) Ltd	South Africa	Ordinary	**100%**	—	Services provision
Helam Mining (Pty) Ltd	South Africa	Ordinary	**74%**	100%	Mining and exploration
Kalahari Diamonds Ltd	United Kingdom	Ordinary	**100%**	100%	Investment holding
Kimberley Underground Mines JV	Unincorporated JV	Ordinary	**74%**	74%	Mining and exploration
Koffiefontein Mine JV	South Africa	Ordinary	**70%**[4]	70%	Mining and exploration
Messina Diamonds (Pty) Ltd	South Africa	Ordinary	**100%**	100%	Mining and exploration
Messina Investments Ltd	South Africa	Ordinary	**100%**	100%	Investment holding
Petra Diamonds Southern Africa (Pty) Ltd	South Africa	Ordinary	**100%**	100%	Services provision
Premier Rose Management Services (Pty) Ltd[1]	South Africa	Ordinary	**100%**	100%	Services provision
Sedibeng Diamond Mine JV[3]	Unincorporated JV	Ordinary	**57.5%**	57.5%	Mining and exploration
Sekaka Diamonds (Pty) Ltd	Botswana	Ordinary	**100%**	100%	Exploration
Star Diamonds (Pty) Ltd	South Africa	Ordinary	**74%**	100%	Mining and exploration
Wilcroft Company Ltd	Bermuda	Ordinary	**100%**	100%	Investment holding
Williamson Diamonds Ltd	Tanzania	Ordinary	**75%**	75%	Mining and exploration

1. Although the Company owns 40% of Autumn Star Investments (Pty) Ltd and Dancarl Diamonds (Pty) Ltd, the Company has consolidated its investments on the basis of control and management of daily and strategic operational activities.
2. CIHL, Cullinan Diamond Mine (Pty) Ltd and Premier Rose Management Services (Pty) Ltd are all subsidiary companies, as a result of the additional 50% acquisition of CIHL from Al Rajhi in FY 2010 (refer note 3(b)).
3. The Company owns an effective 57.5% of Sedibeng Diamond Mine JV ("Sedibeng"), through its investment in Messina Diamonds (Pty) Ltd and an effective 17% of Sedibeng through its investment in Autumn Star Investments (Pty) Ltd.

4 The Company owns an effective 74% of Koffiefontein Mine JV, through its investment in Re-Teng Diamonds (Pty) Ltd (refer note 3(a)).

33. Pension scheme

The Company operates a defined benefit scheme and defined contribution scheme. The defined benefit scheme was acquired as part of the acquisition of Cullinan Diamond Mine (Pty) Ltd and is closed to new members. All new employees are required to join the defined contribution scheme. The assets of the pension schemes are held separately from those of the Group's assets.

Defined benefit scheme

The defined benefit scheme, which is contributory for members, provides benefits based on final pensionable salary and contributions.

The pension charge or income for the defined benefit scheme is assessed in accordance with the advice of a qualified actuary using the projected unit credit method. The most important assumptions made in connection with the charge or income were that the return on the funds will be 9.01% (30 June 2010: 11.39%), based on the average yield of South African Government long dated bonds plus 6.47%, and that salaries will be increased at 7.30% (30 June 2010: 7.20%), based on current South African consumer price index plus 1%. The market value of the assets of the defined benefit scheme at 30 June 2011 is R132.8 million (US$19.4 million) (30 June 2010: R140.1 million (US$18.3 million)) and the actuarial valuation of the assets on an ongoing basis represented 116.1% (30 June 2010: 128.7%) of the benefit of R120.6 million (US$17.6 million) (30 June 2010: R108.8 million (US$14.2 million)) that had accrued to members allowing for expected future increases in earnings. The pension surplus is R12.2 million (US$1.8 million) (30 June 2010: R31.3 million (US$4.1 million)). The pension fund values are converted using the year-end foreign exchange rate of US$1:R6.83 (30 June 2010: US$1:R7.65).

US$ million	2011	2010
Defined benefit obligations		
Present value of funded obligations	**(17.6)**	(14.2)
Fair value of plan assets	**19.4**	18.3
Unrecognised net gain – paragraph 58 limit	**(1.8)**	(4.1)
Recognised surplus for defined benefit obligations	**—**	—
Movements in present value of the defined benefit obligations recognised in the statement of financial position		
Net surplus for the defined benefit obligation as at 1 July	**—**	—
Net expense recognised in the income statement	**(0.4)**	(0.4)
Contributions by employer	**0.4**	0.4
Unrecognised surplus due to IAS 19 paragraph 58 limit	**—**	—
Net surplus for defined benefit obligations at 30 June	**—**	—

Notes to the Annual Financial Statements
For the year ended 30 June 2011 continued

33. Pension scheme continued
Defined benefit scheme continued
Refer to note 1.17 for details of the limit applied to recognition of pension surplus asset.

US$ million	2011	2010
Income/(expense) recognised in the income statement		
Current service cost	**(0.5)**	(0.4)
Finance expense	**(1.4)**	(1.2)
Expected return on assets	**2.2**	2.0
Unrecognised net gain	**4.6**	0.3
Recognition in terms of IAS 19 paragraph 58A	**(5.3)**	(1.1)
	(0.4)	(0.4)
Change in the fair value of the defined benefit assets		
Net surplus for the defined benefit obligation as at 1 July	**18.3**	18.0
Foreign exchange movement on opening balances	**2.0**	0.6
Expected return on assets	**1.8**	2.0
Benefits paid to members	**(2.4)**	(2.0)
Contributions	**0.6**	0.5
Actuarial losses	**(0.9)**	(0.8)
At 30 June	**19.4**	18.3
Change in the present value of the defined benefit obligations		
At 1 July	**(14.2)**	(13.4)
Foreign exchange movement on opening balance	**(1.5)**	(0.4)
Benefits paid to members	**2.4**	2.0
Current service cost	**(0.5)**	(0.4)
Finance cost	**(1.4)**	(1.2)
Contributions by members	**(0.2)**	(0.2)
Actuarial losses	**(2.2)**	(0.6)
At 30 June	**(17.6)**	(14.2)
Actuarial gains and losses		
Actuarial losses on plan assets	**(0.9)**	(0.8)
Actuarial losses on plan liabilities	**(2.2)**	(0.6)
Analysis of plan assets		
Cash	**100.00%**	10.00%
Equity	—	75.00%
Bonds	—	15.00%
Property	—	—
Other – offshore	—	—
	100.00%	100.00%

	2011 % per annum	2010 % per annum
Principal actuarial assumptions		
Discount rate at 30 June	**9.01%**	9.39%
Expected return on plan assets at 30 June	**9.01%**	11.39%
Future salary increases	**7.30%**	7.20%
Inflation	**6.30%**	6.20%
Future pension increases	**4.74%**	4.65%

US$ million		
Determination of estimated pension expense for the year ended 30 June 2012		
Member contributions	**0.2**	0.2
Company contributions	**0.4**	0.4
Benefit payments	**(2.6)**	(2.2)
Deferred cumulative actuarial gains/(losses)		
Funded status	**1.8**	4.1
Net change on assets	**1.1**	(0.8)
Net change on liabilities	**(3.4)**	(0.6)
	(2.3)	(1.4)

33. Pension scheme continued

Defined benefit scheme continued

US$ million	2011	2010	2009
Defined benefit obligation trends			
Plan assets	**19.4**	18.3	18.0
Plan liabilities	**(17.6)**	(14.2)	(13.4)
Surplus/(deficit)	**1.8**	4.1	4.6

Assumptions regarding future mortality experience are set based on advice in accordance with published statistics and experience in the fund.

The average life expectancy in years of a pensioner retiring at the age of 65 on 30 June 2011 date is as follows:

	2011	2010
Male	**18.01**	18.01
Female	**22.52**	22.52

Further to the acquisition of the defined benefit fund, the Group has no experience adjustments.

34. Post-retirement medical fund

The Company operates a post-employment health care liability scheme. The post-employment health care liability scheme was acquired as part of the acquisition of Cullinan Diamond Mine (Pty) Ltd and is closed to new members. All new employees will be responsible for funding their own post-employment health care liability costs.

The benefit liability for the post-employment health care liability scheme is assessed in accordance with the advice of a qualified actuary using the projected unit credit method. The Group obtained a valuation using a third party actuary at 30 June 2010 and management has updated that valuation report for 30 June 2011. This is considered sufficient to achieve a materially accurate valuation. The Group's post-employment health care liability consists of a commitment to pay a portion of the members' post-employment medical scheme contributions. This liability is also generated in respect of dependants who are offered continued membership of the medical scheme on the death of the primary member. The most important assumptions made in connection with the charge or income were that the health care cost of inflation will be 6.75% (30 June 2010: 6.75%), based on the average yield of South African Government long dated bonds of 9.25% (30 June 2010: 9.25%), and that salaries will be increased at 5.75% (30 June 2010: 5.75%). The actuarial accrued liability funded status of the post-employment health care liability scheme at 30 June 2011 is R45.5 million (US$6.7 million) (30 June 2010: R40.7 million (US$5.2 million)). The post-employment health care liability values are converted using the year-end foreign exchange rate of US$1:R6.83 (30 June 2010: US$1:R7.65).

US$ million	2011	2010
Post-retirement medical fund		
Present value of post-employment medical care obligations	**6.7**	5.3
Unfunded status at 30 June	**6.7**	5.3
Movements in present value of the post-retirement medical fund obligations recognised in the statement of financial position		
Net liability for the post retirement medical fund obligation as at 1 July	**5.3**	2.0
Arising on acquisition of subsidiary	**—**	2.5
Net expense recognised in the income statement	**0.8**	0.7
Net discount rate change	**—**	0.1
Changes in % continuing at post-employment	**—**	(1.3)
Membership changes	**—**	0.3
Medical care inflation	**—**	0.9
Other	**0.6**	0.1
Net liability for post-employment medical care obligations at 30 June	**6.7**	5.3
Expense recognised in the income statement		
Current service cost	**0.2**	0.3
Finance expense	**0.6**	0.4
	0.8	0.7
The expense is recognised in the following line items in the income statement		
Mining and processing costs	**0.2**	0.3
Finance expense	**0.6**	0.4
	0.8	0.7
Reconciliation of fair value of scheme liabilities		
At 1 July	**5.3**	2.0
Arising on acquisition of subsidiary	**—**	2.5
Net expense recognised in the income statement	**0.8**	0.7
Net discount rate change	**—**	0.1
Changes in % continuing at post-employment	**—**	(1.3)
Membership changes	**—**	0.3
Medical care inflation	**—**	0.9
Other	**0.6**	0.1
Liabilities at fair market value as at 30 June	**6.7**	5.3

Notes to the Annual Financial Statements
For the year ended 30 June 2011 Continued

34. Post-retirement medical fund continued

	% per annum	% per annum
Principal actuarial assumptions		
Discount rate at 30 June	**9.25%**	9.25%
Health care cost inflation	**6.75%**	6.75%
Future salary increases	**5.75%**	5.75%
Net replacement ratio	**60.00%**	60.00%
Net discount rate	**2.34%**	2.34%
Normal retirement age (years)	**60.0**	60.0
Fully accrued age (years)	**60.0**	60.0

US$ million	**2011**	2010
Determination of estimated post-retirement medical fund expense for the year ended 30 June 2012		
Current service cost	**0.2**	0.2
Finance expense	**0.6**	0.5
Benefit payments	**(0.1)**	(0.1)
Cumulative actuarial gains/(losses)		
Unfunded status	**—**	—
Net change on liabilities	**1.3**	0.7
	1.3	0.7

US$ million	**2011**	2010	2009
Actuarial accrued liability			
Funded status	**6.7**	5.2	2.0

Sensitivity analysis

Health care inflation rate

The effect of a 1% increase or decrease in the health care inflation rate on the post-retirement medical fund accrued liability is as follows:

US$ million	**30 June 2011**	**1% increase**	**1% decrease**
Accrued liability	**6.7**	**7.9**	**4.5**
% difference	**—**	**19.7%**	**(31.8%)**

US$ million	30 June 2010	1% increase	1% decrease
Accrued liability	5.3	6.4	4.4
% difference	—	19.9%	(15.8%)

Average retirement age

The table below shows the impact of a one year change in the expected average retirement age:

US$ million	**30 June 2011**	**Retirement one year earlier**	**Retirement one year later**
Accrued liability	**6.7**	**6.9**	**6.2**
% difference	**—**	**4.5%**	**(6.0%)**

US$ million	30 June 2010	Retirement one year earlier	Retirement one year later
Accrued liability	5.3	5.6	5.0
% difference	—	5.9%	(5.5%)

Glossary

"alluvial"	deposits of diamonds which have been removed from the primary source by natural erosive action over millions of years, and eventually deposited in a new environment such as a river bed, an ocean floor or a shoreline
"autogenous mill"	so-called due to the self-grinding of the ore: a rotating drum throws larger rocks of ore in a cascading motion which causes impact breakage of larger rocks and compressive grinding of finer particles
"BEE"	black economic empowerment
"capex"	capital expenditure
"carat" or "ct"	a measure of weight used for diamonds, equivalent to 0.2 grams
"Cpht"	carats per hundred tonnes
"Craton"	a part of the Earth's crust which has been relatively stable for a very long period
"ctpa"	carats per annum
"cut-off grade"	the lowest grade of mineralised material considered economic to extract; used in the calculation of the ore reserves in a given deposit
"diamondiferous"	containing diamonds
"drawpoint"	openings on the sides of the drift going up into a block cave
"EBITDA"	earnings before interest, tax, depreciation and amortisation
"EPS"	earnings per share
"feasibility study"	a definitive engineering estimate of all costs, revenues, equipment requirements and production levels likely to be achieved if a mine is developed; the study is used to define the economic viability of a project and to support the search for project financing
"fissure"	informal term for a narrow, vertical, vein-like kimberlite dyke
"FY"	financial year (1 July to 30 June)
"grade"	the content of diamonds, measured in carats, within a volume or mass of rock
"H1" or "H2"	first half, or second half, of the financial year
"hypabyssal rock"	an igneous rock that originates at medium to shallow depths within the crust and contains intermediate grain size and often porphyritic texture
"Indicated Resource"	that part of a diamond resource for which tonnage, densities, shape, physical characteristics, grade and average diamond value can be estimated with a reasonable level of confidence. It is based on exploration sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed and sufficient diamonds have been recovered to allow a confident estimate of average diamond value (SAMREC Code)
"Inferred Resource"	that part of a diamond resource for which tonnage, grade and average diamond value can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified by geological and/or grade continuity and a sufficiently large diamond parcel is not available to ensure reasonable representation of the diamond assortment. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that may be limited or of uncertain quality and reliability (SAMREC Code)
"kimberlite"	a brecciated ultrabasic igneous rock containing phlogopite mica, bronzite pyroxene and ilmenite; kimberlites may or may not contain diamonds
"kimberlite indicator minerals"	minerals that can help locate the presence and establish the diamond-bearing potential of kimberlite
"ktpa"	thousand tonnes per annum
"Mctpa"	million carats per annum
"Mcts"	million carats
"Measured Resource"	that part of a diamond resource for which tonnage, densities, shape, physical characteristics, grade and average diamond value can be estimated with a high level of confidence. It is based on detailed and reliable exploration sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and grade continuity and sufficient diamonds have been recovered to allow a confident estimate of average diamond value
"Mt"	million tonnes
"Mtpa"	million tonnes per annum
"open pit"	mining in which ore that occurs close to the Earth's surface is extracted from a pit or quarry
"orebody"	a continuous well-defined mass of material of sufficient ore content to make extraction feasible
"OSP"	optical sort plant; a plant designed to capture diamonds that don't fluoresce well under X-ray (i.e. Type II diamonds)
"pa"	per annum
"Probable Reserves"	the economically mineable material derived from a measured and/or indicated diamond resource. It is estimated with a lower level of confidence than a proven reserve. It is inclusive of diluting materials and allows for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, including consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction is reasonably justified
"Proved Reserves"	the economically mineable material derived from a measured diamond resource. It is estimated with a high level of confidence. It is inclusive of diluting materials and allows for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, including consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction is reasonably justified
"rehabilitation"	the process of restoring mined land to a condition approximating to a greater or lesser degree its original state
"ROM"	run-of-mine
"shaft"	an underground vertical or inclined passageway
"slimes"	the fine fraction of tailings discharged from a processing plant without being treated; in the case of diamonds, usually that fraction which is less than 1mm in size
"stockpile"	a store of unprocessed ore
"tailings"	material left over after processing ore
"tailings dump"	dumps created of waste material from processed ore after the economically recoverable metal or mineral has been extracted
"tpa"	tonnes per annum
"tpm"	tonnes per month
"Type II diamonds"	Type II diamonds are defined by containing no detectable nitrogen and are often colourless or brown

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