PetraDiamonds

Entering a new phase

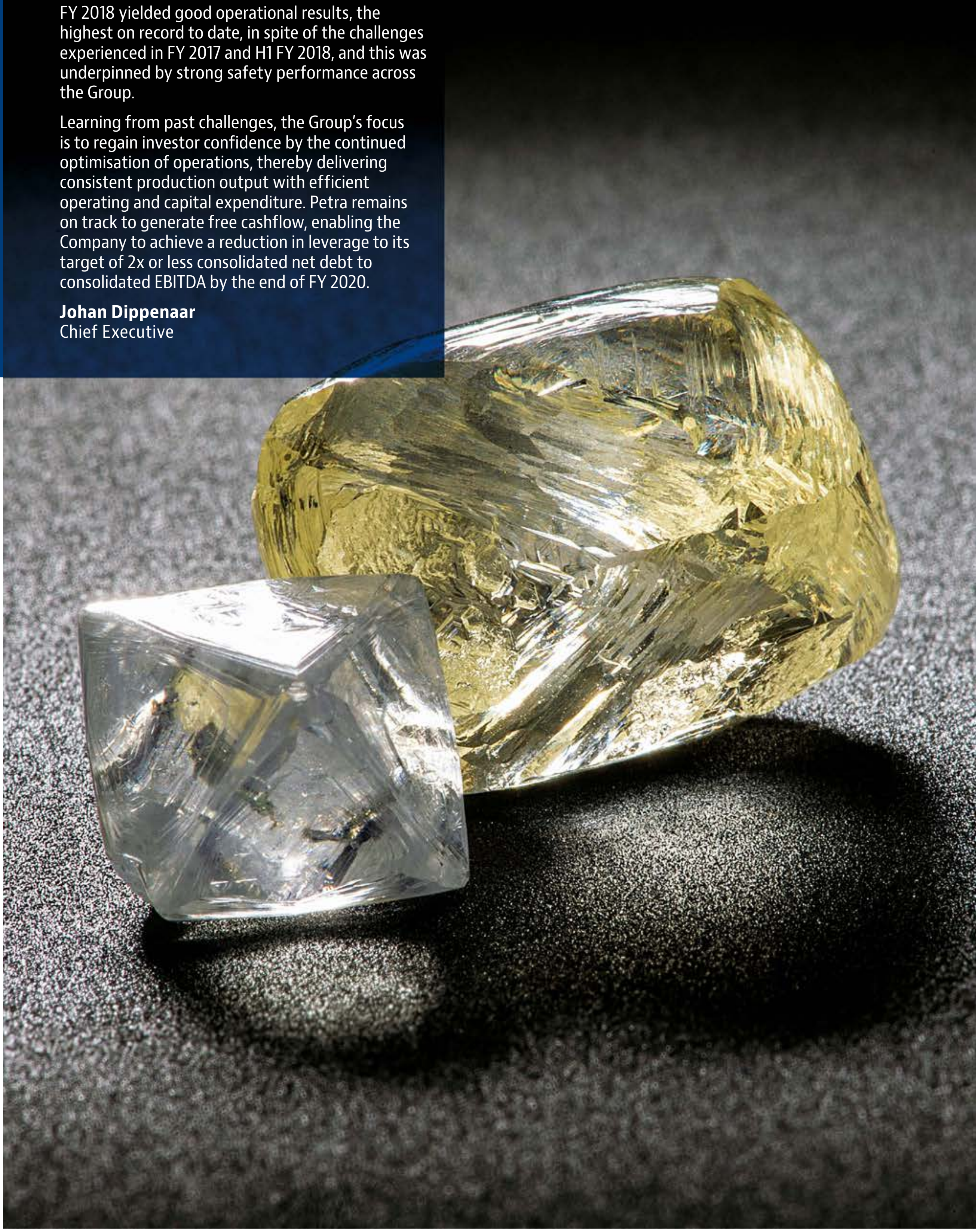
Petra Diamonds Limited
Annual Report and Accounts 2018

Entering a new phase

FY 2018 yielded good operational results, the highest on record to date, in spite of the challenges experienced in FY 2017 and H1 FY 2018, and this was underpinned by strong safety performance across the Group.

Learning from past challenges, the Group's focus is to regain investor confidence by the continued optimisation of operations, thereby delivering consistent production output with efficient operating and capital expenditure. Petra remains on track to generate free cashflow, enabling the Company to achieve a reduction in leverage to its target of 2x or less consolidated net debt to consolidated EBITDA by the end of FY 2020.

Johan Dippenaar
Chief Executive



Petra Diamonds is a leading independent diamond mining group and a consistent supplier of gem-quality rough diamonds to the international market

Petra is quoted with a premium listing on the Main Market of the London Stock Exchange under the ticker ‘PDL’, with US$650 million loan notes due in 2022 listed on the Global Exchange Market of the Irish Stock Exchange.

It is a constituent of the FTSE4Good Index.

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Strategic Report

The Strategic Report should be read in conjunction with the Corporate Governance Statement.

Note: Unless stated otherwise, the financial results are adjusted to exclude the results of KEM JV, which has been reclassified as a discontinued operation for FY 2018 and FY 2017.

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Corporate Governance

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Supplementary Information

Discover more about Petra online
petradiamonds.com

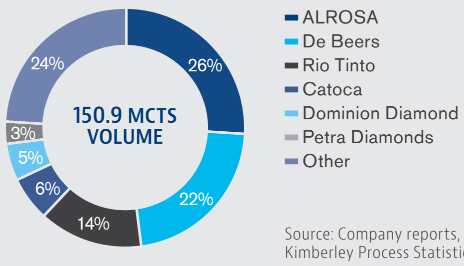
See our Sustainability Report online
petradiamonds.com/sustainability

At a Glance

One of the world's largest diamond resources

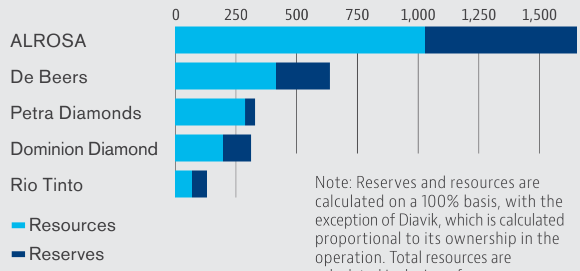
GROUP RESOURCES Mcts	GROUP RESERVES Mcts	EMPLOYEES[1] WORLDWIDE	CONTRACTORS[1] WORLDWIDE	GROUP[1] LTIFR
290.5	42.9	5,502	3,984	0.23
-5%	-16%	-2%	-28%	-15%

WORLD DIAMOND PRODUCTION



Source: Company reports, Kimberley Process Statistics.

RESERVES AND RESOURCES Mcts



Note: Reserves and resources are calculated on a 100% basis, with the exception of Diavik, which is calculated proportional to its ownership in the operation. Total resources are calculated inclusive of reserves.

World diamond production by volume increased by 19% to 150.9 Mcts in 2017 and production by value increased by 15% (Kimberley Process Statistics). Based on FY 2018 results, Petra accounted for 3% of world supply by volume and 4% by value.

Our world-class resource of circa 290 Mcts ranks third by size (after De Beers and ALROSA). This factor, combined with the significant size of Petra's orebodies, suggests relatively long lives for our mining operations (in particular, Cullinan and Williamson have the potential to be in production for over 50 years to come).

Our Market Pages 17 to 21

POSITION IN VALUE CHAIN

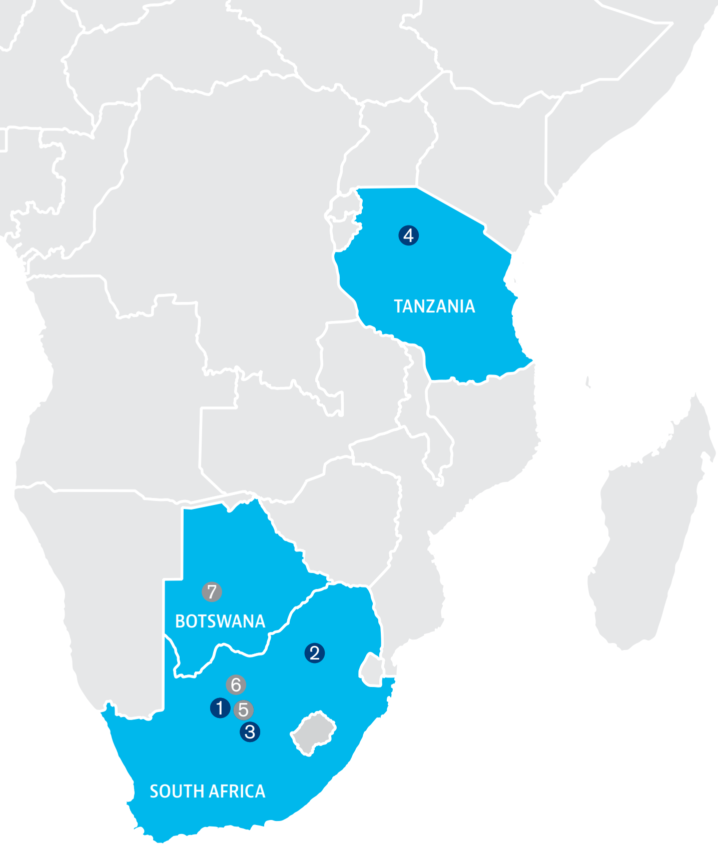
ORE PROCESSED Mt	ROUGH DIAMOND PRODUCTION Mcts	REVENUE US$ million	ROM TONNES Mt
13.7 +14%	3.8 +19%	495.3 +25%	12.1 +29%
ROM CARATS Mcts	**PROFIT FROM MINING[2] ACTIVITIES** US$ million	**ADJUSTED EBITDA[2]** US$ million	**ADJUSTED OPERATING CASHFLOW** US$ million
3.6 +32%	205.1 +33%	195.4 +37%	157.0 +7%
CASH AT BANK[3] US$ million	**DIAMOND DEBTORS** US$ million	**NET DEBT[4]** US$ million	**NET DEBT TO EBITDA[5]** Ratio
236.0 +16%	75.0 +130%	445.7 -15%	2.7 -44%

Note: All figures shown above exclude KEM JV unless stated otherwise.

1. Including KEM JV.
2. Refer to page 168 for definitions of non-GAAP measures.
3. Including restricted cash of US$14.4 million.
4. US$ loan notes (gross) and bank loans and borrowings, less cash at bank and less diamond debtors.
5. Consolidated net debt to consolidated EBITDA.

Focused on Africa

Petra has a diversified portfolio incorporating interests in three underground producing mines in South Africa (Finsch, Cullinan and Koffiefontein) and one open pit producing mine in Tanzania (Williamson). It announced in July 2018 the proposed disposal of its interest in the Kimberley Ekapa Mining JV in South Africa. It also maintains an exploration programme in Botswana and South Africa, which is currently under review.



1 Finsch

A major producer with top-quality infrastructure

OWNERSHIP	**74%**
PRODUCTION	**2.1 Mcts**
REVENUE	**US$231.9m**
MINE PLAN	**TO 2030**

2 Cullinan

One of the world's most celebrated diamond mines

OWNERSHIP	**74%**
PRODUCTION	**1.4 Mcts**
REVENUE	**US$167.0m**
MINE PLAN	**TO 2030**

3 Koffiefontein

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

OWNERSHIP	**74%**
PRODUCTION	**0.05 Mcts**
REVENUE	**US$27.2m**
MINE PLAN	**TO 2031**

4 Williamson

Tanzania's only significant diamond producer

OWNERSHIP	**75%**
PRODUCTION	**0.3 Mcts**
REVENUE	**US$68.5m**
MINE PLAN	**TO 2033**

5 Kimberley Ekapa Mining Joint Venture

The site of South Africa's early diamond rush

OWNERSHIP	**75.9%**
PRODUCTION	**0.8 Mcts**
REVENUE	**US$81.6m**
MINE PLAN	**TO 2035**

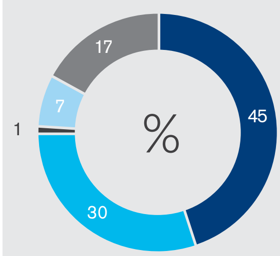
6 7 Exploration

Currently under review

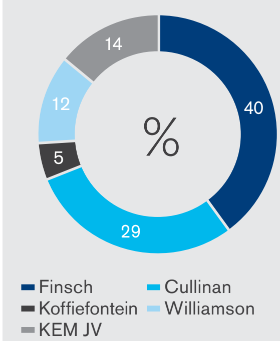
OWNERSHIP	**100%**
FOCUS	**EVALUATION OF KX36 (BOTSWANA) AND REIVILO (SOUTH AFRICA) PROJECTS**
SPEND	**US$0.6m**

FY 2018 split by operation (including KEM JV)

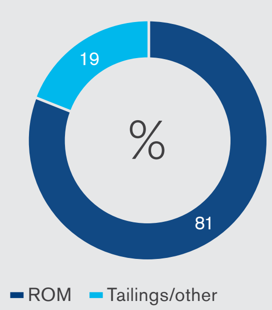
PRODUCTION BY MINE



REVENUE BY MINE



PRODUCTION SPLIT – CARATS



Operational Review Pages 33 to 42

Petra's Partners Pages 169 and 170

Why Invest

Petra's key competitive strengths...

Operational track record

3.8 MCTS PRODUCTION

The Group has built up a team with great depth of experience in the management of diamond mining operations, particularly underground operations, as well as expertise operating in Sub-Saharan Africa.

Our Business Model
Pages 12 and 13

Diversified portfolio

4 PRODUCING MINES FROM FY 2019

The Group's portfolio consists of four producing diamond mines (excluding KEM JV), as well as extensive tailings retreatment programmes, which provides flexibility ensuring that Petra is not overly reliant on the performance of any one operation.

Operational Review
Pages 33 to 42

Major resource base

290 MCTS RESOURCE BASE

Petra has developed a major diamond resource totalling 290 million carats. The careful management of these resources will ensure sustainable, long-life mining operations for the Group for many years to come.

FY 2018 Resource Statement
Pages 175 to 178

Sustainability

9.5 US$ MILLION TRAINING AND DEVELOPMENT PROGRAMMES

Our people are our most important asset as they are tasked with carrying out our strategy. Creating a supportive and rewarding environment in which people can develop their full potential benefits both the individual and Petra, and we invest substantially in the ongoing development of our skills base.

Our People
Pages 50 and 51

Focus on efficiencies

39% ADJUSTED EBITDA MARGIN

Generating operational efficiencies is core to the Group's approach. This is achieved by decentralising operations, simplifying management structures and sharing services across mines, maintaining disciplined on-site and corporate cost control, and designing efficiencies with regards to ore-handling and processing into our expansion programmes.

Our Strategy
Pages 22 to 25

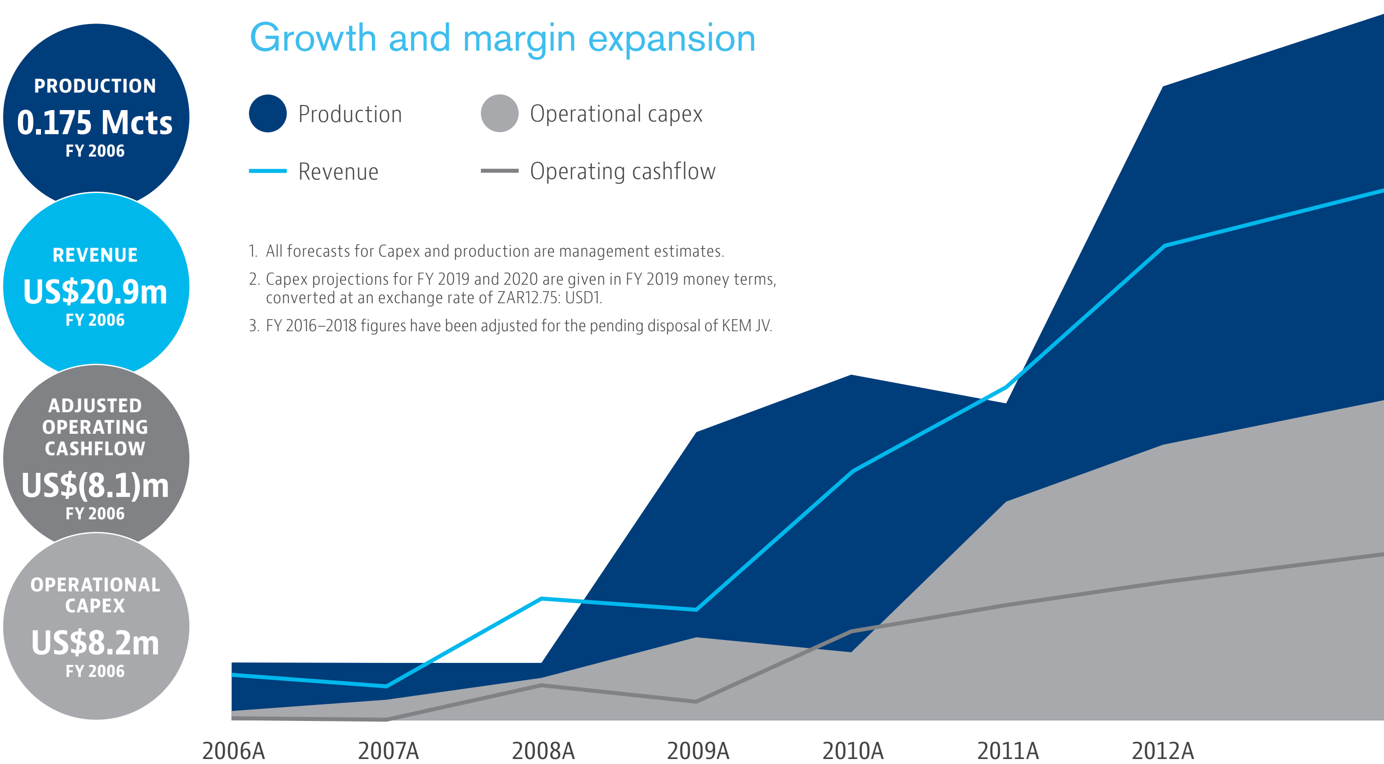
Management culture

11% STAFF TURNOVER

Petra fosters a culture where management is empowered to make decisions suitable to the relevant operations and where innovation and creativity in the workplace are encouraged and rewarded. The ability to apply fresh thinking to our assets and a core objective to keep things simple are also key strengths.

Our People
Pages 50 and 51

Growth and margin expansion



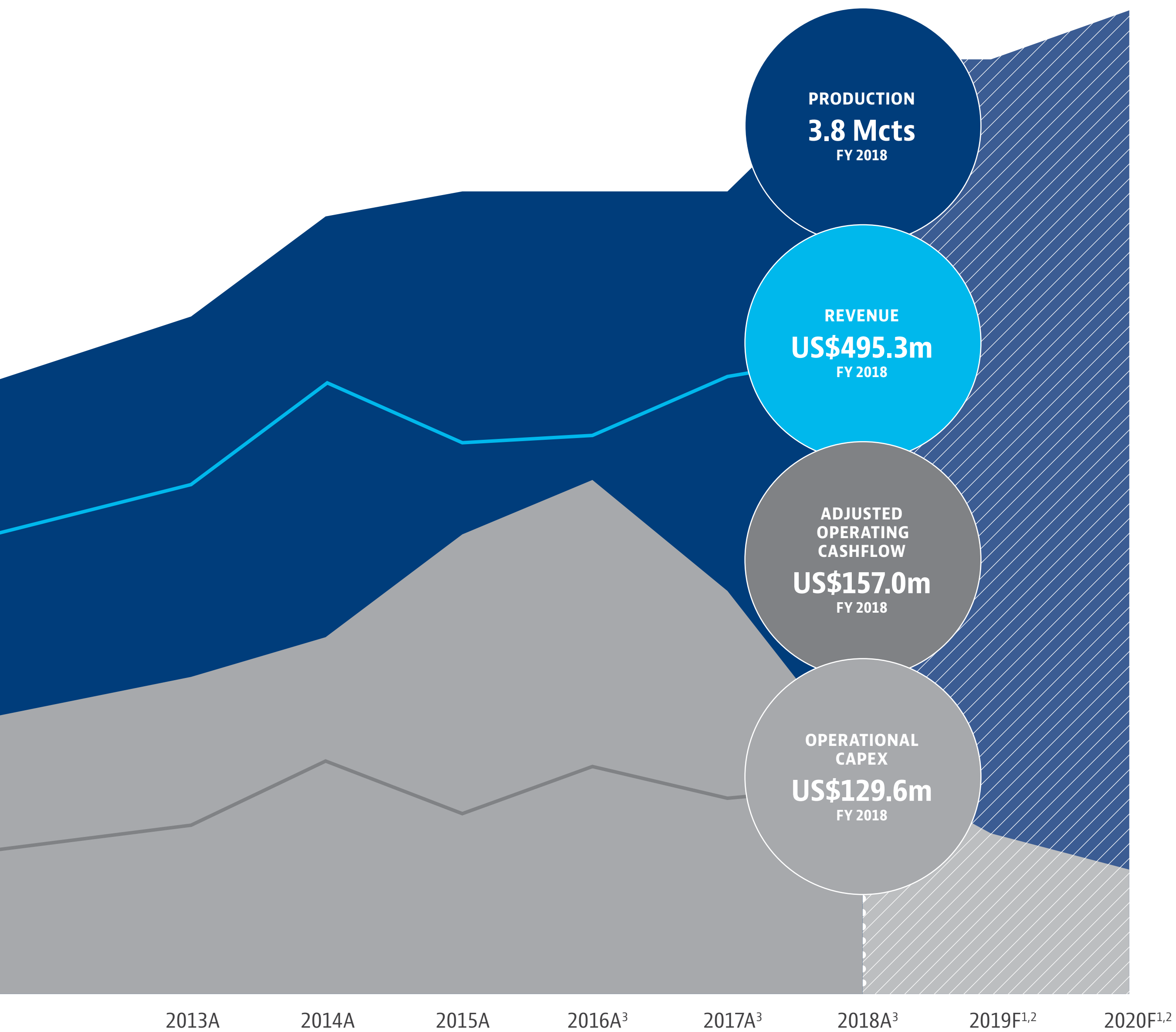
1. All forecasts for Capex and production are management estimates.
2. Capex projections for FY 2019 and 2020 are given in FY 2019 money terms, converted at an exchange rate of ZAR12.75: USD1.
3. FY 2016–2018 figures have been adjusted for the pending disposal of KEM JV.

...entering a new phase

FY 2019 will see a focus on consolidation and optimisation of our portfolio

- Further to the solid operational performance and production growth to 3.8 Mcts in FY 2018, we are guiding for production to be in the range of 3.8–4.0 Mcts in FY 2019[1].
- However, the Company is moving its focus away from higher carat volume production targets to instead focus on value optimisation, in order to maximise profitability and returns for shareholders.
- The majority of production in FY 2019 will be sourced from new, undiluted production areas, namely the Block 5 SLC at Finsch, the C-Cut at Cullinan, the new SLC at Koffiefontein and the open pit at Williamson.
- As the Company transitions from its capital-intensive phase to steady-state operations, its core focus is on further streamlining operations and re-setting the cost base across its portfolio.
- Petra remains on track to generate free cashflow, enabling the Company to achieve a reduction in leverage to its target of 2x or less consolidated net debt to consolidated EBITDA by the end of FY 2020.
- As part of the ongoing review of our portfolio, a binding Heads of Agreement was reached post Year end with regards to the proposed disposal of KEM JV.

1. Excluding KEM JV, following the announcement of its proposed disposal in July 2018.



Chairman's Statement

Positioning for the future

Substantial investment in the Group has transformed the production profile of the asset portfolio and positioned the business favourably to enter into a new phase of steady-state operations.

Dear Shareholder,

It is my pleasure to introduce Petra's 2018 Annual Report, in which we aim to accurately describe the Company and its performance over the last financial year, and to give an outline of its future development, thereby providing a balanced overview of the business as a whole.

Safety first

Of all the progress made in FY 2018, the Board is most proud of the Company's safety performance; our first priority for this Year was to ensure an expeditious improvement in this key area. I am pleased to report that the Group recorded its strongest level of safety performance to date, which not only represents a considerable achievement by the team but also compares very favourably with our industry as a whole. Nevertheless we remain committed to our reaching a zero harm working environment and this ethos underpins our strategy and everything we do.

Rationalisation

One of our strategic priorities is based on realising the potential of the Group's portfolio of assets and this therefore remains under review on an ongoing basis. In H1 FY 2018, Koffiefontein and KEM JV were subject to impairments totalling a combined US$118.0 million, due to the fact that each of the operations has a high level of sensitivity to the strengthening of the Rand on the US Dollar operating costs, coupled with execution risk related to their remaining expansion targets, as well as lower than forecast pricing for KEM JV, as a result of a higher than anticipated proportion of smaller, low value goods, and revised lower pricing at Koffiefontein. In response to the unsatisfactory performance at these operations, a number of management interventions were implemented, including the relocation of key personnel to local management positions, as well as restructuring capital and operational costs.

Shortly after Year end, we announced the proposed disposal of KEM JV. Under the proposed disposal, and subject to competition commission approval, the operation will be transferred to the sole ownership of Ekapa Mining, thereby ensuring its sustainable future, under the stewardship of an operator best suited to maximise its value.

“

An important consideration as we navigate Petra's transition from a development phase to that of steady-state production and optimisation is the recognition and cultivation of the Petra culture.

Adonis Pouroulis
Non-Executive Chairman

Entering a new phase – managing expectations

As Petra reaches the final stages of its expansion programmes, I would like to reflect on its growth to date since FY 2006, during which Petra has produced a total of 27.4 Mcts, generating revenue of approximately US$3.6 billion and operating cashflow of US$1.2 billion and thereby facilitating capital investment of approximately US$1.7 billion. This significant investment period has resulted in the Company's annual production growing from circa 175,000 carats in FY 2006 to circa 4.6 Mcts in FY 2018 and its annual revenue growing from US$21 million to US$576.4 million over the same period (including KEM JV) (see the chart on pages 4 and 5).

Looking forward, we are moving our focus away from higher carat volume production targets to instead focus on value optimisation, in order to maximise profitability and returns for shareholders. The proposed disposal of KEM JV, announced in July 2018, demonstrates the ongoing optimisation of our asset portfolio.

Petra saw solid operational delivery in FY 2018, with the Company remaining in growth mode and delivering its highest levels of production and revenue to date.

The Group has always maintained a close focus on operational costs and productivity and this will continue as we move away from a prolonged period of heavy capital investment towards steady-state production, when we will look to drive efficiencies throughout our operations and to improve cost profiles.

I do, however, feel it is important to note that, cognisant of the frustration of shareholders, as well as the disappointment felt by us as a Company as a result of missing targets, we continue to work on rationalising the goals we set ourselves and improving the resultant forward-looking guidance we provide to the market.

Accelerating a reduction in leverage

Whilst Petra has successfully delivered on the majority of milestones associated with its development plans across the portfolio, its cashflow generation over the last two years has been adversely affected by a combination of the operational delays in FY 2017, combined with a number of business challenges experienced in the first half of FY 2018 (as set out in the Chief Executive's statement on pages 9 to 11).

As a result of higher than anticipated debt levels, due to the aforementioned challenges, Petra has had to seek waivers from its South African lender group on four separate occasions in order to avoid expected breaches of the EBITDA covenants related to its existing senior facilities.

The Board saw it as a priority to address Petra's leverage levels and the cycle of covenant issues. On 24 May 2018, the Company therefore announced a 5 for 8 Rights Issue to raise net proceeds of circa US$170 million via the issuance of 332,821,725 Rights Issue shares at an issue price of 40 pence per share.

This was not an easy decision for the Board, as we had previously been reluctant to issue equity on the basis that we had the capacity to trade through the Company's heavy investment phase (which peaked in FY 2016) into the generation of free cashflow. However, it became evident that the headwinds facing the business and risks associated with the potential for a prolonged period trading under a stronger Rand would pressurise the Company's ability to deleverage within a satisfactory timeframe.

Although the Rand has trended weaker since February 2018, it remains a volatile currency and the potential for strengthening has not dissipated. With 70 to 80% of our cost base in Rand, while diamond sales are carried out in US Dollars, Petra's business remains highly sensitive to currency volatility, as highlighted in our key risks on page 44.

The Rights Issue enabled a reduction in leverage to 2.7x consolidated net debt to consolidated EBITDA at 30 June 2018 (30 June 2017: 3.9x). The Board has set a target to further reduce this ratio to a more sustainable level of 2x or less by the end of FY 2020.

I would like to take this opportunity to thank all our shareholders who supported the Rights Issue, thereby demonstrating their confidence in the business.

Succession planning

FY 2018 saw a number of changes at the top levels of the business, namely the retirement of Technical Director Jim Davidson, the appointment of Jacques Breytenbach (previously Chief Financial Officer) to the Board as Finance Director, and the promotion of Luctor Roode to the new role of Chief Operating Officer from the role of Executive Operations, with responsibility for the operational production delivery for the Group. See pages 88 and 89 for further information.

I would like to personally thank Jim for his remarkable contribution, which has seen Petra grow into a leading mid-tier diamond producer. Jim's knowledge of kimberlite geology, his operational expertise and his understanding of how to target the value within each unique diamond orebody have been integral to Petra's development. It has been a pleasure to work alongside Jim and to absorb some of the phenomenal knowledge he has built up over a career spanning 45 years in the diamond industry, and we are lucky that he has agreed to stay on as a technical adviser to the Board throughout FY 2019 and H1 FY 2020, to ensure continuity with the finalisation of our development programmes.

The Company is continuing to review its Board, Board Committee and Senior Management structures in line with its development from a phase of intensive capital expenditure and expansion to a focus on steady-state operations, as well as to address improving diversity at the higher levels of the business.

To this end, the Company's Nomination Committee, which is currently in year two of its three-year succession plan, is making good progress with plans to make additional changes in FY 2019 in order to ensure the Company has the right mix of expertise and skills. New Non-Executive appointments are currently being finalised and we look forward to making an announcement in this regard in October 2018.

As part of the Nomination Committee Succession Plan, a process to identify a successor for the CEO position has now commenced. In line with the Company's development from a phase of intensive capital expenditure and expansion to a focus on steady-state operations, Johan Dippenaar will be stepping down from the role when an appointment has been made but will continue in the role of CEO until this time and will work closely with the Board to ensure an efficient handover. Johan has led Petra through a long period of significant growth as well as establishing the Company as a leading independent diamond producer. I would like to take this opportunity to express the Board's sincere gratitude for all that he has done for Petra. Read more on pages 88 and 89.

Chairman's Statement continued

Our values

Let's do no harm

Petra considers the health and safety of its employees, and care for the environment, as its top priorities. Management's focus on a zero harm environment requires a zero tolerance approach for any action that results in potential injury to employees.

Let's make a difference

Petra strives to make a real contribution to the 'triple bottom line' (people, profit and planet). This includes enhancing its local environment to the benefit of employees and communities. The Company achieves this through various initiatives which aim to stimulate local socio-economic development, as well as by upholding high standards of environmental stewardship.

Let's do it right

Petra places a high priority on ethical conduct. The Company believes in the responsible mining and sale of its diamonds, and will only operate in countries which are members of the Kimberley Process. As a legitimate diamond miner with operations in South Africa and Tanzania. 100% of Petra's production is fully traceable and conflict free.

Let's take control

Petra believes that employees who are empowered and accountable for their actions work to the best of their ability, and the Company has fostered a culture whereby innovation and creativity in the workplace are encouraged and rewarded. We believe that no one knows our operations better than our own employees and the Company looks to leverage its internal skills base wherever possible.

Let's do it better

Petra strives to generate efficiencies at its operations and applies a 'back-to-basics' approach in order to review and assess areas for improvement at all times; key focus areas are power and water usage, security and effective use of labour. We promote a culture of continuous improvement, in which change is embraced and seen as an opportunity. Using past experience to improve future performance is integral to the Company's success.

Petra's culture and values

An important consideration as we navigate Petra's transition from a development phase to that of steady-state production and optimisation is the recognition and cultivation of the Petra culture, being the values that underpin how we do things at Petra.

This is a topic that influences so many aspects of the business, with the most important clearly being our safety culture, but also the work environment we create to inspire and motivate our people, the policy we have of fair and ethical dealings, and the desire to enhance our local communities and environment, by leaving them in an incrementally better position through our long-term planning and sustainable operations. These values are essential to upholding the high value placed upon our product.

Culture and values are therefore considered by the Board on an ongoing basis and I touch upon this more in my governance report on pages 58 and 59.

Positioning for the future

Substantial investment in the Group has transformed the production profile of the asset portfolio and positioned the business favourably to enter into a new phase of steady-state operations.

I and my fellow Board members who are shareholders chose to take up our rights in full in the Rights Issue, amounting to 12.8 million shares, as we all believe in the future of our business, which is based upon a diversified portfolio of unique diamond assets with substantial mine lives, a high-quality team and a positive market backdrop. Our strategy now is to focus on the consolidation and optimisation of our portfolio in order to maximise cash generation and returns for all our stakeholders.

I would like to take this opportunity to thank each of our employees and contractors for their daily contribution to delivering on our strategy and our vision to be a world-class diamond mining group. Likewise, I would like to thank all of our stakeholders, including our partners, our local governments and communities and our shareholders for their continued support.

Adonis Pouroulis
Non-Executive Chairman
12 October 2018

Chief Executive's Statement

Focused on operational delivery and optimisation

FY 2018 yielded good operational results, the highest on record to date, in spite of the challenges experienced in FY 2017 and H1 FY 2018, and this was underpinned by strong safety performance across the Group.

Targeting zero harm

The number one priority of any business like ours is safety and this sits at the heart of everything we do. We are therefore greatly encouraged by the strong performance in this area over the Year, with the Group reporting an LTIFR of 0.23 (FY 2017: 0.27). Whilst this is a noteworthy achievement, reaching a zero harm workplace remains our key priority and we strive towards this goal. I am pleased to note that our HSSE Committee was further strengthened during the Year and this is covered on pages 90 and 91.

Solid operational delivery

Taking into account the operational delays we experienced in FY 2017, including bringing the new plant at Cullinan on stream and a slower than anticipated ramp-up of the new Sub Level Cave ("SLC") at Finsch, coupled with the business challenges in H1 FY 2018, relating to strikes in South Africa (resolved after two weeks) and the parcel of circa 72,000 carats from Williamson in Tanzania that remains blocked from export, we achieved solid operational results for the Year which is testament to the continued hard work of our team.

Excluding KEM JV, Group production saw an increase of 19% to 3.8 Mcts and revenue grew by 25% to US$495.3 million. As a result of the increased revenue achieved, we recorded a 33% increase in profit from mining activities of US$205.1 million (FY 2017: US$153.9 million), which, coupled with a continued tight control on overheads, resulted in a healthy adjusted EBITDA margin of 39% (FY 2017: 36%). Optimisation of the new plant at Cullinan is ongoing and the recovered ROM grade achieved in Q4 FY 2018 demonstrated the progress being made, and was in line with guidance at 39 cpht.

Reflecting the advanced stages of the Group's expansion programmes, the growth in diamond production for the Year was driven by an increase in higher value carats from ROM operations, with the contribution from lower value diamonds from surface tailings operations decreasing as planned. Underground and surface ROM carats represented 95% of the overall production profile in FY 2018, increasing from 86% in the prior year (both excluding KEM JV).

Based on production recorded in the first two months of FY 2019, the Group is on track to achieve its FY 2019 target of 3.8 – 4.0 Mcts (excluding KEM JV). Grades recovered to date are also in line with expectations, with Cullinan recording a ROM grade of 40.6 cpht in the first two months of the year.

We are pleased to note that Koffiefontein saw improvements towards the end of the Year, as a result of the commissioning of the new ground handling system in Q3 FY 2018; this improved operational delivery was also evident in the first two months of FY 2019. We believe that we have now put the right conditions in place for this mine to start making a positive contribution to the Group in the current financial year.

"Learning from past challenges, the Group's focus is to regain investor confidence by the continued optimisation of operations, thereby delivering consistent production output with efficient operating and capital expenditure.

Johan Dippenaar
Chief Executive

Chief Executive's Statement continued

Focus on costs

In Rand terms, the Group achieved absolute on-mine costs in line with expectations (excluding KEM JV, where expenditure relating to security and other measures associated with illegal mining activities inflated costs); however, the strength of the Rand, as well as the effect of accelerated depreciation, has had a negative impact on US Dollar reported operating costs. Driving cost efficiencies across our asset portfolio will be a focus for the Company going forward.

Reducing Capex profile

Operational Capex (excluding capitalised interest) decreased 46% as a result of our reducing capital profile, and in line with budget, and we expect this trend to continue with circa US$93 million of Capex in FY 2019 (excluding KEM JV and capitalised borrowing costs) and circa US$72 million in FY 2020[1].

Taking into account the lower levels of capital expenditure going forward, Petra's future focus will be on the continued optimisation of operations and the generation of free cashflow. A key part of the Company's strategy going forward will be to drive operational efficiencies throughout the portfolio, with an emphasis on value-over-volume production.

1. Future Capex figures are provided in FY 2019 money term, at an exchange rate of USD$1:ZAR12.75.

National Health and Safety Initiative

In order to address safety performance in the mining industry, the Minerals Council South Africa launched a national campaign of Safety and Health in August 2018. The aim of the initiative was to encourage the mining industry to recommit to its shared goal of "Zero Harm – Safety and Health, First, Always and Every Day".

As part of our commitment to achieving a zero harm workplace, Petra has taken part in this initiative and launched its official campaign with a tour of the operations carried out by our COO, Luctor Roode, other members of Management as well as union and DMR representatives.

In his presentations, the COO focused on the Company's safety performance trend and reaffirmed our core values relating to health and safety. He also highlighted the fatalities that have recently taken place in the mining industry, honouring the deceased with a remembrance ceremony, and stressed the importance of learning from these tragedies.

A key part of this campaign was the introduction of a health and safety pledge, based on a five-finger representation of willpower, leadership, individuality, affection and unity. This was communicated at the presentations and employees were asked to verbally commit to Petra's pledge.

Following the presentations, a six-week initiative was rolled out across the operations, with focus areas including:

- Workplace entry, barring, making safe and declaring safe procedures;
- Safe working at heights practice;
- Safe lifting and rigging practice;
- Emergency preparedness and response procedures (fires and flooding/mud);
- Switching de-energising and lockout procedures;
- Safe trackless mobile machinery operations and traffic control;
- Safety around moving machinery;
- MHSA Section 22; and
- MHSA Section 23.

Commenting on the programme, Luctor Roode said: "Health and safety initiatives will not make a difference if we are not prepared to change our behaviour. Let us all commit to change our behaviour and make this pledge towards the target of zero harm." Read more about safety on page 49.

Work responsibly

Our market

The diamond market was stable throughout FY 2018, though subject to normal seasonal fluctuations in pricing, with Petra's prices on a like-for-like basis up circa 2% for the Year, compared to FY 2017. The market saw seasonal weakness in July to October 2017, with Petra prices on a like-for-like basis down approximately 5% before recovering approximately 1.5% in December 2017, and since increasing by approximately 5% in H2 FY 2018. Such fluctuations in part reflect the seasonal nature of the rough market, due to the fact that retailers are ready to restock after the festive selling season, which includes Thanksgiving in the US, Christmas, Chinese New Year and Valentine's Day, thereby serving to introduce fresh liquidity into the diamond pipeline and draw down inventory levels of polished diamonds. See further detail on pages 17 to 21.

Labour relations

Turning to labour relations, whilst we saw a short period of disruption at the Company's South African mines (except for Cullinan) in September 2017, the new three-year wage agreement reached at the end of that month provided for a more stable environment going forward and the Group continues to enjoy good relations. Read more on page 51.

Our countries and our contribution

Petra makes a valuable economic contribution to the countries in which we operate and a vital part of this is to maintain supportive relationships and open communication with our host Governments and regulators.

In South Africa, a revised draft Mining Charter was published for public comments in June 2018 and the Company subsequently worked with the Minerals Council South Africa to provide submissions and also provided an independent submission directly to the Department of Mineral Resources. On 27 September 2018 the South African Department of Mineral Resources published a new Mining Charter which has served to remove uncertainty and address a number of concerns which we believe will be positively received within the mining industry in South Africa. In particular Petra is pleased to note that, in line with the recognition of the continuing consequences of the once empowered, always empowered principle, existing mining right holders that have achieved a 26% Black Economic Empowerment shareholding will be recognised as compliant for the duration of the mining right.

On 22 August 2018 the Minister of Mineral Resources informed Parliament's Mineral Resources Portfolio Committee of his intention to withdraw the Mineral and Petroleum Resources Development Amendment Bill. Removal of the uncertainty around changes to legislation in this regard has been endorsed by the mining industry.

In Tanzania, Petra is in ongoing dialogue with the Government and local advisers in relation to recent legislative developments and overdue VAT receivables. Petra also continues to communicate with the Government in relation to the blocked parcel of diamonds from Williamson.

Outlook

The Company's capital programmes have required major underground development work at each of the South African assets, significant pit re-shaping at Williamson in Tanzania and substantial processing changes across each of the mines, specifically including the construction of a new fit-for-purpose plant at Cullinan and the rebuilding of the existing plant at Williamson.

As Petra now approaches the final stage of its expansion plans, it is positioned to reap the benefits of this capital-intensive phase by moving the focus to cost efficient production from the new undiluted mining blocks, with a reduced capital spend profile. Learning from past challenges, the Group's focus is to regain investor confidence by the continued optimisation of operations, thereby delivering consistent production output with efficient operating and capital expenditure. Petra remains on track to generate free cashflow, enabling the Company to achieve a reduction in leverage to its target of 2x or less consolidated net debt to consolidated EBITDA by the end of FY 2020.

Johan Dippenaar
Chief Executive
12 October 2018

Multi-stakeholder dialogue

Demonstrating successful multi-stakeholder dialogue and co-operation, KEM JV transferred mining permits to artisanal miners in Kimberley in June 2018.

Annual Relationship by Objective sessions

All of our operations host annual Relationship by Objective sessions as part of our corporate employee relations strategy – Finsch held a two-day session in June 2018.

Our Business Model

Petra is focused on the highest margin segment of the diamond pipeline – the upstream, involving the mining, processing, sorting and sale of rough diamonds.

INPUTS AND THEIR BENEFITS TO PETRA

Responsible leadership
- Sustainable operations
- Uphold the high value placed on diamonds

People and skills
- Company culture
- Productive workforce
- Specialist skills

High-quality assets
- Major resources
- Long-term mine lives
- Diverse product range

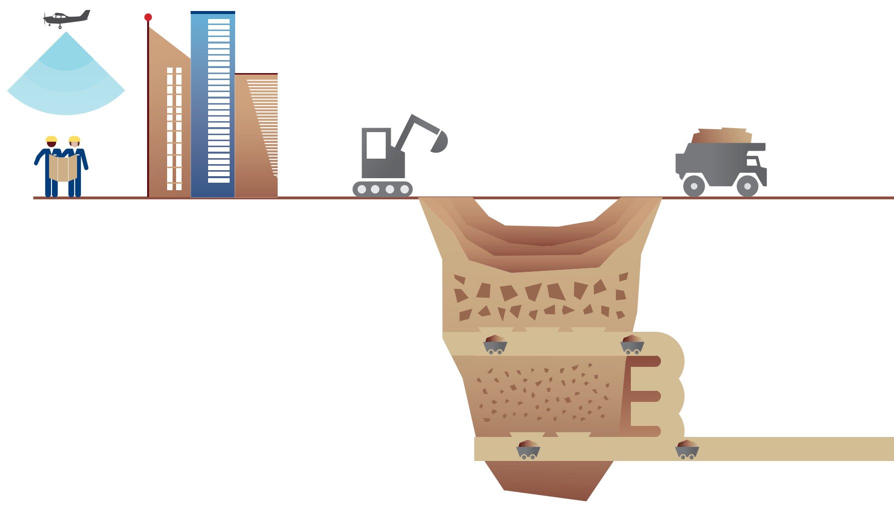
Financial capital
- Robust balance sheet
- Access to diversified sources of capital

Relationships
(including Governments, trade union partners, local communities and BEE Partners)
- Licence to operate

Energy and water
- Sustainable access to energy and water

Technology and equipment
- Extension of mine lives
- Optimisation of operations

WHAT WE DO



Project appraisal

Central to our approach is the identification of the right assets, where we can add value.

HOW WE DIFFERENTIATE

- Petra's Technical team has decades of specialist experience in the appraisal and valuation of diamond orebodies.
- Every kimberlite is unique and must be assessed according to its physical size, its grade (the volume of diamonds held), its diamond population (the size and quality ranges of diamonds recovered) and its cost base under Petra Management.
- Petra focuses on long-life assets with the potential to generate significant cashflow and structures its operations with the long-term viability of the project in mind.

Mining and development

Petra's operations are focused on 'hard rock' kimberlite pipe orebodies.

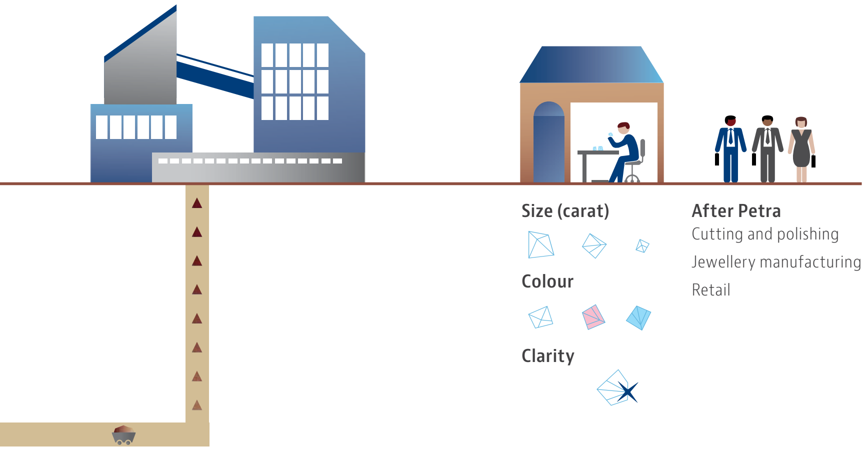
HOW WE DIFFERENTIATE

- Safety is our number one priority and ingrained in everything we do.
- Hard rock orebodies can generally provide for much better predictability and long-term planning than alluvial deposits.
- Petra's Operations team has decades of specialist experience in the management, mining and development of diamond orebodies.
- Petra's approach is to make decisions and get going with a development project, but with the flexibility to continually optimise a mine plan as a project progresses.

STRATEGIC OBJECTIVES TO SUPPORT OUR BUSINESS Our Strategy Pages 22 to 25

Work responsibly
Committed to responsible development

Business rationalisation
Positioning Petra for a sustainable future



Processing

Ore is passed through the processing plant to extract the diamonds from the rock.

HOW WE DIFFERENTIATE

- Petra is focused on value production, rather than volume.
- Plant processes are set to optimise revenue generation from each individual mine orebody, by focusing on where the value lies within its diamond population.
- Petra's team embraces innovation and continually stays abreast of the latest diamond processing technologies.
- Product security is managed through maintaining automated, 'hands-off' processes.

Sorting and sales

Rough diamonds are sorted into 'lots' and then sold through a competitive tender process.

HOW WE DIFFERENTIATE

- Petra has always run its own diamond sales, having developed marketing and sales expertise in-house, and therefore does not pay any sales commission to a third party.
- Petra utilises a competitive tender process for its sales, thereby ensuring maximum competition for its goods.
- Petra's tenders are predominantly held in Johannesburg, which encourages local participation and beneficiation, as well as positioning South Africa as a key diamond hub globally. Sales from Williamson are held in Antwerp.

STAKEHOLDER VALUE CREATION

Employees

- Focus on occupational health and safety
- Sustainable employment
- Culture of empowerment
- Skills development
- Itumeleng Petra Diamonds Employee Trust
- Employee occupational health initiatives

Pages 14, 50 and 51

Customers

- Quality and consistent product offering
- Confirmed provenance and heritage

Pages 14 and 48

Shareholders/bondholders

- Free cash flow generation
- Future returns to shareholders

Page 15

Local communities

- Socio-economic upliftment
- Efficient and responsible use of natural resources
- Promoting environmental awareness
- Community health initiatives

Pages 15 and 54

Host governments/regulators

- Taxes and royalty payments
- Positive impacts on our host countries

Pages 16 and 54

Suppliers

- Benefits to local businesses and suppliers
- Policy of local procurement where possible

Page 16 and 54

Optimise recoveries

Improving operating margins at each mine

Drive efficiencies

Maintaining a culture of effective cost control

Stakeholder Engagement

By responsibly developing its assets, Petra intends to unlock long-term value for each of its stakeholders.

Employees/Contractors

WHY THEY ARE IMPORTANT

- Our people are our most important asset as they are integral to the success of our business.
- Without a skilled, productive, healthy and safe workforce, Petra would be unable to implement its strategy.

HOW WE ENGAGE

- Workplace meetings and internal committees
- Employee briefs and publications
- Notice boards and electronic channels
- Annual CEO tour of operations
- Various mine forums and trade union representation on other committees

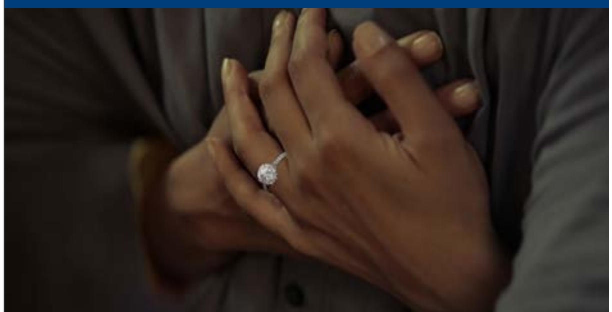
HOW WE DELIVER VALUE

- Salaries, wages and other benefits
  US$139.1 million
- Employee training and development expenditure
  US$9.5 million
- Employees graduated from our Leadership Development Programme since inception in 2008
  115

INFLUENCE ON STRATEGY IN FY 2018

- Continued use of centralised independent Tip-Off Line (implemented in conjunction with an external adviser in FY 2017). All reports are channelled through this single portal with internal oversight and findings presented to the Audit & Risk Committee.
- Regular internal communication surveys conducted and bespoke strategies designed for each site to address shortfalls in internal communication and to capitalise on employee preferences with regards to the use of internal communication media.
- Progressive approach followed to ensure that communication is relevant and speaks to employees' current modes of communication, e.g. use of social media and the development of an interactive Petra Mobile App.
- The establishment of a central information repository or 'Body of Knowledge' to capture, evaluate and appropriately communicate all news, achievements and issues identified at operations.

Customers



WHY THEY ARE IMPORTANT

- Our customers buy the diamonds mined at our operations and are therefore the primary source of revenue for the Group.
- Long-standing relationships with customers ensuring an ethical supply chain for our product.

HOW WE ENGAGE

- Continuous communication with our client base
- Open door policy and high level of business transparency
- Full certification of our products
- Site visits to operations
- Industry advocacy via the Diamond Producers Association ("DPA")

HOW WE DELIVER VALUE

- Conflict-free production
  100%
- Mcts sold[1]
  4.6
- Marketing spend committed by DPA in 2018
  ca. US$70 million

INFLUENCE ON STRATEGY IN FY 2018

- Petra increased its marketing team/office space in order to deal with its higher volumes and strong demand from its client base.
- Trialling of GIA Mine2Market programme to respond to industry move towards demonstrable transparent and ethical sourcing.

1. Including KEM JV.

Shareholders/Bondholders

WHY THEY ARE IMPORTANT
- Shareholders are the owners of the Petra business and each one is important to us.
- Without support from the equity and fixed income markets, Petra would not have been able to access financing over the years in order to develop the Company.

HOW WE ENGAGE
- Regular briefings via public announcements, webcasts, presentations and social media
- Regular direct engagement via meetings, conferences and site visits
- Annual and sustainability reporting
- Dedicated investor relations department

HOW WE DELIVER VALUE
- Total production from FY 2006–FY 2018[1]
  27.4 Mcts
- Total revenue from FY 2006–FY 2018[1]
  $3.6 bn
- Operating cashflow FY 2006–FY 2018[1]
  $1.2 bn

INFLUENCE ON STRATEGY IN FY 2018
- Petra took action to reduce its leverage via the Rights Issue, enabling a reduction in consolidated net debt to consolidated EBITDA of 2.7x and the Board has set a target to reach 2x or less by the end of FY 2020.
- Petra acted on a recommendation to appoint an independent NED (Dr Bartlett) to the Company's HSSE Committee.
- Shareholder and bondholder feedback was communicated to the Board and taken into account in strategic discussions.

Local Communities

WHY THEY ARE IMPORTANT
- The support of our local communities is an important component of our licence to operate.
- A positive role in the community will ensure a sustainable future for Petra and contribute to a favourable Company culture.

HOW WE ENGAGE
- Public participation processes and meetings
- Community newsletters and local media
- Partnerships on socio-economic projects

HOW WE DELIVER VALUE
- Social spend[1]
  US$1.0 million
- Community training spend[1]
  US$0.9 million
- Community members enrolled for portable skills training
  467

INFLUENCE ON STRATEGY IN FY 2018
- Continued wider implementation of the leading stakeholder management approach.
- Further successful roll-out of the Stakeholder Engagement Module ("SEM") software database and scheduling platform to effectively capture and track stakeholder engagement and management, and ensure that issues are addressed and closed.
- Successful roll-out of the Insite system to manage sustainable reporting to internal and external stakeholders.
- The implementation of a standardised and centralised community grievance system, which feeds into the SEM database and ensures resolution of issues raised.
- Use of social and local media to mitigate expectations that the Company should meet all community needs, arising from a climate of continued socio-political instability.
- Petra played a crucial role in the design of and negotiations towards establishing an artisanal mining sector in Kimberley, in co-operation with Ekapa Mining and all relevant authorities.

1. Including KEM JV.

Stakeholder Engagement continued

Host Governments/Regulators

WHY THEY ARE IMPORTANT

- Support from Governments and regulators is required for our social licence to operate.
- Petra ensures it complies in all material respects with all relevant legislation in each of the countries in which it operates. Where new legislation is enacted or regulations are passed, Petra engages with Government when required.

HOW WE ENGAGE

- Continuous consultation
- Scheduled meetings
- Membership of Minerals Council South Africa
- Regulatory site visits and audits

HOW WE DELIVER VALUE

- Taxes and royalties[1]
  US$55.9 million
- Average life of mine plans ranging from 12 years to
  30 years
- Estimated number of dependants on our direct employees[1]
  55,000+
  (using the accepted x10 multiplier effect for South Africa and Tanzania)

INFLUENCE ON STRATEGY IN FY 2018

- Multi-stakeholder agreement reached with the Department of Mineral Resources ("DMR") and other relevant authorities with regards to formalisation of previously illegal mining activity impacting certain KEM JV tailings resources.
- Feedback to Minerals Council South Africa and also an independent submission directly to the Department of Mineral Resources with regards to the proposed Mining Charter III in South Africa prior to its publication in September 2018.

Suppliers

WHY THEY ARE IMPORTANT

- Suppliers provide the goods and services necessary to keep our operations and expansion programmes running.
- Dealing with suppliers who share our values is important to Petra in order to ensure the ethical provenance of our diamonds.

HOW WE ENGAGE

- Supplier induction process
- Supplier days and events
- Local Enterprise Development Centres
- Continuous liaison
- Open door policy

HOW WE DELIVER VALUE

- South Africa procurement expenditure[1]
  US$351.0 million
- BBBEE and HDSA suppliers[1]
  78% of discretionary spend
- Tanzania procurement expenditure
  US$57.2 million

INFLUENCE ON STRATEGY IN FY 2018

- Petra's new eProcure Portal has streamlined the process for new suppliers to register interest with the Company.
- Utilisation of a 'procurement calculator' to ensure the objectives set in the Preferential Procurement Policy are met.
- Petra has developed its procurement software to include environmental management screening before contracts are awarded.
- Dedicated supply chain email address is available to ensure a timely reply to any enquiry.

Total economic contribution[1]

REINVESTED US$ million	GOVERNMENTS US$ million	PROVIDERS OF CAPITAL US$ million	SUPPLIERS US$ million	EMPLOYEES US$ million
146.1 +36%	20.5 +72%	79.2 +65%	196.7 +18%	139.1 -5%

1. Including KEM JV.

Our Market

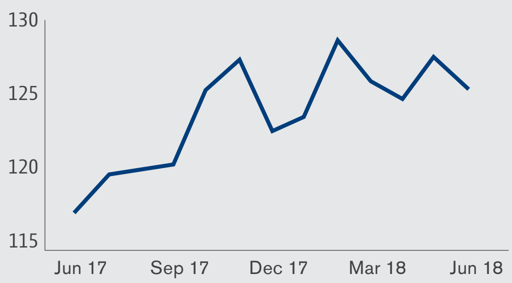
The global economic backdrop

- Global GDP growth started to pick up in mid-2016 and strengthened in 2017 to 3.8%, with global stock markets ending 2017 on record highs and the MSCI all-country world index gaining 22% in 2017.
- The outlook remains generally positive, with the IMF upgrading its world growth forecasts in April 2018 to 3.9% per annum for 2018 and 2019 (previously expected to be 3.7%). This was reiterated in July 2018; however, the IMF noted that the rate of expansion appears to have peaked in some major economies and growth has become less synchronised.
- The US economic outlook is positive, with real GDP growth of 4.2% in Q2 and 2.2% in Q1 of calendar year 2018. Unemployment remained near a 17-year low at 3.9%, as at the end of August 2018. Consumer confidence is now at historically high levels and disposable income is expected to be boosted by the Republican $1.5 trillion tax-cutting package, with tax gains expected to be spent rather than saved.
- Chinese economic data remain robust, with GDP growth of 6.7% in Q2 calendar year 2018 (above the Government's target of 6.5%). Real estate investment continues to remain strong and consumer confidence reached the highest point in ten years in Q1 calendar year 2018.
- India has seen strong GDP growth in 2018, with an 8.2% increase year on year in Q2 calendar year 2018 – the strongest growth rate since Q1 calendar year 2016. Whilst consumer demand decreased in Q2 calendar year 2018, consumer sentiment is still relatively high.
- The luxury market reached annual sales of nearly US$1 trillion at the end of 2017. The outlook for 2018 is quite positive although volatility could threaten market expansion.
- However, risks remain surrounding potential trade war developments, which could impact global growth estimates with a knock-on effect to consumer confidence and behaviour.

All figures above are as at 30 September 2018, unless stated otherwise.

Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, Nielsen survey, Trading Economics, Deloitte.

US CONSUMER CONFIDENCE



Conference Board Consumer Confidence Index: Tracks sentiment among householders or consumers in the US. The results are based on surveys conducted among a random sample of circa 3,000 U.S. households.

CHINA CONSUMER CONFIDENCE

Tracks sentiment among households or consumers. The results are based on surveys conducted among a random sample of households.

Relevance to the diamond market

- Global diamond demand growth is highly correlated to global GDP growth and consumer confidence.
- The outlook for 2018 demand growth remains positive in most of the main diamond consuming countries, based on solid world economic prospects, positive consumer sentiment and continued investment from the diamond industry in category marketing.

Industry developments

De Beers moves into synthetic gem diamonds

While De Beers has long been one of the leading producers of synthetic diamonds for industrial purposes, in May 2018 it surprised the market with the launch of Lightbox, a synthetic gem diamond brand which aims to offer consumers "high-quality fashion jewellery designs at lower prices than existing lab-grown diamond offerings".

Lightbox diamonds will be available in white, pink and blue but will not be graded and will be priced at a fixed rate of US$800 per carat, with sizes ranging from 0.25 carats to 1 carat, meaning they will be valued as much as 75% less than other synthetic gem producers. Lightbox will not enter the engagement ring market; rather, it will offer consumers "affordable fashion jewellery that may not be forever, but is perfect for right now".

DPA and Petra view: It is clear from the Lightbox positioning that they will market synthetic diamonds for what they are, low-cost, pretty stones, and not for what they are not – real diamonds, rare, precious, and inherently valuable.

Blockchain to assist with ethical supply chain

A number of companies are evaluating the use of blockchain, which provides an immutable ledger of chronological transactions, as a way to enhance transparency throughout the diamond pipeline, from mine to retail.

This could help to underpin consumer confidence in diamonds by demonstrating the ethical provenance of tracked stones.

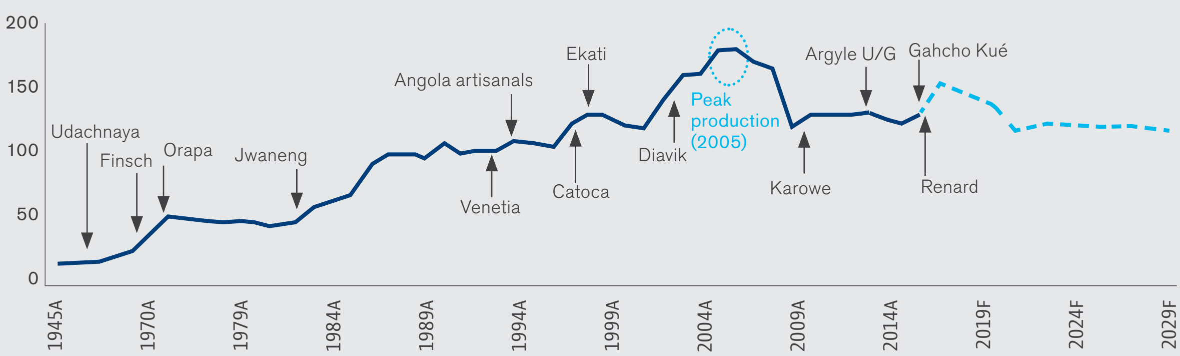
Petra view: We believe that it is a matter of time before a technology such as blockchain is applied to supply chain management in diamond, gemstone and other precious metal industries, and that it could have great benefits in terms of consumer confidence. However, it will require collaboration between all the participants of the pipeline.

Our Market continued

Supply

Supply is expected to have already reached peak production in 2005

GLOBAL DIAMOND SUPPLY: HISTORICAL AND FORECAST ROUGH PRODUCTION Mcts per annum



Source: Kimberley Process Statistics/Canaccord Genuity.

- Diamond supply by value increased by 15% to US$14.1 billion (2016: US$12.3 billion) due to the higher volumes mined.
- Diamond supply by volume increased 19% in 2017 to 150.9 Mcts (2016: 126.4 Mcts).

NB The Kimberley Process Statistics for 2016 were revised down from 134.1 Mcts due to a downgrade of production figures from the Democratic Republic of Congo.

Source: Kimberley Process Statistics.

- While a significant increase, it remains substantially below the high of 177 Mcts reached in 2005, which is believed to represent world 'peak diamond' supply.
- The rise in production was driven by new mines coming into production (Gahcho Kué and Renard in Canada, and Liqhobong in Lesotho), as well as increases from Russia, Botswana, South Africa, the DRC and Australia.

Supply is now on a downward trend

- The world's largest diamond mines are maturing and past their peak production levels, particularly as some open pit producers have to transition to be underground operations.
- The success rate in diamond exploration is estimated to be <1% – no significant finds this century, plus exploration expenditure cut worldwide.
- While three new mines came on stream in late 2016, they are not large enough to impact the overall constrained supply picture.
- Supply is therefore forecast to decrease to circa 145 Mcts in 2018, before declining to circa 115 Mcts by 2030.

Source: Canaccord Genuity.

New developments in FY 2018

- Rio Tinto announced a reduction in Argyle reserves from 29 Mt to 16 Mt, meaning that the mine may cease production as early as 2020 (removing 17 Mctpa from the market).
- ALROSA closed the Mir mine (circa 5 Mctpa producer, 11% of ALROSA's production) further to a flooding accident; it is uncertain at this point when or if this mine will be brought back on stream.
- ALROSA announced that it will cut 0.5–0.8 Mcts from the International mine starting from 2019 further to a revised mine plan related to safety considerations.

Our strategy

Given the poor success rates, Petra does not commit material funds to exploration and has grown by acquiring producing mines.

Growth opportunities in the diamond mining sector are limited due to the small number of economic diamond deposits worldwide; Petra is focused on optimising its portfolio in order to maximise the profitability of its assets.

Demand

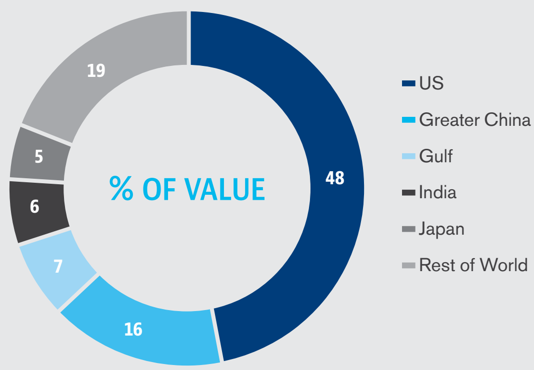
The global diamond jewellery market reached a record high of US$82 billion in 2017

Demand in 2017

- Global consumer market for diamond jewellery increased 2% in USD to US$82 billion (2016: US$80 billion).
- The major United States ("US") market grew 4% to US$43 billion for the first time, supported by job creation, wage growth and positive consumer confidence and spending.
- Demand from Mainland China grew 3% in local currency and returned to positive growth in USD terms, rising +1% in USD to US$10 billion, with growth supported by an improving economic outlook and a 20-year high in consumer confidence. A revival in the Hong Kong market was driven by stronger local demand as well as a resurgence in Mainland visitor shopping.

Source: De Beers Diamond Insight – September 2018.

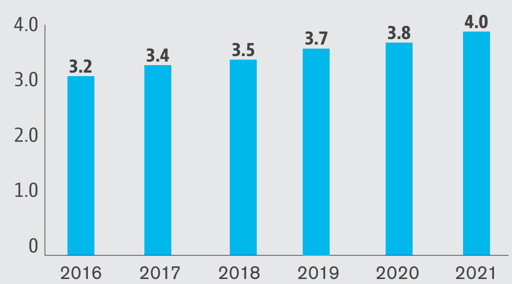
GLOBAL POLISHED DIAMOND DEMAND SHARE BY GEOGRAPHY



Source: De Beers Diamond Insight Report – September 2018.

Demand is expected to continue to rise driven by a number of key drivers

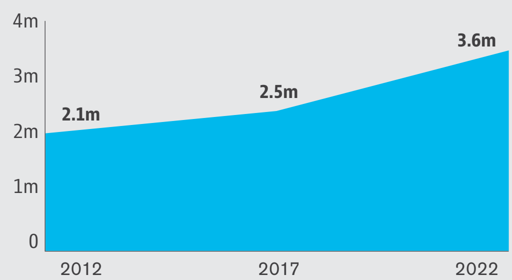
MASS MARKET GOODS Growth in middle classes



160 million people projected to join the global middle class over the next five years.

Source: The Unprecedented Expansion of the Global Middle Class (Brookings, February 2017).

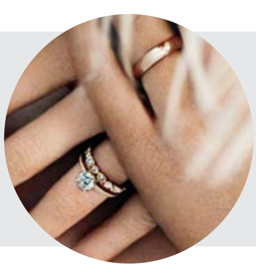
HIGH END GOODS Growth in HNWIs (+US$5m)



HNWI population projected to increase 43% by 2022.

Source: Knight Frank, The Wealth Report 2018.

- Continued steady growth in the major US market.
- Strong desire for diamonds in China; continued economic strength and consumer confidence.
- Increasing wealth globally and an escalation in the number of HNWIs.
- Rise in generic diamond marketing to consumers funded by the Diamond Producers Association – focused initially on the US, India and China.
- The widening appeal of gifting diamonds from traditional milestones (engagements, anniversaries) to multiple moments (e.g. self-reward, work breakthrough, memory of trip/experience).
- Rise in omnichannel and online retail markets.
- Mass luxury (i.e. affordable jewellery items priced from US$200 to US$2,000+) expected to drive the market.
- Strong demand from millennials.



Our strategy

Petra's mines supply the full range of diamonds, a large proportion of which are suitable for the mass luxury market.

Petra is a founder member of the DPA and commits funding annually towards generic diamond marketing to support consumer demand.

Our Market continued

Market performance in FY 2018

A stable market was experienced during FY 2018 with rough prices up circa 2%

THE DIAMOND MARKET WAS STABLE THROUGHOUT FY 2018, IN LINE WITH THE STEADY RETAIL DEMAND FOR DIAMONDS EXPERIENCED OVER THE SAME PERIOD.

Throughout the financial Year, the market saw seasonal weakness in July to October 2017, with Petra prices on a like-for-like basis down approximately 5% before recovering approximately 1.5% in December 2017, and since increasing by approximately 5% in H2 FY 2018. Such fluctuations in part reflect the seasonal nature of the rough market, due to the fact that retailers are ready to restock after the festive selling season, which includes Thanksgiving in the US, Christmas, Chinese New Year and Valentine's Day, thereby serving to introduce fresh liquidity into the diamond pipeline and draw down inventory levels of polished diamonds.

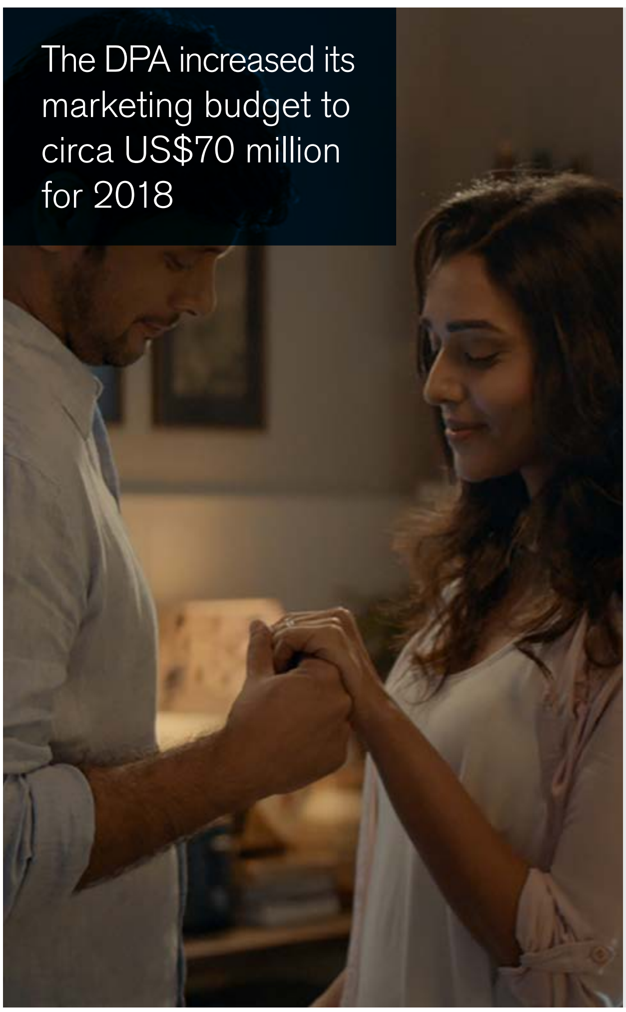
Overall rough diamond prices on a like-for-like basis were up circa 2% for the Year, compared to FY 2017.

DIAMOND PRICES BY OPERATION

Mine	**Actual US$/ct FY 2018**	Actual US$/ct FY 2017
Finsch	**108**[1]	101
Cullinan	**125**[2]	120
Koffiefontein	**525**[1]	506
KEM JV	**108**[1]	100
Williamson	**270**[3]	258

1. In line with expectations.
2. Below historical averages due to lower incidence of higher value stones.
3. Higher average value achieved due to higher incidence of high value stones.

The DPA increased its marketing budget to circa US$70 million for 2018



The DPA represents seven of the world's leading diamond companies, including Petra, and exists to maintain and enhance consumer demand for, and confidence, in diamonds.

An important part of the DPA's mandate is the generic marketing of diamonds, a key support for the industry that has been lacking for a number of years, and to ensure that diamonds remain relevant to the next generation of consumers – the so called 'millennials'.

Since launching its 'Real is Rare – Real is a Diamond' marketing platform in the US, the campaign generated more than 5.5 billion positive diamond impressions and conversations in the US in 2017. Further to precision targeting to US millennials aged 18 to 34, via the use of PR, influencers and social media, the campaign was assessed to have reached 98% of the target consumers who on average would have seen the ads 20 times across multiple media touch-points.

In 2018, the DPA announced its highest marketing budget yet of circa US$70 million for 2018, which will enable it to expand upon its US marketing efforts, as well as supporting its first full year of investment in India (where it launched in November 2017), as well as its commencement of marketing in China in July 2018.

The majority of the DPA's funding is being directed at the major US market and in September 2018, focusing on female self-purchasers. This follows on from DPA research which revealed that self-purchase currently accounts for about one-third of purchases in the US and is growing, with the majority of female respondents surveyed viewing diamond jewellery as a long-term investment in themselves and as a way to feel more confident.

Petra sales and prices

PETRA EXPERIENCED STRONG ATTENDANCE AT ALL OF ITS SALES THROUGHOUT THE YEAR, WITH STEADY DEMAND GENERALLY ACROSS ALL ASSORTMENTS (SIZES, COLOURS AND QUALITIES).

The number of carats sold by Petra increased 14% to 4,550,292 carats, but revenue increased by 21% to US$576.4 million including KEM JV, due to the slightly better like-for-like pricing for the Year, as well as an improving average product mix due to the higher proportion of ROM versus tailings carats in comparison to FY 2017.

Following an assessment of the level of guidance provided by the Company, future price guidance has been removed, and Petra now reports historical and actual prices achieved and provides additional commentary as required to highlight any anomalies.

Post Year end, the Company held its first tender of FY 2019 in early September yielding circa US$78 million, with prices down circa 5% on a like-for-like basis, compared with H2 FY 2018, affected by seasonal weakness as in previous years. Cullinan's average price was in the lower end of historical price ranges.

Cullinan pricing variability

Due to the variability in Cullinan's achieved prices, the following historical price information is provided, which is based on the sale of 7,883,301 carats over the nine-year period FY 2010 to FY 2018 for an average of US$144 per carat:

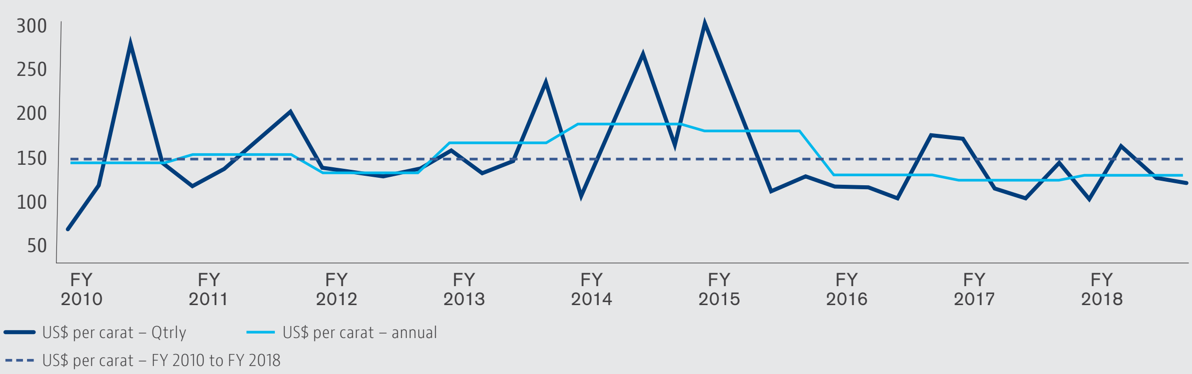
- on an annual basis, a high of US$185 per carat and a low of US$120 per carat was achieved (FY 2017: US$125 per carat);
- on a half-yearly basis, a high of US$247 per carat and a low of US$87 per carat was achieved (FY 2017: high of US$140 and low of US$118); and
- on a quarterly basis, a high of US$293 per carat and a low of US$63 per carat was achieved (FY 2017: high of US$157 and low of US$97).

ROUGH DIAMOND PRICE INDEX[1,2]

Source: Bloomberg.

1. The Bloomberg composite rough diamond index increased from 100 to 203 for the period Jan 2004 to Jun 2018.
2. Excluding the average US CPI of ~2% for the period, this translates to ~3% real price escalation.

PRICE VARIABILITY AT CULLINAN – FY 2010 TO FY 2018 US$ per carat



Our Strategy

Work responsibly

Committed to responsible development

SAFETY
LTIFR

0.23 FY 2017: 0.27

MAJOR ENVIRONMENTAL INCIDENTS

0 FY 2017: 0

Key Performance Indicators
Pages 26 and 27

STRATEGY IN ACTION

Ongoing management of Petra's occupational health, safety, environmental and social impacts and continued employee communication and engagement with all stakeholders.

HOW WE ACHIEVE THIS

- Strive for a zero harm workplace
- Foster a dynamic Company culture in which employees are encouraged to fulfil their true potential
- Develop strong relationships with our stakeholders to support our licence to operate
- Protect and enhance our environment
- Uphold the high value placed on diamonds
- Strive to go beyond compliance by meeting and/or exceeding best practice

PERFORMANCE AGAINST FY 2018 OBJECTIVES

- Safety was our top priority and we achieved an improvement in LTIFR to 0.23 and did not experience any employee or contractor fatalities
  ●●○ MET EXPECTATIONS
- The requirement for a formal stakeholder engagement process to review materiality was not deemed necessary in FY 2018, but Petra continues to engage and record material issues on a continual basis
  ●●○ MET EXPECTATIONS
- Further development of initiatives to enable career development and progress
  ●●○ MET EXPECTATIONS

COMMITMENTS AND OBJECTIVES FOR FY 2019

- Uncompromising commitment to a zero harm workplace focusing on raising occupational health, safety and environmental awareness and enforcing compliance to HSE control measures
- Reassessment of our sustainability strategy in line with Petra's transition from an expansion to a steady-state production focus, including reassessment of our sustainability Material Topics in conjunction with our key stakeholders
- Implementation of HSE campaign in accordance with the HSE business plan

KPIs

- Safety
- Staff turnover
- CSI
- Training spend
- Local employment
- Diversity
- Energy usage
- Water usage
- Carbon emissions
- TSR

RISKS

- Retention of key personnel
- Safety
- Country and political
- Community relations
- Licence to operate
- Labour relations

REMUNERATION

- HSSE performance measures
- TSR performance measures

Business rationalisation

Positioning Petra for a successful and sustainable future

NET RIGHTS ISSUE PROCEEDS
US$ million

Ca. 170

LEVERAGE TARGET
Consolidated net debt: consolidated EBITDA by the end of FY 2020

2x or less

Key Performance Indicators
Pages 26 and 27

STRATEGY IN ACTION

Simplifying and consolidating the business with its long-term success in mind, ensuring the Group has the optimal portfolio, capital structure, skills and strategy.

HOW WE ACHIEVE THIS

- Ensure we have the right people and skills in place, including appropriate Board and management structures
- Achieve annual production targets, with Petra setting guidance for two years
- Manage ROM grade and product mix volatility according to the current phase of our expansion and production programmes
- Deleverage the business in line with specified target
- Improve financial performance through optimised production and resultant cashflows, enabling the reduction of interest-bearing debt and opportunities for returns to shareholders
- Continued optimisation of portfolio

PERFORMANCE AGAINST FY 2018 OBJECTIVES (TO INCREASE OUTPUT)

- Production of 3.8 Mcts (excluding KEM JV) was in line with revised guidance
  ●●○ MET EXPECTATIONS
- The ramp-up of development programmes has been generally in line with expectations apart from underperformance at Finsch and Koffiefontein during H1 FY 2018
  ●○○ BELOW EXPECTATIONS
- Significant training and development of our people took place
  ●●○ MET EXPECTATIONS
- The significant stockpiles built up at Cullinan and KEM JV were processed in FY 2018
  ●●○ MET EXPECTATIONS

COMMITMENTS AND OBJECTIVES FOR FY 2019

- Production guidance of 3.8–4.0 Mcts
- Continue to review and optimise the Board and management structures
- Evaluate the optimal asset portfolio for the business and finalise the sale of KEM JV
- Continue to prioritise training and development of our people
- Reach 2x or less consolidated net debt: consolidated EBITDA by the end of FY 2020

KPIs

- Production
- Revenue
- Capex
- Profitability
- Staff turnover
- Training spend
- TSR

RISKS

- Mining and production
- Financing
- Retention of key personnel
- ROM grade volatility
- Expansion and project delivery
- Safety
- Country and political
- Community relations
- Labour relations
- Licence to operate
- Rough diamond prices
- Currency
- Access to energy
- Access to water

REMUNERATION

- Production performance measures
- Expansion and project delivery performance measures
- TSR performance measures

Our Strategy continued

Optimise recoveries

Improving operating margins at each mine

ADJUSTED EBITDA
US$ million

195.4 +37%

CAPEX
US$ million

129.6 -43%

Key Performance Indicators
Pages 26 and 27

STRATEGY IN ACTION

A higher contribution of undiluted ore from the new mining areas together with the ongoing optimisation of the new Cullinan plant led to an increase in production.

HOW WE ACHIEVE THIS

- Apply the expertise of Petra's team, which has long-term experience in the management of diamond mining operations
- Commit the necessary investment in order to extend the lives of our assets
- Maintain robust balance sheet and financial discipline
- Prioritise 'value' over 'volume' production via optimal plant processes
- Empower operational management and employees
- Approach Capex in a phased way to achieve lower capital intensity

PERFORMANCE AGAINST FY 2018 OBJECTIVES

- Operational Capex reduced to US$129.6 million (excluding capitalised borrowing costs)
  ●●○ MET EXPECTATIONS
- Plant optimisation at Cullinan took longer than expected and remains ongoing
  ●○○ BELOW EXPECTATIONS
- Capex has declined and production risen as expected; net debt reduced to US$445.7 million and adjusted operating cashflow increased to US$157.0 million, despite the negative impact of Tanzania issues, and free cash flow was generated in H2 FY 2018
  ●●○ MET EXPECTATIONS

COMMITMENTS AND OBJECTIVES FOR FY 2019

- Targeting Group Capex of circa US$93.0 million (excluding capitalised borrowing costs)
- Further plant optimisation at Cullinan
- Declining Capex trend and rising production should see the Company's net debt further reduce and free cashflow generation increase

KPIs

- Safety
- Profitability
- Capex
- Staff turnover
- Training spend
- Local employment
- TSR

RISKS

- Mining and production
- Retention of key personnel
- Financing
- Expansion and project delivery
- Cost control and capital discipline

REMUNERATION

- Profit, costs and free cashflow performance measures
- TSR performance measures

Drive efficiencies

Maintaining a culture of effective cost control

CARBON EMISSIONS
tCO_2-e per carat

0.14 -7%

ENERGY EFFICIENCY
kWh/t

28.8 -5%

Key Performance Indicators
Pages 26 and 27

STRATEGY IN ACTION

Despite the 19% increase in production, Petra's strategies to reduce consumption of resources enabled the Company to control its energy usage, carbon emissions and water consumption.

HOW WE ACHIEVE THIS

- Decentralise operations, enhance management structures and share services across mines
- Maintain disciplined cost control on mine and efficient central overhead structure
- Drive efficiencies, particularly in terms of the usage of energy, water and labour
- Upgrade and simplify ore-handling systems
- Use new technology where appropriate to drive improvements

PERFORMANCE AGAINST FY 2018 OBJECTIVES

- Continued focus on optimisation of management structures, systems and internal reporting – Luctor Roode was promoted to COO and revised and improved management reporting systems, capabilities and structures were implemented
  ●●○ MET EXPECTATIONS
- Continued focus on improving our energy and water usage per tonne
  ●●○ MET EXPECTATIONS
- Continued optimisation of ore-handling and plant processes to drive operating cost efficiencies
  ●○○ BELOW EXPECTATIONS

COMMITMENTS AND OBJECTIVES FOR FY 2019

- Further focus on optimising management structures, systems and internal reporting
- Continued focus on improving our energy and water usage per tonne
- Continued optimisation of ore-handling and plant processes to drive operating cost efficiencies

KPIs

- Profitability
- Water usage
- Energy usage
- Carbon emissions
- Staff turnover
- TSR

RISKS

- Retention of key personnel
- Financing
- Expansion and project delivery
- Labour relations
- Cost control and capital discipline
- Access to energy
- Access to water

REMUNERATION

- Profit, cost and free cash flow performance measures
- TSR performance measures

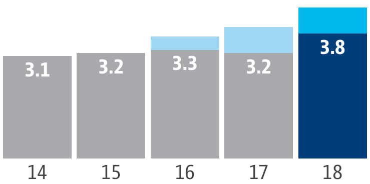
Key Performance Indicators

Petra uses various performance measures of both a financial and a non-financial nature, which are linked to our strategic objectives, to help evaluate the ongoing performance of the business. The following performance measures are considered by Management to be some of the most important in terms of evaluating the overall performance of the Group year on year.

ROUGH DIAMOND PRODUCTION

Mcts

3.8 +19%



STRATEGY

PERFORMANCE AND TARGETS

Production increased 19% to 3.8 Mcts (including KEM JV production was 4.6 Mcts representing a record for the Group), in line with revised Company guidance issued in January 2018. FY 2019 production is expected to reach 3.8–4.0 Mcts, excluding KEM JV.

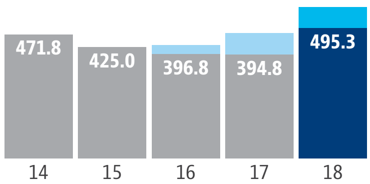
RISK MANAGEMENT

Realistic operational targets, based on detailed mine production planning, with production performance monitored closely.

REVENUE[1]

US$ million

495.3 +25%



STRATEGY

PERFORMANCE AND TARGETS

Revenue increased 25% to a record level of US$495.3 million (excluding KEM JV), due to increased production and sales volumes. Including KEM JV, revenue was up 21% to US$576.4 million.

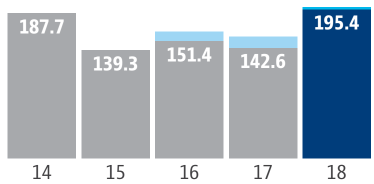
RISK MANAGEMENT

The key factors affecting revenue growth are delivery on production targets and diamond prices (which are outside of the Group's control).

ADJUSTED EBITDA[1]

US$ million

195.4 +37%



STRATEGY

PERFORMANCE AND TARGETS

Adjusted EBITDA increased by 37% to US$195.4 million (FY 2017: US$142.6 million), reflecting an adjusted EBITDA margin of 39% (FY 2017: 36%). The increase was mainly due to higher revenue but partially offset by an increase in mining and processing costs.

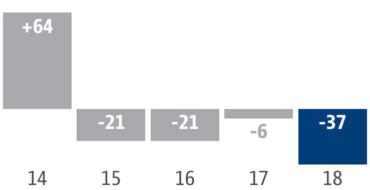
RISK MANAGEMENT

Rigorous operational and financial discipline involving a comprehensive, Board-approved annual budgeting process and monthly monitoring.

TOTAL SHAREHOLDER RETURN ("TSR")

Percentage change

-37 -517%



STRATEGY

PERFORMANCE AND TARGETS

Total shareholder return decreased 37%, due to the depreciation of the share price during the Year. Factors affecting the share price included the downgrade in forward-looking guidance, Petra's balance sheet and leverage levels and the Company's ability to meet its debt facility covenant measurements as well as external factors such as the volatility of the ZAR:USD exchange rate and the blocked Williamson parcel and the operating outlook in Tanzania.

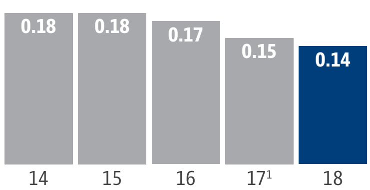
RISK MANAGEMENT

Petra places great importance on open and transparent communication with the market to enable its strategy, current performance and future prospects to be well understood.

CARBON EMISSIONS[2]

Thousand tCO_2-e/ct

0.14 -7%



STRATEGY

PERFORMANCE AND TARGETS

Carbon emitted per carat continued its decreasing trend, down 7%, due to the higher number of carats produced for the Year, as well as the Company's focus on driving energy efficiency. Petra is targeting a 1% reduction in tCO_2-e/ct per annum over five years (2015 to 2020, with FY 2016 being the restated base year) and this target was achieved for the Year.

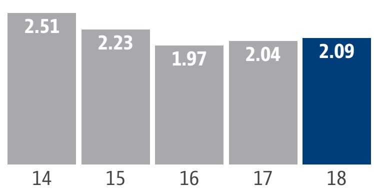
RISK MANAGEMENT

The Group endeavours to continually reduce its reliance on fossil fuel energy sources and to minimise its overall energy usage wherever possible.

WATER USAGE[3]

m^3/t

2.09 +2%



STRATEGY

PERFORMANCE AND TARGETS

Petra's water usage per tonne increased 2% due to the increased requirements as a result of higher ROM tonnages for the Year, specifically at the new Cullinan plant. The Company has a medium-term objective of improving water use efficiency by 1% year on year until FY 2020.

RISK MANAGEMENT

The Group endeavours to continually develop, implement and improve water efficiency measures to reduce the consumption per tonne processed.

1. For five-year summary of consolidated figures see page 167.
2. Updated emissions reporting methodology implemented during FY 2017 means that historical figures are not directly comparable.
3. Consumption is reported per tonne fed to the various plants based on gross tonnes treated, comprising ROM and tailings tonnes, as well as development waste tonnes treated (where appropriate), while specifically excluding recirculating tonnes.

STRATEGIC OBJECTIVES

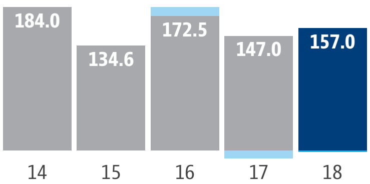
Work responsibly | Business rationalisation | Optimise recoveries | Drive efficiencies

FY 2016, 2017 and 2018 bars have been adjusted for the proposed disposal of KEM JV; light blue indicates KEM JV.

Please note: non-financial KPIs include KEM JV

ADJUSTED OPERATING CASHFLOW
US$ million

157.0 +7%



STRATEGY

PERFORMANCE AND TARGETS

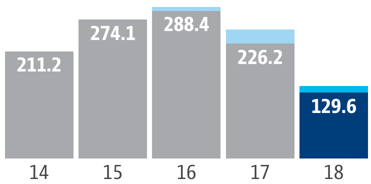
Adjusted operating cashflow (cash generated from operations adjusted for the cash effect of the movement in diamond debtors) increased 7% to US$157.0 million, despite the negative impact of the blocked Williamson parcel and overdue VAT receivables in Tanzania.

RISK MANAGEMENT

Strong financial and operational management, disciplined cashflow forecasting and strong banking and equity relationships assist in managing liquidity.

CAPEX[4]
US$ million

129.6 -43%



STRATEGY

PERFORMANCE AND TARGETS

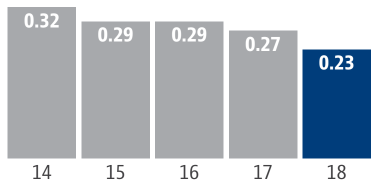
Having reached a peak in FY 2016, Group Capex is now significantly decreasing and was 41% lower for the Year. Operational Capex of US$129.6 million (excluding borrowing costs) was within budget and in line with the Company's reducing capital profile. FY 2019 Operational Capex is guided at circa US$93 million[4].

RISK MANAGEMENT

The Group's annual budgeting process includes detailed Capex requirements per operation and is Board approved. Capex is monitored and cashflow continually reviewed.

SAFETY
Group LTIFR

0.23 -15%



STRATEGY

PERFORMANCE AND TARGETS

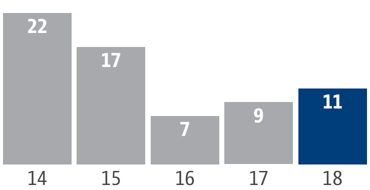
Group LTIFR improved by 15% to 0.23, which is a strong achievement and in excess of our KPI target to achieve a minimum 10% improvement in LTIFR annually. Whilst the Company saw a reduction in risk working hours by 3.7 million due to the advanced stages of the expansion programmes, there was also a clear improvement in overall safety standards. Petra's overriding aim is to achieve a zero harm workplace.

RISK MANAGEMENT

In addition to appropriate risk management processes, Petra has strategies, systems, effective risk-based mitigating controls and training in place to promote a safe working environment.

STAFF TURNOVER
%

11 +22%



STRATEGY

PERFORMANCE AND TARGETS

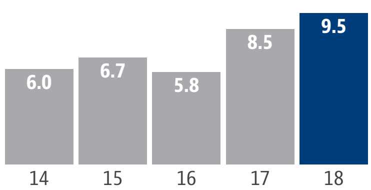
Staff turnover increased to 11% due to retrenchments at Helam, terminations of fixed term contracts of employment at KEM JV and several retirements during the Year. Petra endeavours to maintain turnover rates consistent with industry norms and has a number of initiatives and programmes in place to develop and retain its people.

RISK MANAGEMENT

The Group's employment policies and remuneration strategy are designed to attract, incentivise and retain individuals of the right calibre, as well as retain key management for the longer term.

TRAINING SPEND
US$ million

9.5 +12%



STRATEGY

PERFORMANCE AND TARGETS

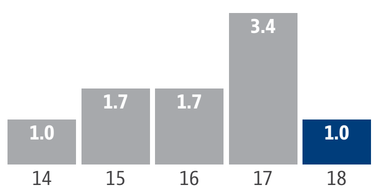
Training spend increased 12% due to an increase in the number of full-time trainees as well as the implementation of the 'True Blue' course, focusing on the engagement of employees in order to unlock their 'True Blue Value'. Petra endeavours for training spend to consistently exceed 5.5% of operations payroll per annum and FY 2018's spend represented 6.8% of payroll.

RISK MANAGEMENT

Petra maintains compliance with the regulatory framework and supports a number of different training and development programmes.

SOCIAL SPEND
US$ million

1.0 -71%



STRATEGY

PERFORMANCE AND TARGETS

Social spend decreased 71% further to the inability to agree on LED projects with external stakeholders. Certain operations are still engaging with stakeholders to identify projects for inclusion into SLPs and this has also affected expenditure for the Year. Petra targets base case spend of 1% of net profit after tax ("NPAT"), however this calculation was not possible for FY 2018, given the negative NPAT recorded.

RISK MANAGEMENT

Petra maintains compliance with the regulatory framework, as well as continual liaison and co-operation with social and institutional stakeholders.

4. Excluding capitalised borrowing costs, in comparable FY 2019 money terms, converted at an exchange rate of ZAR12.75:USD$1.

See how performance indicators are linked to remuneration in the Directors' Remuneration Report Pages 92 to 103

Financial Review

Firm positioning after a challenging year

In spite of the challenges faced during the Year, FY 2018 was the first year during which adjusted operating cashflow exceeded Capex, which represents a milestone in the Company's transition from heavy investment towards steady-state production.

Revenue

Revenue increased 25% to US$495.3 million (FY 2017: US$394.8 million), due to the number of carats sold for the Year increasing 19% to 3,793,799 carats (FY 2017: 3,184,893 carats) and an improving average product mix due to the higher proportion of ROM versus tailings carats.

Diamond inventory as at 30 June 2018 was 529,054 carats/US$54.0 million (FY 2017: 493,296 carats/US$42.3 million), including US$12.4 million attributable to the blocked Williamson parcel, containing 71,564 carats.

Absolute on-mine cash costs in FY 2018 remained in line with expectations, despite ongoing inflationary pressures. On-mine cash costs increased by 20% compared to FY 2017, mainly due to:

- increase in production/volumes treated (8% increase);
- inflationary increases, including the impact of electricity and labour costs (7% increase); and
- the effect of translating ZAR denominated costs at the South African operations at a stronger ZAR/USD exchange rate (5% increase).

Profit from mining activities

Profit from mining activities increased 33% to US$205.1 million (FY 2017: US$153.9 million), mainly due to the increase in revenue partially offset by a 20% increase in costs.

Corporate overhead – general and administration

Corporate overhead (before depreciation and share-based payments) decreased to US$9.1 million for the Year (FY 2017: US$10.7 million).

Adjusted EBITDA

Adjusted EBITDA, being profit from mining activities less exploration and corporate overhead, increased by 37% to US$195.4 million (FY 2017: US$142.6 million), representing an adjusted EBITDA margin of 39% (FY 2017: 36%) driven by an improved product mix.

Depreciation

Depreciation for the Year increased to US$128.0 million (excluding KEM JV) (FY 2017: US$63.3 million), mainly due to:

- the commencement of depreciation relating to newly commissioned assets associated with the expansion programmes;
- accelerated depreciation of US$25.2 million associated with the old Cullinan plant and older mining areas at Finsch and Cullinan no longer in the mining plan (most notably Finsch's South West Precursor above 63L), as noted in the Company's Trading Update and guidance in July 2018; and
- the strengthening of the Rand during the Year.

Historical depreciation (FY 2009 to FY 2018) amounted to circa US$473 million. Depreciation for FY 2019 is expected to be circa US$90 million.

Impairment charge

As a result of the impairment review carried out at Koffiefontein during the Year, the Board recognised an overall impairment charge of US$66.0 million (FY 2017: US$nil). Further details are provided in note 8.

Mining and processing costs

The mining and processing costs for the Year are comprised of on-mine cash costs as well as other operational expenses. A breakdown of the total mining and processing costs for the Year is set out below.

	On-mine cash costs[1] US$m	Diamond royalties US$m	Diamond inventory and stockpile movement US$m	Group technical, support and marketing costs[2] US$m	Adjusted mining and processing costs US$m	Depreciation[3] US$m	Share-based expense US$m	Total mining and processing costs (IFRS) US$m
FY 2018	**261.4**	**14.2**	**(9.5)**	**25.3**	**291.4**	**127.2**	**—**	**418.6**
FY 2017	218.4	4.6	(1.7)	21.3	242.6	62.3	0.1	305.1

1. Includes all direct cash operating expenditure at operational level, i.e. labour, contractors, consumables, utilities and on-mine overheads.
2. Certain technical, support and marketing activities are conducted on a centralised basis.
3. Excludes exploration and corporate/administration.

Loss on discontinued operations – KEM JV

The loss on discontinued operations of US$104.3 million relates to the reclassification of KEM JV as a discontinued operation following a decision by the Board to sell the KEM JV at 30 June 2018 and subsequent binding offer from its joint venture partner Ekapa Mining, to purchase the operation from the Company and its BEE Partners, and consists of:

- an impairment charge attributable to property, plant and equipment and trade receivables of US$92.7 million comprising:
  - a US$52.0 million impairment charge recognised during H1 FY 2018; and
  - a US$40.7 million impairment charge recognised during H2 FY 2018:
    - US$4.2 million impairment of property, plant and equipment in relation to the Bultfontein assets damaged as a result of the mudrush in May 2018; and
    - US$36.5 million (net of anticipated proceeds receivable from the offer to purchase of US$18.6 million) impairment in respect of property, plant and equipment and certain receivables.
- a US$11.6 million charge attributable to KEM JV's net loss for the period 1 July 2017 to 30 June 2018. For comparative purposes, the prior period results for KEM JV have been restated, which show a profit after tax of US$4.6 million. Refer to note 35 for the detailed breakdown.

Net financial expense

Net financial expense of US$85.8 million (FY 2017: US$36.4 million) comprises:

- interest received on bank deposits of US$3.5 million (FY 2017: US$1.7 million); and
- net realised foreign exchange gains on settlement of forward exchange contracts of US$0.9 million (FY 2017: US$nil),

offset by:

- interest on the Group's debt and working capital facilities of US$47.5 million (FY 2017: US$3.9 million) (stated after the capitalisation of interest of US$15.2 million (FY 2017: US$44.1 million) associated with the funding of assets under development); the year-on-year increase is as a result of expansion programmes transitioning to production phases;
- net interest payable on the BEE Partners' loans of US$12.4 million (FY 2017: US$12.8 million);
- net realised foreign exchange losses of US$nil (FY 2017: US$3.9 million) on the settlement of forward exchange contracts;
- net unrealised foreign exchange losses of US$26.2 million (FY 2017: US$8.6 million gain) representing (i) the unrealised foreign exchange gains on the foreign currency retranslation of cross border loans considered to be repayable in the foreseeable future; (ii) unrealised losses on forward exchange contracts; and (iii) unrealised foreign exchange losses on Rights Issue proceeds (refer to note 9 for further detail);
- a charge for the unwinding of the present value adjustment for Group rehabilitation costs of US$4.1 million (FY 2017: US$3.8 million); and
- non-recurring costs of US$nil (FY 2017: US$22.3 million associated with the refinancing and early redemption of the US$300 million loan notes, comprising acceleration of unamortised costs (US$7.3 million previously capitalised) and early redemption premium of US$15.0 million to settle the US$300 million loan notes).

"The Rights Issue resulted in a step change in leverage to 2.7x consolidated net debt to consolidated EBITDA, placing us firmly on track to reach our target of 2x or less by the end of FY 2020.

Jacques Breytenbach
Finance Director

Financial Review continued

One of the key reasons for the Rights Issue was a reduction in leverage. How has it impacted your position?

Consolidated net debt reduced from a peak of 5x consolidated EBITDA at 31 December 2017 to 3.6x consolidated EBITDA through trading in H2 FY 2018. The Rights Issue enabled a stepped reduction in leverage to 2.7x consolidated net debt to consolidated EBITDA, setting us on the right path to reaching a more sustainable level going forward.

What is the leverage target for the business?

The Board has identified 2x or less consolidated net debt to consolidated EBITDA as an appropriate target by the end of FY 2020, which would meet the required distribution covenant in the existing senior facilities, at which level the Company is permitted to pay dividends without consent from the South African Lender Group ("the Lender group").

How confident are you of meeting this?

The consistency in delivery of production has improved significantly over the last two quarters. Achieving the targeted level of 2x or less will be dependent on continued consistent delivery of production, but remains sensitive to diamond prices and the ZAR/USD exchange rate. Recent weakness in the ZAR, post Year end, has given us the ability to extend the hedging of our sales proceeds to partially mitigate this risk.

What will Petra's priorities be when the leverage target is reached?

We wish to ensure the efficient use of free cashflow to reduce interest-bearing debt and to focus on shareholder returns.

What is your strategy with regards to Petra's capital structure?

Following the Rights Issue, all drawn indebtedness with the Lender group was settled in full post Year end (with the facilities remaining available), thereby realising cash interest savings of circa US$12.9 million per annum. We are currently in discussions with our Lender Group in order to simplify the financing agreements with regards to covenants and BEE loan structures.

Business rationalisation

Tax charge

The tax charge of US$13.8 million (FY 2017: US$26.9 million), comprised deferred tax of US$3.3 million (FY 2017: US$24.6 million) and an income tax charge of US$10.5 million (FY 2017: US$1.2 million credit), including the one-off settlement with the South African Revenue Service ("SARS") on the right to claim a deduction on unutilised capital allowances (US$8.2 million), resulted in an increase of US$5.2 million in the Group's deferred tax liabilities and an additional US$3.1 million in current taxation payable.

The current period effective tax rate is higher than the South Africa tax rate of 28% (the Group's primary tax paying jurisdiction) predominantly due to:

- the one-off settlement to SARS as detailed above;
- permanent difference as a result of the Koffiefontein impairment charge;
- loss-making companies where deferred tax assets are not recognised; and
- loss-making companies within the Group based in tax jurisdictions with a 0% tax rate (which, when consolidated, reduces the Group's overall net profit resulting in an increased effective tax rate).

The tax charge for FY 2018 arises due to deferred tax (net of charges and credits), reflecting principally the utilisation of certain capital allowances, predominantly at Cullinan and Finsch during the Year, and South African current taxation payable at Finsch.

Group loss/profit

The Group's net loss after tax is US$203.1 million (FY 2017: US$20.7 million net profit).

Earnings per share

Basic loss per share from continuing operations of 15.85 US$ cents was recorded (FY 2017: 3.14 US$ cents basic earnings per share).

Adjusted basic earnings per share from continuing operations (adjusted for the Koffiefontein impairment charge, net unrealised foreign exchange gains and losses, taxation charge on reduction of unutilised Capex benefits, bond redemption premium and acceleration of unamortised costs and loss on discontinued operations) of 0.50 US$ cents was recorded (FY 2017: 5.50 US$ cents).

Adjusted operating cashflow

Adjusted operating cashflow for the Year increased 7% to US$157.0 million (FY 2017: US$147.0 million), in line with the increase in adjusted EBITDA and the outflow from net working capital changes (excluding the cash effect of the movement of diamond debtors) of US$39.0 million (FY 2017: US$19.0 million outflow), impacted by issues in Tanzania.

Cash and diamond debtors

As at 30 June 2018, Petra had cash at bank of US$236.0 million (30 June 2017: US$203.7 million). Of these cash balances, US$221.6 million was held as unrestricted cash (30 June 2017: US$190.2 million), US$13.6 million was held by Petra's reinsurers as security deposits on the Group's cell captive insurance structure (with regards to the Group's environmental guarantees) (30 June 2017: US$12.6 million) and US$0.8 million was held by Petra's bankers as security for other environmental rehabilitation bonds lodged with the Department of Mineral Resources in South Africa (30 June 2017: US$0.9 million).

Diamond debtors at 30 June 2018 were US$75.0 million (30 June 2017: US$32.6 million). These related to the June 2018 tenders which closed at the very end of the financial Year and were settled shortly after Year end.

Loans and borrowings

The Group had loans and borrowings (measured under IFRS) at Year end of US$754.8 million (30 June 2017: US$757.1 million), comprised of the loan notes plus accrued interest of US$648.1 million (30 June 2017: US$648.1 million) and bank loans and borrowings of US$106.7 million (30 June 2017: US$109.0 million). At 30 June 2018, the Group had debt facilities undrawn and available to the Group of US$2.6 million (30 June 2017: US$5.6 million), in addition to cash at bank of US$236.0 million. In accordance with one of the core objectives of the Rights Issue, the Company fully paid down outstanding drawn indebtedness with its Lender Group post Year end, following receipt of the Rights Issue proceeds; however, the facilities remain available.

Covenant measurements attached to banking facilities

The Group has a number of covenants related to its banking facilities, which can be found on Petra's website at: www.petradiamonds.com/investors/fixed-income-investors/banking-covenants.

Covenant ratios are measured bi-annually on a rolling 12-month period to 30 June and 31 December respectively, with the formal measurement taking place three months after the period end. In the Company's Rights Issue launch announcement on 24 May 2018, it announced that no covenant measurement will be taken for June 2018, further to the South African Lender Group agreeing to waive this covenant measurement period following the completion of the Rights Issue. The Company has since been engaging with the South African Lender Group in order to simplify the financing agreements with regards to covenants and BEE loan structures.

The Rights Issue enabled a reduction in leverage to 2.7x consolidated net debt to consolidated EBITDA at 30 June 2018 (30 June 2017: 3.9x). The Board has set a target to further reduce this ratio to a more sustainable level of 2x or less by the end of FY 2020.

The Group closely monitors and manages its liquidity risk, and cash forecasts are regularly produced and run for different scenarios, indicating that the Group has sufficient cash reserves, without the need to utilise available banking facilities, to meet its working capital and capital development requirements under its forecasts including sensitivities.

The Company expects to be compliant with its financial covenants going forward, but the situation remains sensitive to changes in diamond prices, exchange rates and expected production from the Group's mines, including total carats and mix.

BEE loans receivable and payable

BEE loans receivable of US$64.7 million (FY 2017: US$35.0 million) relate to the acquisition and financing of the Koffiefontein and KEM JV mines by Petra on behalf of its BEE Partners, advances provided to the BEE Partners to enable the BEE Partners to discharge interest and capital commitments under the BEE Lender facilities and other advances to the BEE Partners which have enabled IPDET to make distributions to their beneficiaries. During the Year, the Group advanced US$31.0 million (FY 2017: US$9.2 million) to facilitate the servicing of loan repayments (capital plus interest) by the BEE Partners and distributions by the BEE Partners to the beneficiaries.

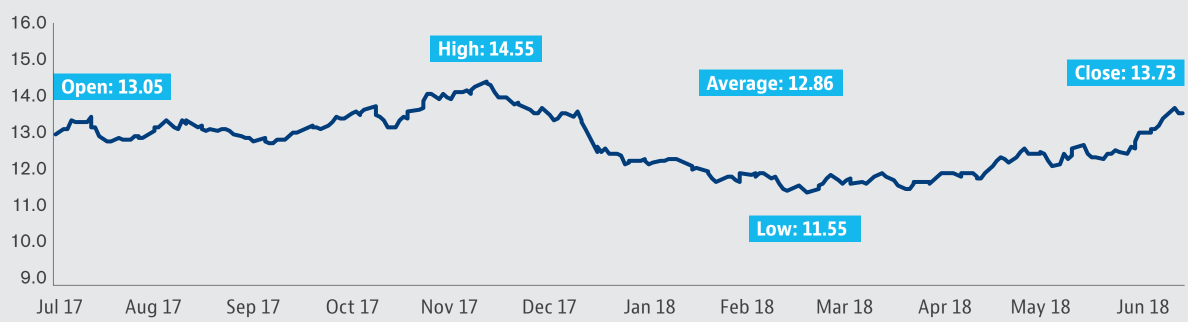
The BEE loans payable of US$110.5 million (FY 2017: US$99.5 million) relate to the initial acquisition loan funding advanced by the Group's BEE Partners to the operations to acquire their investments in Finsch and Cullinan. The repayment of these loans by the mines to the BEE Partners will be from future free cashflows generated by the mining operations.

Refer to note 15 for further detail on BEE loans receivable, payable and guarantees.

Other liabilities

Other than trade and other payables of US$130.8 million (comprising US$34.9 million trade creditors, US$15.5 million employee-related accruals and US$80.4 million other payables) (FY 2017: US$136.7 million), the remaining liabilities on the balance sheet mainly comprise provisions for rehabilitation liabilities, post-retirement employee-related provisions and deferred tax.

USD:ZAR EXCHANGE RATE – 1 JULY 2017 TO 30 JUNE 2018



Financial Review continued

Capex

Total Group Capex (excluding KEM JV) for the Year was US$145.5 million (FY 2017: US$271.7 million), further to peak Capex being reached in FY 2016, comprising:

- US$110.7 million expansion Capex (FY 2017: US$206.4 million);
- US$18.9 million sustaining Capex (FY 2017: US$19.8 million);
- US$15.2 million capitalised borrowing costs with regards to the expansion Capex (FY 2017: US$44.1 million); and
- corporate/exploration Capex of US$0.7 million (FY 2017: US$1.4 million).

Capex	Unit	**FY 2018**	FY 2017
Finsch	US$m	**54.0**	85.6
Cullinan	US$m	**73.9**	151.2
Koffiefontein	US$m	**12.3**	18.8
Williamson	US$m	**4.6**	15.0
Sub-total – Capex incurred by operations	US$m	**144.8**	270.6
Petra internal projects division – Capex under construction/invoiced to operations[1]	US$m	**—**	(0.3)
Total Operational Capex	US$m	**144.8**	270.3
Corporate/exploration	US$m	**0.7**	1.4
Total Group Capex[2]	US$m	**145.5**	271.7

1. The Group (Petra internal projects division and other corporate) incurs capital spend on behalf of the operations and although this spend is reported in the Group's total Capex, it is policy not to account for it on a specific mine's Capex until the work completed is invoiced to the relevant operation.
2. Capex for the Year includes US$15.2 million (FY 2017: US$44.1 million) capitalised borrowing costs.

Selected information on FY 2018 financial position

	Unit	**As at 30 June 2018**	As at 30 June 2017
Cash at bank (including restricted amounts)	US$m	**236.0**	203.7
Diamond debtors	US$m	**75.0**	32.6
Diamond inventories	US$m	**54.0**	42.3
Diamond inventories	Carats	**529,054**	493,296
US$650 million loan notes (issued April 2017)	US$m	**650.0**	650.0
Bank loans and borrowings	US$m	**106.7**	109.0
Net debt	US$m	**520.7**	555.3
Bank facilities undrawn and available	US$m	**2.6**	5.6
Consolidated net debt for covenant measurement purposes	US$m	**531.6**	618.5*
Consolidated net debt to consolidated EBITDA ratio	Ratio	**2.7x**	3.9x*

* Including KEM JV.

Jacques Breytenbach
Finance Director
12 October 2018

Operational Review

Solid progression

Operational performance in FY 2018 represented solid progress for the Group after the challenges of FY 2017 and H1 FY 2018, and places our production on a firm footing, backed up by a strong safety performance.

We have driven safety awareness and compliance relentlessly, ramped up production from new mining areas at all our operations, maintained strict capital and operational cost discipline and upgraded the quality of our portfolio of assets which should set us up for a strong performance in FY 2019.

Final stages of the ramp-up

During FY 2018, the tonnages from Block 5 at Finsch ramped up to 1.64 Mt (0.75 Mt in FY 2017), production from the C-Cut and CC1 East at Cullinan increased to 2.46 Mt (1.20 Mt in FY 2017) and production from the SLC at Koffiefontein increased to 0.67 Mt (0.48 Mt in FY 2017). All of these new areas at the respective mines are expected to ramp up to full capacity during FY 2019. The ramp-up of tonnages from the caves is directly related to an increased number of tunnels and levels (for the SLC) or draw points (for the block cave) from which to load. It therefore provides access to a larger footprint of the orebody in both cases, resulting in finer ore fragmentation as draw points mature, which subsequently requires less secondary breaking, thereby improving the efficiency of loading activities. This provides two benefits: additional flexibility for volumes mined as well as less variability in recovered grades.

Including KEM JV, ROM carats accounted for circa 81% of the Group's overall production profile in FY 2018 (FY 2017: 71%), supporting an improved product mix for the Year. Excluding KEM JV, underground and surface ROM carats contributed for circa 95% of the Group's overall production profile in FY 2018 (FY 2017: 86%). The improved product mix is expected to continue into FY 2019.

FY 2018 performance and current focus

FY 2018 production (excluding KEM JV) rose 19% to 3.8 Mcts (FY 2017: 3.2 Mcts), due to the underground expansion programmes continuing to ramp up and the resultant higher contribution of undiluted ore from the new mining areas together with the ongoing ramp-up of the Williamson plant and the new Cullinan plant.

I would like to highlight some of the successes achieved and challenges faced during the Year as well as commenting on our current focus in FY 2019:

- The challenges experienced at Finsch in FY 2017 associated with long hole drilling and blasting have been resolved with the current focus being on the completion and optimisation of the ore-handling system, managing the expected coarse fragmentation from the upper levels of the SLC and bringing all tunnels on the first three levels into production.
- The exclusion of the South West Precursor from the mine plan at Finsch has reduced guidance for FY 2019 from 3.5 Mt to 3.2Mt; however, due to its relatively small size, this is not expected to materially affect the economics of the overall orebody and the Group will continue to assess plans to optimise tonnages.
- The underground ramp up at Cullinan progressed in line with expectations and the new plant, which is still being optimised, operated at planned throughput rates. The current focus is on the completion of the construction of the C-Cut third crusher, implementation of the shaft to plant interface, construction of draw bells allowing mining across an increasing footprint and managing the coarse fragmentation expected in the early part of the life of the block cave.
- Volumes mined from the SLC at Koffiefontein in FY 2018 were below expectation due to the delayed completion of the ground handling system. This system, however was successfully commissioned in Q3 FY 2018, with the major benefit being noted in production during Q4, when tonnages hoisted ramped up to over 230 Kt for the quarter. We believe we have now put the right conditions in place for this mine to make a positive contribution to the Group in FY 2019.
- Production at Williamson increased by 51% to 341,102 carats, a level which has not been achieved since the late 1970s, representing a commendable achievement by the team, specifically when taking into account the impacts of liquidity constraints due to the blocked parcel and overdue VAT receivables.

Operational Review continued

2018 Resource Statement

Petra manages one of the world's largest diamond resources of 290 Mcts and this major resource implies that the potential mine lives of our core assets could be considerably longer than the current mine plans in place at each operation, or could support significantly higher production rates.

As at 30 June 2018, the Group's gross diamond resources (inclusive of reserves) decreased 4.8% to 290.48 Mcts (30 June 2017: 304.97 Mcts), due to depletion by mining activity at all operations and the proposed disposal of Petra's interest in KEM JV. A new Resource estimation exercise for Cullinan is currently in progress. The Group's gross diamond reserves decreased 16.1% to 42.92 Mcts (30 June 2017: 51.13 Mcts) due to depletions at all operations, the exclusion of the KEM JV Reserves, and a reduction in the recovered grade in the Cullinan life of mine ("LOM") planning, as a result of the revised grade guidance issued at the time of the H1 FY 2018 Trading Update.

Exploration

As Petra continued to focus on the ramp up of its development programmes at its producing operations, only limited budget was committed to exploration in FY 2018 of US$0.6 million (this was also the case in FY 2017, with US$0.6 million spent). All exploration programmes are currently under review.

FY 2018 Resource Statement
Pages 175 to 178

FY 2018 Operations Results Tables
Pages 171 to 173

Entering a new phase

As we near the end of a ten-year phase of heavy investment on expansion programmes, Petra is now putting its capital programmes to work. Access to an ever increasing footprint across the sub-level caves and block caves with multiple levels, tunnels and draw points, has enabled increased ROM tonnages. The improvement in ratios of blasted tonnes to column tonnes and ongoing progress with optimisation of infrastructure is enhancing efficiencies.

We intend to build on the firm foundation that has been put in place with a focus on further improving operational performance and considering the appropriate balance between cash returns and value accretive growth options from within our current portfolio of assets.

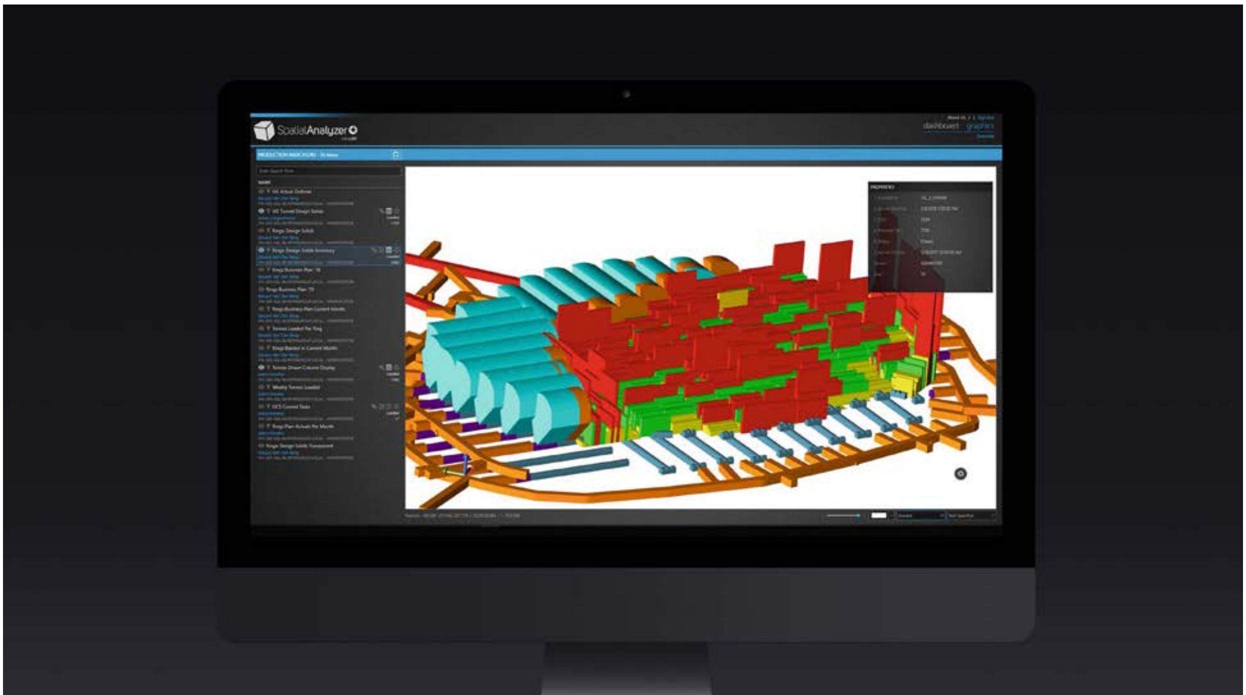
Luctor Roode
Chief Operating Officer
12 October 2018

> The future focus of the Group will be on consistent delivery whilst continuing the optimisation of production volumes and cost structures across our portfolio of assets in order to maximise cash generation.

Luctor Roode
Chief Operating Officer

Combined operations (excluding KEM JV)

	Unit	FY 2018	FY 2017	Variance
Sales				
Diamonds sold	Carats	**3,793,799**	3,184,893	+19%
Revenue	US$m	**495.3**	394.8	+25%
Production				
ROM tonnes	Mt	**12.1**	9.4	+29%
Tailings and other tonnes	Mt	**1.6**	2.6	-39%
Total tonnes treated	Mt	**13.7**	12.0	+14%
ROM diamonds	Carats	**3,649,704**	2,761,464	+32%
Tailings and other diamonds	Carats	**186,132**	451,315	-59%
Total diamonds	Carats	**3,835,836**	3,212,779	+19%
On-mine cash costs	US$m	**261.4**	218.4	+20%
Capex				
Expansion	US$m	**110.7**	206.4	-47%
Sustaining	US$m	**18.9**	19.8	-5%
Borrowing costs capitalised	US$m	**15.2**	44.1	-65%
Total Operational Capex	US$m	**144.8**	270.3	-47%



Using digitalisation to improve the quality and efficiency of our core mining activities

Typically, mine planning across any time horizon is a time-consuming and laborious process and it is often only possible to create and assess one mine plan per annual planning cycle. The main issue is the requirement to draw CAD mine designs manually, which then need to be sequenced and scheduled. However, the handover from mine planning to financial costing and budgeting could also be improved. Parametric planning using the MineRP Planner will transform our mine planning and dramatically reduce the processing time for mine design, sequence and scheduling activities.

In FY 2018 we incorporated the MineRP Enterprise solution at Finsch, completing our Spatial Digitalisation Project. This project has the potential to improve collaboration across disciplines and allow our managers to make good decisions based on visual, interactive representations of the technical aspects of our mines. Such information and decision making will ultimately improve the quality and productivity of our core mining activities as well as contributing to gains in efficiency.

In addition, the Spatial Database will allow for 2D and 3D data to be stored centrally and managed in a single, integrated system. Information will be easily accessible in near real time, using a centralised, up-to-date system. As an example of its benefit, it will eliminate the need to manually capture long-hole drill data.

Luctor Roode commented: "I am very excited about the successful implementation of the system as it will not only allow for faster, better decision making leading to a more efficient and productive mine, but its implementation at Finsch will also pave the way for it to be used at all of our operations."

Work responsibly | Optimise recoveries | Drive efficiencies

Operational Review continued

REVENUE[1] CONTRIBUTION	CARAT[1] CONTRIBUTION	REVENUE US$ million	PRODUCTION Mcts	AVERAGE PRICE PER CARAT US$
40%	45%	231.9 +7%	2.1 -4%	108 +7%

FY 2018 saw the Block 5 Sub Level Cave ("SLC") ramp up further to deliver a significant increase in undiluted ore tonnages and an improvement in the ROM grade.

Work responsibly

Finsch won the 'National Winner of the Diamond Category' safety award at the national MineSafe conference for the third consecutive year.

Business rationalisation

The Block 5 SLC ramped up further and delivered circa 1.64 Mt in FY 2018 (0.75mt in FY 2017).

Optimise recoveries

The average value per carat rose 7% due to the higher average ROM grade.

Drive efficiencies

Improving tonnages extracted per ring drilled and blasted in the Block 5 SLC from circa 1,500t to over 3,000t per ring.

Performance in FY 2018

Finsch delivered 45% of Petra's total carat volume in FY 2018, with the new mining blocks contributing 57% of the mine's carats. ROM production increased 6% to 1,926,467 carats (FY 2017: 1,818,454 carats) driven by a higher average ROM grade of 62.5 cpht (FY 2017: 56.6 cpht), positively impacted by the treatment of higher grade surface ROM material, coupled with the increase in undiluted tonnes from the new Block 5 SLC.

This partially offset the underperformance of ROM tonnage throughput due to lower tonnes from the South West Precursor ancillary orebody ("SW Precursor"), where production was curtailed due to safety concerns around the stability of the ground conditions in the vicinity of the mining area. This has necessitated a reassessment of the manner in which the SW Precursor orebody can be accessed.

Overall production decreased 4% to 2,073,477 carats (FY 2017: 2,149,896 carats), with the increase in ROM production being offset by the planned reduction in tailings production, which decreased to 147,010 carats (FY 2017: 331,442 carats).

1. Including KEM JV.

Revenue increased by 7% to US$231.9 million (FY 2017: US$216.7 million) mainly due to the greater weighting of higher value ROM carats (as opposed to lower value tailings carats) in the overall production profile and the resultant 7% improvement in the average value per carat to US$108 (FY 2017: US$101).

Costs

The on-mine cash unit cost of ZAR329/t represented an increase of 30% from FY 2017 (ZAR 253/t), but lower than guidance, mainly due to the planned reduction of treatment of lower cost tailings tonnes and an increase in drilling and blasting activities associated with SLC mining. As the mine transitions from a capital-intensive expansion phase into a steady-state production phase, the right sizing and streamlining of the cost structure at Finsch will be a priority focus in FY 2019.

Capex

FY 2018 expansion Capex of US$42.3 million was mainly spent on underground development and infrastructure relating to the Block 5 SLC.

Development plan

Petra's development plan at Finsch is due to increase higher value ROM throughput from 3.1 Mt in FY 2018 to 3.2 Mt in FY 2019. The company will continue to assess plans to achieve optimal throughput rates at Finsch, balancing tonnage volumes, carat production and cost profiles in order to further improve the value contribution of the operation. Mining is currently ramping up in the new Block 5 SLC over four levels from 70 Level to 78 Level and this is expected to deliver circa 2.7 Mt in FY 2019, with the remaining tonnes to be sourced from the ROM overburden dumps.

Petra's initial mine plan has a life to 2030, but resources in Block 6 are expected to prolong the actual LOM. The mine has a significant gross resource of 42.9 Mcts.

A schematic of the Finsch mine and orebody is available on Petra's website
petradiamonds.com/investors/analysts/analyst-guidance

More detail online
petradiamonds.com/operations/operating-mines/finsch

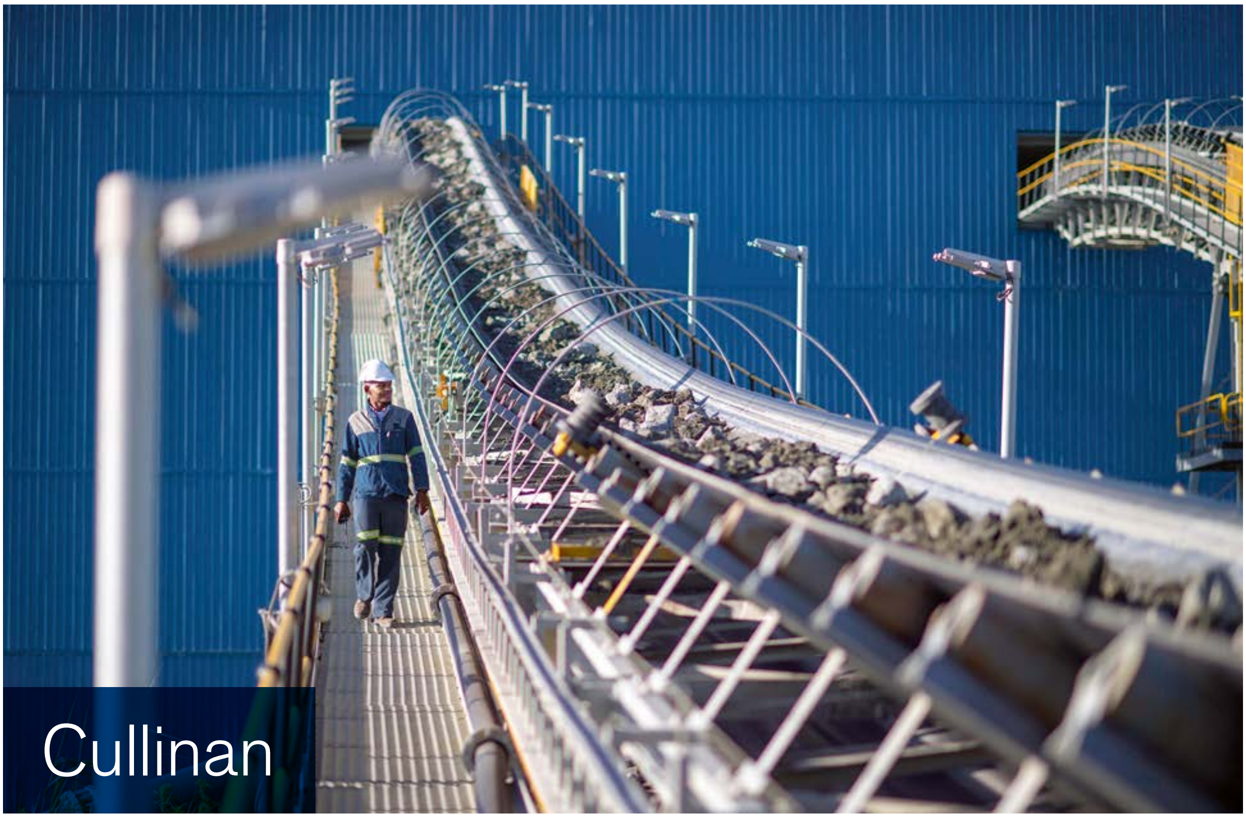
Addressing skills shortages

In partnership with the local government, Finsch hosts the 'Techno Girls' initiative twice a year, aiming to reverse the growing skills shortage in science, technology, engineering and mathematics in South Africa by encouraging girls to pursue careers in these fields.

Finsch hosted two grade 11 students for a week, during which they completed a project on the ore processing steps in the plant. This was then presented to our plant management with great success. Their mentor for the week was one of the metallurgists in training at the mine.

Work responsibly

Operational Review continued



REVENUE[1] CONTRIBUTION	CARAT[1] CONTRIBUTION	REVENUE US$ million	PRODUCTION Mcts	AVERAGE PRICE PER CARAT US$
29%	30%	167.0 +83%	1.4 +74%	125 +4%

FY 2018 saw a significant increase in production as the new C-Cut Phase 1 Block Cave continued to ramp up and the new plant operated at planned throughput rates.

Work responsibly

Cullinan transitioned its Environmental Management System to ISO 14001:2015, as confirmed by an independent certification audit by BSI UK.

Business rationalisation

Production increased 74% mainly due to a 97% increase in ROM carat production due to the increased input of undiluted ore from the C-Cut Block Cave and the new plant operating at planned throughput rates.

Optimise recoveries

Cullinan's average value was up 4% reflecting an improved product mix.

Drive efficiencies

The plant optimisation is ongoing with the ROM grade improving from circa 33 cpht achieved in H1 FY 2018 to 37.8 cpht for H2 FY 2018.

1. Including KEM JV.

Performance in FY 2018

The Cullinan mine contributed 34% of Petra's total carat volume for FY 2018, with the new mining blocks (including the C-Cut and the CC1 East) contributing 72% of the mine's carats.

Cullinan's carat production increased 74% to 1,368,720 carats (FY 2017: 786,509 carats) mainly due to a 97% increase in ROM carat production as the new C-Cut Phase 1 block cave continued to ramp up and the new plant operated at planned throughput rates. Tonnage volumes from the new undiluted mining areas (including the C-Cut and CC1E) increased to circa 2.46 Mt in FY 2018 (FY 2017: circa 1.20 Mt).

Plant optimisation is ongoing, with the recovered ROM grade improving from circa 33 cpht achieved in H1 FY 2018 to 37.8 cpht for H2 FY 2018, with Q4 FY 2018 yielding a grade of 39.3 cpht, in line with revised guidance of 37–42 cpht for H2. A total of 0.4 Mt of tailings were treated with an average grade of 6.5 cpht.

Cullinan's revenue increased by 83% to US$167.0 million for the Year (FY 2017: US$91.3 million), due to higher sales volumes following the commissioning of the new plant coupled with an increase in underground tonnes mined.

Costs

The on-mine unit cash cost per total tonnes treated was ZAR239/t, a decrease of 24% from FY 2017 (ZAR316/t), mainly due to the increase in total tonnes treated as a result of the new plant being fully commissioned in FY 2018.

Capex

FY 2018 expansion Capex of US$56.2 million was mainly spent on the C-Cut Phase 1, CC1E and finalisation of the new plant.

Development plan

1.0 Mt ROM were hoisted and treated in Q4 FY 2018, which demonstrates the strong progress and capability of the Cullinan operations. However, the Company is guiding for a range of 3.7–4.0 Mt to be treated during FY 2019, due to the continued ramp-up of C-Cut Phase 1, the depletion of the old B Block mining areas and the switch-over period required for the implementation of the new shaft/plant interface, which is scheduled to be completed during 2019. This will aid in alleviating constraints with the link between the underground hoisting system and the plant.

The C-Cut Phase 1 project is planned to contribute circa 3 Mt for FY 2019. A further 0.7–1.0 Mt will be sourced predominantly from the CC1E mining area, as well as from other B Block tonnes. Steady-state production of 4.0 Mtpa will be delivered from C-Cut Phase 1 and CC1E from FY 2020 onwards.

The ROM grade at Cullinan is expected to remain in the 38–42 cpht range from FY 2019 onwards. Tailings production is planned at circa 1.5–1.7 Mt yielding 6–7 cpht, whilst the plant optimisation (total throughput in relation to mill settings and recirculating load) is ongoing. Longer-term steady-state tailings production is expected to be circa 2 Mtpa, yielding 6–7 cpht.

Cullinan contains a 'Tier 1' diamond resource of 190.3 Mcts (including 17.3 Mcts in tailings) and the Company will on an ongoing basis investigate the optimal plan to utilise the full extent of the large Cullinan orebody (circa 16 ha at current production depths).

A schematic of the Cullinan mine and orebody is available on Petra's website
petradiamonds.com/investors/analysts/analyst-guidance

More detail online
petradiamonds.com/operations/operating-mines/cullinan

A new plant designed and equipped according to Cullinan's unique characteristics

Each kimberlite orebody has its own distinctive footprint and the new Cullinan plant, which was commissioned in Q1 FY 2018, was designed with Cullinan's unique characteristics in mind. Cullinan is known to produce large, high value diamonds (such as the 3,106 carat Cullinan diamond, the largest gem diamond ever to have been recovered) as well as low luminescent Type II diamonds (including high value blue diamonds) which have historically been produced from the C-Cut area.

Optimise recoveries

Drive efficiencies

In January, Petra sourced custom x-ray machines for the new plant from specialists Bourevestnik, due to their high efficiency in recovering Cullinan's diamond profile, including Type II diamonds, which are characterised by low luminescence levels under x-ray exposure.

Bourevestnik has supplied 27 sorters in total, which have been specifically upgraded on the basis of Petra's requirements, for primary recovery, re-concentration and final concentrate treatment of diamond-bearing ore.

Operational Review continued

REVENUE[1] CONTRIBUTION	CARAT[1] CONTRIBUTION	REVENUE US$ million	PRODUCTION Mcts	AVERAGE PRICE PER CARAT US$
5%	1%	27.2 -4%	0.05 +3%	525 +4%

Koffiefontein is a lower volume but very high value producer and is ramping up production at its new SLC.

Work responsibly

The Koffiefontein mine provided further sponsorship to the New Beginnings Crèche, paying for a new classroom, and the mine's managers and their families spent a day helping renovate the crèche's facilities.

Business rationalisation

A number of management interventions were implemented as well as restructuring capital and operational costs.

Optimise recoveries

The average value per carat increased 4% in FY 2018.

Drive efficiencies

Costs were negatively impacted by lower tonnages, however the SLC is expected to deliver ROM throughput of circa 1.0Mtpa for FY 2019.

Performance in FY 2018

ROM production at Koffiefontein increased 3% to 52,537 carats (FY 2017: 51,173 carats) further to the commissioning of the new ground handling system during Q3 FY 2018, which enabled the subsequent ramp-up of tonnages in Q4 and allowed the mine to reach its revised guidance of circa 0.65–0.7 Mt for FY 2018.

During May and June 2018, circa 187,000 tonnes were hoisted, in line with the mine's FY 2019 annualised targeted throughput of circa 1.0 Mtpa. Tonnages achieved in the first two months of FY 2019 were also in line with this target. Some tonnes hoisted in Q4 FY 2018 were not treated during the quarter, resulting in lower than expected carat recoveries. These ROM tonnages accumulated on surface will be treated during FY 2019.

Revenue decreased 4% to US$27.2 million (FY 2017: US$28.4 million) for the Year due to lower sales volumes.

1. Including KEM JV.

Costs

The on-mine cash unit cost was ZAR596/t, an increase of 12% from FY 2017 (ZAR 532/t), mainly due to a reduction in the treatment of ROM tonnes and the effect of a high fixed cost base associated with mining operations.

Capex

FY 2018 expansion Capex of US$9.6 million mainly relates to the SLC project. FY 2019 expansion Capex is guided at circa US$5 million, primarily relating to blue (kimberlite) tunnel development in the SLC.

Development plan

Petra's current mine plan has a life to 2031, but the residual resources at the mine indicate that the actual LOM could be in excess of 20 years.

Koffiefontein's expansion programme entails the development of an SLC from 560mL to 600mL, before putting in place a new block cave at approximately 720mL. However, the Company's ongoing review of its future capital requirements may result in a continuation of the SLC to deeper levels, in preference to the installation of the block cave currently included in the Company's mine plan. The SLC is expected to maintain the throughput rates achieved in May and June 2018 and deliver ROM throughput of circa 1.0 Mtpa at an average grade of 7.5–8.0 cpht for FY 2019.

A schematic of the Koffiefontein mine and orebody is available on Petra's website
petradiamonds.com/investors/analysts/analyst-guidance

More detail online
petradiamonds.com/operations/operating-mines/Koffiefontein

Williamson

REVENUE[1] CONTRIBUTION	CARAT[1] CONTRIBUTION	REVENUE US$ million	PRODUCTION Mcts	AVERAGE PRICE PER CARAT US$
12%	8%	68.5 +17%	0.3 +51%	270 +5%

Williamson performed well operationally during the Year in spite of liquidity constraints due to the blocked parcel and the delay in the recovery of VAT.

Work responsibly

The Williamson mine continued its experimental beekeeping project to educate the surrounding community on the importance of bees and conservation in the area; around 68 bee hives have been donated and distributed to local villages.

Business rationalisation

Petra is in ongoing dialogue with the Government in relation to the blocked parcel of diamonds at Williamson.

Optimise recoveries

Williamson's average value per carat increased in FY 2018 due to the higher incidence of high value stones.

Drive efficiencies

Following plant modifications carried out in FY 2017, Williamson achieved the highest production in over 40 years.

1. Including KEM JV.

Performance in FY 2018

The mine performed well operationally with production up 51% to 341,102 carats (FY 2017: 225,202 carats), being the highest level of production achieved by the mine in over 40 years. This is despite operations being negatively impacted by liquidity constraints due to the parcel of 71,654.45 carats that remains blocked for export and the overdue VAT receivables with a carrying value of US$20.3 million.

Revenue increased 17% to US$68.5 million (FY 2017: US$58.4 million) due to higher production and sales.

Costs

The on-mine cash cost of US$10.7/t (FY 2017: US$11.6/t), reduced by 8%, mainly due to the increase in volumes treated having a positive impact due to the high fixed cost base associated with mining operations.

Capex

FY 2018 total Capex of US$4.6 million mainly related to waste stripping and the construction of the slimes dam. Total Capex is guided at circa US$5 million for FY 2019, primarily related to waste stripping. This level of Capex is funded from the mine's own cashflow and could be revised when issues relating to the blocked parcel and VAT are resolved.

Development plan

ROM throughput is planned at circa 4.7 Mt at a grade of circa 6.75–7 cpht for FY 2019, supplemented by alluvial production of circa 0.4 Mt at a grade of circa 2.5 cpht.

A schematic of the Williamson mine and orebody is available on Petra's website
petradiamonds.com/investors/analysts/analyst-guidance

More detail online
petradiamonds.com/our-operations/our-mines/williamson/

Operational Review continued

REVENUE[1] CONTRIBUTION	CARAT[1] CONTRIBUTION	REVENUE US$ million	PRODUCTION Mcts	AVERAGE PRICE PER CARAT US$
14%	18%	81.6 -1%	0.8 -3%	108 +8%

Shortly after Year end, we announced the proposed disposal of KEM JV, subject to competition commission and other approvals. The operation will be transferred to the sole ownership of Ekapa Mining, thereby ensuring its sustainable future, under the stewardship of an operator best suited to maximise its value.

Work responsibly

In June 2018, Petra demonstrated successful multi-stakeholder dialogue and co-operation, transferring mining permits to artisanal miners in Kimberley.

Business rationalisation

As part of the Group's strategic review to ensure the optimal portfolio of assets, the disposal of KEM JV was approved by the Board.

Optimise recoveries

The average price per carat increased 8% to US$108/carat which was in line with expectations.

Drive efficiencies

On-mine cash unit costs were adversely affected by illegal mining activities.

Performance in FY 2018

Petra's attributable production decreased 3% to 775,645 carats for the Year (FY 2017: 800,434 carats), with ROM production decreasing 6% to 82,246 carats (FY 2017: 87,783 carats). This was below guidance due to a combination of factors including the labour disruption experienced in Q1 FY 2018, project delays and the mudrush incident at Bultfontein which has led to the early closure of this underground mining area.

Tailings production decreased 3% to 693,399 carats (FY 2017: 712,651 carats) further to the severe rain storms during Q3 FY 2018 restricting access to higher grade dumps.

Revenue decreased marginally by 1% to US$81.6 million (FY 2017: US$82.3 million) as a decrease in sales was offset by an 8% increase in the average price per carat to US$108 (FY 2017: US$100).

Costs

The on-mine cash unit cost increased 15% to ZAR153/t (FY 2017: ZAR133/t), higher than expected due to additional security and other costs associated with illegal mining activities which affected certain of KEM JV's surface operations.

Capex

Total Capex of US$13.8 million was in line with guidance.

Disposal

A binding Heads of Agreement was reached post Year end with regards to the proposed disposal of the Company's interest in the KEM JV to our joint venture partner Ekapa Mining (Pty) Ltd for circa ZAR300 million (circa US$18.6 million), receivable in instalments from January 2019 to December 2020.

A schematic of the Kimberley Underground mine and orebody is available on Petra's website
petradiamonds.com/investors/analysts/analyst-guidance

More detail online
petradiamonds.com/our-operations/our-mines/kem

1. Including KEM JV.

Risks Overview

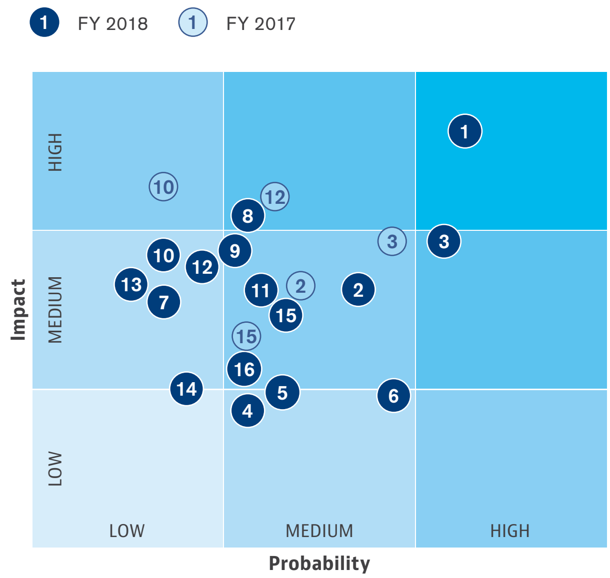
Principal risks and uncertainties

The Group is exposed to a number of risks and uncertainties which could have a material impact on its performance and long-term development. The effective identification, management and mitigation of these risks and uncertainties is a core focus of the Group, as they are key to the Company's strategy and objectives being achieved.

Central to Petra's approach to risk management is having the correct Board and Senior Management team in place, with such members combining extensive experience of the specialist worlds of diamond mining, rough diamond sales, health and safety, human resources, skills development, diversity and transformation, finance, corporate governance and risk management, as well as in-depth knowledge of the local operating conditions in South Africa, Tanzania and Botswana and the regulatory environments of all of the countries in which Petra operates or has a corporate presence.

Petra's operational management and Internal Audit teams reviewed and updated the Group's principal risks with reference to the Group's internal risk registers in FY 2018. Post Year end, and in line with the Board's decision to enhance the role of the Audit Committee to that of an Audit & Risk Committee, an operational-level Governance and Risk Committee was established to oversee the operation and enhancement of risk management processes and systems across the Group's operations.

The rating of 'financing risks' decreased following the circa US$ 170 million Rights Issue, completed in June 2018. 'Country and political risks' as well 'licence to operate risks' have increased due to ongoing political and regulatory uncertainty, both in South Africa and Tanzania. 'Currency risk' has increased following a period of extreme volatility in the ZAR/USD exchange rate as a result of concerns primarily related to the international 'trade war' and its impact on emerging market currencies.



1. Diamond price
2. Currency
3. Country and political
4. Access to energy
5. Access to water
6. Synthetic diamonds
7. Safety
8. Mining and production
9. ROM grade and product mix volatility
10. Expansion and project delivery
11. Labour relations
12. Financing
13. Cost control and capital discipline
14. Retention of key personnel
15. Licence to operate
16. Community relations

The tabulation of the principal risks and the risk matrix (which relates to risk changes that occurred during the Year only) was reviewed by the Audit & Risk Committee and subsequently approved by the Board.

Risk management framework

Top-down

Define risk appetite; identify, assess and mitigate risk at corporate level

Board

Overall responsibility for the effectiveness of the Group's risk management and internal control and financial control systems

Executive Committee and top-level Senior Management

Manages risks on a day-to-day basis

Monitors and manages risk management processes and internal controls

Audit & Risk Committee

Supports the Board in considering risk management and internal controls

Reviews the effectiveness of risk management and internal control systems

Via Internal Audit, actively considers the Group's internal control systems

Social, Ethics & Diversity Committee[1]

Provides assurance to the Board that appropriate systems are in place to identify and manage risks relating to social, ethics and diversity (including transformation)

Established post Year end

Remuneration Committee

Ensures that the Company's remuneration strategy and structure supports the consideration and management of risks and is aligned to the Company's overall strategy

HSE Committee[1]

Provides assurance to the Board that appropriate systems are in place to identify and manage health, safety and environmental risks

Senior and Middle Management

Accountable to the Executive Committee and the Board for the design, implementation and operation of risk management processes and systems through the functioning of the operational-level Governance & Risk Committee established post Year end

Consistent application of the Company's internal systems and internal financial controls

Risk awareness and safety culture ingrained throughout the business

Bottom-up

Identify, monitor, report and mitigate risk at operational level

1. Post Year end the establishment of the Social, Ethics & Diversity Committee was approved and the HSSE Committee was restructured to form the HSE Committee.

Risks Overview continued

Principal risks

A summary of the risks identified as the Group's principal external, operational, strategic and HSSE risks (in no order of priority) is listed below – refer to pages 80 to 87 for the full risk management commentary.

Risk	Risk appetite	Risk rating	Nature of risk	Change in FY 2018
External risks				
Diamond price	High	High	Long term	No change – continued supply discipline from major producers is expected to lead to ongoing pricing stability. The DPA continues to expand its marketing activities to support consumer demand and appropriately position natural diamonds in the market.
Currency	High	Medium	Long term	Higher – ongoing ZAR/USD volatility expected following international 'trade war' and emerging market impact, as well as upcoming national elections in South Africa during 2019.
Country and political	High	High (FY 2017: medium)	Long term	Higher – potential adverse mining legislative changes in South Africa, coupled with upcoming 2019 national elections, further increasing regulatory uncertainty. Tanzanian legislative changes still not fully resolved; ambiguity remains, especially around local shareholding and potential refund of input VAT incurred by mining companies.
Access to energy	Medium	Low	Long term	No change – stable power supply was experienced throughout FY 2018; impact of possible Eskom strikes may result in intermittent disruptions of supply in FY 2019, but no material impact expected.
Access to water	Medium	Low	Long term	No change – no significant impact of water scarcity in FY 2018.
Synthetic diamonds	High	Low	Long term	No change – synthetic diamond production techniques continue to advance, but natural diamonds are expected to remain the premium product.
Operational risks				
Safety	Low	Medium	Long term	No change – FY 2018 saw no fatalities recorded across Petra's operations, compared to six fatalities in FY 2017. Group LTIFR improved further.
Mining and production	Medium	Medium	Long term	No change – H1 FY 2018 impacted by challenges relating to the new Cullinan plant ramp-up (throughput and recovery). Operational stability was achieved during H2 FY 2018, with production largely in line with expectations.
ROM grade and product mix volatility	Medium	Medium	Short term	No change – recovered ROM grades achieved some stability during H2 FY 2018, particularly at Cullinan following a period of volatility during commissioning of the new plant. Pricing variability is still evident at Cullinan – this is expected to be mitigated as the footprint of the new C-Cut Block Cave expands to access a larger portion of the orebody.
Expansion and project delivery	Medium	Medium	Medium term	Lower – although expansion programmes ramped up slower than expected, Finsch's SLC is now fully operational delivering all underground production from the mine; Cullinan's C-Cut Phase 1 project progressed significantly and doubled its contribution of undiluted ore for the Year, while its new plant was fully commissioned during H1 FY 2018.
Labour relations	Medium	Medium	Short to medium term	No change – the Company's three-year wage agreement relating to its South African operations (signed September 2017) is conducive to a stable labour relations environment.
Strategic risks				
Financing	Medium	Medium	Medium term	Lower – Petra strengthened its balance sheet via the circa US$170 million Rights Issue and the resultant reduction of banking debt drawn under its South African banking facilities shortly after Year end.
Cost control and capital discipline	Medium	Medium	Long term	No change – operating costs and corporate overheads remained well controlled and in line with expectations in local currency terms. The Company's strategic priorities for FY 2019 onwards include 'Driving operational efficiencies with emphasis on value over volume' with a close focus on operational costs and capital efficiencies.
Retention of key personnel	Medium	Medium	Long term	No change – Petra's approach to retention has proven successful throughout the duration of the expansion programmes.
Licence to operate	Low	Medium	Long term	Higher – proposed legislative changes in both South Africa and Tanzania are placing additional financial and social burdens on Petra's operations.
Community relations	Medium	Medium	Long term	No change – Petra's KEM JV entered into a multi-stakeholder agreement with regards to the formalisation of artisanal mining activities.

Sustainability is at the heart of Petra

Our purpose is to unearth the world's most beautiful product as responsibly and efficiently as possible. In doing so, we will contribute to the sustainability of our industry and deliver long-term value to each of our stakeholders.

Mining is an inherently long-term business and therefore our operations are planned and structured with their sustainability in mind. Our goal is to put in place the right actions today which will benefit the future of a project, rather than focusing on short-term outcomes.

This is an approach that Petra follows across all aspects of the business, from our operational planning to how we structure our environmental and social management, in alignment with the mine plan and potential mine life of each asset.

The way we manage HSSE matters is reinforced by the Group HSSE Management Framework and mine level policies and strategies, covering all key sustainability areas, as well as internationally recognised standards such as OHSAS 18001 (health and safety), ISO 14001 (environment) and ISO 31000 (risk management).

Each of our operations have sustainability objectives and specific indicators, which are used to monitor and assess performance against targets on a mine-by-mine basis, as well as at Group level.

A robust system of reporting on these indicators is in place, with information flowing from the Health, Safety and Environmental Committees at mine level to the Group HSE Operational Steering Committee and then to the Board, via the HSSE Committee. This will be further enhanced in FY 2019 with the establishment of a Social, Ethics & Diversity Committee.

Read more at
petradiamonds.com/investors/results-reports

Defining our material topics

1 Define
Petra defines a material topic as an ESG issue that could significantly impact the delivery of the Company's strategy and future performance, and/or could have a material impact on individuals, groups or communities that are impacted by Petra's operations.

2 Engage
A formal stakeholder engagement and management evaluation process was carried out in FY 2016 to identify our material issues and, at the time, the aim was to conduct this every two years. However, this approach has since been reviewed and, whilst stakeholder engagement is an ongoing and continuous process, it was deemed impractical to hold a formal process on a biennial basis.

3 Determine
Petra identified its material topics in accordance with the GRI Standards process and guidelines. These topics form the basis of our sustainability reporting and have been grouped into five key areas for inclusion in this Year's report.

4 Align
Material topics identified are aligned with internal governance processes and operational imperatives, and are therefore managed as part of internal processes that answer to both regulatory requirements and internal KPIs.

Sustainability continued

Responsible Business

Material topic	Outcomes in FY 2018
Corporate governance	‣ Audit Committee continued to monitor external whistle blowing and fraud hotline ‣ HSSE Committee was further strengthened with new appointments at Board and Senior Management level
Consumer demand	‣ Petra only operates in Kimberley Process member countries ‣ Investment committed by the DPA to generic marketing: US$70 million
Legal compliance	‣ 0 fines for non-compliance with environmental or socio-economic legislation ‣ Publication of new Mining Charter post Year end removed uncertainty

Protecting the Environment

Material topic	Outcomes in FY 2018
Environmental management	‣ Petra recycled 79% of waste in FY 2018 ‣ 100% of suppliers were screened using environmental criteria in FY 2018
Climate change and energy usage	‣ Energy efficiency improved by 5% since FY 2017 to 28.8 kWh/t ‣ Carbon emissions per carat decreased by 7% to 0.14 tCO_2-e per carat
Water management	‣ Petra used 47,366,805 m^3 of water in FY 2018 ‣ 59% of all water used on mine is recycled

Occupational Health and Safety

Material topic	Outcomes in FY 2018
Safety	‣ 0 fatalities ‣ Strong safety performance shows 82% rolling improvement in LTIFR over last seven years
Occupational health	‣ 13,857 medicals were conducted across all Occupational Health Clinics ‣ Petra formed partnership with the Department of Health

Positive Impacts

Material topic	Outcomes in FY 2018
Generating economic benefit	‣ Majority of the goods and services for Petra's South African, Tanzanian and Botswana operations sourced in-country ‣ 3,000 suppliers across 2 countries
Community development	‣ Successful roll-out of Insite system to manage sustainable reporting to internal and external stakeholders ‣ 80 community stakeholder meetings held

Developing Our People

Material topic	Outcomes in FY 2018
Employee retention and development	‣ US$9.5 million in staff training and development ‣ Staff turnover of 11% ‣ 35 employees participated in Petra's flagship Leadership Development Programme
Diversity	‣ 18% of Petra's workforce in FY 2018 are women versus 17% recorded in FY 2017 ‣ Initiatives in place aimed at developing women into managerial positions
Labour relations	‣ Three-year wage agreement negotiated the end of September 2017; the agreement will be effective until June 2020

More information about how we manage sustainability can be accessed in Petra's annual Sustainability Report at petradiamonds.com/sustainability

Responsible Business

Corporate governance

0 FINES PAID FOR REGULATORY NON-COMPLIANCE

FTSE4Good Index PETRA CONFIRMED AGAIN AS CONSTITUENT

Effective corporate governance is the backbone of Petra and enables each part of the business to operate efficiently, successfully and sustainably. Read more about how we apply corporate governance on pages 58 to 103.

Ensuring ethical behaviour

We are committed to upholding the high value placed on natural diamonds, which are given to celebrate life's most special moments and are considered as prized possessions.

Petra's commitment to ethical behaviour is clearly set out in the Group's Code of Ethical Conduct and we expect all employees, contractors and suppliers to conduct themselves in accordance with this Code.

We will only operate in countries which are members of the Kimberley Process and each of our diamonds is fully traceable to its point of production, thereby providing assurance that 100% of our production is certified as 'conflict free'.

Anti-bribery

Bribery is a criminal offence under the UK Bribery Act 2010 and in various other jurisdictions around the world and is strictly prohibited by Petra. Bribery includes offering, giving, requesting or receiving a payment/something of value (even nominal value) to improperly influence a decision or get a party to perform their job improperly.

Petra has a Group Anti-Bribery Policy in place which is made public on both the Company's intranet and website and which is implemented through a training and communication plan. All Petra employees, contractors and suppliers are informed as part of the Company's induction procedure about this important corporate policy.

Whistleblowing procedure

Petra has a whistleblowing procedure in place that provides employees and others with the opportunity to independently and anonymously report conduct that is in contravention of the Code of Ethical Conduct or the Anti-Bribery Policy – e.g. fraud, corruption, diamond theft or other workplace crime. In order to uphold its independence, this service is outsourced to an independent service provider.

The service is provided in all local languages in the countries in which Petra operates as well as a number of international languages, and the service is open to all Petra employees, contractors and suppliers, as well as any member of the public.

All 'tip-offs' are directed to the service provider's central facility for further investigation and feedback, where required. In FY 2018 Petra received 36 reports involving alleged irregularities considered necessary to investigate, relating mostly to fraud and recruitment scams. Of these reports, 25 were resolved and closed and 11 remain under investigation.

Human rights

Petra is fully committed to upholding the human rights of all of its stakeholders, as set out in the Group's Human Rights Policy. The Company therefore complies with and supports the UN Universal Declaration of Human Rights as well as all legislation pertaining to human rights in the countries where it operates.

Human rights is not considered to be a material risk to Petra's business, given that our operations are located in stable, constitutional democracies and given the robust internal systems we have in place.

Human rights issues are covered by internal operational policies and procedures, with the Company's Employment Equity Policy and its Disciplinary Code and Procedures expressly forbidding any kind of discrimination. Should a human rights grievance occur, it is either managed through the operational grievance procedures or, where they are seen as substantive in nature, by the collective bargaining processes that are in place with recognised labour unions.

In South Africa, human rights training is organised by Petra for union representatives through the Commission for Conciliation, Mediation and Arbitration ("CCMA"), which in turn disseminates its knowledge to its members.

Petra has aligned its principles with the International Labour Organisation Declaration on Fundamental Principles and Rights at Work. This means we have zero tolerance for child labour, forced labour or discrimination, and we respect the right of our workers to join trade unions. We are pleased to report that there is no risk of child labour or forced labour taking place at any of Petra's operations, due to our rigorous recruitment and pre-employment vetting process.

We do not consider there to be a risk of slavery or human trafficking with regards to our operations or supply chain, due to our due diligence processes with regards to our supply chain management.

Sustainability continued

Responsible Business continued

Consumer demand

100% PERCENTAGE OF PETRA PRODUCTION THAT IS CERTIFIED CONFLICT FREE

US$70 million INVESTMENT COMMITTED BY THE DPA TO GENERIC MARKETING IN 2018

If consumers no longer aspire to buy and own diamonds, then there is no future for our business. While diamonds occupy a unique cultural position in that they are used to celebrate our most special moments, their continued acceptance is reliant on the assurance that they are sourced by ethical means and with due consideration for the environment.

The Diamond Producers Association

We seek to actively influence sustainable consumer demand via the DPA, an industry organisation formed in May 2015 by Petra and the other world-leading diamond companies to maintain and enhance consumer demand for, and confidence in, diamonds. By promoting the integrity and reputation of diamonds and the diamond industry, the DPA intends to play a central role in ensuring the long-term sustainability of the sector. Read more about the DPA's activity on page 20.

The DPA launched its Real is Rare campaign in India in November 2017 and in China in 2018.

Legal compliance

0 NUMBER OF FINES ISSUED FOR NON-COMPLIANCE WITH ENVIRONMENTAL LEGISLATION IN FY 2018

0 NUMBER OF FINES ISSUED FOR NON-COMPLIANCE WITH SOCIO-ECONOMIC LEGISLATION IN FY 2018

The mining sector is one of the most highly regulated industries in the world. This is particularly relevant given the strategic importance of certain commodities to host Governments, thereby ensuring the extraction of these resources in an ethical and sustainable manner. Regulations applicable to mining companies are subject to continual change and Petra has therefore put the necessary management structures in place at each mine in order to maintain its adherence to all local legislation.

On 15 June 2018, the South African Department of Mineral Resources gazetted a revised draft Mining Charter which was open for comments from stakeholders until 31 August 2018. On 27 September 2018 the South African Department of Mineral Resources published a new Mining Charter which has served to remove uncertainty and address a number of concerns which we believe will be positively received within the mining industry in South Africa. In particular Petra is pleased to note that, in line with the recognition of the continuing consequences of the once empowered, always empowered principle, existing mining right holders that have achieved a 26% Black Economic Empowerment shareholding will be recognised as compliant for the duration of the mining right.

On 22 August 2018 the Minister of Mineral Resources informed Parliament's Mineral Resources Portfolio Committee of his intention to withdraw the Mineral and Petroleum Resources Development Amendment Bill. Removal of the uncertainty around changes to legislation in this regard has been endorsed by the mining industry.

In Tanzania, Petra is in ongoing dialogue with the Government and local advisers in relation to recent legislative developments and overdue VAT receivables. Petra also continues to communicate with the Government in relation to the blocked parcel of diamonds from Williamson.

Occupational Health and Safety

Safety

0.23 LTIFR

0 FATALITIES

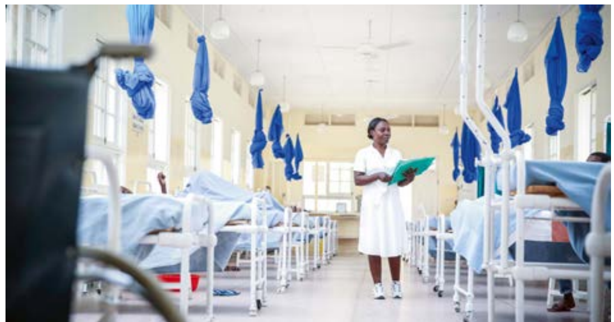
100% OF STAFF TRAINED IN OCCUPATIONAL HEALTH AND SAFETY STANDARDS IN FY 2018

Ensuring our people go home healthy and safe from work is Petra's number one priority and ingrained into everything we do. We also aim to encourage a healthy and happy lifestyle for our employees, taking into account prevalent local health issues, both physical and mental.

While our mining methods and operations are inherently safe, there is an ever present risk of accidents as with all heavy industries. A risk-based management approach is followed throughout the Group, which entails continual hazard identification, risk assessment and instilling awareness into the workplace culture.

As an employer we adopt a holistic approach to occupational health and safety management. While legal compliance is the first step in managing occupational health and safety in our operations and working towards our goals, we also continuously communicate and engage with employees on occupational health and safety-related issues in order to obtain their input and co-operation with regards to future planning and developments.

Petra has reported a rolling improvement of 82% in its LTIFR over the past seven years. LTIs reduced by 26% in FY 2018.



Occupational health

100% OF EMPLOYEES OFFERED VOLUNTARY HIV/AIDS TESTS

✓ EXTENSIVE WELLNESS PROGRAMME TO SUPPORT EMPLOYEES

The key occupational health issues that can affect our workforce relate to noise-induced hearing loss, respiratory illnesses and injuries resulting from repetitive activities. We mitigate these risks by proactively identifying sources of, and exposures to, health hazards, profiling the associated risk and preventing release of the hazards through appropriate controls in the workplace.

In addition to minimising occupational health and safety risks related to the workplace, we also want to support our people to lead healthy lifestyles, given the immeasurable benefits that employee occupational health brings to both the Company and the individual. The main lifestyle diseases impacting our workforce are hypertension, diabetes and obesity, HIV/AIDS and tuberculosis. Petra therefore has wellness campaigns, testing and treatment initiatives in place to combat each of these issues.

Sustainability continued

Developing Our People

Employee retention and development

9,486 EMPLOYEES AND CONTRACTORS IN FY 2018[1]

11% STAFF TURNOVER RATE

US$9.5 million INVESTED IN STAFF TRAINING AND DEVELOPMENT IN FY 2018

To deliver on our ambitious growth plans, we require a skilled and engaged workforce, pulling together as a team to achieve our shared vision. Petra therefore has a wide range of personal development programmes in place in order to develop our people. Our 'can-do' Company culture, whereby employees are empowered and held accountable for their actions, also plays a key part in staff retention.

Employee training and development spans a wide scope of safety training and technical training and a variety of development programmes, both technical and managerial in nature, as well as literacy and numeracy skills for unskilled workers.

Petra is particularly proud of its flagship Leadership Development Programme ("LDP") which remains an important strategic tool to assist the organisation in the identification and development of employees who display the potential to fulfil leadership positions in the future. At the end of the two-year programme all participants receive a Higher Certificate in Generic Management (NQF Level 5).

During FY 2018, 35 employees participated in the LDP and since the inception of the programme in 2008, a total of 115 employees have graduated, 73 of whom have been promoted.

Diversity

18% OF OUR WORKFORCE ARE WOMEN

44% OF PETRA'S INTERNS ARE WOMEN

23% OF LEADERSHIP DEVELOPMENT PROGRAMME CANDIDATES ARE WOMEN

Petra recognises the importance of diversity, given numerous studies have identified the benefits to business of more diverse teams when it comes to improved problem solving and decision making. However, improving diversity is also a mandatory requirement for companies operating in South Africa and a best practice requirement for UK-listed companies.

As part of its commitment to improving gender diversity, Petra encourages women in mining at all levels of the business. The Company therefore actively pursues the appointment of women at all levels of the business, as well as the development of women to fill more senior positions. Petra's overall objective is to achieve true equity by affording women the appropriate training, development and progression opportunities within the organisation across all job levels.

Petra has a number of initiatives aimed at developing women into managerial positions, such as the LDP, which has since its inception focused on the advancement of women (23% of participants are female). We are focused on affording women an equal role as part of the next generation of Petra employees, and as a result 44% of our interns, 33% of our engineering learnerships, 40% of our mining learnerships, 39% of our bursars and 33% of employees attending the Management Development Programme in FY 2018 were female.

Petra's Women in Mining Committee ("WIM Committee") has created a platform for women at Petra's South African operations to share experiences, identify challenges in the workplace and promote development opportunities.

1. Including KEM JV.

2018 Annual Women in Mining Conference

In February 2018 a group of Petra employees represented the Company at the 9th ITC Annual Leadership for Women in Mining Conference in Johannesburg. The conference was attended by approximately 300 women and provided an excellent opportunity for networking and sharing information and experience of the industry.

Speakers from the South African mining industry spoke on a wide range of topics including "Opportunities for SMME supplier development", "Empowering women through successful private and public collaboration with financial institutions", "Forming Regional Committees for the advancement of women in mining" and "Empowering women in mining outside of the workplace". There were also presentations from representatives from mines in Kenya, Namibia, Botswana and Ghana. The conference also included panel sessions that addressed occupational health and safety for women in mining and sexual harassment in the workplace.

Labour relations

72% OF WORKFORCE WITH UNION MEMBERSHIP IN SOUTH AFRICA

79% OF WORKFORCE WITH UNION MEMBERSHIP IN TANZANIA

3 year NEW WAGE AGREEMENT SIGNED IN SEPTEMBER 2017

Petra has experienced largely stable labour relations over the last three years; however, failure to prioritise and manage this area could lead to issues, such as work stoppages and poor Company morale. Petra therefore places great emphasis on internal employee communications and initiatives such as the Itumeleng Petra Diamonds Employee Trust, which aims to align employee, Management and shareholder interests.

Petra underwent a circa two-week period of labour disruption at its South African mines (with the exception of Cullinan) in September 2017. Fortunately, the disruption was contained to a relatively short period of time due to the concerted effort of Petra's Management to engage with all levels of the National Union of Mineworkers in order to find a resolution.

Subsequent to the new three-year wage agreement applying to Petra's South African operations, reached at the end of September 2017, we then experienced a more stable labour environment throughout the rest of FY 2018. The agreement will be effective until June 2020.

Petra remains highly focused on managing labour relations and on maintaining open and effective communication channels with its employees and the appropriate union representatives at its operations.

Sustainability continued

Protecting the Environment

Environmental management

79% PROPORTION OF WASTE RECYCLED IN FY 2018

83% OF OPERATIONS CERTIFIED TO ISO 14001:2015 STANDARDS

100% NUMBER OF SUPPLIERS SCREENED USING ENVIRONMENTAL CRITERIA

We recognise that our value emanates from the natural world, therefore protecting the environment in which we operate is fundamental to how we run our business.

Environmental management is the responsibility of every employee. The principles of pollution prevention and continual improvement are integrated into our strategic planning, management systems and daily activities. We also promote environmental awareness amongst our employees and the communities in which we operate.

At an operational level, an Environmental Management System ("EMS") is in place for each mining licence. This sets out the detailed processes for the identification of environmental risks and implementation of action plans to mitigate the impacts of our activities. All our operations, with the exception of one, are certified to the international environmental standard ISO 14001:2015 through the British Standards Institute ("BSI").

Potential key environmental risks caused by our operations:

- impact on water resources, both through inefficient use and potential contamination of natural water sources;
- inefficient energy consumption from non-renewable sources;
- endemic habitat change;
- permanent changes in topography; and
- changes in land use and land capability.

Potential key environmental risks to our operations:

- illegal mining activities damaging previously rehabilitated areas;
- poor management and maintenance of local Government-owned infrastructure;
- negative perceptions of the environmental impacts of diamond mining; and
- climate change.

Petra has implemented a standardised Group-wide approach on concurrent rehabilitation, with the objective of generating a non-detrimental, sustainable solution for the environment and socio-economic state of communities that are left after mine closure. Progress on rehabilitation schedules is assessed annually by internal and external specialists and necessary changes to the execution plans are communicated to mine management, which is responsible for on-site resources.

The environmental impact from Petra's mining activities is not expected to last long after the cessation of the operations, due to our strategic approach and our commitment to our values at each step of the mining chain.

Climate change and energy usage

28.8 kWh/t **ENERGY EFFICIENCY PER TONNE**

673,304 tCO_2-e **CARBON EMITTED BY GROUP**

0.03 tCO_2-e/t **CARBON EFFICIENCY PER TONNE**

We recognise the growing importance of climate change, both to the Company and to our stakeholders, and we have a carbon reduction strategy in place to assist in minimising our impacts. In addition, Petra has participated in voluntary reporting to the CDP since 2013, with a year-on-year improvement of scores. During 2016 and 2017 Petra scored a 'C' keeping in line with industry and region scores.

Managing our energy usage is an important method by which we can limit our emissions, thereby combating climate change and driving energy efficiency, which leads to significant operational and financial benefits to the Company.

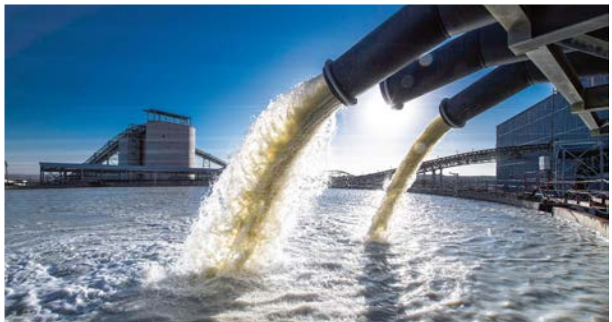
Driven by the Paris Agreement and the global call to action from the Sustainable Development Goal on 'climate change', Petra recognises the onus on industry to be actively involved in projects and programmes to reduce the effects of global warming and climate change, as caused by human activities.

Our carbon reduction strategy is focused on the following goals:

- increase economic viability through energy efficiency;
- improve the security of energy supply by decreasing dependence on non-renewable energy while evaluating ongoing developments in renewable energy technology;
- invest in the development of biophysical carbon sequestration strategies;
- implement adaptation measures as relevant to operational areas; and
- improve stakeholder awareness and education, in order to promote environmental sustainability.

Petra's total energy consumption for FY 2018 rose 7% to 3.1 million gigajoules (FY 2017: 2.9 million gigajoules), further to the updated calculation methods in line with total carbon reporting.

We are targeting a 1% reduction per annum in our total carbon emissions per carat as measured over a five-year period (2015–2020) from the restated base year of FY 2016 and this was again achieved in FY 2018.



Water management

47,366,805m^3 **WATER USED BY THE GROUP**

2.09m^3/t **WATER CONSUMPTION PER TONNE**

59% **PERCENTAGE OF RECYCLED WATER USED ON MINE**

Water is a scarce resource in the areas where we operate and is identified as Petra's most significant environmental risk. Our operations are water intensive and changes in temperature, as may be expected as a result of climate change, will affect the availability of raw water for treatment processes and impact on natural water sources that sustain the communities around our operations.

As part of Petra's strategy on climate change adaptation, preparation for responsible water consumption and improved efficiency projects are in progress, which includes a short- to medium-term strategy, along with a long-term strategic plan, to secure water resources. Some of the short- to medium-term initiatives in place include: approval of water use licenses/permits for current and future production needs; service level arrangements and co-operative agreements with local government and neighbouring industries; reduction of consumptive water losses by: phytoremediation and stabilisation to treat domestic effluent; governmental water schemes for water security; expansion of internal storage capacities; and maximising 'grey water harvesting' through internal domestic infrastructure and waste water treatment effluent use.

Petra prides itself on the level of water recycling achieved to date. All new projects are designed to be able to substitute either potable or raw water with reused/recycled water from various sources. Besides internal recycling, most operations also utilise treated effluent from municipal waste water treatment facilities. The percentage of recycled water used by our operations has remained above 50% for the past three years. The total volume of recycled water used during FY 2018 was 27,838,472m^3, a significant increase of 32% compared to FY 2017 (21,109,860m^3).

Sustainability continued

Positive Impacts

Generating economic benefit

US$55.9 million PAID IN TAXES AND ROYALTIES IN FY 2018

US$139.1 million SPENT ON SALARIES IN FY 2018

US$408.2 million TOTAL PROCUREMENT SPEND

By generating economic value for the countries in which we operate, we aim to further enhance the potential for increased living standards and conditions for the country's inhabitants as a whole, including our employees and local communities. By ensuring a high level of transparency with regards to our economic outputs, we can maintain confidence in Petra's contributions to society.

Petra published its first Report on Payments to Governments for the first time in December 2016 and now does so on an annual basis. The report is available on our website at www.petradiamonds.com/investors/results-reports.

Our supply chain

Petra's Supply Chain department is responsible for managing the Group's inbound supply chain. It performs an important role in terms of delivering on our production and expansion plans by ensuring that the right goods and services are delivered to the right location at the right time. The team is also accountable for ensuring that our supply chain operates safely, efficiently and according to the high level of ethical conduct that we expect of our business.

Petra sources the majority of the goods and services for its South African, Tanzanian and Botswanan operations from the countries in which they are located. However, we view targeted local procurement as a powerful lever for local economic development and community empowerment and preference is therefore always given to suppliers in close proximity to our mines when possible. In FY 2018 58% of our goods and services were sourced from local/regional suppliers in South Africa and 91% in Tanzania.

Community development and engagement

US$1.0 million SOCIAL INVESTMENT IN FY 2018

42 LOCAL SMMEs SUPPORTED, CREATING 461 EMPLOYMENT OPPORTUNITIES

80 COMMUNITY STAKEHOLDER MEETINGS HELD IN FY 2018

Due to the remote locations of our operations, predominantly in areas of relatively low levels of socio-economic development and high unemployment, Petra's mines often present the only major economic activity in the local area. In line with our mission to unlock value for all our stakeholders, our involvement in community development aims to contribute to alleviating the most critical needs in our local communities and to create life-changing opportunities.

Our community development work is focused on contributing meaningful and long-term development of our host communities via sustainable job creation, skills transfer (education and training), enterprise development and infrastructure development.

To ensure co-ordination and inclusivity in social planning and development, we strive to establish partnerships with our employees, Governments, communities, NGOs and educational institutions which can contribute to ensuring the optimal impact of our initiatives.

In order to address the scarcity of skills in our local communities, our mines' involvement starts at grassroots level, in the form of the maths and science school support programme and the provision of scholarships. This is continued at tertiary education level with opportunities provided through the bursary scheme, the graduate development programme and the provision of practical experience through our experiential training programme.

Petra also supports local business in addressing challenges they face in growing their business through our Enterprise Development ("ED") and Supplier Development ("SD") programmes, which are rolled out at operations through our Enterprise Development Resource Centres and monitored through our Group ED structure. Each of Petra's South African operations now has an operating Enterprise Development Resource Centre with a full-time ED co-ordinator. These centres serve as a link between local businesses and the mine's supply chain.

Local Economic Development

On 31 May 2018, Cullinan, in partnership with The Sports Trust, the Department of Sport and Recreation and the Gauteng Provincial Education Department, handed over the Onverwacht multi-purpose sports court and other infrastructure to the community of Onverwacht as a Local Economic Development ("LED") initiative.

Multi-purpose sports courts, on which soccer, netball, basketball, volleyball and tennis can be played, were constructed at three schools: Sedibeng, Chokoe and Onverwacht Primary Schools, with the aim of encouraging sports and healthy activities in and around the community.

Work responsibly

The handover of the multi-purpose sports court symbolised a new beginning and a dream come true for the principal of the Onverwacht Primary School, Mr Marais. He expressed his gratitude and hope for further development and asked the community to respect and maintain the structures. Cullinan's General Manager, Juan Kemp, commented that the best place to start making a difference in a child's life is in their developmental years.

This significant contribution to the community supports Petra's sustainability goal of developing people, especially youth, within our local communities.

Above: The ribbon cutting and handover ceremony for the multi-purpose sports court.

Effective governance

Effective corporate governance and legal compliance are the backbone of Petra and enable each part of the business to operate efficiently, successfully and sustainably. Petra seeks to influence sustainable consumer demand as the future of our business is dependent on the aspiration of consumers to buy and own diamonds. In line with our value 'Let's do it better', the Board approved the establishment of a Social, Ethics & Diversity Committee in FY 2019.

+1
Social, Ethics & Diversity Committee post Year end

Year 2
of three-year Succession Plan

Corporate Governance


BAY 5

Chairman's Introduction to Governance

Effective corporate governance is essential to the long-term success of our business and our strategy is to continue to ensure high governance standards at all levels of the Group.

Dear Shareholder,

In line with our core value 'Let's do it better', we follow an approach of continual improvement, in line with best practice, as well as with evolving corporate governance regulations in our relevant jurisdictions.

FY 2018 governance highlights are as follows:

Board strategy and performance

The Board made progress with its objectives for FY 2018, as set out on pages 67 and 68, but we wish to continue evolving and improving our performance in order to assist with the delivery of Petra's strategy and the transition to steady-state operations. Whilst we had scheduled a full Board strategy day for May 2018, the high level of corporate activity surrounding the Rights Issue prevented this from happening but this is a priority for FY 2019.

An internal Board review was conducted during the Year, and it was concluded that, whilst the Board is functioning effectively, it could be further strengthened in its composition (for further detail see page 69). Areas for improvement resulting from the review have been factored into our Board Objectives for FY 2019. Read more on pages 67 and 68.

Optimising our business

Rights Issue

As part of its role in ensuring the long-term sustainability of the Company, the Board continues to assess the appropriate capital structure for the Group. During the Year, we evaluated the Company's leverage profile and it became apparent that a number of headwinds would likely pressurise the Company's ability to deleverage within a satisfactory timeframe. The Rights Issue to raise net proceeds of circa US$170 million was therefore identified as the optimal way to accelerate a reduction in leverage to a more sustainable level, with the Board setting a target of consolidated net debt to consolidated EBITDA of 2x or less by the end of FY 2020. Read more about how the Board assessed and managed the Rights Issue process in FY 2018 on page 59.

Succession planning

The Company continues to review its Board, Board Committee and Senior Management structures in line with its development from a phase of intensive capital expenditure and expansion to a focus on steady-state operations, as well as to address improving diversity at the higher levels of the business.

To this end, our Nomination Committee is currently in year two of its three-year Succession Plan and is making good progress, with plans to make additional changes in FY 2019. Petra's Succession Policy was under review, both internally by the Board and externally with a consultant, at the Year end and will be approved in its updated form in FY 2019. Read more on pages 88 and 89.

Diversity

The importance of diversity from an ethical perspective, as well as its clear business benefits, cannot be underestimated. Petra therefore remains committed to improving diversity levels throughout the Company and fostering a varied and diverse workforce, management team and Board. As part of this, we are focused on encouraging women in mining at all levels within the Group and are actively pursuing their appointment throughout the business, and more specifically on the Board. Petra has a number of initiatives which are aimed at developing women into managerial positions, such as the Leadership Development Programme. Read more on page 50.

Culture

Company culture is a key focus within corporate governance, with Company boards encouraged to consider how the culture of their business (incorporating the values, attitudes and behaviours manifested by a company in its operations and relations with it stakeholders) serves to promote its long-term success. This is an ongoing governance priority for Petra and is assessed by the Board in a number of different ways, including direct communication with senior managers and employees, internal Company training sessions, internal audit and risk developments, and consideration of material issues raised during our stakeholder engagement, including those raised by employees. Read more on pages 14 to 16.

Governance updates

In July 2018, the new UK Corporate Governance Code was published and will take effect from 1 January 2019. We welcome the simplification of the new Code and the emphasis on topics such as stakeholder engagement, Company culture and succession planning. Petra already has in place good processes to address these important business areas but the new Code will be helpful in guiding how we can improve and strengthen our approach. We will be carrying out Board training on the new Code in FY 2019 led by an independent external expert.

We note the 'Guidance on Board Effectiveness' published by the Financial Reporting Council ("FRC") in July 2018, in order to stimulate consideration on how boards carry out their role and to encourage them to focus on continually improving their effectiveness. We are taking various steps to ensure that we are sufficiently considering this guidance and it will be considered as part of the Board's Succession Policy.

Stakeholder feedback

In November 2017, our Senior Independent Director, Tony Lowrie, and I carried out a governance roadshow in order to directly engage with our top shareholders and to seek their feedback on Petra's strategy and performance. This allowed for frank discussions around the strengths and weaknesses of the business, in light of the mixed performance over the last few years. We have taken on board this feedback and applied it to our considerations around Petra's strategic development. Read more on page 70.

Finally, we consider engagement with our stakeholders to be a priority. As always, should any shareholders like to speak to me or the Senior Independent Director about any aspects of this Report or the Company's performance, please do not hesitate to get in contact via our Corporate Communications team based in London (see page 179 for contact details).

Adonis Pouroulis
Non-executive Chairman
12 October 2018

Case study: Board management of the Rights Issue process

As noted on page 7, the decision to proceed with a Rights Issue was not an easy one for the Board but it was taken in the belief that it provided the optimal way to bring about a stepped reduction of debt to improve Petra's financial and operational flexibility and to enable the Company to focus on its operational deliverables.

In arriving at this decision and throughout the process, the careful and smooth management of the Rights Issue was a priority for the Board from start to finish. The nature of such a transaction means it is a documented process requiring the publication of a comprehensive prospectus covering such areas as information on the Group, risk factors, strategy, historical and current financial information, as well as detailed working capital assessments in conjunction with the Company's auditors and other advisers.

The process therefore required a considerable amount of time and is conducted on an 'insider' basis to ensure strict confidentiality. The governance process followed by Petra was as follows:

- February and March 2018: strategic Board consideration of Petra balance sheet, leverage levels, short to medium-term risks and the financing solutions available to the Group.
- Late March 2018: Board decision to go ahead with a Rights Issue, maintaining pre-emption for UK shareholders.
- A Sub-Committee of the Board was formed comprising the following Non-Executive Directors: Mr Pouroulis, Mr Lowrie and Mr Hamilton, with responsibility for overseeing the process. The Sub-Committee held weekly calls with both Petra Executive Management and the core Rights Issue advisers in order to stay up to date with all developments. The full Board was then kept informed of progress when appropriate.
- Petra's Disclosure Committee documented the Rights Issue decision and commenced a dedicated Insider List of those aware of the transaction, covering those both inside and outside the Company (i.e. the Rights Issue advisers). This was a dynamic list that was updated on an ongoing basis throughout the process.
- The Board was given updated training on its Director duties and responsibilities in relation to such a transaction and formal notification was given to all insiders that trading in the Company's shares was prohibited.
- The process required formal Board approval at various stages, including the publication of the Prospectus and the decision on the quantum to be raised, following an initial consultation with major shareholders which was carried out on an insider basis in strict conformity with the Market Abuse Regulations.
- 24 May 2018: confidentiality was maintained until the public announcement of the Rights Issue.

Board of Directors

Audit & Risk Committee	Remuneration Committee	Nomination Committee	HSSE Committee[1]
The Audit & Risk Committee is responsible for overseeing the Group's financial reporting, internal and external audit, internal control and risk management systems, and compliance, whistleblowing and fraud policies	The Remuneration Committee is responsible for advising the Board on the remuneration of Executive Directors and setting an overall policy for remunerating the Group's employees	The Nomination Committee leads the process for Board appointments and re-election and succession of the Directors and the Chairman	The HSSE Committee, whilst not a formally constituted Board Committee, is chaired by Mr Dippenaar and includes Dr Bartlett. It is responsible for the health, safety, social and environmental policy and compliance within the Group
Gordon Hamilton **Tony Lowrie** **Octavia Matloa** **Pat Bartlett**	**Gordon Hamilton** **Tony Lowrie** **Pat Bartlett**	**Adonis Pouroulis** **Gordon Hamilton** **Tony Lowrie** **Pat Bartlett**	**Johan Dippenaar** **Pat Bartlett**[2] **Members of Senior Management**

1. The Board approved the establishment of a Social, Ethics & Diversity Committee shortly after Year end and, as part of this, the HSSE Committee was restructured to form the HSE Committee.

2. Appointed in FY 2018.

Board of Directors

Adonis Pouroulis (48)
Non-Executive Chairman

N

APPOINTMENT DATE March 1997

QUALIFICATIONS Mining Engineer – University of Witwatersrand, South Africa.

SKILLS 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.

EXPERIENCE He founded Petra Diamonds in 1997 and it became the first diamonds 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.

EXTERNAL APPOINTMENTS Non-Executive Director of Chariot Oil & Gas plc and Non-Executive Chairman of Rainbow Rare Earths Limited.

INTEREST IN THE COMPANY AS AT 30 JUNE 2018[1]
12,569,375 shares (30 June 2017: 7,735,000 shares).

Johan Dippenaar (61)
Chief Executive Officer

H

APPOINTMENT DATE June 2005

QUALIFICATIONS Chartered Accountant – member of the South African Institute of Chartered Accountants.

SKILLS Mr Dippenaar has led Petra through a period of significant growth, taking the Company's annual production from circa 175,000 carats in FY 2006 to 4.6 million carats in FY 2018, and establishing the Company as a leading independent diamond producer.

EXPERIENCE Since 1990 Mr Dippenaar has been involved in the leadership and management of 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.

EXTERNAL APPOINTMENTS None.

INTEREST IN THE COMPANY AS AT 30 JUNE 2018[1]
8,385,830 shares (30 June 2017: 5,009,972 shares).

Jacques Breytenbach (46)
Finance Director

APPOINTMENT DATE February 2018

QUALIFICATIONS Chartered Accountant – member of the South African Institute of Chartered Accountants.

SKILLS Mr Breytenbach leads the financial management of the Company and is responsible for financing, treasury, financial controls, reporting, legal, compliance and corporate governance.

EXPERIENCE Mr Breytenbach has over 20 years of mining experience, having held the role of Finance Manager – Operations at Petra from 2006, with responsibility for financial management across the Group's operations, before becoming Chief Financial Officer of the Group in June 2016. Prior to joining Petra, he held various roles, culminating in Finance Manager – Capital Projects at Anglo Platinum.

EXTERNAL APPOINTMENTS None.

INTEREST IN THE COMPANY AS AT 30 JUNE 2018
243,750 shares (30 June 2017: N/A*).

* Mr Breytenbach was not a member of the Board at this time.

Tony Lowrie (76)
Senior Independent Non-Executive Director

A N R

APPOINTMENT DATE September 2012

QUALIFICATIONS Royal Commission – Sandhurst Military Academy.

SKILLS Mr Lowrie has over 45 years' association with the equities business and is an experienced non-executive director.

EXPERIENCE He has had a lengthy and distinguished career, which included senior positions with the Hoare Govett group and HG Asia Securities. Between 1996 and 2004 he was chairman of ABN AMRO Asia Securities and was formerly also a managing director of ABN AMRO Bank. He has been a non-executive director of Allied Gold Mining plc, Kenmare Resources plc, Dragon Oil plc, J.D. Wetherspoon plc, as well as several other quoted Asian closed end funds.

EXTERNAL APPOINTMENTS Director of the Edinburgh Dragon Fund.

INTEREST IN THE COMPANY AS AT 30 JUNE 2018
3,737,500 shares (30 June 2017: 2,300,000 shares).

Committee key A Audit & Risk H HSSE N Nomination R Remuneration Chairman

Dr Pat Bartlett (73)
Independent
Non-Executive Director

A N R

APPOINTMENT DATE November 2011

QUALIFICATIONS Member of the South African Institute of Mining and Metallurgy; registered Professional Natural Scientist.

SKILLS Dr Bartlett is an acknowledged leading expert on kimberlite geology and block caving. He has extensive experience working across Southern Africa and has in-depth knowledge of several of the mines acquired by Petra, having previously worked at Finsch, Koffiefontein, Kimberley Underground and Cullinan.

EXPERIENCE Dr Bartlett was formerly chief geologist for De Beers until his retirement in 2003. Since retiring from De Beers, he has consulted on block caving projects for BHP Billiton, Anglo American and Rio Tinto.

EXTERNAL APPOINTMENTS None.

INTEREST IN THE COMPANY AS AT 30 JUNE 2018
Nil shares (30 June 2017: nil shares).

Gordon Hamilton (73)
Independent
Non-Executive Director

A N R

APPOINTMENT DATE November 2011

QUALIFICATIONS Chartered Accountant – ICAEW.

SKILLS Mr Hamilton has extensive experience as a non-executive director across a wide range of businesses.

EXPERIENCE Mr Hamilton retired from Deloitte & Touche LLP in 2006 after more than 30 years as a partner primarily responsible for multinational and FTSE 350 company audits, mainly in the mining, oil 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.

EXTERNAL APPOINTMENTS Non-executive director of Atrium Underwriting Group Limited, Nedbank Private Wealth and other related companies within the Nedbank Group, and formerly of Barlowold Limited and Beazley plc.

INTEREST IN THE COMPANY AS AT 30 JUNE 2018[1]
247,000 shares (30 June 2017: 152,000 shares).

Octavia Matloa (42)
Independent
Non-Executive Director

A

APPOINTMENT DATE November 2014

QUALIFICATIONS Chartered Accountant – Member of the South African Institute of Chartered Accountants.

SKILLS Ms Matloa is a chartered accountant and brings broad business, financial and auditing experience to the Board.

EXPERIENCE Ms Matloa completed her articles with PwC in South Africa in 2000 before joining the Department of Public Transport, Roads and Works, first as deputy chief financial officer, followed by chief director management accounting. Since this time, Ms Matloa has founded a number of businesses, including Tsidkenu Chartered Accountants Inc and Mukundi Mining Resources.

EXTERNAL APPOINTMENTS Non-executive director of Avior Capital Markets Holdings Ltd.

INTEREST IN THE COMPANY AS AT 30 JUNE 2018
Nil shares (30 June 2017: nil shares).

Board and Senior Management changes

In line with the Company's three-year Succession Plan, there have been the following additional changes to the Board and Senior Management.

Jim Davidson (73)

Mr Davidson retired from his position as Technical Director, which he has held since June 2005, on 30 June 2018; however, he remains available to provide advisory services to Petra as required.

His interest in the Company as at 30 June 2018: 8,018,572 shares (30 June 2017: 4,812,981 shares).

Luctor Roode (47)

Mr Roode was appointed as Chief Operating Officer on 1 March 2018 and is responsible for operational production delivery for the Group. He previously worked at various diamond mining operations in South Africa including Namaqualand mines, Venetia Mine, Cullinan Mine and Kimberley Mines, culminating in his position as Production Manager for Finsch (when still owned by De Beers). Further to the acquisition of Finsch by Petra, Mr Roode was appointed General Manager of the mine and then became Executive Operations in August 2017. Mr Roode holds a Bachelor of Chemical Engineering and Bachelor of Commerce degree from the University of Pretoria and University of South Africa respectively. He is registered as a Professional Engineer with the Engineering Council of South Africa.

Notes:
1. The significant elevation in number of shares for all Directors who are shareholders is attributable to their decision to take up their rights in full in the 2018 Rights Issue.

Corporate Governance Statement

UK Corporate Governance Code compliance

Petra aims to maintain high standards of corporate governance throughout the Group. To that end, the Company looks to comply with all applicable governance regulations in the various jurisdictions in which it operates, as well as meeting best practice wherever possible.

Petra is not subject to a code of corporate governance in its country of incorporation, Bermuda; however, as a London Stock Exchange ("LSE") Main Market company with a premium listing and its tax domicile in the UK, Petra is required to comply with the UK Corporate Governance Code (April 2016) ("the Code") and to explain in this statement any areas of non-compliance with the Code.

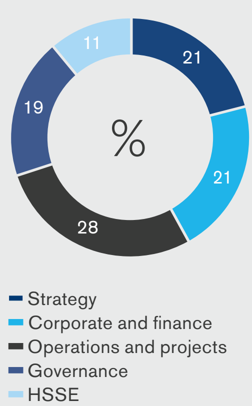
The Company considers that there are only two areas in which it is not strictly in compliance with the Code, as set out below:

- The Company's Non-Executive Chairman, Adonis Pouroulis, is not defined as being independent according to corporate governance guidelines due to his having served as Chairman since the incorporation of the Company in 1997, having acted as Chief Executive Officer until 2005, having been granted options under the 2005 Executive Share Option Scheme and being eligible to receive benefits of membership from the Group's life insurance scheme. The Company's Independent Non-Executive Directors ("iNEDs") continue to be of the opinion that, whilst not considered to be independent for the reasons stated, Mr Pouroulis demonstrates integrity in judgement, character and action. Furthermore, his contribution, leadership and accumulated experience and track record of building natural resource companies justify their recommendation that shareholders support his re-election to the Board at the Company's forthcoming Annual General Meeting.
- Remuneration of Non-Executive Directors ("NEDs") – as noted, Petra's Non-Executive Chairman, Mr Pouroulis, holds share options granted prior to the Company's step up from AIM to the Main Market of the LSE, representing a form of performance-related benefits. Whilst the Code states that NEDs should not receive performance-related remuneration, these are legacy arrangements and there have been no further share option or share incentive awards to the Non-Executive Chairman since 17 March 2010. Other than this exception, the Group has fully incorporated the principles of the Code when determining remuneration for NEDs (for further information, please review the Directors' Remuneration Report on pages 92 to 103).

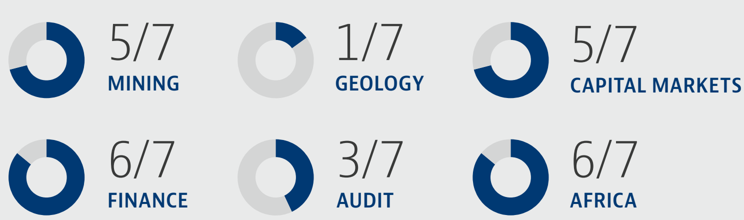
Matters reserved for the Board

- Vision and strategy
- Production and trading results
- Financial statements and reporting (supported by the Audit & Risk Committee)
- Financing strategy, including debt and other external financing sources
- Budgets, expansion projects, capital expenditure and business plans
- Material acquisitions and divestments
- Corporate governance, ethics and culture
- Risk management, internal controls and compliance, including consideration of the Viability Statement (supported by the Audit & Risk, Remuneration and HSSE Committees)
- Health, safety, social and environmental matters (supported by the HSSE Committee)
- Appointments and succession plans (supported by the Nomination Committee)
- Executive Director remuneration (supported by the Remuneration Committee)

Board time in FY 2018



Board experience[1]



1. Excluding Jim Davidson who retired on 30 June 2018.

The role of the Board

The Board is responsible for the long-term success of the Company. Petra's Board has the required balance of experience, skills and knowledge of the Company, as well as independence with regards to the iNEDs, to properly discharge its responsibilities and duties.

In order to fulfil its role, the Board:

- sets the Company's strategic aims, ensures that the necessary resources are in place for the Company to meet its objectives, and reviews management performance in achieving such objectives;
- provides leadership of the Company within a framework of effective systems and controls, which enable risk to be assessed and managed;
- develops the collective vision of the Company's purpose, culture and values and the behaviour it wishes to promote in conducting business and ensures that its obligations to its shareholders and others are understood and met; and
- carries out all duties with due regard for the sustainability and long-term success of the Company.

The role of the Chairman
Mr Pouroulis:

- leads the Board and is primarily responsible for the effective working of the Board;
- in consultation with the Board, ensures good corporate governance and sets clear expectations with regards to Company culture, values and behaviour;
- sets the Board's agenda and ensures that all Directors are encouraged to participate fully in the activities and decision-making process of the Board;
- engages with shareholders and other governance-related stakeholders, as required;
- meets with the Senior Independent Director and with the iNEDs without the Executive team present, in order to encourage open discussions and to assess the Executive team's performance;
- identifies induction and development needs of the Board and its Committees; and
- chairs the Nomination Committee and thereby plays an important part in assessing and advising on the appropriate composition of the Board and its skill-set.

The role of the Chief Executive
Mr Dippenaar:

- is primarily responsible for developing Petra's strategy in consultation with the Board, for its implementation and for the operational management of the business;
- leads and provides strategic direction to the Company's management team;
- runs the Company on a day-to-day basis;
- implements the decisions of the Board and its Committees, with the support of his fellow Executive Director and top-level Senior Management;
- monitors, reviews and manages key risks;
- ensures that the assets of the Group are adequately safeguarded and maintained;
- is the Company's primary spokesperson, communicating with external audiences, such as investors, analysts and the media;
- leads by example in establishing a performance-orientated, inclusive and socially responsible Company culture; and
- chairs the HSSE Committee and thereby has direct involvement in the strategic management of Petra's HSSE issues, including labour relations.

The role of the Senior Independent Director
Mr Lowrie:

- provides a sounding board for the Chairman and serves as an intermediary for the other Directors as necessary;
- is available to shareholders if they have concerns which contact through the normal channels has failed to resolve or for which such contact is inappropriate;
- leads the iNEDs in undertaking the evaluation of the Chairman's performance appraisal;
- provides valuable input with regards to Petra's investor relations strategy, in line with his extensive capital markets experience; and
- is a member of Petra's Audit & Risk, Remuneration and Nomination Committees, thereby bringing his skill-set and independent judgement to the benefit of these Committees.

The role of the iNEDs
Dr Bartlett, Mr Hamilton, Mr Lowrie and Ms Matloa:

- challenge the opinions of the Executive Directors, provide fresh insight in terms of strategic direction, and bring their diverse experience and expertise to the benefit of the leadership of the Group;
- assess the performance of the Chairman;
- scrutinise the performance of the Executive Directors in terms of meeting agreed goals and objectives;
- ensure that the financial information, controls and systems of risk management within the Group are robust and appropriate;
- determine the appropriate levels of remuneration of the Executive Directors; and
- Dr Bartlett, Mr Hamilton and Mr Lowrie are members of Petra's Audit & Risk, Remuneration and Nomination Committees (and Chairman of the Audit & Risk and Remuneration Committees in the case of Mr Hamilton), thereby bringing their skill-set and independent judgement to the benefit of these Committees. Ms Matloa is a member of Petra's Audit & Risk Committee, bringing her specific financial experience to the benefit of this Committee.

Corporate Governance Statement continued

How our Board operates

Board and Committee meetings

In terms of formal Board meetings, the full Board meets in person at least four times a year and speaks monthly via conference call in order to discuss operational matters and ongoing performance against the Group's development and production plans, including internal budgets and external guidance to the market. There is frequent communication between Board members outside of the set meeting dates, in order to stay abreast of business developments.

The formal Board and Committee meeting dates are scheduled to address key events in the corporate calendar (see page 70 for further information). There is a standing list of agenda items for discussion at every meeting, with extra time factored in for additional matters. The agenda is agreed with the Chairman (or with the Chairman of the relevant Committee) and a timeframe set in advance for the various items, thereby ensuring that the full agenda can be covered in the time allotted.

Petra's Board and Committee meetings are generally spaced out over two days, allowing for considerable interaction between members, both inside and outside of the formal meetings. However, post Year end it was decided to increase the time allocated to Board meetings in order to address the size of the business and the requirements of the ever evolving governance landscape. Dinners and other social engagements are also attended by members outside of the meeting times to allow for more informal discussion of issues; this assists in clarification and engagement, meaning that consensus during the meeting is more easily attained.

Packs for the meetings are prepared by management following input on the agendas formulated by the respective Chairmen, and circulated electronically prior to the meeting, thereby allowing the Directors adequate time to consider the variety of issues to be presented and debated. In the minutes of the meetings, issues identified for follow-up are set out, ensuring that unresolved matters raised by the Directors are actioned and reported back in a timely manner.

In addition to formal Board and Committee meetings, the Chairman holds frequent meetings with the iNEDs during the Year, enabling free discussions without the Executive Directors present. These meetings also allow the Chairman to update the iNEDs on the various activities of the Group where necessary before a formal Board meeting, in particular when the Executive Directors are reviewing matters of strategy, the budgetary process and other corporate activities.

FY 2018 Board calendar

	Board meetings 6 held	Audit & Risk Committee 5 held	Remuneration Committee 5 held	Nomination Committee 4 held	HSSE Committee 4 held	Annual General Meeting 1 held
Adonis Pouroulis	6	n/a	n/a	4	n/a	1
Johan Dippenaar	6	n/a	n/a	n/a	3	1
Jim Davidson	6	n/a	n/a	n/a	n/a	1
Jacques Breytenbach[1]	3[1]	n/a	n/a	n/a	n/a	n/a
Tony Lowrie	6	4	5	3	n/a	1
Gordon Hamilton	6	5	5	4	n/a	1
Pat Bartlett	6	5	5	4	3	1
Octavia Matloa	6	5	n/a	n/a	n/a	1

Date of meetings held

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Board meetings	1		1		1			1			2	
iNEDs and Chairman	1		1		1			1			1	
Audit & Risk Committee	1		1		1			1			1	
Remuneration Committee	1		1		1			1			1	
Nomination Committee			1		1			1			1	
HSSE Committee		1					1			1		1
Annual General Meeting					1							
Chairman and Senior iNED	1	1	1	1	1	1	1	1	1	1	1	1
Board evaluation[2]												

1. Appointment date was February 2018.
2. Completed shortly after Year end.

Site visits

Visiting Petra's operations in person and interacting with Senior Management is very important for all Board members. Annual site visits are therefore arranged for the NEDs to ensure that, in addition to papers presented at Board meetings, they continue to stay informed of development and progress at the operations, as well as allowing for interaction with employees at a range of levels throughout the business and assisting with the ongoing evaluation of Company culture.

The Executive Directors visit the operations on a regular basis as part of their day-to-day business. The following site visits were conducted by the NEDs in FY 2018:

- August 2017: Gordon Hamilton and Pat Bartlett visited Finsch, Cullinan and Koffiefontein;
- October 2017: site visit to all South African operations, attended by Tony Lowrie, Gordon Hamilton, Pat Bartlett and Octavia Matloa;
- February 2018: Adonis Pouroulis and Gordon Hamilton joined the investor and analyst site visit to Finsch; and
- Gordon Hamilton and Pat Bartlett visited Finsch, Cullinan and Koffiefontein after Year end in August 2018.

Senior mine management presented to the Board members at each site visit and the tours arranged in February 2018 afforded the opportunity for Directors to engage with investors and analysts. A full Board site visit was scheduled for May 2018 but was postponed due to the high level of activity surrounding the Rights Issue process.

Meetings are also arranged for the NEDs at the Company's Johannesburg and London offices on an ad hoc basis with members of the corporate team and other management-level employees. These informal meetings help to keep the NEDs up to date with the various important functions of the business, including finance, operations, investor relations, internal audit, legal and diamond sales and marketing.

Why our Board is effective

Director commitment

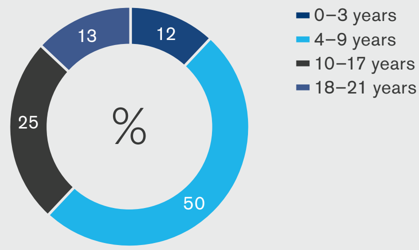
The Directors' biographies and duties can be found on pages 60 and 61 and there have been no changes to their respective duties during the Year, with the exception of Jacques Breytenbach, who was promoted from Chief Financial Officer to Finance Director of the Board on 19 February 2018.

The Board believes that each of the Directors is able to allocate sufficient time to the Company to fulfil their obligations, as confirmed by the internal Board evaluation carried out in July 2018.

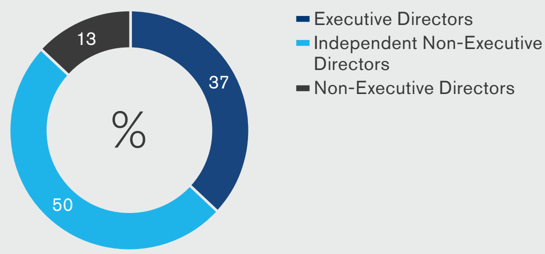
Executive Directors may, subject to Board consent, accept external appointments to act as Non-Executive Directors of other companies. However, the Board would reserve the right to review such appointments to ensure no conflict of interest and that the time spent on fulfilling such obligations would not affect the respective Director's contribution to Petra. Any fees for such appointments would normally be retained by the Director concerned. Currently, none of the Executive Directors have any external appointments which affect their contribution to Petra.

The Chairman and iNEDs are required to inform the Board of any proposed new directorships and a similar review process would be undertaken to ensure they can adequately fulfil their obligations as Directors of the Company. During the Year, there were no significant changes to the Chairman or iNEDs' external commitments and they are considered to have sufficient time to fulfil their duties.

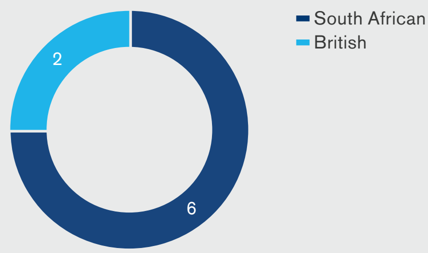
Tenure of Directors



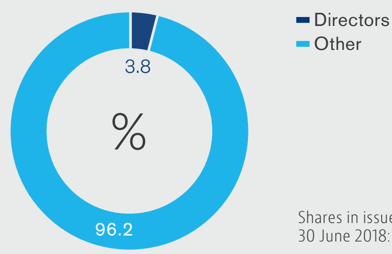
Board composition



Directors' nationality



Percentage of Petra shares held



Shares in issue as at 30 June 2018: 865,336,485

The above charts include Jim Davidson, who served as an Executive Director in FY 2018 before retiring on 30 June 2018.

Corporate Governance Statement continued

Why our Board is effective continued

Assessment of Director independence

As previously noted, Mr Pouroulis is not defined as being independent according to corporate governance guidelines; however, the iNEDs continued to be of the opinion that Mr Pouroulis demonstrates integrity and independence in judgement, character and action, thereby justifying their recommendation that shareholders support his re-election to the Board at the Company's forthcoming Annual General Meeting.

In accordance with the Code, the Board considers Mr Hamilton, Mr Lowrie, Dr Bartlett and Ms Matloa to be independent and all four iNEDs are independent of any relationship listed in the provisions of the Code. None of the iNEDs received any fees from the Company in FY 2018 other than their contractual iNED fees, as set out on page 99 of the Directors' Remuneration Report.

Conflicts of interest

Whilst conflicts should be avoided, the Board acknowledges that instances arise where this is not always possible. In such circumstances, Directors are required to notify the Chairman before the conflict arises and the details are recorded in the minutes. If a Director notifies the Board of such an interest, they may be, if requested by the Chairman, excluded from any related discussion and will always be excluded from any formal decision. This was only required in one instance in FY 2018 in which Ms Matloa recused herself from any discussions pertaining to the audit tender award process, as she had a five-year contract with a specific participant in this process.

Director information, training and development needs

Detailed knowledge of the specialist world of diamonds, the global mining industry, international capital markets, UK/LSE legislation, Sub-Saharan Africa (particularly South Africa) and Petra's unique business and operations is crucial to the Board's ability to effectively lead the Company.

Petra has an induction programme designed to bring new Directors up to speed as quickly as practicable, following their appointment to the Board. Such an induction would typically involve meetings with the Board and various members of Senior Management, an information pack of all necessary corporate documents, including the Company's latest Annual and Sustainability Reports, the Bye-Laws, Committee Terms of Reference and other key Group policies, such as the Group Code of Ethical Conduct and the Anti-Bribery Policy, enabling them to familiarise themselves with the Group, its procedures and current activities. A site visit to one or more of the Group's key operations is held as soon as possible, to provide the new Director with further information on the operations, including production/expansion plans and key ESG considerations.

In order to ensure that existing Board members retain the relevant and up-to-date knowledge and skill-set to properly discharge their duties, ongoing training and other professional development opportunities are provided by the Company and/or the Directors attend external courses and conferences on their own professional behalf. Training is arranged as appropriate to suit each Director's individual needs and covers topics such as industry developments, governance, technical subjects related to diamond mining, communication strategies and ESG matters. The Chairman reviews and agrees with each Director their training and development needs.

In FY 2018, Petra organised training sessions for the Board on the impact of MiFID II, sustainability reporting and the rise of ESG as an investment theme, and an update on directors duties and responsibilities for companies with a premium listing on the London Stock Exchange. The Directors also received in-depth technical presentations and training when carrying out site visits during the Year.

The Company's Corporate Communications team acts as a conduit of regular information to the Board and Senior Management, providing daily briefings by email on relevant topics, such as key diamond industry trends, peer group developments, regulatory updates, socio-economic information about Petra's countries of operation, as well as internal Company news.

The Board has access to the advice and services of the Company Secretarial function as required.

Members of Petra's Board visited Finsch in October 2017

Board strategy and performance

The Company's strategy is to further develop its stature as a leading independent diamond miner with a focus on increasing diamond production, delivering key expansion projects, driving efficiencies and maintaining high ethical standards. The Board's objectives in order to assist the Company in the furtherance of its strategy are set out below.

Strategy and operations

OBJECTIVES FOR FY 2018

- **Safety of all Petra people is paramount to the Company and therefore turning around the fatalities trend in FY 2017 is the Board's number one operational priority.**
- **Hold an off-site day in FY 2018 solely dedicated to strategy.**
- **Continue to review and monitor the Group's production results and delivery against the approved expansion and development plans, with continued focus on carat production, revenue, earnings, cashflow generation and appropriate treasury and balance sheet oversight.**
- **Particular focus on setting achievable production guidance.**
- **Assessment and ongoing focus on effective market communications.**
- **Continue to assess opportunities to maximise value and cashflow opportunities from the Group's substantial resource base. Strategic focus on value production as opposed to volume and on re-setting the cost base.**
- **Further consideration of an appropriate longer-term capital allocation strategy and dividend policy for the Group.**
- **A governance roadshow led by the Chairman and the Senior Independent Director in November 2017.**
- **Ongoing consideration of Company culture and how this is vital to the delivery of Petra's strategy.**

PROGRESS IN FY 2018

- Safety became the first operational item discussed at every Board meeting and received significant attention throughout the Year. iNED Pat Bartlett joined the HSSE Committee in order to have oversight of progress on the ground.
- The strategy day scheduled for May 2018 was postponed to post Year end due to the high level of corporate activity surrounding the Rights Issue. This is a priority for FY 2019.
- The Company's production performance in accordance with its guidance to reach 4.6–4.7 Mcts (including KEM JV) was monitored closely throughout the Year, as well as its financial performance, leverage and covenant ratios, as influenced by the operational results, diamond prices and foreign exchange movements.
- The Board approved the Rights Issue to raise net proceeds of circa US$170 million in order to accelerate the deleveraging of the business and to mitigate short-term risk; the Board set a medium-term target to reach 2x or less consolidated net debt/consolidated EBITDA by the end of FY 2020 – see page 30.
- Shortly before Year end, the Board approved a process to negotiate the proposed sale of KEM JV.
- Post Year end, the Board approved the Heads of Agreement for the proposed disposal of the Group's interest in the KEM JV operation – see page 42.
- The governance roadshow took place – see page 70.
- Petra's culture was discussed, taking into account employee feedback – see page 58.

OBJECTIVES FOR FY 2019

- Safety of all Petra people will continue to be the Company's top priority and will remain closely monitored by the Board and the HSSE Committee, as Petra strives to reach its objective of a zero harm workplace.
- Strategic focus on value over volume, requiring continued evaluation of driving operational efficiencies and optimisation across the portfolio in order to reset the cost base and maximise profitability.
- Annual strategy day to become regular fixture in Board calendar.
- Increased reporting to the Board on progress on strategic priorities within the business.
- Further consideration of an appropriate longer-term capital allocation strategy and dividend policy for the Group, while closely monitoring the Company's progress with regards to meeting its medium-term leverage target.
- Review the asset portfolio of the business with a view to maximising return on capital to ensure that all assets are in a position to contribute positive cashflow to the business.
- Continue to improve the mechanisms by which the Board receives feedback from the Company's broad range of stakeholders.
- Ongoing consideration of Company purpose, culture and reputation, and how these are vital to the delivery of Petra's strategy and to upholding consumer confidence in diamonds.

Board composition

OBJECTIVES FOR FY 2018

- **Continue to consider Board and Committee composition, taking into account the Company's ongoing transition from an expansion phase to a production focus and with an emphasis on diversity.**

PROGRESS IN FY 2018

- The Company is focused on a Succession Plan with a three-year horizon.
- FY 2018 represented year one and a number of Board and Senior Management changes took place, including the retirement of Jim Davidson as Technical Director, the appointment of Jacques Breytenbach to the Board as Finance Director and the promotion of Luctor Roode to Chief Operating Officer.

OBJECTIVES FOR FY 2019

- The Board and Nomination Committee are looking to make additional changes in FY 2019 in order to ensure it has the right mix of expertise and skills within its Board, Committee and Senior Management structures. Improving diversity at the top levels of the business will be an integral part of this.
- Further strategic consideration of the Company's three-year Succession Plan.
- Establishment of Social, Ethics & Diversity Committee.

Corporate Governance Statement continued

Board strategy and performance continued

OBJECTIVES FOR FY 2018	PROGRESS IN FY 2018	OBJECTIVES FOR FY 2019
Risk management		
▸ **Ensure that the annual Internal Audit Plan addresses the key business risk areas that can be mitigated by Internal Audit reviews. This will be backed up by Internal Audit continuing to consider other parts of the business where the ongoing review of the systems of internal controls and internal financial controls is relevant to superior Group risk management.** ▸ **Continue to consider the key risks that are relevant to the Petra Group, ensuring the possible effect of such risks and plans for the mitigation thereof are fully understood and continually actioned by the Board and Senior Management.** ▸ **Arrange at least one annual visit for the full Board to the Group's operations.**	▸ The Audit & Risk Committee Chairman and the Group Internal Audit Manager reported to the Board on the work of the Internal Audit function, including the approval of the Internal Audit Plans for FY 2018 and FY 2019 and the ongoing compilation of the integrated Group Risk Register. ▸ Towards the end of FY 2018 Senior Management undertook an updated full risk review of the business, not only considering risk previously identified but also including working sessions to identify and report on any risks not previously recorded in the Group's risk reporting processes to the Board. The results of this updated Group Risk Review were presented to the Audit & Risk Committee in July 2018. ▸ It was not possible to arrange a full Board site visit at one time in FY 2018; however, certain NEDs carried out various visits to Petra's South African operations during the Year, hosted by various Senior Management. The Executive Directors visit the operations on a regular basis, and the NEDs also made time for other site visits on an ad hoc basis throughout the financial year.	▸ Ensure that the annual Internal Audit Plan addresses the key business risk areas that can be mitigated by Internal Audit reviews. This will be backed up by Internal Audit continuing to consider other parts of the business where the ongoing review of the systems of internal controls and internal financial controls is relevant to superior Group risk management. ▸ Continue to consider the key risks that are relevant to the Petra Group, ensuring the possible effect of such risks and plans for the mitigation thereof is fully understood and continually actioned by the Board and Senior Management. ▸ Arrange at least one annual visit for the full Board to the Group's operations. ▸ An annual review of the Group's risk register.
Board process		
▸ **In addition to the four formal meetings in person per annum, the Board will hold group calls on a monthly basis in order to track progress of production and the remaining key deliverables of the Group's expansion programmes.** ▸ **A more formalised recording and tracking of Board objectives at regular periods throughout the year.** ▸ **Hold an internal Board evaluation process in FY 2018.** ▸ **Continue to assess the Directors' training needs and to provide relevant training opportunities to the Directors in order to ensure that all Board members stay abreast of relevant developments.** ▸ **Continued refinement of Board papers to improve communication of key issues.**	▸ The Board increased the frequency of its operational update meetings to monthly (handled via conference call) in order to ensure in-depth understanding of Petra's performance in accordance with its plans throughout the Year. ▸ Board objectives are now included as a standing item in all board packs. ▸ The internal Board evaluation took place in July 2018 – see page 69. Specific outcomes have been included as part of the objectives for FY 2019. ▸ The Directors were provided with opportunities to attend relevant external and internal training sessions throughout the Year – see page 66. ▸ Both frequency and content of Board papers were considered to be improved during the Year.	▸ The Board will continue to hold monthly update meetings in order to regularly monitor delivery against development and production plans. ▸ More time will be allocated for Board and Committee meetings, bearing in mind the size of the business and the ever evolving governance landscape. ▸ Hold an internal Board evaluation process in FY 2019. ▸ Continue to assess the Directors' training needs and to provide relevant training opportunities to the Directors in order to ensure that all Board members stay abreast of relevant developments. ▸ Continued refinement of Board papers to ensure optimal communication.

IR strategy

Investor relations is an essential aspect of the Company's corporate communications strategy. The aim of Petra's IR programme is to ensure that the Company's business model, strategy and future prospects are clearly understood by the investment community both in the UK and internationally.

The Company achieves this by operating with a high level of transparency with regards to its historical, current and future operations, by providing consistent information and messages across a number of communication channels and by using clear language that aims to explain the investment story and ensure that it is easy to understand for a wide range of audiences.

Petra continues to support an open and transparent dialogue with shareholders, thereby ensuring that shareholders' needs and objectives and their views on the Company's performance are understood, as well as demonstrating the high emphasis placed on engagement and shareholder value by the Board.

The Group's corporate website, www.petradiamonds.com, aims to provide investors with the required information to potentially make an investment decision; however, the Company also provides a wide range of information to assist other stakeholders and makes available Petra's Annual and Sustainability Reports via this medium. The website is regularly reviewed and updated with new information.

Recognising the growing importance of social media both in terms of news dissemination and in terms of providing an alternative communications channel to stakeholders, Petra continues to develop its presence through its LinkedIn and Twitter channels. The Company also launched on Facebook and Instagram during the Year, but these channels are focused primarily on employee, local community and consumer audiences.

IR activity

Petra has a dedicated in-house Corporate Communications team 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 Corporate Communications team regularly provides feedback to management as well as all members of the Board on shareholder and analyst communication, and ensures that analyst research notes are circulated as received. A monthly IR report covering Petra trading in relation to its peers, an overview of IR activity and investor feedback, analyst forecasts, share register movements and bond performance is distributed monthly to the Board and a quarterly IR presentation is included for review at Board meetings.

As part of Petra's proactive investor relations approach, the CEO, Finance Director, Corporate Communications team and Business Analyst (based in Johannesburg) commit time to hold regular formal and informal meetings in person and via the telephone with the Company's shareholders and potential investors, in addition to twice yearly roadshows, which coincide with the publication of Petra's interim and annual results. The Company also hosts 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 are available to access thereafter at www.petradiamonds.com/investors/financial-events-calendar. Furthermore, regular meetings are arranged with sell-side analysts and broker sales teams.

In addition, the Chairman is available to meet with shareholders as required and the iNEDs, both as part of the induction process and subsequently, are also provided with opportunities to meet with shareholders throughout the year. Petra's Senior Independent Director is available to shareholders to address concerns that contact with the Chairman, CEO or Finance Director failed to resolve, or for which such contact was inappropriate.

As part of the Company's commitment to ensuring effective shareholder communications, the Chairman and Senior Independent Director carry out a governance roadshow every two years, and the latest was held in November 2017 – read more on page 70.

Petra hosts one formal investor/analyst site visit per year, with additional smaller ad hoc visits arranged as required or requested. Such visits are considered an essential part of the Company's IR programme as seeing one of the operations in person is the best way for an investor/analyst to understand the scope and scale of Petra's assets, as well as the depth of operational management on site and the passion of Petra's people.

FY 2018 shareholder engagement

During FY 2018, the Company's CEO and IR team held 165 investor meetings, thereby engaging with over 200 people (FY 2017: over 260 meetings held). The team met with all of the active managers within the Group's top 20 shareholders at least once during the Year. There was a decline in investor meetings held mainly due to marketing restrictions in place at the time of the Rights Issue process which prevented the Company from attending various industry conferences.

The main recurring themes and issues raised by shareholders during the Year centred on:

- Petra's expansion programmes at Finsch and Cullinan and associated execution risks (read more on pages 36 to 39);
- progress made at the new Cullinan plant and the impact on value versus volume recoveries (read more on pages 38 and 39);
- the make-up of the Company's portfolio, including scrutiny of the smaller assets and their contribution (read more on pages 9 to 11);
- the volatility of the ZAR:USD exchange rate and the impact on Petra's financial position (read more on pages 28 to 31);
- Petra's balance sheet and leverage levels, and the Company's ability to meet its debt facility covenant measurements (read more on pages 28 to 31);
- the blocked Williamson parcel and the operating outlook in Tanzania (read more on pages 9 to 11);
- the rationale for the Rights Issue and the quantum raised (read more on page 30);
- the state of the diamond market and expectations with regards to diamond pricing (read more on pages 17 to 21);
- synthetic 'man-made' diamonds and how these affect the market for natural diamonds (read more on page 17); and
- the political situation and legislative updates in South Africa and Tanzania (read more on page 48).

In addition to these meetings, Petra arranged a formal investor and analyst site visit to Finsch and Cullinan in February 2018, affording participants the opportunity to engage with Petra's Executive Directors and relevant members of the Company's Senior Management and mine management teams. Ad hoc site visits were also arranged for investors and analysts at numerous other times during the Year.

Evaluation of the Board's performance

An internal Board evaluation was carried out, in which each Board member was given the opportunity to provide input by means of a questionnaire covering the following topics:

- objectives, strategy and remit;
- performance measurement;
- risk management;
- Audit & Risk Committee, internal audit and corporate reporting;
- Board composition and process; and
- individual performance.

The results were collated, analysed and discussed at the Board meeting in July 2018. As a result of this evaluation process, it was concluded that, whilst the Board remains effective and appropriate to the size of the business, it could be further strengthened by the addition of technical and governance skills, taking diversity into account in the selection process of any new members.

Areas for improvement and outcomes of the evaluation process included the following:

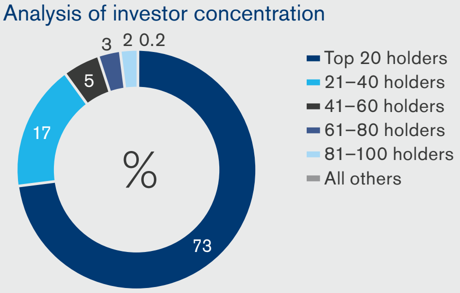
- an off-site strategy session to be held on a regular basis;
- increased reporting to the Board on progress on strategic priorities within the business;
- the annual review of the risk register should become standard practice;
- Board composition and succession should remain an item for discussion at quarterly meetings; and
- more time will be allocated for Board and Committee meetings, bearing in mind the size of the business and the ever evolving governance landscape.

Corporate Governance Statement continued

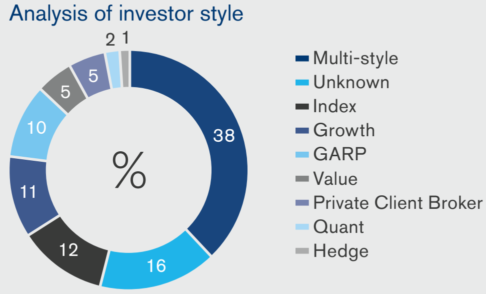
Shareholder communication

Shareholder breakdown as at 30 June 2018[1]

Analysis of investor concentration



Analysis of investor style



1. Percentages may not total 100 due to rounding.

Investor relations ("IR") calendar for FY 2018

July	FY 2017 Trading Update and FY 2018 Guidance
September	FY 2017 Prelim Results
	Investor roadshow in UK and North America
October	Annual Report published
	Sustainability Report published
	Q1 FY 2018 Trading Update
November	Governance roadshow
	AGM
January	H1 FY 2018 Trading Update
February	Investor/analyst site visits to Cullinan and Finsch
	H1 FY 2018 Interim Results
	Investor roadshow in UK and North America
	Participation in industry investor conferences in South Africa and North America
March	Participation in industry investor conferences in South Africa and UK
April	Q3 FY 2018 Trading Update
May	Rights Issue roadshow in UK and North America

Investor/analyst presentation and webcast **Investor/analyst conference call** **Investor one-on-one meetings**
Conferences **Site visit** **Report publication**

Petra's FY 2018 Governance Roadshow

In November 2017, Petra's Chairman, Mr Pouroulis, and Senior Independent Director ("SID"), Mr Lowrie, carried out a governance roadshow with the assistance of the Corporate Communications Manager. Meetings were offered to Petra's top ten active shareholders and were generally arranged with a combination of the relevant portfolio manager and governance contacts at each firm.

The governance roadshow allows for direct access to the Chairman and SID and is considered an important way for Petra to gauge which environmental, social and governance ("ESG") topics are of material importance to its major shareholders.

Further to the mixed performance by the Company over recent years, frank discussions were held with regards to the strengths and weaknesses of the business. A summary report of the feedback was subsequently provided to the full Board and this was considered as part of the ongoing thinking around the strategic development of the Company.

While holding a formal governance roadshow should be a biennial event for Petra, Mr Pouroulis and Mr Lowrie continue to engage with the Company's shareholders on an ad hoc basis as required.

Summary of main investor feedback is below:

- Group performance and risk management – discussion of the Directors' assessment of the issues that had impaired Company results and whether these could have been handled differently.
- Leadership and succession planning – plans around the evolution of Petra's Board and top Senior Management in order to best position the Company going forward.
- Safety – progression of Petra's safety turnaround plan further to the fatalities in FY 2017.
- Labour relations – background to the disruptions experienced in September 2017.
- Reporting – Petra was recognised as producing Annual and Sustainability Reports to a good standard for a company of its size, with a high level of disclosure.

Petra Diamonds | petradiamonds.com | @Petra_Diamonds | @PetraDiamondsIR

Petra Diamonds Official | @petradiamondsofficial

Reporting

Petra's objective with regards to external reporting (via its Annual Report and Sustainability Report, supported by its website) is to provide a high level of transparency, in order to set out a clear picture of the Group's past performance and its potential future prospects. To this end Petra has aimed to provide a high level of disclosure, particularly across the area of sustainability, having produced detailed standalone Sustainability Reports for the last nine years.

Annual General Meeting ("AGM")

Shareholders are encouraged to participate at the AGM, ensuring that there is a high level of accountability and identification with the Group's strategy and goals. The full Board was present at the AGM in November 2017, with the Committee Chairmen available to answer any questions relevant to their activities.

A summary of the proxy voting for the AGM was made available via the London Stock Exchange and on the corporate website as soon as reasonably practicable on the same day as the meeting.

Results of our FY 2017 AGM

		Total votes as a % of votes cast	Total votes against as a % of votes cast	Votes withheld as a % of total shares with voting rights	Total number of votes withheld
1	Statutory accounts	100	0.00	0.00	
2	Directors' Annual Remuneration Report	99.88	0.12	2.53	9,779,383
3	Approve Directors' remuneration policy	99.96	0.04	2.53	9,779,383
4	Re-appointment of auditors	100	0.00	0.00	
5	Approval to fix auditors' remuneration	99.92	0.08	0.00	
6–12	Re-appointment of Directors	80.61 to 99.94	0.06 to 19.39	0.00 to 0.02	1,140,160
13	Authority to allot relevant securities	100	0.00	0.00	
13	Disapplication of pre-emption rights	100	0.00	0.00	

Report of the Audit & Risk Committee

Members of the Audit & Risk Committee

Gordon Hamilton, Chairman

Pat Bartlett

Tony Lowrie

Octavia Matloa

The Audit & Risk Committee continued its important work throughout FY 2018 of:

- continually assessing the Group's internal audit function and looking to enhance and improve processes and functions where appropriate;
- ensuring the Group's interim and annual results and financial statement reporting were adequately considered with focus on maintaining robust judgements and estimates;
- ongoing consideration of control and systems to ensure they remain relevant and appropriate to the business and the associated risks thereto; and
- maintaining regular and detailed interaction with the external auditors, both within the Committee meetings and otherwise (by the Committee Chairman), ensuring the highest levels of audit quality and feedback are maintained.

"

Maximising return on capital and ensuring that all assets are in a position to contribute positive cashflow to the business was an ongoing process throughout FY 2018.

Gordon Hamilton
Chairman of the Audit & Risk Committee

Nomination Committee Terms of Reference
petradiamonds.com/about-us/corporate-governance/board-committees

Dear shareholder,

The Audit & Risk Committee ("the Committee") plays a vital role at Petra by ensuring that the Group has effective and appropriate risk management and internal control systems, backed up by comprehensive financial, governance, internal audit and reporting functions. As Chairman of the Committee, I am pleased to have this opportunity to summarise some of the key developments during the Year, as well as our ongoing responsibilities and objectives.

Careful consideration of leverage, banking covenants and the Rights Issue

Historically, Petra has financed its asset acquisitions predominantly through a number of equity raises and has since executed the capital investment programmes utilising operating cashflow, banking facilities and the proceeds from two bond issues. Whilst the Company has successfully delivered on the majority of the milestones associated with its development plans across the portfolio, its cashflow generation over the last two years has been impacted by a combination of the operational delays in FY 2017 combined with a number of business challenges experienced in the first half of FY 2018. In conjunction with a stronger Rand, which reached a low of R11.55:USD1 in February 2018, the Company's gross debt reached levels higher than anticipated and impacted the Company's ability to deleverage in line with expectations.

The Committee was kept apprised of these developments during the Year with regards to potential covenant breaches, liquidity and cashflow forecasts. The Committee regularly discussed these issues with the Board and the potential de-leveraging mechanisms available to the Group ensuring at all times that appropriate consideration was being given and that external reporting in Trading Updates, interims and full year results announcements and other regulatory announcements was always appropriate, balanced and complete.

Following careful deliberation and with input from the Audit Committee, the Board determined that the Rights Issue provided the optimal way of reducing leverage to a more sustainable level, allowing management to focus on ongoing operational delivery and optimisation, and assisting in mitigating short-term issues relating to currency volatility and the other ongoing business challenges as outlined above.

Review of the Group's portfolio of assets

Maximising return on capital and ensuring that all assets are in a position to contribute positive cashflow to the business was an ongoing process throughout FY 2018. The Committee regularly reviewed all the operations with specific emphasis on Koffiefontein and the KEM JV, including on-site visits, due to the fact that both assets had a high level of sensitivity to a strengthening Rand on the US Dollar operating costs, coupled with execution risk related to their remaining expansion targets, as well as lower than forecast pricing for the KEM JV as a result of a higher proportion of smaller, low value goods. The Committee was kept abreast regularly of developments at both operations and provided key consideration on impairment reviews as well as holding regular discussions with the external auditors so as to ensure appropriate external reporting was at all times provided.

Commissioning of expansion projects

Whilst the Group has established accounting policies associated with the commissioning of assets associated with the expansion projects, the practical implementation of these policies remained a key focus for the Committee during the Year with several key assets being commissioned. Assessment of depreciation charged, borrowing costs capitalised and appropriate cost allocation between capital and expenditure based on project status were all considered in detail.

Risk review

The Committee continued to consider and enhance its risk reporting matrices ensuring that both operational and corporate level risk reviews were carried out during the Year.

The outcome of the review did not significantly change the Group's recorded material risks as disclosed on pages 43 and 44.

Gordon Hamilton
Chairman of the Audit & Risk Committee
12 October 2018

Committee experience and skill-set

The members of the Audit & Risk Committee are considered to possess the appropriate skills and experience to monitor and ensure the integrity of the Group's financial reporting, internal audit, internal financial control and risk management systems and to support Petra's governance.

Mr Hamilton, the Chairman of the Committee, fulfils the requirements of the Code with regards to recent and relevant financial experience, having spent more than 30 years as a partner at Deloitte LLP primarily responsible for multinational and FTSE 350-listed company audits in mining and for several South African companies. He is currently chairman of several other audit committees.

In terms of the Committee members and in line with FRC Guidance, Dr Bartlett, as an experienced diamond geologist, possesses a wealth of sector-specific experience relevant to the nature of Petra's business, Mr Lowrie brings many years of business experience across international banking and financial sectors, and Ms Matloa is a qualified Chartered Accountant who brings highly relevant business, financial and audit experience as she is currently a member of the audit committee for other organisations in South Africa.

When relevant, new members to the Audit & Risk Committee will receive the required induction to ensure they are properly equipped to discharge their duties; this includes the standard Board induction process (as set out on page 66), as well as information specific to the Committee such as its Terms of Reference, Internal Audit Charter, previous internal and external auditor reports and Committee meeting minutes. The Committee members receive appropriate ongoing training and development as well as regular updates from the Group's external auditors on relevant financial reporting, governance and regulatory developments.

The Committee may, if considered necessary, take independent advice at the expense of the Company. Other than BDO LLP, as the external auditors, no other external consultants assisted the Committee during FY 2018.

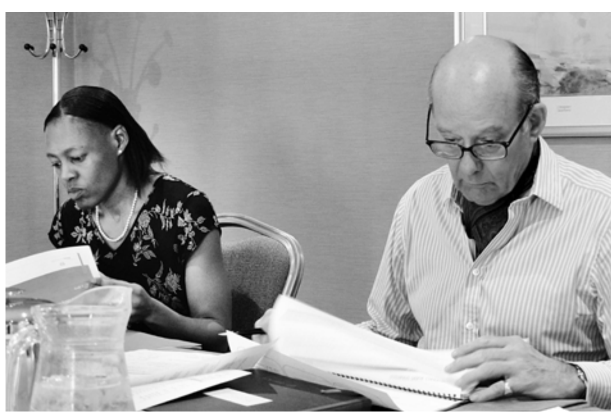
Committee meetings

Five meetings were held in FY 2018 and the Committee invited the Group Chairman, the Executive Directors, members of Senior Management (including the Chief Operating Officer) and the Group Internal Audit Manager to attend these meetings as appropriate. In addition, the Chairman of the Committee met separately with the BDO LLP Audit Partner on several occasions to discuss significant audit and accounting matters, together with relevant financial reporting and governance developments. The full Committee also met with the Audit Partner without the Executive Directors present during the Year.

The Committee recognises the importance of allocating significant time to fulfil its duties effectively. In advance of each Committee meeting, a formal agenda and information pack is circulated allowing each member time to review the information and prepare for the Committee meetings. During the formal meetings, the members then engage in robust and open debate and assessment of relevant matters.

Mr Hamilton, as Chairman of the Committee, allocates a significant amount of time to this role. In addition to chairing formal meetings of the Committee and attending sessions with the external auditors, Mr Hamilton travelled regularly to Johannesburg during FY 2018 where he was able to meet with the Finance Director and the Finance team, as well as the Group Internal Audit Manager, in order to discuss and monitor the financial controls and audit activities of the Group on a timely basis.

In addition, site visits were arranged for Committee members during the Year to the Group's various operations, enabling the Chairman and the Committee to uphold a comprehensive understanding of corporate and finance developments and activities, any associated risks, as well as the controls in place at Petra. A site visit was undertaken by Mr Hamilton and Dr Bartlett to the Finsch, Cullinan and Koffiefontein mines during August 2017 and again in August 2018 and Mr Hamilton also accompanied the investor/analyst site visit to Cullinan in February 2018. A site visit by the full Committee to all of the South African operations took place in October 2017.



Report of the Audit & Risk Committee continued

Committee role and activities

The principal functions of the Audit & Risk Committee are listed below, along with the corresponding activity and performance in FY 2018.

ROLE	ACTIVITIES IN FY 2018	OUTCOMES
To monitor the integrity of the interim and preliminary full year results announcements, as well as the Annual Report and Accounts published by the Company, reviewing significant financial reporting judgements contained therein.	The Committee formally considered the Group's interim results, preliminary full year results and Annual Report and Accounts and considers that they present a fair, balanced and understandable assessment of the Group's performance and prospects. The Committee, on behalf of the Board, has a specific process of review that enables it to make this assessment, which included a detailed appraisal by each member. The Committee then met with the Executive Directors to discuss any questions and comments. In particular, the Committee assessed the balance of information reported against their understanding of the Group, as well as the tone and language used in the reporting, ensuring that it should be comprehensible to readers of various backgrounds. Outside of formal Committee meetings, accounting matters were also discussed by the Chairman of the Committee and the Finance Director. Key auditing, financial reporting and governance matters, which typically focused on areas of significant judgement, estimation or accounting policy selection, were discussed with the Audit Partner ahead of Committee meetings and then during the Committee meetings.	In accordance with the Code, the Directors consider that the Annual Report and Accounts taken as a whole is fair, balanced and understandable and provides information necessary for shareholders to assess the Company's performance, business model and strategy.
To review and challenge, where necessary, accounting policies and practices, decisions requiring a major element of judgement, the clarity of disclosures, compliance with accounting standards, and compliance with regulatory and legal requirements.	As part of its work to approve the Group's Financial Statements, the Committee reviewed the key financial reporting judgements and accounting policies therein. These judgements were assessed through discussions with the Group's auditors and presentations by Management in which the Committee, where appropriate, challenged the basis for such judgements and estimates. Details of the significant matters considered by the Committee in respect of the FY 2018 Annual Report are set out on pages 76 and 77.	The Committee considers that the accounting policies used, reporting disclosures, compliance with accounting standards and other requirements are appropriate to the Group in all regards, taking account of the specialised nature of its business.
To ensure that Petra's risk management systems, internal financial controls and other internal controls are effective.	The Committee assesses the Company's risk management systems, internal controls and internal financial controls on an ongoing basis. As part of this, the Committee invites the Group Chairman, the Executive Directors and the Group Internal Audit Manager to attend the meetings as appropriate. During these meetings, the Committee was provided with updates on the Group's activities and the members considered the risk and control implications on an ongoing basis. Additionally, the Board as a whole received presentations and reports by Management on operational and financial performance each quarter that allowed for assessment of risk and internal controls. The Committee meetings during FY 2018 included presentations by BDO LLP regarding the results of the FY 2017 audit, the interim review for H1 FY 2018 and the FY 2018 Audit Committee Planning Report, with a presentation by BDO LLP of the results of the FY 2018 audit subsequent to the Year end. These presentations included the auditors' observations and recommendations in respect of internal controls that the Committee incorporated into its overall assessment of the effectiveness of risk management and controls.	The Committee considers that Petra's internal controls, including its financial internal controls, continue to be robust and defensible. The Committee will continue to review and assess the development of risk management and internal control systems, assisted by the work of the Internal Audit team.
To ensure the Internal Audit function is adequately resourced and effective and is supported by the Committee in its role.	The Internal Audit Charter was reviewed, updated and approved by the Committee in FY 2018. The Committee continued to assess the effectiveness of the Internal Audit team during the Year and to review and develop the Internal Audit Plan as required.	The Group Internal Audit Manager, and supporting team, will continue to work with the Committee to ensure the integrity and effectiveness of the Group's internal control procedures and risk management systems.

ROLE	ACTIVITIES IN FY 2018	OUTCOMES
To consider the appointment, re-appointment or removal of the external auditors, to recommend the remuneration and terms of engagement of the external auditors and to assess the external auditors' independence and objectivity. **To review the engagement of the external auditors to ensure the provision of non-audit services by the external audit firm does not impair their independence or objectivity.**	Following a formal competitive tendering process, the Committee proposed the re-appointment of BDO LLP to act as auditors for FY 2018, having considered the independence, objectivity, tenure and effectiveness of BDO LLP and the audit process. In advance of the FY 2018 audit, the Committee reviewed and approved the external auditors' audit planning presentation and assessed the appropriateness of the audit strategy, scoping, materiality and audit risks. The Committee approved the audit fees as part of the audit planning process. The Committee also reviewed audit-related fees in relation to the interim review and comfort letters in relation to the Rights Issue, having considered the FRC's Ethical Standard. The services represented audit-related services, which are not considered to create independence threats under the FRC's Ethical Standard. Details of the Committee's assessment of the auditors' independence and its assessment of their effectiveness are provided on page 78.	The Committee has taken appropriate steps to assess the independence of its auditors, recognising the importance of audit independence to the audit process. The Committee has reviewed and gained a thorough understanding of the external auditors' strategy and has satisfied itself that it is robust and that the auditors remain independent.
To give due consideration to relevant laws and regulations, the provisions of the Code and the requirements of the UK Listing Rules.	The Committee received adequate timely information, briefings and training on all relevant regulatory updates and developments. The Committee as a whole and, on occasion, the Chairman of the Committee met separately with the BDO LLP Audit Partner to discuss significant audit, accounting and governance developments during the Year.	The Committee is satisfied that Petra continues to act in accordance with the Code and all relevant laws, regulations and the UK Listing Rules.
To review the adequacy of the Company's whistleblowing system, its fraud detection procedures and the systems and controls in place for bribery prevention.	The Committee continues to consider the adequacy of the various policies and systems in place across the Group that cover the whistleblowing system, its fraud detection procedures and the systems and controls in place for bribery prevention. The Group's whistleblowing procedure was reviewed and updated during the Year.	During FY 2018, there were 36 reported incidents received for investigation involving allegations of fraud and recruitment scams. Of the 36 reports received, 25 reports were finalised and 11 reports remain under investigation. The value attributable to these investigations is not of a material nature. Further to the outcome of these investigations, the Company will consider whether changes to its system of internal controls are required to limit such events taking place in the future.

Committee Terms of Reference

The Committee's Terms of Reference were reviewed by the Committee, and are subsequently being enhanced with reference to the addition of relevant risk management sections post Year end. The revised Terms of Reference will subsequently be considered and approved by the Board. Once approved by the Board, they can be accessed at: www.petradiamonds.com/about-us/corporate-governance/board-committees.

Report of the Audit & Risk Committee continued

Significant issues considered by the Committee in FY 2018

The following are the significant issues considered by the Committee in respect of the Group's Financial Statements, based upon its interaction with both Management and the external auditors during the Year and subsequently. These issues align with those disclosed in the Independent Auditors' Report on pages 107 to 113.

SIGNIFICANT MATTERS CONSIDERED	OUR RESPONSE TO THESE MATTERS

Going concern, leverage and debt facility covenants

Going concern and covenant compliance remained a key risk and area of focus for the Committee throughout FY 2018 given the operational delays and business challenges, including the impact of a much stronger Rand versus the US Dollar in H2 FY 2018, the covenant breach of the two EBITDA covenant tests for the 31 December 2017 measurement period, which were subsequently waived, and the forecast of a covenant breach for the reporting period ending 30 June 2018 (which was waived as part of the Rights Issue), in addition to the inherent risks surrounding diamond pricing.

During June 2018 the Company obtained shareholder approval for a Rights Issue as part of a deleveraging process across the Group aimed at strengthening the balance sheet and increasing financial flexibility.

The Company completed the Rights Issue in June 2018, raising circa $170 million of funds. Post the Year end, the proceeds of the Rights Issue were used to repay the revolving credit and working capital facilities due to the Group's Lender group post Year end, although these facilities were not cancelled and remain available. In addition, the covenant testing for the period ended 30 June 2018 was waived by the Lender group pre Year end.

Management forecasts as at the date of this report indicate that the Group will retain sufficient liquidity from existing cash resources and operating cashflows and will also maintain adequate headroom against its financial covenants going forward – as detailed in note 1.1.

The assumptions in the Group's financial forecasts and appropriateness of the going concern assumption and related disclosures therefore represented an area of significant focus for the Committee.

The Committee members critically reviewed the forecast cashflow and banking covenant models against forecast Group liquidity requirements and covenants in relation to the banking facilities, particularly considering diamond pricing, exchange rate, project commissioning and production assumptions. The forecasts demonstrated that the Group retained sufficient liquidity and that there was headroom on the banking covenants. Further details are provided in note 1.1.

Management presented a sensitivity analysis on liquidity and covenant ratios with due consideration given to potential risk areas (diamond pricing, production, project commissioning and exchange rates), as well as the Group's capacity to defer capital expenditure.

Based on this, alongside the Group's existing cash resources and facilities, the Board remains satisfied that the liquidity headroom remains adequate under the Group's current base case and reasonable sensitivities with the facilities remaining undrawn throughout the forecast period.

Having considered the models, risks and sensitivity analysis, the Committee was satisfied that Management's judgements and forecasts were appropriate.

The Committee assessed the disclosures in the Annual Report and Financial Statements in respect of going concern and covenant compliance and concluded that they were appropriate. Refer to note 1.1 on pages 119 and 120 for further details.

Carrying value of mining assets – Koffiefontein and KEM JV

The carrying values of the Koffiefontein and KEM JV mining assets were a key focus area for the Committee in FY 2018.

At Koffiefontein, impairment indicators were identified and an impairment charge of US$66.0 million was recognised at the end of H1 FY 2018 and to date. Additional emphasis was placed on the mine's ability to meet its Life of Mine plan given historical underperformance against budget. The turnaround, as evidenced specifically during Q4 FY 2018, was assessed post Year end with no indication of further impairment and the recoverable value of the mining assets was considered to be appropriate.

At KEM JV, impairment indicators were identified and an impairment charge of US$52.0 million was recognised at the end of H1 FY 2018. Subsequently, a binding Heads of Agreement ("HoA") was reached post Year end with regards to the disposal of the Company's interest in the KEM JV to the Company's joint venture partner Ekapa Mining for a consideration of circa ZAR300 million (circa US$18.6 million), receivable in instalments from January 2019 to December 2020. As a result of this, a further US$40.7 million impairment charge was recognised in relation to KEM JV in the Year.

The impairment tests include significant estimates and judgements and therefore represented a key focus for the Committee, as covered in note 8 on pages 124 to 126.

The Committee critically reviewed the key assumptions and parameters (diamond price forecasts versus historical pricing, foreign exchange rates against current and forward rates, and the basis for production and cost forecasts) in the LOM plan for Koffiefontein that supported the impairment tests performed by Management.

In addition, the Committee reviewed the sensitivity analysis performed by Management on key parameters and the effect on the recoverable value under various scenarios.

At Koffiefontein, the key area considered was the delay in the commissioning and ramp-up of the SLC, which delayed the mining of the new orebody, and the limited period of improved production. Extensive consultation with Management was held, focusing on the mine's ability to meet its production plans. In addition, the Committee reviewed diamond pricing estimates and actual production data to assess the assumptions used in the impairment assessments.

The Committee satisfied itself that Management's judgements were appropriate and the recoverable value was appropriate. The Committee further considered the disclosures made in note 8 on pages 124 to 126.

In relation to KEM JV, the Committee considered the timing of the sale negotiation and reviewed the HoA and draft sale agreement in the context of reclassifying the transaction as non-current assets held for sale and discontinued operations under IFRS 5. Further consideration was given to the fair value of the disposal proceeds, the application of the 10% discount rate thereto and the assets and liabilities to be disposed of and the levels of impairment such that the fair value of the consideration receivable was consistent with the net asset value of the mine as at 30 June 2018.

The Committee satisfied itself that Management's disclosure of the transaction as a discontinued operation was appropriate and that appropriate impairments had been applied.

The Committee further considered the disclosures made in note 35 on pages 164 to 166.

SIGNIFICANT MATTERS CONSIDERED	OUR RESPONSE TO THESE MATTERS

Tanzanian operating environment and recovery of assets at Williamson

At Williamson, ongoing risks arising from legislative changes, political uncertainties, recovery of the input VAT and the ability to sell the parcel of diamonds held and due for export placed additional emphasis on the carrying value of Williamson's assets (mining assets, historical VAT receivable and the diamond parcel blocked for export). The key judgement was around the recoverability of the input VAT under the new legislation effective 20 July 2018 which management considers to be fully recoverable.

The Committee reviewed legislative changes, reviewed associated commentary from legal bodies and discussed with Management and the Company's legal counsel the potential impact of the legislative changes on the Williamson Life of Mine plan and impairment test. This included specific consideration of the impact on costs and the selection of an appropriate discount rate at 30 June 2018.

The Committee's assessment of the recoverability of the diamond parcel required significant judgement. In making such a judgement, the Committee considered the ongoing discussions with the Government of Tanzania ("GoT"), confirmation received from the GoT post Year end that it still holds the diamond parcel of 71,654.45 carats, the internal process used for the sale and export of diamonds confirming such process is in full compliance with legislation in Tanzania and the Kimberley Process and legal advice received from independent in-country attorneys which supports the Group's position.

The Committee's assessment of the recoverability of the US$12.7 million VAT receivable under the historical VAT legislation required significant judgement over the timing of future payments, progress and finalisation of VAT audits and ongoing discussions with the relevant authorities in Tanzania and the wider operating environment.

The assessment of the recovery of US$7.6 million of the VAT receivables under the current VAT legislation required significant judgement over the definition of raw minerals under the new VAT legislation, ongoing discussions with the relevant authorities in Tanzania, the timing of future payments, legal advice and the wider operating environment. Consideration was given to the current legislation and whether input VAT can continue be recovered in relation to the export of rough diamonds; however, it was noted that the current legislation is unclear.

Subsequent to its detailed review of the recoverability of the VAT and inventory balances and the timing associated with the recoverability, the Audit Committee was satisfied that the carrying values are recoverable and Management's assessment is appropriate.

The Committee assessed the disclosures in the Annual Report and Financial Statements in respect of the recoverability of the diamond parcel and the recoverability of the VAT and concluded that they were appropriate.

Each of these areas also represented significant audit risk areas for BDO LLP and, accordingly, the Committee was provided with detailed written and oral presentations by the engagement team on each of these matters. On the basis of their work, BDO LLP reported to the Committee no inconsistencies or misstatements that were material in the context of the Financial Statements as a whole.

Report of the Audit & Risk Committee continued

External auditors

During the Year, the Committee fully considered the effectiveness, objectivity, skills, capacity and independence of BDO LLP considering all current ethical guidelines, and was satisfied that all these criteria were met. The auditors' fees were approved as part of this process.

The effectiveness of the external auditors was deliberated, giving consideration to recent FRC guidance on assessing audit quality. The Committee places considerable importance on the following attributes: African mining sector experience (given the specialised nature of the industry), service levels, audit quality, sound auditor judgement, the willingness and ability to challenge Management and provision of value for money.

In forming its assessment of the effectiveness of the audit, prior to the audit the Committee considered the FRC's Audit Quality Review report on BDO LLP and received formal presentations regarding the proposed audit strategy and the Chairman met separately with the Audit Partner to discuss the audit strategy in detail. These forums enabled the Committee to assess the extent to which the audit strategy was considered to be appropriate for the Group's activities and addressed the risks the business faces, including factors such as: independence, materiality, the auditors' risk assessment versus the Committee's own risk assessment, the extent of the Group auditors' participation in the subsidiary component audits and the planned audit procedures to mitigate risks.

Following the audit, BDO LLP presented their findings to the Committee and met separately with the Committee Chairman to discuss key audit judgements and estimates. This provided an opportunity to assess the audit work performed, understand how Management's assessments had been challenged and assess the quality of conclusions drawn.

The Committee also made enquiries of Senior Management to obtain their feedback on the audit process and considered this feedback in its assessment.

Each of the key attributes for audit effectiveness was considered to be appropriately met by the Group's auditors.

Auditors' remuneration US$ million	FY 2018	FY 2017
Audit services[1]	**0.9**	0.9
Audit-related assurance services[2]	**0.4**	0.4
Total	**1.3**	1.3

1. Audit services are in respect of audit fees for the Group.
2. Audit-related services are in respect of the interim review (US$0.1 million) plus services in respect of the issuance of comfort letters in respect of the Rights Issue (FY 2017: services in respect of the issuance of comfort letters in respect of the issue of the US$650 million loan notes), which were capitalised under share premium (US$0.4 million (FY 2017: (US$0.3 million capitalised under non-current loans and borrowings)).

Audit-related services/non-audit services

The Committee requires that any non-audit services to be performed by BDO LLP are formally approved by the Committee. Audit-related services do not require pre-approval and encompass actions necessary to perform an audit, including areas such as providing comfort letters to management and/or underwriters; and performing regulatory audits. BDO LLP provided audit-related services in the Year as part of the Rights Issue set out above.

The provision of any non-audit service requires Committee pre-approval and is subject to careful consideration, focused on the extent to which provision of such non-audit service may impact the independence or perceived independence of the auditors. The auditors are required to provide details of their assessment of the independence considerations, as well as measures available to guard against independence threats and to safeguard the audit independence. No non-audit services were provided by BDO LLP during the Year or during the prior Year.

Internal controls (including the system of internal financial controls) and risk management

The Board, with assistance from the Committee, is responsible for the Group's system of internal control and for reviewing its effectiveness. 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, at least annually, including financial, operational and risk management.

The Group's Internal Audit function

The Group's Internal Audit function is staffed by the Group's Internal Audit Manager, supported by two Senior Internal Audit Managers. The Internal Audit function reports directly to the Committee.

The FY 2019 Internal Audit Plan was approved by the Committee, and the new three-year Internal Audit Plan strategy (i.e. FY 2019 to FY 2021) was presented to the Committee for approval during September 2018. Management has appointed a Group Corporate Governance Manager during FY 2018 to assist the mines in the expediting of remedial actions to key reported Internal Audit findings, which the Internal Audit department quarterly assesses as part of the formal follow-up process reported to the Committee.

System of internal control

The Committee regularly reviews the adequacy and effectiveness of the Group's internal control procedures and risk management systems through regular reports from the Group's Internal Audit, Finance, Operations and Corporate teams, and through consideration of the external auditors' Audit Committee reports and face to face discussion between the Audit Partner and the Audit & Risk Committee Chairman and Committee members.

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

Viability Statement

Viability Statement

Adonis Pouroulis and Gordon Hamilton joined the investor and analyst site visit to Cullinan in February 2018

The UK Corporate Governance Code requires that the Directors assess the viability of the Group over an appropriate period of time selected by them. The Board has concluded that the most relevant time period for this assessment is a three-year period ending June 2021, taking into account the Group's current position and the potential impact of the principal risks that could affect the viability of the Group. This assessment is done annually before the approval of the Annual Financial Statements.

While the Group maintains a full business model based predominantly on the Life of Mine plans for each of its significant operations, the Group's key business and strategic planning period is through to the end of FY 2021.

The review of the Group's viability is led by the Chief Executive and involves all relevant functions including operations, sales and marketing, financial, treasury and risk. The Board actively participates in the annual review process by means of structured Board meetings. As part of this review, the Board considered detailed forecasts in respect of both liquidity and the future covenant measurements related to the Group's banking facilities.

The forecasts indicate that the Group will maintain sufficient liquidity through the period to June 2021, with no breaches in any of the Group's covenants related to banking facilities indicated in the three-year period under the base case assumptions.

Risks and stress tests

For the purpose of assessing the Group's viability, the Board focused its attention on the more critical principal risks. In order to determine those risks, the Directors assessed the Group-wide principal external, operational and strategic risks by undertaking consultations with Senior Management (refer to the Risk Overview and Risk management sections of this report set out on pages 43 and 44 and 80 to 87 respectively). Through this analysis, the Directors also identified low probability, high loss scenarios – 'singular events' – with the potential magnitude to severely impact the solvency and/or liquidity of the Group.

Although the business and strategic plan reflects the Board's best estimate of the future prospects of the Group, the Board has also stress tested the potential impact on the Group of a number of scenarios over and above those included in the plan, by quantifying their financial impact and overlaying this on the detailed financial forecasts in the plan.

The scenarios tested considered the Group's revenue, underlying EBITDA, cashflows and other key financial and covenant ratios over the three-year period and included:

- a significant reduction in revenue from the Cullinan mine in the period FY 2019 and FY 2020 while the footprint of the C-Cut Phase 1 block cave is extended to cover the full extent of the orebody in that area, due to the erratic nature of recoveries of higher value stones when mining is limited to smaller areas;
- a significant decrease in forecast rough diamond prices;
- a significant increase in forecast operating cost;
- a significant appreciation of the South African Rand to the US Dollar; and
- a combination of the above.

The results of this stress testing showed that due to the stability and cash-generating nature of the Group's core assets, Finsch and Cullinan, along with the debt facilities in place and available to the Group at the time of the assessment and mitigating actions reasonably considered to be available to the Company in the event of the stress scenarios, Petra would be able to withstand the impact of these scenarios occurring over the three-year period by making adjustments to its operating plans within the normal course of business.

The forecasts indicate that the Group retains sufficient liquidity from existing cash resources and operating cashflows, without the need to utilise existing facilities, to meet its liabilities as they fall due under the forecasts and reasonably possible sensitivities. Under the base case, the Company forecasts to maintain headroom against its financial covenants going forward. Base case forecasts assume an average exchange rate of ZAR13.40:US$1 but exclude the proceeds from the sale of the blocked Williamson parcel and the recovery of VAT from GoT during the forecast period. The Board remains confident that the existing facilities will remain available to the Group and the conclusion as set out below has been reached on this basis.

Conclusion

Based on their robust assessment of the principal risks, prospects and viability of the Group, the Board confirms that they have reasonable expectation that the Group will be able to continue operation and meet its liabilities as they fall due over the three-year period ending June 2021.

Risk Management

Identifying, managing and mitigating risk

Risk management is the overall responsibility of the Board at Petra, but the Board Committees and Senior Management also play important roles in terms of the identification, management and ongoing mitigation of risks within their realm of responsibilities.

External risks

Rough diamond prices
Long term

RISK CHANGE IN FY 2018

DESCRIPTION AND IMPACT

The Company's financial performance is closely linked to rough diamond prices, which are influenced by numerous factors beyond the Company's control, including international economic conditions, world production levels and consumer trends.

Whilst the medium to long-term fundamentals of the diamond market remain positive, some volatility in rough diamond pricing may be experienced.

MITIGATION

Petra maintains regular dialogue with its client base and closely monitors developments across the pipeline in order to assess the overall health of the diamond market and to be able to react in a timely manner to changes in rough diamond prices and demand.

Petra is a founding member of the DPA, which aims to maintain and enhance consumer demand for, and confidence in, diamonds by a range of methods, including generic diamond marketing.

FY 2018 RISK DEVELOPMENTS AND MANAGEMENT

FY 2018 saw further stability in the rough diamond market, with steady demand across the majority of size ranges and pricing on a like-for-like basis up circa 2% for the Year. The Company continued to sell all of its production at each tender and did not withhold goods from sale.

Stable pricing is considered to be backed up by solid fundamentals, with rough and polished diamond inventories in the pipeline assessed to be at relatively normal levels, supported by continued positive end retail demand.

The DPA continued to support consumer demand and agreed its highest budget yet for 2018, with US$70 million assigned to generic marketing mostly in the US, China and India.

KPIs

Revenue; Profitability

DIRECTOR/COMMITTEE RESPONSIBILITY

Executive Directors

READ MORE

Our Market – pages 17 to 21

Currency
Long term

RISK CHANGE IN FY 2018

DESCRIPTION AND IMPACT

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.

MITIGATION

The Group continually monitors the movement of the Rand against the 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 indicates it appropriate. Such contracts are generally short term in nature.

The Company looks to actively manage its exposure to the ZAR/USD rate in order to safeguard Group cashflow against a volatile currency outlook.

FY 2018 RISK DEVELOPMENTS AND MANAGEMENT

The ZAR/USD rate was highly volatile during the Year, with the Rand strengthening circa 20% from ZAR14.47:USD1 in November 2017 to ZAR11.55:USD1 in February 2018 further to optimism surrounding the appointment of Cyril Ramaphosa as President of South Africa. Following this, the Rand was on a weaker trend and continued to experience significant volatility in H2 FY 2018 primarily on the back of concerns around the international 'trade war' (US/China) and the impact on emerging market currencies, but also as a result of political risk developments in South Africa (refer to 'Country and political' risk opposite).

To mitigate this volatility, the Company continued with its approach to focus on short-dated hedge positions. Post Year end, following further ZAR weakness to levels exceeding R15:USD1, management was mandated by the Board to expand the hedging of USD sales proceeds by covering up to 50% of expected FY 2019 sales proceeds.

KPIs

Revenue; Profitability; Operating cashflows

DIRECTOR/COMMITTEE RESPONSIBILITY

Executive Directors

READ MORE

Financial Review – pages 28 to 32

Note 9 to the Financial Statements – page 127

STRATEGIC OBJECTIVES

Work responsibly | Business rationalisation | Optimise recoveries | Drive efficiencies

Country and political
Long term

RISK CHANGE IN FY 2018

DESCRIPTION AND IMPACT
Petra's operations are predominantly based in South Africa, with lesser exposure to Tanzania and Botswana. Emerging market economies are generally subject to greater risks, including legal, regulatory, tax, economic and political risks, and are potentially subject to rapid change.

MITIGATION
The Petra team is highly experienced at operating in Africa. Petra routinely monitors political and regulatory developments in its countries of operation at both regional and local level. The Company keeps abreast of all key legal and regulatory developments.

FY 2018 RISK DEVELOPMENTS AND MANAGEMENT
Petra continues to experience regulatory uncertainty in both South Africa and Tanzania.

In South Africa, a revised draft of the Mining Charter was published for public comment in June 2018 and the Company subsequently worked with the Minerals Council South Africa to provide submissions and also provided an independent submission directly to the Department of Mineral Resources. On 27 September 2018 the South African Department of Mineral Resources published a new Mining Charter which has served to remove uncertainty and address a number of concerns which we believe will be positively received within the mining industry in South Africa. In particular Petra is pleased to note that, in line with the recognition of the continuing consequences of the once empowered, always empowered principle, existing mining right holders that have achieved a 26% Black Economic Empowerment shareholding will be recognised as compliant for the duration of the mining right.

Upcoming national elections in South Africa in 2019 further increases regulatory uncertainty (for example in relation to the proposed policy of expropriation without compensation currently being considered by Government), as well as elevated political and social volatility.

In Tanzania, a number of legislative changes to the legal framework governing the natural resources sector were proposed in June 2017. Certain ambiguity remains, specifically regarding the local ownership requirements and the refund of input VAT incurred by mining companies in addition to historic VAT recoverability.

Furthermore, a parcel of Williamson diamonds was blocked for export in Tanzania in Q1 FY 2018, with this issue still not resolved.

KPIs
Profitability; Operating cashflows; Diversity; TSR

DIRECTOR/COMMITTEE RESPONSIBILITY
Executive Directors; HSSE Committee

READ MORE
Chief Executive's Statement – pages 9 to 11

Access to energy
Long term

RISK CHANGE IN FY 2018

DESCRIPTION AND IMPACT
South Africa and Tanzania have both faced power supply constraints over recent years, but these have mainly been resolved in South Africa now further to the continued gradual integration of the new Madupi and Kusile power stations.

MITIGATION
Managing energy usage is an operational necessity, given the benefits to the operations of managed and optimised power planning and usage, an environmental imperative in order to combat climate change, as well as a financial objective, given rising electricity prices. Petra therefore aims to reduce energy consumption and increase energy efficiency wherever possible.

The Company continues to monitor closely developments in the renewable energy environment in order to assess a viable alternative or complementary energy supply in the future.

FY 2018 RISK DEVELOPMENTS AND MANAGEMENT
The quality of power supply across the South African operations was very stable throughout FY 2018. However, the risk of strike action at certain of Eskom's generating sites has recently surfaced, and could result in disruptions of supply in FY 2019. However, such disruptions are unlikely to have a material impact.

The Company is equipped to manage the disruption of requests for load curtailment from the national utility, Eskom, with available back-up generator capacity at all the South Africa operations, which can cater for a 10% load reduction if required.

In Tanzania, the Company's power supply was also stable in FY 2018. Petra has back-up power in place at Williamson which can supply the majority of the mine's requirements in the event of an outage.

KPIs
Production; Revenue; Profitability; Energy usage; Carbon emissions

DIRECTOR/COMMITTEE RESPONSIBILITY
Executive Directors; HSSE Committee

READ MORE
Climate change and energy usage – page 53

Risk Management continued

Identifying, managing and mitigating risk continued

External risks continued

Access to water
Long term

RISK CHANGE IN FY 2018

DESCRIPTION AND IMPACT
Prolonged drought conditions may cause unplanned downtime and production cut-backs.

MITIGATION
Managing the effective use of water, including the recirculation and re-use thereof, remains a priority for Petra.

FY 2018 RISK DEVELOPMENTS AND MANAGEMENT
The threat of disruptions to operations due to a shortage of water has largely dissipated during FY 2018. Petra implemented a number of operational changes in FY 2018 to improve its water efficiency and focuses on strict compliance with its water use licences.

KPIs
Production; Revenue; Profitability; Water usage

DIRECTOR/COMMITTEE RESPONSIBILITY
Executive Directors; HSSE Committee

READ MORE
Water management – page 53

Synthetic diamonds
Long term

RISK CHANGE IN FY 2018

DESCRIPTION AND IMPACT
Man-made or 'synthetic' diamonds have been available for many years, but to date have predominantly been used to manufacture smaller diamonds for industrial purposes. Technological advancements mean that gem-quality synthetics are now more widely available but they are still estimated to represent only circa 3% of mined diamond supply[1].

Synthetic diamonds are required to be certified as such, a key industry control which is essential to maintaining consumer confidence.

1. Source: Canaccord Genuity – Industry Update – 30 November 2017.

MITIGATION
As technology advances it is possible that a larger market for the use of synthetic diamonds in jewellery could develop but also that their cost of production will continue to decline, further eroding the tenuous value proposition of an industrial product that can be mass produced (in contrast to the inherent rarity of natural gem-quality diamonds which are a finite resource formed in the Earth over a billion years ago). The Company expects synthetic diamonds to find a place in the consumer market as lower value goods, with natural diamonds remaining the premium product.

FY 2018 RISK DEVELOPMENTS AND MANAGEMENT
The Company continues to monitor industry developments with regards to the production of synthetic diamonds. Disclosure and detection remain key, and equipment exists which can detect synthetics with 100% accuracy.

The DPA is tasked with helping consumers to understand the significant value differential between natural and laboratory-produced diamonds.

In May 2018, De Beers launched Lightbox, a synthetic jewellery brand. Lightbox's linear pricing strategy (based on carat weight only), and decision not to grade or differentiate between pricing of coloured stones, is expected to clearly distinguish between the value propositions of synthetic versus natural diamonds.

KPIs
Revenue; Profitability

DIRECTOR/COMMITTEE RESPONSIBILITY
Executive Directors

READ MORE
Our Market – pages 17 to 21

STRATEGIC OBJECTIVES

Work responsibly | Business rationalisation | Optimise recoveries | Drive efficiencies

Operational risks

Safety
Long term

RISK CHANGE IN FY 2018

DESCRIPTION AND IMPACT

Ensuring the safety of all Petra people is the Group's number one priority. Poor safety performance can also lead to temporary mine closures, thereby impacting production results.

Underground cave mining (both Block Cave and Sub Level Cave) is inherently a safe and highly mechanised mining process. However, as with all heavy industries, accidents can occur so embedding a culture of strict procedures and safety awareness is key.

MITIGATION

Petra is highly focused on managing its safety performance. In this regard Petra adopts the ISO 31000 risk principles and supports the OSHAS 18001 safety management system. HSSE targets are explicitly included as part of Petra's annual bonus framework.

FY 2018 RISK DEVELOPMENTS AND MANAGEMENT

Whilst the inherent risk around safety of our operations remains unchanged, the Company recorded a fatality-free year, following a reinforcement of its safety procedures under the two management pillars of 'Effective Leadership' and 'Effective Control' over the past two years.

Petra's overall safety performance in terms of its LTIFR improved.

KPIs

Production; LTIFR; FIFR

DIRECTOR/COMMITTEE RESPONSIBILITY

HSSE Committee; Remuneration Committee

READ MORE

Chief Executive's Statement – pages 9 to 11

Occupational Health and Safety – page 49

Directors' Remuneration Report – pages 92 to 103

Mining and production
Long term

RISK CHANGE IN FY 2018

DESCRIPTION AND IMPACT

The mining of diamonds from 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.

MITIGATION

All of Petra's kimberlite operations have long histories of production and therefore the geology and economics of each mine are generally well understood, with the Cullinan mine being more challenging in this regard due to the sheer size and variability of the large orebody. Petra's work to expand the lives of its assets is classed as 'brownfields' expansions, meaning that the knowledge of the deposits allows management to eliminate some of the risk associated with developing a new diamond mine.

The Group's management team is comprised of key personnel with a substantial and specialist knowledge of kimberlite mining and diamond recovery, and this skills base enables the Company to manage mining and production risks.

FY 2018 RISK DEVELOPMENTS AND MANAGEMENT

FY 2018 was challenging operationally due to the continued high level of activity surrounding the Group's expansion programmes and managing the transition from the old mining areas to the new mining areas at the Company's underground mines in South Africa. Specific challenges included the commissioning of new ore-handling infrastructure, the decommissioning of old producing areas, modifications taking place at the Company's processing plants and the commissioning of the new plant at Cullinan.

The Company is currently in the final stages of its development programmes, which will see further commissioning and ramp-ups in tonnage throughput during FY 2019 before the Company is expected to reach the required steady state throughput levels across its portfolio from FY 2020 onwards, thereby promoting operational stability at its mining operations.

KPIs

Production; Revenue; Profitability

DIRECTOR/COMMITTEE RESPONSIBILITY

Executive Directors

READ MORE

Operational Review – pages 33 to 42

Risk Management continued

Identifying, managing and mitigating risk continued

Operational risks continued

ROM grade and product mix volatility
Short term

RISK CHANGE IN FY 2018

DESCRIPTION AND IMPACT

At the Group's underground mines, Petra has been transitioning from operating in 'mature' caves, meaning that the block of ore being mined has nearly been exhausted and that the area is nearing the end of its life. Once the majority of the kimberlite ore has been removed, waste rock is able to ingress into the production areas, thereby reducing the volume (grade) of diamonds recovered.

MITIGATION

Petra's development programmes are well advanced and FY 2018 was the first year in which the majority of the Group's underground tonnes came from the new mining areas. This has generally led to an improvement in grade variability and product mix. Some level of variability in terms of product mix will remain, especially with complex orebodies like Cullinan, where the recovery of high value stones varies on a year-to-year basis.

FY 2018 RISK DEVELOPMENTS AND MANAGEMENT

ROM grade and product mix was generally stable across the portfolio.

In January 2018, Petra issued revised ROM grade guidance for Cullinan. It was not only encouraging to see the grade trending closely within this guidance, but also seeing it improve in H2 FY 2018 towards the upper end of the guidance.

Cullinan continued to experience variability in its product mix, with the average value per carat for the Year being below guidance due to a notable shortfall in the recovery of the large, high value diamonds for which the mine is known. This is attributed to mining not yet delivering a representative mix of ore across the footprint of the new C-Cut Block Cave while the increasing production footprint in FY 2019 is expected to deliver an increasingly predictable product mix.

KPIs

Production; Revenue; Profitability

DIRECTOR/COMMITTEE RESPONSIBILITY

Executive Directors

READ MORE

Operational Review – pages 33 to 42

Expansion and project delivery
Medium term

RISK CHANGE IN FY 2018

DESCRIPTION AND IMPACT

Petra has followed a significant growth path over the last decade, with annual production rising from 0.18 Mcts in FY 2007 to 3.8 Mcts in FY 2018 (excluding KEM JV). However, the Company is now moving its focus away from higher carat volume production targets to instead focus on value optimisation, in order to maximise profitability and returns for shareholders, and production guidance for FY 2019 has therefore been rebased to 3.8 to 4.0 Mcts.

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.

MITIGATION

The Group has established procedures to control, monitor and manage the roll-out of its development plans. Petra's diversified portfolio of operating mines provides flexibility in terms of overall portfolio performance. Expansion project targets are explicitly included as part of Petra's annual bonus framework and long-term share awards.

FY 2018 RISK DEVELOPMENTS AND MANAGEMENT

FY 2018 saw significant progress made across the expansion programmes, with all underground production at Finsch being sourced from the new SLC from FY 2019 onwards, Cullinan's C-Cut Phase 1 more than doubling its contribution of undiluted ore for the Year, and the new Cullinan Plant achieving commissioning and volumes ramp-up.

However, there remains ongoing execution risk at both Finsch and Cullinan in order to complete the final ramp-ups of the new mining areas at both operations. Further milestones to be achieved in FY 2019 are the completion of the ore-handling infrastructure at both mines and the shaft/plant interface at Cullinan.

KPIs

Production; Revenue; Capex

DIRECTOR/COMMITTEE RESPONSIBILITY

Executive Directors; Audit & Risk Committee; Remuneration Committee

READ MORE

Chief Executive's Statement – pages 9 to 11

Operational Review – pages 33 to 42

Report of the Audit & Risk Committee – pages 72 to 78

Directors' Remuneration Report – pages 92 to 103

STRATEGIC OBJECTIVES

Work responsibly
Business rationalisation
Optimise recoveries
Drive efficiencies

Strategic risks

Labour relations
Short to medium term

RISK CHANGE IN FY 2018

DESCRIPTION AND IMPACT
The Group's production, and to a lesser extent its project development activities, is dependent on a stable and productive labour workforce. The mining labour relations environment in South Africa has been notably volatile over the years, but much less so specifically in the diamond sector, where there is a higher incidence of mechanisation and skilled workers, leading to smaller and more manageable workforces which do not rely on migrant labour.

MITIGATION
Petra remains highly focused on managing labour relations and on maintaining open and effective communication channels with its employees and the appropriate union representatives at its operations, as well as local communities.

A key part of Petra's labour relations strategy is the IPDET, which is one of the Company's core BEE Partners and owns a 12% interest in each of the South African operations to the benefit of employees at these operations to the benefit of employees at these operations.

FY 2018 RISK DEVELOPMENTS AND MANAGEMENT
The Company experienced circa two weeks' disruptive labour action at its South African operations (with the exception of Cullinan) prior to the signing of a new three-year wage agreement with regards to NUM members at its South African operations. This is expected to bode well for a more stable labour environment during the period to the end of June 2020.

There may be increased short-term volatility on the labour front following a shifting demographic in trade union membership amongst technical skilled employees.

The proposed disposal of the Company's interest in KEM JV may also lead to short-term disruption at this operation.

KPIs
Production; Local employment; Staff turnover

DIRECTOR/COMMITTEE RESPONSIBILITY
Executive Directors; HSSE Committee

READ MORE
Chief Executive's Statement – pages 9 to 11

Labour relations – page 51

Financing
Medium term

RISK CHANGE IN FY 2018

DESCRIPTION AND IMPACT
Petra is currently winding down from a major capital-intensive period which has seen investment of circa US$1.7 billion over the period from FY 2006 to FY 2018. Future Capex is expected to be at lower annual levels than those experienced recently and is expected to be funded from operating cashflows; however, the Group's South African banking facilities also remain available as an alternative funding source. Lack of adequate available cashflows as a result of a reduction in operating cashflows and/or breaches in banking covenants could delay development work.

MITIGATION
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 closely monitors and manages its liquidity risk, including regularly reviewing its cashflow planning to ensure that Capex plans are adequately financed and regularly monitoring its position with regards to its covenant measurements.

FY 2018 RISK DEVELOPMENTS AND MANAGEMENT
Petra raised net circa US$170 million in the Rights Issue in June 2018, which enabled the Company to reduce its overall debt and simplify its prior capital structure, with the focus now on deleveraging in line with the Board's stated target to reach a sustainable leverage level of consolidated net debt to consolidated EBITDA of 2x or less by the end of FY 2020.

The Group's forecasts show that Petra has sufficient liquidity to meet its working capital and capital development requirements.

The Rights Issue enabled the Company to repay the drawn indebtedness under its South African banking facilities shortly after Year end. The Company expects to be compliant with the financial covenants related to its banking facilities going forward, but the situation remains sensitive to changes in diamond prices, exchange rates and expected production from the Group's mines, including total carats and mix.

KPIs
Production; Revenue; Profitability

DIRECTOR/COMMITTEE RESPONSIBILITY
Executive Directors; Audit & Risk Committee

READ MORE
Financial Review – pages 28 to 32

Risk Management continued

Identifying, managing and mitigating risk continued

Strategic risks continued

Cost control and capital discipline
Long term

RISK CHANGE IN FY 2018

DESCRIPTION AND IMPACT

As is usual for the mining industry, Petra's operations have a relatively high fixed cost base, estimated to be circa 70% to 80%. Petra's main cost inputs are labour and energy, both of which have been rising faster than the official inflation rates in South Africa and Tanzania. Ineffective cost control leads to reduced margins and profitability.

MITIGATION

The Company's expansion plans have included initiatives to streamline ore-handling and plant processes, thereby driving efficiencies.

As the Company now moves away from targeting higher carat volumes to optimising cash generation across its portfolio, it will focus on the right sizing and streamlining of operations.

Profit and cost measures form part of Petra's annual bonus framework.

FY 2018 RISK DEVELOPMENTS AND MANAGEMENT

In Rand terms, the Group achieved absolute on-mine cash costs in line with expectations (excluding KEM JV); however, the strength of the Rand has had a negative impact on US Dollar reported operating costs. Driving cost efficiencies across our asset portfolio will be a focus for the Company going forward.

FY 2019 costs may exceed earlier expectations largely driven by in-country inflationary pressures, additional costs imposed by regulatory changes, and a degree of cost improvements taking longer to bed down following the delivery of expansion programmes.

A focus on efficiency initiatives helped to contain increases in our energy usage, carbon emissions and water usage, despite the increase in production.

Corporate overhead remained tightly controlled.

KPIs

Profitability

DIRECTOR/COMMITTEE RESPONSIBILITY

Executive Directors; Remuneration Committee

READ MORE

Financial Review – pages 28 to 32

Climate change and energy usage – page 53

Water management – page 53

Retention of key personnel
Long term

RISK CHANGE IN FY 2018

DESCRIPTION AND IMPACT

The successful achievement of the Group's strategies, business plans and objectives depends upon its ability to attract and retain certain key personnel.

Petra believes that employees who are empowered and accountable for their actions work to the best of their ability and are able to fulfil their true potential.

MITIGATION

Petra's clear vision and continued progression towards being a world-class independent diamond group helps to propagate a Company culture in which employees feel they can directly contribute to the Company's success. The Group's employment policies and terms are designed to attract, incentivise and retain individuals of the right calibre and its remuneration strategy is designed to reward management for delivery against the Company's long-term objectives, as well as retain key management for the longer term.

FY 2018 RISK DEVELOPMENTS AND MANAGEMENT

The Group's approach to retention of key personnel has proven successful throughout the duration of the expansion programmes.

Ongoing succession planning and development of future managers are continually assessed to ensure future skills availability.

The Nomination Committee is currently in year two of its three-year succession plan and is continuing to review its Board, board committee and senior management structures. As part of this, a process to identify a successor for the CEO position has now commenced. In line with the Company's development from a phase of intensive capital expenditure and expansion to a focus on steady state operations, Johan Dippenaar will be stepping down from the role when an appointment has been made.

KPIs

Production; Revenue; Profitability; Staff turnover

DIRECTOR/COMMITTEE RESPONSIBILITY

Remuneration Committee

READ MORE

Employee retention and development – page 50

Report of the Nomination Committee – pages 88 and 89

Directors' Remuneration Report – pages 92 to 103

STRATEGIC OBJECTIVES

Work responsibly | Business rationalisation | Optimise recoveries | Drive efficiencies

Licence to operate
Long term

RISK CHANGE IN FY 2018

DESCRIPTION AND IMPACT

In order to maintain its exploration or mining licences, Petra must comply with stringent legislation to justify its licence to operate. Failure to comply with relevant legislation in South Africa, Tanzania or Botswana could lead to delays or suspension of its mining and exploration activities.

MITIGATION

Petra's approach is to go 'beyond compliance' in terms of meeting its health and safety, social, environmental and local community obligations, by adopting a holistic approach with the true long-term sustainability of each operation in mind.

The Company also continually stays abreast of developments and changes in the laws and regulations of all of the countries in which it operates, and has systems to ensure it meets all the requirements of its mining rights and related matters.

FY 2018 RISK DEVELOPMENTS AND MANAGEMENT

Petra continued to comply in all material aspects with all relevant laws and regulations in the countries in which it operates.

There is an increased drive towards resource nationalism in many African countries, which is being reflected in legislative and regulatory changes in South Africa and Tanzania. As mentioned in the 'Country and political' risk commentary, these are likely to place additional financial and social burdens on Petra's operations.

KPIs

Production; Revenue; Profitability; all HSSE indicators

DIRECTOR/COMMITTEE RESPONSIBILITY

Executive Directors; Audit & Risk Committee; HSSE Committee

READ MORE

Legal compliance – page 48

Report of the HSSE Committee – pages 90 and 91

Community relations
Long term

RISK CHANGE IN FY 2018

DESCRIPTION AND IMPACT

Mutual support between our operations and the communities around them is vital to the success of our activities and for maintaining our social licence to operate.

There is an ongoing risk of illegal mining taking place in areas where Petra has surface operations (as opposed to underground), namely the Williamson open pit and the tailings operations of our South African mines.

MITIGATION

Petra regards its host communities as one of its most important primary stakeholders and contributing to these groups in a meaningful, sustainable and long-term manner is therefore central to its strategy.

Our community development efforts continue to be focused on: sustainable job creation; skills transfer (education and training); enterprise development; and infrastructure development.

Petra regards direct engagement with its stakeholders as the primary means of building relationships and identifying issues to be resolved, and therefore has a continuous, planned and scheduled engagement process in place at all of its operations.

FY 2018 RISK DEVELOPMENTS AND MANAGEMENT

Petra continued to develop and expand its stakeholder engagement activities during FY 2018. The Stakeholder Engagement Module was successfully rolled out to assist in strengthening partnerships with stakeholders and managing/reporting engagement in an effective manner.

In order to address illegal mining in Kimberley, a multi-stakeholder agreement (including the KEM JV partners, the DMR and the Sol Plaatje Municipality (governing Kimberley)), was reached in May 2018 to provide the artisanal miners in and around the town with access to processing certain of KEM JV's tailings resources. This concession is intended to engender a sustainable, long-term solution by formalising the artisanal miners as a legitimate group to operate lawfully.

KPIs

Local employment; CSI expenditure

DIRECTOR/COMMITTEE RESPONSIBILITY

Executive Directors; HSSE Committee

READ MORE

Community development and engagement – page 54

Report of the Nomination Committee

Members of the Nomination Committee

Adonis Pouroulis, Chairman

Pat Bartlett

Gordon Hamilton

Tony Lowrie

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In line with Petra's Succession Plan, our Board and Senior Management teams have been strengthened during the Year by the appointment of Jacques Breytenbach as Finance Director and Luctor Roode as Chief Operating Officer. New NED appointments are currently being finalised and a process to identify a successor for the CEO position has now commenced.

Adonis Pouroulis
Chairman of the Nomination Committee

Nomination Committee Terms of Reference
petradiamonds.com/about-us/corporate-governance/board-committees

Nomination Committee role and activities

The principal functions of the Nomination Committee are listed below, along with the corresponding activity and performance in FY 2018.

Board composition and diversity

The Nomination Committee approved certain changes to the Board and Board Committees throughout the Year, as detailed below.

Whilst the Committee assesses the current skills, experience (as set out on pages 65 and 69) and diversity of the Board to be appropriate, it continues to review its composition, specifically following the outcomes of the internal evaluation which identified the opportunity for further improvement. Improving diversity at top levels of the business will be an integral part of this.

Petra believes that the broad range of views, skills, experience and background afforded by a diverse board is important in terms of its ability to function effectively to the benefit of the business as a whole and all of its stakeholders, including the communities in which we operate. Read more about Petra's approach to diversity on pages 50 and 51.

Succession planning

The Nomination Committee is currently in its second year of a three-year Succession Plan. As part of this, the appointment of Jacques Breytenbach to the Board, as Executive Finance Director, was announced during the Year as well as the retirement of Jim Davidson, Executive Technical Director, on 30 June 2018. The Nomination Committee is currently in the process of reviewing the Group Succession Policy with the assistance of an external consultant and this will be updated in FY 2019.

The Company has recently carried out a number of Senior Management changes, including the promotion of Luctor Roode from the role of Executive Operations to Chief Operating Officer, with responsibility for the operational production delivery for the Group. Mr Roode is invited to attend all Board meetings in order to keep the Board fully apprised of operational developments.

Following Year end, good progress has been made with plans to make additional changes in FY 2019 in order to ensure the Company has the right mix of expertise and skills. New Non-Executive appointments are currently being finalised with a view to making an announcement in this regard in October 2018.

As part of the Nomination Committee Succession Plan, a process to identify a successor for the CEO position commenced in September 2018. In line with the Company's development from a phase of intensive capital expenditure and expansion to a focus on steady-state operations, Johan Dippenaar will be stepping down from the role when an appointment has been made.

Succession planning continued

ROLE	ACTIVITIES IN FY 2018	OUTCOMES
To review the structure, size and composition of the Board (including appropriate skills, knowledge, experience and diversity), and to make recommendations to the Board with regard to any changes.	The Committee reviewed the composition of the Board and the Board Committees, including discussions around the importance of diversity and the effective functioning of these entities. The Committee carried out a review process to evaluate optimal Board, Board Committee and Senior Management composition and structures in line with the Company's transition from a capital-intensive expansion phase to a steady-state production focus. Various changes were made during the Year and a timeframe of three years was given for further development and progress with this.	A diversity workshop will be held with the Board to discuss this issue within the business. The Committee will continue to make recommendations regarding the Board, Board Committee and Senior Management composition and structures. Following Year end, the decision to establish a Social, Ethics & Diversity Committee was taken in order to ensure Board-level focus and communication on these topics.
To identify, nominate and recommend, for the approval of the Board, appropriate candidates to fill Board and Committee vacancies as and when they arise.	Jacques Breytenbach was appointed to the Board in FY 2018 as Finance Director and Jim Davidson, Technical Director, retired at Year end. Further reviews of the Board and Committee structures are ongoing. Pat Bartlett was appointed to the HSSE Committee.	The Board is looking to make additional changes in FY 2019 and will receive recommendations from the Nomination Committee on this.
To satisfy itself, with regards to succession planning, that plans are in place with regards to both Board and Senior Management positions.	The Committee continued to focus on succession planning. A workshop was held by Senior Management in November in order to ensure that succession planning below Board level also meets the objectives of Petra's policy. An external consultant was appointed to assist in reviewing and updating the Group's Succession Policy.	Exposure to Board meetings was provided for the Chief Financial Officer (who has now joined the Board as Finance Director), Executive Operations (who is now COO), Group Legal Services Manager and Corporate Communications Manager.
To recommend to the Board the re-election by shareholders at the AGM of any Director under the retirement and re-election provisions of the Company's Bye-Laws.	An internal Board evaluation exercise took place in respect of FY 2018 to, amongst other things, assess the effectiveness and composition of the Board.	It was concluded that, whilst the Board remains effective and appropriate to the size of the business, it could be further strengthened by the addition of technical and governance skills, taking diversity into account in the selection process of any new members.

Adonis Pouroulis
Chairman of the Nomination Committee
12 October 2018

Report of the HSSE Committee

Members of the HSSE Committee

Johan Dippenaar, Chairman

Pat Bartlett, Non-Executive Director

Luctor Roode, Chief Operating Officer

Charl Barnard, Group HSEQ Manager

Egbert Klapwijk, Group Support Manager

Craig Kraus, Group Legal Services Manager

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To mitigate the surge of fatalities experienced by the Company in recent years, an analysis of significant accidents and incidents, as well as a review of internal risk control effectiveness, was initiated. This contributed to improved safety performance for FY 2018.

Given the importance we attach to the HSSE Committee, we took the decision to strengthen its membership at Board and Senior Management level with the appointment of Dr Pat Bartlett and Luctor Roode.

Johan Dippenaar
Chairman of the HSSE Committee

HSSE Committee Terms of Reference
petradiamonds.com/about-us/corporate-governance/board-committees

Introduction

I am pleased to present the Petra HSSE Report for FY 2018. The role and purpose of the HSSE Committee is to assist the Board in obtaining assurance that appropriate systems are in place to deal with the management of health, safety, social and environmental risks.

Increasing capacity

The HSSE Committee has been strengthened in its membership at Board and Senior Management level with the appointment of Non-Executive Director Pat Bartlett and Group Chief Operating Officer, Luctor Roode.

Activities and achievements

In addition to the Committee's principal functions and corresponding activities, the following achievements are noted:

- No fatalities, certified occupational diseases or major environmental incidents where recorded, supported by a downward trend in lost time injuries whilst maintaining BSI HSE management systems certification.
- As part of the continual improvement of processes and systems, all South African operations successfully transitioned from the ISO 14001:2004 to the new ISO 14001:2015 version of the standard and a programme was initiated for the migration from OHSAS 18001:2007 to the new international standard ISO 45001:2017.
- The continual analysis of significant accidents and incidents within the industry, and the subsequent review of internal risk control effectiveness at all mines as a proactive measure to mitigate the potential of serious injuries and fatalities in the Company, contributed to zero fatalities being recorded for the Year.
- Our Carbon Disclosure Project (currently known as the "CDP") reporting has shown a continuous improvement year on year since 2013.
- A programme was adopted to address the challenges posed by climate change at our operations.
- A review of the formal Mine Closure Plan for Williamson was initiated to include the positive continual rehabilitation, carried out during the previous five years.

HSSE Committee role and activities

The principal functions of the HSSE Committee are listed below, along with the corresponding activity and performance in FY 2018.

ROLE	ACTIVITIES IN FY 2018	OUTCOMES
To evaluate the effectiveness of the Group's policies and systems for identifying and managing health, safety, social and environmental risks within the Group's operations.	Review of material risk management process. Improvement and management of health and safety related operational risk management processes, and effective controls for all significant hazards and risks. Environmental risk management processes were aligned to the operational risk management process. Development of Group standards on significant HSEQ processes. Improvement and management of stakeholder engagement and social development processes and systems (including training initiatives).	Complete operational risk management policy, procedures and system implementation, with significant controls linked to standards and legislation, as well as effectiveness review at all South African operations. The development and implementation of an ISO 31000-aligned Petra operational risk management standard and an electronic risk register for the Group. Continued emphasis on ensuring suitable and effective HSSE policies and systems, stakeholder engagement and social development practices are in place across the Group.
To assess the policies and systems within the Group for ensuring compliance with applicable legal and regulatory requirements with respect to health, safety, social and environmental aspects.	Levels of compliance were monitored across the Group. Third party legal specialists were sourced to conduct legal compliance audits at all South African operations as part of the Committee's annual assurance verification process. The continual review, updating and management of a HSEQ legal register, consisting of relevant legislation, laws and standards applicable to mining, in a timely manner. Reviews of the communication, human resources management, development and social compliance policies were carried out. Local Economic Development policy was finalised.	The Board is updated regularly with regards to Petra's levels of compliance. Six internal audits (performed by the Group HSEQ Leads), six third party audits (BSI) and 32 ad hoc inspections were conducted. Audit reports were issued and concluded. Continual review, updating and communication of regulations and standards. Development of various Group policies related to stakeholder engagement and Enterprise Development.
To assess the performance of the Group with regards to the impact of health, safety, social and environmental decisions and actions upon employees, communities and other stakeholders.	Monitoring of HSSE performance throughout the Year and review of annual Group occupational health, safety and environmental objectives and key performance indicators. Consideration of the main causes of accidents, risks and incidents across the HSSE spectrum both internally and within the industry more broadly. Migration of certified environmental management systems to the ISO 14001:2015 standard. Introduction of Stakeholder Engagement Module.	The Board was kept informed of the Group's HSSE performance. Performance targets and objectives aligned with the Mine Health and Safety Council industry milestones and international environmental best practice. Continual real time HSEQ performance trending and intervention from Group HSSE leads to drive zero harm, a safe workplace and a sustainable environment.
To review management's investigation of any fatalities and/or serious HSSE-related accidents or incidents within the Group and the efficacy of the resultant remedial actions implemented.	The Company recorded no fatal accidents during FY 2018 and achieved a continual reduction in significant injuries (LTIFR) of 82% over the past seven consecutive years. Two MPRDA Section 93 notifications were received during FY 2018 due to non-compliance to social and labour plan objectives from the Department of Mineral Resources ("DMR").	The continual analysis of significant accidents and incidents within the industry, and the subsequent review of internal risk control effectiveness at all mines as a proactive measure to mitigate the potential of similar occurrence in the Company. Responses generated with remedial action plans to meet these objectives and submitted to the DMR to meet the requirements of the MPRDA Section 93 notifications.
To evaluate the quality and integrity of reporting to external stakeholders concerning HSSE aspects.	Continued annual reporting to GRI, CDP, MSCI and FTSE4Good. Updated data collection processes for full GHG reporting and accurate carbon footprint calculations as identified through external data verification assessments. Ongoing review of international guidelines and best practice in respect of Petra's sustainability reporting. Engagement with communities on social initiatives and issues.	Petra's FY 2018 Sustainability Report is compiled in accordance with GRI Standards. Scope 3 activities for the calculation of the carbon footprint were further expanded. This improvement is reflected in the FY 2018 Sustainability Report as well as the 2018 CDP submission. The introduction of additional social media accounts with an employee and local community focus has provided the Company with a platform to directly, and in real time, respond to social issues raised.

Johan Dippenaar
Chairman of the HSSE Committee
12 October 2018

Directors' Remuneration Report

Letter from the Chairman

Members of the Remuneration Committee

Gordon Hamilton, Chairman

Pat Bartlett

Tony Lowrie

Key highlights

- At the AGM held on 24 November 2017 99.88% of shareholders voted in favour of our 2017 Directors' Annual Remuneration Report and 99.96% of shareholders voted in favour of our Directors' Remuneration Policy Report. These voting outcomes are a positive reflection of how shareholders view the structure of the remuneration policies, the application thereof, and the level of discretion exercised by the Committee in relation to Executive remuneration to support alignment with the Group's performance and strategic objectives.
- The FY 2018 out-turns under bonus and share plans reflect the challenges the Company faced during the Year, and the Committee has continued to display appropriate application of discretion in considering the levels of Executive remuneration.
- The Committee has determined that, given the low share price at the time of the award, forward-looking PSP awards for FY 2019 are to be adjusted downwards.

"

The Company operates in an industry which requires specialist skills and experience and against this background the Remuneration Committee's objective is to operate an appropriate and measured remuneration policy that supports the Company's strategy.

Gordon Hamilton
Chairman of the Remuneration Committee

Dear shareholder,

I am pleased to present the Petra Diamonds Directors' Remuneration Report for FY 2018 ("the Report").

Petra is a leading independent diamond mining group that aims to offer shareholders an attractive medium-term growth and value proposition. The Company operates in an industry which requires specialist skills and experience and against this background the Remuneration Committee's ("the Committee") objective is to operate an appropriate and measured remuneration policy that supports the Company's strategy.

Directors' Remuneration Report

In the interest of succinct reporting we have not reproduced the full Directors' Remuneration Policy Report in this Report. An overview of the Policy and how it will be applied for FY 2019 follows this letter and the full Policy can be found on our website.

Remuneration framework

The Group's remuneration policies are weighted towards performance-related pay and the Committee continues to be of the view that the policies support the objectives of Petra and its shareholders.

Performance out-turns and decisions during the Year

FY 2018 was another challenging year in Petra's growth profile. Although steady progress was made towards delivery and ramp-up of the expansion programmes from H2 onwards, this was later than originally planned, resulting in overall production being at the lower end of revised guidance to the market. The Committee has therefore set the variable levels of Executive remuneration in FY 2018 to reflect the underperformance of certain key objectives. The Committee did, however, recognise the significant improvement in health and safety performance.

The assessment against all targets set resulted in a formulaic bonus outcome of 29.4% of maximum. In light of the Year's performance the Committee determined that it would be appropriate to adjust bonus outcomes downwards, resulting in actual bonus awards for both the CEO and the Technical Director being reduced by 40% to 17.6% of maximum, equating to 26.5% of base salary. The time-apportioned annual bonus for the Finance Director was reduced by 20% to 23.5% of maximum, equating to 35.3% of base salary for the period on the Board. The full FY 2018 bonus awards for the three Executive Directors have been deferred into shares for two years, with no cash bonuses to any of the Executive Directors. This was the fourth consecutive year the Committee has made a downwards adjustment to the formulaic outcome for annual bonus awards.

Performance Share Plan ("PSP") awards granted in October 2015 are due to vest at 17.5% of maximum reflecting the challenges against operational performance and project delivery objectives, coupled with no vesting in respect of shareholder returns over the three-year performance measurement period. On vesting, the awards will represent around 10% of salary.

In the opinion of the Committee, the final annual performance bonus and PSP outcomes appropriately reflect overall performance over the respective periods of measurement.

As highlighted on page 100 and following the completion of the Rights Issue, outstanding share awards were adjusted post Year end to recognise the impact of the Rights Issue on share awards; this methodology was applied consistently to all share-based awards for both Executive Directors and other employees. In respect of their personal shareholdings all Executive Directors exercised 100% of their rights during the Rights Issue.

For FY 2019 the Committee determined that the Executive Directors' base salaries would not be adjusted, for the second consecutive year.

PSP awards for FY 2019 are being adjusted downwards given the low share price at the time of award, to circa 60% of base salary compared to our normal policy of 150% of salary.

Board changes

After 13 years as Technical Director at Petra Jim Davidson retired from the Board on 30 June 2018. His outstanding awards will continue to vest in the ordinary course of business pro-rated subject to time and performance.

Jacques Breytenbach was appointed to the Board effective 19 February 2018. The report reflects his remuneration and awards for the period from his appointment to the Board to 30 June 2018. Due to his original Group appointment dating back to 10 July 2006, certain legacy awards under the 2005 ESOS and 2016 LTIP Scheme for Management will accrue according to the normal rules of these schemes, and in line with other participants; since his appointment to the Board no further awards have been, or will be, granted to Mr Breytenbach under any of these legacy schemes.

Corporate governance

The Committee is mindful of the Government's corporate governance reforms and the revised UK Corporate Governance Code that will apply to Petra from 1 July 2019. During the course of FY 2019 the Board intends to review arrangements at Petra to ensure our continued compliance with the provisions of the new Code. In particular the Committee notes the revised provision concerning the timing of the release of share awards. Whilst our PSP does not currently have a holding period post vesting, our shareholding guidelines require Executives to build and maintain a minimum shareholding equivalent to two years' basic salary. Our CEO has a considerable shareholding and has met this requirement whilst our Finance Director has started the process to achieve this guideline within the five-year timeframe.

AGM

Last year the Remuneration Committee was pleased to note that 99.88% of shareholders voted in favour of our Directors' Annual Remuneration Report and 99.96% of shareholders voted in favour of our Directors' Remuneration Policy Report. The Committee's view is that Petra's remuneration policies are aligned with the strategy to enhance long-term value for shareholders and the Committee values the support received from shareholders over recent years.

We hope you find our report for this Year informative and will continue to support our remuneration policies and practices by voting in favour of both resolutions at the Company's AGM.

Gordon Hamilton
Chairman of the Remuneration Committee
12 October 2018

Directors' Remuneration Report continued
Directors' Annual Remuneration Report

This report explains how the Group's Remuneration Policy was implemented during FY 2018 and how it will be applied for FY 2019.

Overview of policy and how it will be applied for FY 2019 (for active Directors)

Salary

Influenced by role, individual performance and experience and market positioning.	No increases were applied from 1 July 2018 for the Chief Executive and Finance Director. This is less than those given across the Group's employee population for FY 2018, where inflationary linked increases were applied. With effect from 1 July 2018, Executive Director base annual salaries were as follows: ▸ Johan Dippenaar – £370,800 (unchanged from last year) ▸ Jacques Breytenbach – £260,000 (unchanged from appointment, effective from 19 February 2018)

Benefits

Provision of an appropriate level of benefit for the relevant role and local market.	Executive Directors receive: ▸ a benefits allowance of 10% of salary in lieu of both pension and other benefits and, at the Directors' election, the option to participate in the Company's defined contribution pension fund with Company contributions funded from this allowance; and ▸ Group life, disability and critical illness insurance.

Annual bonus

Linked to key financial, operational, HSSE and strategic goals of the Company, which reflect critical factors of success.	Maximum opportunity for FY 2019 of 150% of salary. For FY 2018, as was the case in FY 2017, 100% of the bonus earned for the Year has been deferred into shares for two years. This compares to the normal practice of 25%. For FY 2019, the bonus will be linked to: ▸ carat production; ▸ cost management; ▸ adjusted EBITDA and profit; ▸ operational free cashflow generation (a newly introduced metric to drive the Company's strategic objective of reducing consolidated net debt to 2x or less EBITDA by FY 2020); ▸ major project delivery (reduced weighting recognising the transition to steady-state operations); ▸ HSSE objectives; and ▸ corporate and strategic priorities. Annual bonus will be subject to a clawback provision, which may apply for up to two years following the end of the performance period in the event of serious misconduct or a material error in the calculation of the bonus outcome.

Performance Share Plan

Aligned with shareholders and motivating the delivery of long-term objectives.	The Committee has determined that a conditional share award of circa 60% of annual salary will be granted to Executive Directors for FY 2019. This compares to a maximum allowable award level of 200% as per the policy and 100–150 % awarded historically and reflects an appropriate downward adjustment considering the low level of the Petra Diamonds share price at the time of award. Performance is measured over three years ending in 2021: ▸ TSR relative to FTSE 350 mining companies and listed diamond mining peers (25%); ▸ absolute TSR, with a threshold target of 8% growth per annum and a maximum target of 16% growth per annum (25%); and ▸ operational performance (40%) and project delivery (10%). The PSP is subject to a clawback provision, which applies for up to two years following the end of the relevant performance period in the event of serious misconduct or a material error in the calculation of the vesting outcome.

Shareholding guidelines

Aligned with shareholders.	Shareholding guidelines of 200% of salary.

Single figure of total remuneration

The following table gives a breakdown of the remuneration received by the Executive Directors for FY 2018 and FY 2017. Although the Company's reporting currency is US Dollars, these figures are stated in Pounds Sterling so as to be aligned with the Directors' service contracts.

		Johan Dippenaar Chief Executive		Jim Davidson Technical Director		Jacques Breytenbach Finance Director	
	£	**2018**	2017	**2018**	2017	**2018**[4]	2017
Salary	£	**370,800**	370,800	**299,340**	299,340	**95,000**	—
Benefits[1]	£	**45,830**	46,328	**34,446**	31,861	**8,013**	—
Retirement benefits[1]	£	**—**	—	**—**	—	**3,319**	—
Annual bonus – paid in cash	£	**—**	—	**—**	—	**—**	—
Annual bonus – deferred to shares	£	**98,114**	63,407	**79,205**	51,186	**33,516**	—
Long-term incentives – PSP awards[2,3]	£	**36,057**	65,152	**29,107**	52,595	**—**	—
Legacy awards (Management LTIP)	£	**—**	—	**—**	—	**9,986**	—
Total	£	**550,801**	545,687	**442,098**	434,982	**149,834**	—

1. Executive Directors are provided with a benefits allowance and may use a portion of such allowance, limited to 7.5% of salary, to contribute to the Company's outsourced defined contribution pension plan which is also available to the Group's South African workforce. No additional retirement benefits are provided.
2. Long-term incentives (PSP awards) in FY 2018 relate to the PSP awards granted on 6 October 2015. The awards are due to vest at 17.5% of the maximum shortly after Year end. The awards have been valued based on the share price on 3 October 2018 of 34.24 pence, the closing price prior to vesting.
3. Long-term incentives (PSP awards) in FY 2017 relate to the PSP awards granted on 26 November 2014. The awards vested at 24.9% of the maximum. The awards have been valued based on the share price on 5 October 2017 of 86.25 pence, the closing price prior to vesting.
4. Mr. Breytenbach was promoted to the Board effective from 19 February 2018. The figures in the table above reflect remuneration in respect of the period for which he was on the Board.

These total remuneration figures reflect a number of factors:

- Salaries are modestly set relative to salaries and benefits available to Executive Directors of comparable companies.
- A significant portion of pay is performance based and is comprised of annual bonus and long-term incentives. In line with the challenges encountered during both FY 2017 and FY 2018 the amounts for FY 2018 are comparable to those for FY 2017, illustrating our approach of a strong link between pay and performance.
- A portion of the annual bonus is deferred into shares (and is therefore subject to share price movements) rather than being paid immediately to Executive Directors. In both FY 2018 and FY 2017, 100% have been deferred into shares with no cash bonus components for either of these years.
- The amounts shown under long-term incentives are awards which were granted in prior years and were subject to stretching performance conditions.
- Johan Dippenaar has a significant shareholding, reflecting his commitment to Petra's future and sustainable growth going forward, further illustrated by all the Executive Directors exercising 100% of their rights during the recent Rights Issue.

Additional notes to the remuneration table

Salary

For FY 2019 the Committee has determined that the base salaries (per annum) for Executive Directors should be as set out below:

	Base salary to 1 July 2017 £	**Base salary from 1 July 2018 £**
Johan Dippenaar	370,800	**370,800**
Jacques Breytenbach	n/a	**260,000**

Base salaries for the Chief Executive and Finance Director were not increased for FY 2019 for the second consecutive year. Salary increases made across the Company's employee population were generally aligned to inflation where the employee is based, and therefore the Executive Directors' base salary increases were lower than those of the Company's general employee population.

Benefits

In lieu of pension plan participation and other benefits, the Executive Directors receive a benefit cash supplement of 10% of salary. Other than membership of the Group management life insurance scheme (which includes disability and critical illness), Executive Directors are not provided with any further benefits and may elect, at their own discretion, to participate in the Company's defined contribution pension scheme as available to the Group's South African workforce.

Directors' Remuneration Report continued

Directors' Annual Remuneration Report continued

Single figure of total remuneration continued

Annual bonus

The annual bonus plan is designed to reward and incentivise performance over the financial year. The bonus framework uses a balanced scorecard approach, linked to the financial, operating and strategic objectives of the Company. The maximum bonus for Executive Directors for delivery of exceptional performance is capped at 150% of base salary. Prior to determining the final bonus outcomes, the Committee considers all-round performance to ensure that actual bonuses are appropriate.

For FY 2018, the Committee's assessment of performance against the balanced scorecard of key measures and milestone achievements during the Year included the following key achievements and targets. The Committee and the Board have given careful consideration to the retrospective disclosure of targets and have disclosed targets where this is not considered to be commercially sensitive.

<table>
<tr><th>PERFORMANCE METRICS</th><th>WEIGHTING</th><th>PERFORMANCE AND TARGETS</th><th>VESTING OUTCOME</th></tr>
<tr><td>Production and project delivery (carat production and delivery against project milestones)</td><td>40%</td><td><table>
<tr><th></th><th>Threshold</th><th>Target</th><th>Maximum</th><th>FY18 Performance</th></tr>
<tr><td>Production (Mcts)</td><td>4,410</td><td>4,900</td><td>5,145</td><td>4,611</td></tr>
<tr><td>Project delivery</td><td>6</td><td>8</td><td>10</td><td>6.5</td></tr>
</table></td><td>16.0%</td></tr>
<tr><td>Profitability (adjusted EBITDA, adjusted net profit and cost management)</td><td>40%</td><td><table>
<tr><th></th><th>Threshold</th><th>Target</th><th>Maximum</th><th>FY18 Performance</th></tr>
<tr><td>Adjusted EBITDA ($m)</td><td>209</td><td>270</td><td>302</td><td>198.5</td></tr>
<tr><td>Costs</td><td>6</td><td>8</td><td>10</td><td>8.0</td></tr>
<tr><td>Adjusted NPAT ($m)</td><td>48</td><td>82</td><td>100</td><td>(18.2)</td></tr>
</table></td><td>6.0%</td></tr>
<tr><td>Corporate (including corporate and strategic priorities and health, safety, social and environmental performance)</td><td>20%</td><td>LTIFR 0.23 (FY 2017: 0.27) – continuing the improving LTIFR trend; zero fatalities recorded during the Year.
The Committee carefully considered the performance of the Executive Directors in delivering against corporate and strategic priorities, with key focus on the circa $170 million Rights Issue, the Tanzanian issues, the restatement of Cullinan grade guidance and the planned disposal of the KEM JV.</td><td>7.4%</td></tr>
<tr><td>Total</td><td></td><td></td><td>29.4%</td></tr>
</table>

Taking into account overall performance, the Committee determined that the bonus for both the CEO and Technical Director would be reduced by 40% from the formulaic outcome (equating to 17.6% of maximum), while the bonus for the Finance Director will be reduced by 20% from the formulaic outcome (equating to 23.5% of maximum, time apportioned from the date of his appointment to the Board). This is the fourth consecutive year in which the Committee has made a downwards adjustment to the formulaic outcome for the bonus scorecard. The Committee has determined that 100% of the bonuses earned by Mr Dippenaar, Mr Davidson and Mr Breytenbach will be deferred for two years into shares (or settled as a cash equivalent after two years, in line with the Remuneration Policy), resulting in no cash bonuses for the Year.

For FY 2019, the Committee has agreed a balanced scorecard of performance measures, targets and milestone achievements, which is consistent with that applied for FY 2018, the key measures are:

PERFORMANCE MEASURE	WEIGHTING
Operational performance and profitability (including operational free cashflow generation, carat production, adjusted EBITDA, adjusted NPAT and cost management)	70%
Project delivery	10%
Corporate (including corporate and strategic priorities and health, safety, social and environmental performance)	20%

As noted above, the bonus framework includes both measurement against pre-defined targets and the exercise of judgement, within a scoring framework which uses measurable and defined objectives.

Long-term incentives – Performance Share Plan

Annual long-term share awards are granted under the Performance Share Plan. This plan was originally approved by shareholders at the January 2012 AGM. The vesting of awards is conditional on the achievement of both shareholder return and operational measures.

FY 2016 to FY 2018 award

The long-term incentive figures shown in the single figure table relate to the awards granted under the PSP in October 2015 that were subject to performance measures assessed over three years. These awards were linked to total shareholder return (50%) and to project and operational delivery (50%). Following the end of the performance period, the Committee assessed performance achieved against the pre-determined measures and targets.

Performance measure	Weighting	25% of element vests[1]	100% of element vests	Actual performance
Ranked TSR vs FTSE 350 mining companies and diamond mining peers	25%	Median	Upper quartile	Below median (0% vested)
Absolute TSR growth	25%	8% per annum	16% per annum	Below threshold (0% vested)

1. No portion of an element vests for performance below this threshold level.

The elements linked to TSR lapsed in full, reflecting both internal challenges and external macro factors.

	Weighting	25% of element vests[1]	80% of element vests	100% of element vests	Actual performance
Project delivery and operational performance/efficiency	50%	6/10	8/10	10/10	6.4/10

1. No portion of an element vests for performance below this threshold level.

Project delivery was measured at each mine where several significant expansion programmes were nearing completion, considering an assessment of performance against expansion progress metrics. Performance was in respect of Finsch, Cullinan and Koffiefontein/KEM JV/Williamson together combined (weighted 20%, 20% and 10% respectively). The metrics included safety, staffing, project management, financial, governance, development metres, raiseboring metres, design and engineering milestones and project spend. The Committee considered the operational element based on carat production, cashflow, costs and profitability across all of the Group's operations. The assessment at the end of the period is based on an agreed framework with vesting based on the weighted average score out of ten across all mines; the objectives for each mine are approved by the Committee and the Board. Further details of performance at each site are set out in the Operational Review of the Strategic Report on pages 33 to 42.

Following this assessment of project delivery and operational performance, this element can be varied by up to 15% (upwards or downwards) to reflect operational efficiency, including factors such as operating cashflow generation, production, revenue, costs and profitability, overall mine management and other metrics considered appropriate by the Committee. Following a detailed review of performance over the three years as well as the overall out-turn, the Committee deemed it appropriate not to adjust this element.

Final vesting of the project delivery and operational performance element was 17.5% (out of 50%).

On the basis of the above performance the total vesting for the PSP awards for Executive Directors vested at 17.5% of the maximum, and will be settled in cash. At the point of vesting this represents around 10% of salary.

Directors' Remuneration Report continued

Directors' Annual Remuneration Report continued

FY 2019 awards

The long-term incentive performance measurement framework for share awards in FY 2019 is summarised below. This is similar to the performance framework that applied to FY 2018.

Summary of performance targets

PERFORMANCE MEASURES

Ranked TSR vs FTSE 350 mining companies plus diamond mining peers

Absolute TSR growth

- Half of the award is linked to returns made for shareholders.
- The first element is linked to relative TSR measured against other mining peers.
- The second element is based on absolute TSR so that reward is linked to the creation of absolute value for shareholders.

	Weighting	25% of element vests[1]	100% of element vests
Ranked TSR vs mining companies	25%	Median	Upper quartile
Absolute TSR growth	25%	8% per annum	16% per annum

1. No portion of an element vests for performance below this threshold level.

Operational performance and project delivery

- The Company is committed to realising value from its asset portfolio; key to this is the successful delivery of expansion projects at its core operations.
- The operational element is based on operational free cash generation, carat production, cashflow, costs and profitability.
- The expansion element is based on an assessment of performance at each mine where a significant expansion programme is underway.
- The assessment at the end of the period is based on an agreed framework with vesting based on the weighted average score out of ten across all mines; the objectives for each mine are approved by the Board.
- The scorecard weighting is operational performance (40%) and project delivery (10%).
- This element can be varied by up to 15% (upwards or downwards) to reflect operational efficiency, including factors such as operating cashflow generation, production, revenue, costs and profitability, overall mine management and other metrics considered appropriate by the Committee.

	Weighting	25% of element vests[1]	80% of element vests	100% of element vests
Operational performance (40%) and project delivery (10%)	50%	6 out of 10	8 out of 10	10 out of 10

1. No portion of an element vests for performance below this threshold level.

Retiring Director

Jim Davidson retired as Technical Director on 30 June 2018 and agreed to remain with the Company on a contractual basis until 31 December 2019. For the period 1 July 2018 to 31 December 2019 Mr Davidson will receive a fixed monthly amount of ZAR187,000 (circa GBP10,000 equivalent); there will be no 10% cash in lieu of benefits nor any bonus component in respect of the period from 1 July 2018.

The Remuneration Committee carefully considered Mr Davidson's departure coupled with his contribution to the business as it developed from a small producer to one of the world's largest independently listed diamond producers and agreed that:

- Mr Davidson remains eligible for a bonus in respect of FY 2018 for the period that he remained a Board Director. 100% of Mr Davidson's 2018 performance bonus will be deferred into shares until 30 June 2020. The out-turn of the 2018 performance bonus is covered on pages 96 and 97 of this report.
- Mr Davidson's deferred bonus shares that were earned in respect of FY 2016 (60,670 shares) and FY 2017 (74,818 shares) will vest at the normal time period (June 2018 and June 2019 respectively).
- In respect of the PSP award made on 6 October 2015, Mr Davidson was Technical Director for the full measurement period of these awards, so measurement of performance conditions and out-turn was applied in the normal way; the detail of out-turn of these awards is covered on pages 96 and 97 of this Report.
- In respect of the PSP awards made on 7 October 2016 and 6 October 2017 respectively, the original awards were pro-rated for time and will continue until the normal vesting dates. Following the pro-rating reductions the maximum number of shares under PSP awards are 196,206 (2016 award) and 145,842 (2017 award). These awards will continue to be subject to performance conditions.
- Mr Davidson will not participate in any annual incentive or PSP award for the year commencing FY 2019.

Non-Executive Director remuneration

With effect from 28 November 2011, Mr Pouroulis moved from the position of Executive Chairman to that of Non-Executive Chairman. As a consequence of his previous role, Mr Pouroulis has a number of outstanding share options which were granted under the Company's 2005 Employee Share Option Scheme ("ESOS"). Following his move to the position of Non-Executive Chairman and in line with provision D.1.3 of the UK Corporate Governance Code, Mr Pouroulis does not participate in any future Company share scheme arrangements. Mr Pouroulis continues to receive the benefit of membership of the Group's life insurance scheme.

The Chairman's fee is £159,650 per annum, payable in cash.

The other Non-Executive Directors receive a fixed basic fee of £56,650 per annum for their normal services rendered during the Year and a fee for chairmanship of Committees. All fees are payable in cash.

The additional annual fees paid for chairmanship of the Audit & Risk Committee and the Remuneration Committee are £15,450 and £12,875 respectively. There is no additional fee for chairmanship of the Nomination Committee. The additional annual fee paid to the Senior Independent Director is £23,175.

For FY 2019, the Non-Executive Director fees will not be increased, for the second consecutive year.

Independent Non-Executive Directors do not participate in the Company's bonus arrangements, share schemes or pension plans, and for FY 2018 (in accordance with the Company's normal policy) did not receive any other remuneration from the Company outside of the fee policy outlined above.

Single figure of total remuneration

The following table gives a breakdown of the remuneration received by the Non-Executive Directors for FY 2018 and FY 2017. Although the Company's reporting currency is US Dollars, these figures are stated in Pounds Sterling so as to be aligned with the Directors' service contracts.

	Year	Fees £	Benefits £	Total £
Adonis Pouroulis	**2018**	**159,650**	**3,681**	**163,331**
Chairman	2017	159,650	3,650	163,300
Pat Bartlett	**2018**	**56,650**	**—**	**56,650**
	2017	56,650	—	56,650
Gordon Hamilton	**2018**	**84,975**	**—**	**84,975**
	2017	84,975	—	84,975
Tony Lowrie	**2018**	**79,825**	**—**	**79,825**
	2017	79,825	—	79,825
Octavia Matloa	**2018**	**56,650**	**—**	**56,650**
	2017	56,650	—	56,650

Directors' shareholding and share interests

It is the Company's policy that each of the Executive Directors holds a meaningful number of Petra shares. The guideline is a minimum of two year's basic salary for the applicable Director. Executive share ownership and alignment with shareholders is further supported by the Company's bonus deferral and share incentive schemes.

The share interests of the Directors as at 30 June 2018 are detailed below. Mr Dippenaar and Mr Davidson currently exceed the guideline for Petra share ownership. Mr Breytenbach was appointed to the Board effective 19 February 2018 and is expected to build his shareholding over the next five years in line with our policy on shareholding guidelines. The increased shareholdings of the Directors, compared to the prior year, is due mainly to their 100% participation in the Rights Issue.

		Shareholding as at 30 June 2018	Shareholding as at 30 June 2017	Shareholding guideline[1]
Adonis Pouroulis	Chairman	**12,569,375**	7,735,000	n/a
Johan Dippenaar	Chief Executive	**8,385,830**	5,009,972	1,292,886
Jacques Breytenbach[3]	Finance Director	**243,750**	—	906,554
Jim Davidson[2]	Technical Director	**8,018,572**	4,812,981	1,043,724
Tony Lowrie	Senior iNED	**3,737,500**	2,300,000	n/a
Pat Bartlett	iNED	**—**	—	n/a
Gordon Hamilton	iNED	**247,000**	152,000	n/a
Octavia Matloa	iNED	**—**	—	n/a

1. Shareholding guideline of 200% of salary based on three-month average share price to 30 June 2018 of 57.36 pence.
2. Mr Davidson retired as Technical Director on 30 June 2018.
3. Mr Breytenbach was appointed to the Board effective 19 February 2018.

Directors' Remuneration Report continued
Directors' Annual Remuneration Report continued

Directors' shareholding and share interests continued
As at 30 June 2018, the Directors' interests in share plans of the Company were as follows:

Breakdown of share plan interests as at 30 June 2018	Shares: Unvested and subject to performance	Shares: Unvested and not subject to performance	Options: Vested but not exercised	Options: Exercised in the Year
Executive Directors				
Johan Dippenaar	1,250,622	138,177	1,450,000	—
Jim Davidson	1,002,316	111,545	1,450,000	—
Jacques Breytenbach	—	—	333,334	—
Non-Executive Directors				
Adonis Pouroulis	—	—	200,000	—

Post 30 June 2018 and on completion of the Rights Issue the Directors' adjusted interests in share plans of the Company were as set out in the table below. Directors' interests have been adjusted in line with the accepted standard methodology:

Breakdown of adjusted share plan interests post 30 June 2018	Shares: Unvested and subject to performance[1]	Shares: Unvested and not subject to performance[2]	Options: Vested but not exercised	Options: Exercised in the Year
Executive Directors				
Johan Dippenaar	1,519,064	167,836	1,761,237	—
Jim Davidson	1,217,459	135,488	1,761,237	—
Jacques Breytenbach	—	—	404,883	—
Non-Executive Directors				
Adonis Pouroulis	—	—	242,929	—

1. These figures overstate the Executive Directors' current interests in shares as a portion of PSP awards lapsed following the Year end. For Mr Dippenaar 496,445 shares lapsed and for Mr Davidson 400,762 shares lapsed.
2. This comprises outstanding deferred share awards in respect of FY 2016 and FY 2017. During FY 2017, the following awards were granted: Mr Dippenaar – 92,680 shares and Mr Davidson – 74,818 shares. These awards represent 100% of the total bonus in respect of FY 2017. Post Year end, the FY 2016 deferred share awards vested: Mr Dippenaar – 75,156 shares and Mr Davidson – 60,670 shares.
3. Options held by Mr Pouroulis relate to the 2005 ESOS awards granted to him between 2006 and 2010, when he was an Executive Director of the Company. Following his move to the position of Non-Executive Chairman, Mr Pouroulis does not participate in any future Company share scheme arrangements.

As at 30 June 2018, Executive Directors held the following interests in the 2012 PSP:

	Date of award	Outstanding at 1 July 2017	Awarded during the Year	Vested during the Year	Lapsed during the Year	Outstanding at 30 June 2018 (pre-Rights Issue)	Outstanding (post-Rights Issue)	Performance period[5]
Johan Dippenaar	26/11/2014[1]	303,371	—	75,539	227,832	—		FY 2015–FY 2017
	06/10/2015[2]	495,413	—	—	—	495,413	601,752	FY 2016–FY 2018
	07/10/2016[3]	309,000	—	—	—	309,000	375,326	FY 2017–FY 2019
	06/10/2017[4]	—	446,209	—	—	446,209	541,986	FY 2018–FY 2020
Total		**1,107,784**	**446,209**	**75,539**	**227,832**	**1,250,622**	**1,519,064**	
Jim Davidson	26/11/2014[1]	244,900	—	60,980	183,920	—		FY 2015–FY 2017
	06/10/2015[2]	399,929	—	—	—	399,929	485,772	FY 2016–FY 2018
	07/10/2016[3]	242,179	—	—	—	242,179	294,162[6]	FY 2017–FY 2019
	06/10/2017[4]	—	360,208	—	—	360,208	437,525[6]	FY 2018–FY 2020
Total		**887,008**	**360,208**	**60,980**	**183,920**	**1,002,316**	**1,217,459**	

1. The performance measures applicable to the awards consist of: (a) TSR relative to FTSE 350 mining and listed diamond companies (25%); (b) absolute TSR (25%); and (c) project delivery and operational performance (50%). The share price on 26 November 2014 was 208.8 pence; the 30-day trading average price to the date preceding the date of the award, which was used to calculate the maximum share award, was 178.0 pence. This award vested at 24.9% and the balance of this award lapsed.
2. The performance measures applicable to the awards consist of: (a) TSR relative to FTSE 350 mining and listed diamond companies (25%); (b) absolute TSR (25%); and (c) project delivery and operational performance (50%). The share price on 6 October 2015 was 93.25 pence; the 30-day trading average price to the date preceding the date of the original award, which was used to calculate the maximum share award, was 109.0 pence. As noted above, following the Year end, this award vested at 17.5% and the balance of this award lapsed.
3. The performance measures applicable to the awards consist of: (a) TSR relative to FTSE 350 mining and listed diamond companies (25%); (b) absolute TSR (25%); and (c) operational performance (40%) and project delivery (10%). The share price on 6 October 2016 was 139.5 pence; the 30-day trading average price to the date preceding the date of the award, which was used to calculate the maximum share award, was 139.8 pence.

4. The performance measures applicable to the awards consist of: (a) TSR relative to FTSE 350 mining and listed diamond companies (25%); (b) absolute TSR (25%); and (c) operational performance (40%) and project delivery (10%). The share price on 5 October 2017 was 71.00 pence; the 30-day trading average price to the date preceding the date of the original award, which was used to calculate the maximum share award, was 83.10 pence.
5. Performance periods with respect to operational performance metrics are measured on respective financial years' results, whilst the relevant TSR measurements are based on returns from date of award to date of final vesting.
6. Further to Mr Davidson's retirement on 30 June 2018, the original awards were pro-rated for time and will continue until the normal vesting dates. Following the pro-rating reductions the maximum number of shares under PSP awards were reduced from 294,162 to 196,206 (2016 award) and from 437,525 to 145,842 (2017 award). These awards will continue to be subject to performance conditions.

No awards under the 2005 ESOS were granted or lapsed during the year. As at 30 June 2018, Executive Directors and the Chairman held the following vested share options under the 2005 ESOS:

	Date of grant	Exercisable from	Exercise price (p) (pre-Rights Issue)	Outstanding at 1 July 2017	Exercised during the Year	Outstanding at 30 June 2018 (pre-Rights Issue)	Outstanding (post-Rights Issue)	Exercise price (p) (post-Rights Issue)	Expiry date
Adonis Pouroulis	12/03/2009	12/03/2012	27.5	—	—	—			12/03/2019
	30/09/2009	30/09/2012	45.5	100,000	—	100,000	121,465	37.5	30/09/2019
	17/03/2010	17/03/2013	60.5	100,000	—	100,000	121,465	49.8	17/03/2020
Total				**200,000**	—	**200,000**	**242,929**		
Johan Dippenaar	12/03/2009	12/03/2012	27.5	750,000	—	750,000	910,985	22.6	12/03/2019
	30/09/2009	30/09/2012	45.5	350,000	—	350,000	425,126	37.5	30/09/2019
	17/03/2010	17/03/2013	60.5	350,000	—	350,000	425,126	49.8	17/03/2020
Total				**1,450,000**	**—**	**1,450,000**	**1,761,237**		
Jim Davidson	12/03/2009	12/03/2012	27.5	750,000	—	750,000	910,985	22.6	12/03/2019
	30/09/2009	30/09/2012	45.5	350,000	—	350,000	425,126	37.5	30/09/2019
	17/03/2010	17/03/2013	60.5	350,000	—	350,000	425,126	49.8	17/03/2020
Total				**1,450,000**		**1,450,000**	**1,761,237**		
Jacques Breytenbach	12/03/2009	12/03/2012	27.5	116,667	—	116,667	141,709	22.6	12/03/2019
	30/09/2009	30/09/2012	45.5	66,667	—	66,667	80,977	37.5	30/09/2019
	17/03/2010	17/03/2013	60.5	150,000	—	150,000	182,197	49.8	17/03/2020
Total				**333,334**		**333,334**	**404,883**		

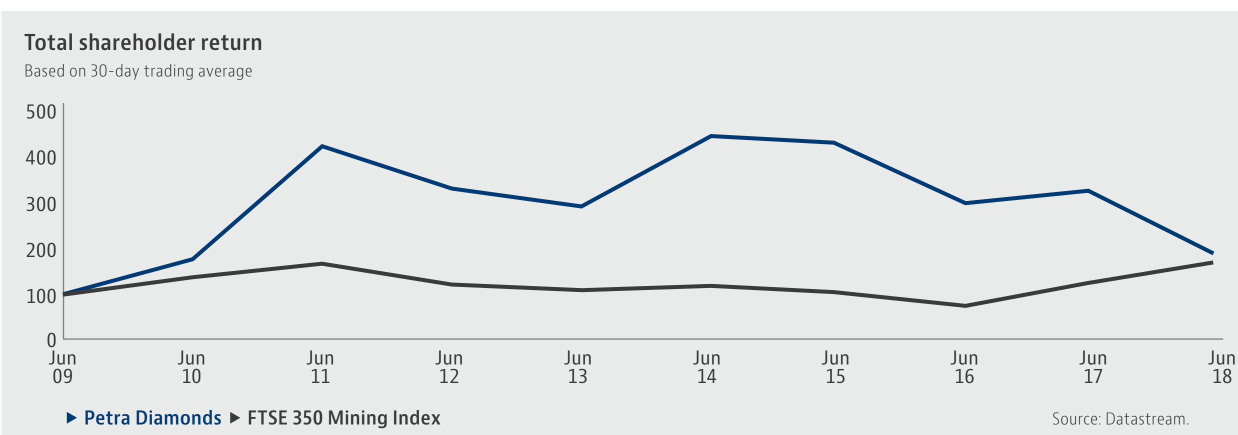
External non-executive directorships

None of the Company's Executive Directors hold a directorship at another listed company.

Other disclosures

Performance graph

The graph below shows a comparison between the TSR for Petra shares for the nine-year period to 30 June 2018 and the TSR for the companies comprising the FTSE 350 Mining Index over the same period. This index has been selected to provide a relevant sector comparator to Petra. The TSR measure is based on a 30-day trading average.



Directors' Remuneration Report continued

Directors' Annual Remuneration Report continued

Other disclosures continued

Table of historical data for the Chief Executive

Before the Company stepped up to the Main Market, Petra operated a different remuneration structure. Prior to FY 2012, there was no set maximum annual bonus opportunity for Executive Directors and the Company granted share options, rather than the more conventional PSP awards with set performance criteria. Therefore it is not possible to provide fully comparable data for awards across this nine-year period.

	AIM		Main Market						
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	**FY 2018**
Single figure of total remuneration (£)	507,500	879,258	1,115,496	804,361	1,075,225	999,034	1,137,521	545,687	**550,801**
Annual bonuses as a % of maximum[1]	—	—	68%	72.5%	85.5%	40.0%	55.0%	11.4%	**17.6%**
Long-term incentives (PSP awards) as a % of maximum[2]	—	—	—	—	62.2%	57.0%	55.0%	24.9%	**17.5%**
Long-term incentives (LTSP awards) as a % of maximum	—	—	—	—	n/a	42.5%	42.3%	n/a	**n/a**

1. The Chief Executive's annual bonuses for FY 2010 and FY 2011 were £180,000 and £170,000 respectively.
2. Prior to FY 2012, the Company granted share options to Executive Directors. For the purposes of the single figure for FY 2010 to FY 2013 in the table above, these options have been split into three equal tranches and valued based on the notional gain as at the first, second and third anniversaries of the original grant date.

Percentage change in remuneration of the Chief Executive

In FY 2018, the Chief Executive's salary and benefits allowance (as a percentage of salary) was unchanged for a second year running. This compares to an average increase in salaries across Petra of circa 6% (measured in local currencies). The Chief Executive's performance-related pay (annual bonus and long-term incentives) of £134,171 is 4.4% up on the prior year's £128,559, largely driven by improved production and safety performance.

Relative importance of spend on pay

The following table sets out the percentage change in payments to shareholders and overall expenditure on pay across the Group.

	FY 2018 US$m	FY 2017 US$m	Change %
Payments to shareholders	**nil**	nil	0%
Group employment costs	**139.1**	145.8	4.6%

Service contracts

Director	Role	Date of contract	Contract end date	Notice period by Company or Director
Executive Directors				
Mr Dippenaar	Chief Executive	28 November 2011	n/a	12 months
Mr Breytenbach	Finance Director	19 February 2018	n/a	12 months
Non-Executive Directors				
Mr Pouroulis	Non-Executive Chairman	17 September 2018	29 November 2020	1 month
Mr Lowrie	Senior Independent Non-Executive Director	17 September 2018	13 September 2021	1 month
Dr Bartlett	Independent Non-Executive Director	17 September 2018	29 November 2020	1 month
Mr Hamilton	Independent Non-Executive Director	17 September 2018	29 November 2020	1 month
Ms Matloa	Independent Non-Executive Director	17 September 2018	10 November 2020	1 month

Membership of the Committee

The Committee members for FY 2018 were Gordon Hamilton (Chairman), Pat Bartlett and Tony Lowrie.

The Committee is responsible for determining on behalf of the Board and shareholders:

- the Company's general policy on the remuneration of the Executive Directors, the Chairman and the Senior Management team;
- the total individual remuneration for the Chairman, Executive Directors and Senior Management including base salary, benefits, performance bonuses and share awards;
- the design and operation of the Company's share incentive plans;
- performance conditions attached to variable incentives; and
- service contracts for Executive Directors.

The full Terms of Reference for the Remuneration Committee have been approved by the Board and are available on the Company's website at www.petradiamonds.com/about-us/corporate-governance/board-committees.

Where appropriate, the Chairman and Executive Directors attend Committee meetings to provide suitable context regarding the business. Individuals who attend meetings do not participate in discussions which determine their own remuneration.

External advisers

The Committee engages the services of Deloitte LLP ("Deloitte") to provide independent advice to the Committee relating to remuneration matters. Deloitte is a member of the Remuneration Consultants Group and, as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. The Committee is satisfied that the advice it has received from Deloitte during the Year has been objective and independent. The fees paid to Deloitte for work carried out in the financial Year ended 30 June 2018 for the Remuneration Committee totalled £14,250 (FY 2017: £15,925) and were based on a time and materials basis.

During the Year Deloitte also provided unrelated tax and general advisory services to the Company. Deloitte's Tanzanian practice (a separate Deloitte Touche Tohmatsu entity) undertakes the local statutory audit for Williamson Diamonds Ltd, a subsidiary of the Petra Diamonds Group. BDO LLP remain the Group auditors.

Statement of shareholder voting

The voting outcomes for the 2017 Directors' Remuneration Report and Directors' Remuneration Policy Report at the last AGM on 24 November 2017 were as follows:

	For	% for	Against	% against	Total votes cast	Withheld
2017 Directors' Remuneration Report	376,104,402	99.88%	465,781	0.12%	376,570,183	9,779,383
2017 Directors' Remuneration Policy	376,406,002	99.96%	164,181	0.04%	376,570,183	9,779,383

Gordon Hamilton
Chairman of the Remuneration Committee
12 October 2018

Driving efficiencies

In Rand terms, the Group achieved absolute on-mine costs in line with expectations; however, the strength of the Rand, as well as the effect of accelerated depreciation, had a negative impact on US Dollar reported operating costs. Operational Capex reflected the declining trend due to the advanced stages of the Group's expansion programmes. Petra's future focus will be on driving operational cost efficiencies throughout the Group and ensuring efficient use of capital to maximise the value of our assets.

-43%
Operational Capex*

* Excluding capitalised borrowing costs.

+7%
Adjusted operating cashflow

Financial Statements


BAY 5

Directors' Responsibilities Statement

Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with the Bermuda Companies Act 1981.

Company law requires the Directors to prepare Financial Statements for each financial year. The Directors have elected to prepare the Group Financial Statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

In preparing the 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.

The Directors are responsible for keeping proper accounting records that are sufficient to ascertain with reasonable accuracy at any time the financial position of the Company and to ensure that the Financial Statements comply with the Bermuda Companies Act 1981. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' responsibilities pursuant to DTR4

In accordance with Chapter 4 of the Disclosure and Transparency Rules issued by the Financial Conduct Authority in the United Kingdom the Directors confirm to the best of their knowledge:

- the Group's Financial Statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group; and
- the Annual Report includes a fair review of the development and performance of the business and the financial position of the Group, together with a description of the principal risks and uncertainties that it faces.

Fair, balanced and understandable

The Board considers that the Annual Report and Accounts, taken as a whole, provides shareholders with a fair, balanced and understandable view of Petra's business, the outlook for the future developments of the Group, as well as the principal risks and uncertainties which could affect the Group's performance.

Auditors

As far as each of the Directors are 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 1981 (as amended), a resolution to confirm the re-appointment of BDO LLP as auditors of the Company is to be proposed at the 2018 AGM to be held on 23 November 2018.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in Bermuda and the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

The Financial Statements were approved by the Board of Directors on 12 October 2018 and are signed on its behalf by:

Johan Dippenaar
Chief Executive
12 October 2018

Independent Auditors' Report

To the members of Petra Diamonds Limited

1. Our opinion

We have audited the consolidated Financial Statements of Petra Diamonds Limited ("the Parent Company") and its subsidiaries (together "the Group") for the Year ended 30 June 2018 which comprise the Consolidated Income Statement, the 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 notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

In our opinion the Financial Statements:

- give a true and fair view of the state of the Group's affairs as at 30 June 2018 and of the Group's loss for the Year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Bermuda Companies Act 1981.

2. Basis for our opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Overview of our audit approach

Materiality	FY 2018	FY 2017	Change
Materiality for the Financial Statements as a whole	US$9.5 million	US$14.0 million	▼
Materiality levels used for the audits of the significant components of the audit	US$2.6 million to US$4.75 million	US$3.9 million to US$7.0 million	▼
Audit scope coverage	99% of total assets, 100% of revenue and 99% of loss before tax		

Key audit matters			
What we considered to be a key audit matter	The risk that the impairment judgements on the Koffiefontein mining assets were inappropriate and the impact of the proposed sale of KEM JV on the classification and carrying value of the KEM JV.	The risk that judgements regarding the recoverability of Williamson's 'Parcel 1' inventory blocked for export and VAT receivables were inappropriate given the legislative environment in Tanzania.	The risk that the going concern assumption was inappropriate or that material uncertainties were not disclosed appropriately.
Why it represented a key audit matter	Management was required to exercise significant judgement and estimation in these areas and, in the case of Williamson's inventory and VAT, these are further impacted by the uncertainties associated with the legislative environment of Tanzania. The appropriate disclosure of such judgements and estimates was also a focus for the audit.		
Relevant information in Financial Statements and Report of the Audit Committee	Notes 8 and 35. Report of the Audit Committee, pages 72 to 78.	Notes 17 and 18. Report of the Audit Committee, pages 72 to 78.	Note 1.1. Report of the Audit Committee, pages 72 to 78.

4. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditors' Report

To the members of Petra Diamonds Limited continued

4. Key audit matters continued

Matters identified

	How we addressed the matter	Our findings
1. The risk that the impairment judgements on the Koffiefontein mining assets are inappropriate and the impact of the proposed sale of KEM JV on the classification and carrying value of the KEM JV had not been reflected appropriately		
As detailed in note 8, the assessment of any impairment to the carrying value of mining assets required significant judgement and estimate by Management. As at 31 December 2017, the Group recognised a US$66.0 million impairment charge at Koffiefontein to write the mining asset down to its recoverable amount at 30 June 2018. The determination of recoverable amount represented a significant risk for our audit given the sensitivity of the recoverable amount to assumptions including future diamond prices, foreign exchange rates and the ability to sustain recent production improvements given the history of shortfalls in production versus plan. In addition, the Group recorded a US$52.0 million impairment charge at KEM JV at 31 December 2017. As detailed in note 35, on 5 July 2018 Management entered into a binding Heads of Agreement ("HOA") with regards to the proposed disposal of the Company's and its BEE partners' 75.9% interest in the KEM JV to the Company's JV partner Ekapa Mining for a gross cash consideration of circa ZAR300 million (fair value of US$18.6 million). Management has reclassified the KEM JV disposal group as a non-current asset held for sale and recorded further impairments of US$40.7 million to reduce the carrying value of mining and certain other assets to fair value less costs to sell. The determination that the KEM JV disposal group met the criteria for reclassification as non-current assets held for sale at 30 June 2018, the completeness and accuracy of the assets and liabilities reclassified and the assessment of fair value less costs to sell represented a significant focus area for our audit.	▸ We evaluated Management's impairment models against approved Life of Mine ("LOM") plans and our understanding of the operations, and critically challenged the key estimates and assumptions used by Management for Koffiefontein. ▸ Our testing included comparison of the diamond price forecasts to prices achieved in the Year, pricing trends and market forecasts; comparison of foreign exchange rates to market spot and forward rates; recalculation of discount rates; and critical review of the forecast cost and production profiles against approved mine plans, resources and reserves reports and empirical performance. ▸ We challenged the Group's ability to achieve forecast growth in carat production at Koffiefontein. In doing so we compared the forecast to recent and longer-term production history, and considered the status of the expansion project and compared forecast grades to the Competent Person's Report. In respect of diamond pricing, we specifically considered the impact of the changing product mix on forecast diamond prices and considered the consistency of the assumptions with pricing estimates prepared by the independent consultant as part of the Mineral Resource estimate. We further considered the quality of historical estimates, including operating and capital costs, and challenged Management as to the future forecasts. ▸ We reviewed Management's sensitivity analysis and performed our own sensitivity analysis over individual key inputs, together with a combination of sensitivities over such inputs. ▸ We held discussions with the Audit Committee to consider the recoverable amount under the forecasts, including downside risks and sensitivity around pricing, production and foreign exchange rates. ▸ In respect of KEM JV, we obtained and reviewed the HOA and draft sale agreement. We evaluated Management's conclusion that the disposal group meets the requirements for reclassification as non-current assets held for sale and discontinued operations under IFRS 5. In doing so, we considered the timing of the HOA and discussions held by the audit team with members of the Board prior to the Year end regarding the disposal. ▸ We recalculated the fair value of consideration receivable under the terms of the agreements, agreeing the payment profile to the relevant agreements, and assessed the discount rate applied. We performed sensitivity analysis which demonstrated that reasonable changes to the discount rate would not have a material impact. ▸ We agreed the assets and liabilities of the disposal group and the loss from discontinued operations to the audited trial balance of KEM JV and confirmed the consistency of the assets and liabilities included with the terms of the HOA and draft sale agreement. ▸ We evaluated the disclosures given in note 8 and note 35 and found them to be relevant and informative.	In respect of the recoverable amount of the Koffiefontein mining assets, we found the Group's conclusion to be appropriate and that the Board's assessment of the recoverable amount at 30 June 2018 considered both the Group's plans, recent performance and continued risks and uncertainties. We found the disclosures in note 8 to be appropriate. We found the presentation of KEM JV as a disposal group under discontinued operations and non-current assets held for sale to be appropriate. We found the estimate of fair value less cost to sell and associated impairments to be acceptable.

4. Key audit matters continued

Matters identified continued

2. The risk that judgements regarding the recoverability of 'Parcel 1' inventory blocked for export and VAT receivables were inappropriate given the legislative environment in Tanzania

The legislative changes in Tanzania targeted at the mining industry, together with the seizure of 'parcel 1' in September 2017 created a significant commercial risk to the Group and has required the Board to exercise judgement in respect of a number of areas:

Inventory

As detailed in note 18, parcel 1 from FY 2018 of 71,654 cts held at US$12.5 million, being the lower of cost and net realisable value, was confiscated by the Government of Tanzania ("GoT") and is being prevented from export and sale, although subsequent parcels have been released for export. Given the circumstances and continued seizure of the parcel, determination that the inventory remained recoverable required the Board to consider whether it retained legal title to the parcel and the likelihood and form of recovery together with the timing thereof. As such, the recoverability of parcel 1 inventory was considered to represent a key focus for our audit.

VAT

As detailed in note 17, the carrying value of Williamson's VAT receivable has increased to US$20.3 million at 30 June 2018. US$12.7 million relates to historical VAT prior to July 2017 which arose under the previous VAT legislation in Tanzania. Given the significant ageing of the balance and absence of any significant receipts, the Board needed to consider whether there were indications that the VAT was disputed or invalid, together with the ultimate timing of future recoveries. In doing so, the Board applied judgement and considered factors including the ongoing VAT audits, discussions with relevant authorities in Tanzania and the wider operating environment.

A further US$7.6 million of VAT relates to VAT under the current legislation, effective from July 2017. The ability of the Group to recover VAT is dependent on the interpretation and application of the new legislation to diamond mining. In addition, judgement was required in assessing the ultimate timing of recovery of such VAT.

Given these circumstances, the carrying value and presentation of VAT was considered to represent a key risk for our audit.

How we addressed the matter

Inventory

- We reviewed the shipping documentation and export approvals for the parcel together with documents demonstrating that relevant GoT authorities seized the parcel. We have obtained confirmation from the GoT that the parcel continues to be held by the GoT and remains unsold. We have performed procedures to assess the steps undertaken in the export process to assess Management's conclusion that legislative requirements were appropriately followed.
- We reviewed all correspondence with the GoT and the legal appeal filed by the Group in conjunction with their legal advisers in relation to the blocked parcel which set out the Group's legal entitlement to return of the parcel.
- We discussed and critically assessed Management's own assessment of the Group's rights over the parcel with the Group's independent external Tanzanian legal advisers. We have obtained written confirmation from the Group's Tanzanian legal adviser which supported the Directors' assessment that the parcel is being held without any procedural claim or merit, that the Group continues to hold legal title to the parcel and that they would have a valid claim for compensation if the parcel is not released. In relying upon the assessments made by such expert, we evaluated the competence and objectivity of the professional adviser relied upon by Management.
- We challenged Management regarding the method, likelihood and timing of recovery and discussed the judgement with the Audit Committee. In doing so, we considered representations regarding the status of discussions with GoT representatives, including GoT representatives on the Williamson board. We obtained written representations from the Board in respect of the judgement.

VAT

- We examined the Group's correspondence with the tax authorities in respect of the US$12.7 million historical VAT for indicators that such taxes were irrecoverable under local tax rules or subject to dispute. In addition, we made inquiries of the Board and Management and reviewed minutes of meetings to identify indicators that VAT is disputed or may be irrecoverable.
- We considered and challenged Management's assessment of the timing of recovery, carrying amount (including discounting to present value) and presentation of the VAT receivables, together with the appropriateness of the assumptions made in reaching those conclusions and performed sensitivity analysis. In particular this included consideration of the payment history, apparent fiscal constraints on the GoT and political developments, the nature of ongoing correspondence and other ongoing legislative changes.
- In respect of the US$7.6 million VAT we used our tax specialists to review the legislation and confirm that the legislation does not clearly define 'raw minerals' and considered the Group's judgement that the tax treatment is subject to interpretation. We made inquiries of Management and considered the nature of the rough diamond acidisation and sorting processes in assessing whether Management's judgement that the VAT is recoverable under the legislation is acceptable.
- We reviewed the disclosures in the Financial Statements to satisfy ourselves that the judgement was appropriately disclosed.

Our findings

In relation to the blocked parcel, we found the Group's conclusion that it is entitled to return of the parcel to be acceptable and suitably supported by independent advice from Management's external experts. We found the judgement regarding the likelihood, method and timing of recovery to have been appropriately considered and disclosed.

In relation to VAT we found no evidence of disputes in respect of VAT receivables claimed. We found Management's assessment that the US$7.6 million VAT under the new legislation is valid to be an area of significant judgement given the lack of clarity in the tax legislation. However, we found Management's assessment to be acceptable and appropriately disclosed. We found the estimates regarding the timing of recovery to be highly subjective but acceptable.

We found the disclosures included in the Financial Statements detailed in notes 17 and 18 to be appropriate.

Independent Auditors' Report

To the members of Petra Diamonds Limited continued

4. Key audit matters continued

Matters identified continued

	How we addressed the matter	Our findings
3. The risk that the going concern assumption was inappropriate or that material uncertainties were not disclosed appropriately		
The Group held US$648.1 million of secured senior second lien loan notes and US$106.7 million of secured senior lender facilities at 30 June 2018, the latter being subject to measurement covenants. The Group's results had been adversely impacted by the factors set out in note 1.1 to the Financial Statements such that the Group was forecasting a potential breach of its EBITDA related covenants at 30 June 2018. On 29 June 2018, the Company raised circa US$170 million of funds in the form of a 5 for 8 Rights Issue and, post the Year end, used the proceeds to repay the secured senior lender facilities, although these facilities were not cancelled and remain available. In addition, as part of the Rights Issue process, a written undertaking was received from the Lender group for the waiver of the 30 June 2018 covenant measurement. As detailed in note 1.1, the Group's cashflow forecasts indicate that it retains sufficient liquidity from existing cash resources and operating cashflows, without the need to utilise existing facilities, to meet its liabilities as they fall due under the forecasts and reasonably possible sensitivities. In addition, under the base case, headroom is maintained against financial covenants going forward. As such, the Board concluded that the going concern basis of preparation remains appropriate and that there are no material uncertainties which require disclosure. Whilst the Rights Issue enabled the senior secured lender facilities to be repaid, the preparation of the cashflow forecasts and the Board's conclusion that the Group retains liquidity headroom without the need to draw down existing facilities involves significant judgement and estimation, particularly given the ongoing ramp-up and roll-out of the expansion projects together with diamond pricing and inherent volatility in the Rand exchange rate. Accordingly, this area represented a significant focus for our audit.	▸ We critically reviewed the Group's forecasts and challenged Management's assumptions in respect of diamond prices, production, operating costs, foreign exchange rates and capital expenditure. In doing so, we considered factors such as empirical performance, trading to date in H1 FY 2019 and external market data. We specifically confirmed that the forecast period excluded receipts associated with the blocked parcel and VAT receivables at Williamson. ▸ We agreed to debt service payments associated with the secured senior second lien loan notes to the terms of the loan notes. We confirmed that the forecasts included advances to the Group's BEE partners to enable the BEE partners to meet their obligations under the BEE Lender Facilities. ▸ We assessed Management's sensitivity analysis performed in respect of key assumptions underpinning the forecasts and confirmed that the available facilities remained undrawn under those scenarios. We performed our own sensitivities in respect of diamond pricing, production and foreign exchange rates. ▸ We confirmed the repayment of the senior secured lender facilities in July 2018 and obtained a copy of the covenant waiver received from the Lender group in respect of the received as part of the Rights Issue for the 30 June 2018 covenants. ▸ We recalculated Management's covenant compliance calculations and forecast covenant compliance calculations and assessed the consistency of such calculations with the ratios stated in the relevant lender agreements. ▸ We reviewed the disclosures in note 1.1 to the Financial Statements in respect of going concern.	We found Management's forecasts and key underlying assumptions to be within an acceptable range and that the forecasts demonstrated liquidity headroom without the need to use the available facilities under the base case and reasonable sensitivity scenarios. We found the disclosures included in the Financial Statements in respect of going concern to be appropriate including the description of principal risks and sensitivities.

5. Our application of materiality

The materiality we applied equates to 0.5% (FY 2017: 0.7%) of the total assets of the Group and represents 1.6% (FY 2017: 2.2%) of total equity and 4.9% (FY 2017: 8.9%) of adjusted EBITDA. We consider total assets to be an appropriate basis for materiality given the Group's stage of development and in particular the strategic focus on capital expansion programmes.

Whilst materiality for the Financial Statements as a whole was US$9.5 million (FY 2017: US$14.0 million), each significant component of the Group was audited to a lower materiality as detailed in the Overview section.

We agreed with the Audit Committee that we would report to them all individual audit differences identified during the course of our audit in excess of US$0.25 million (FY 2017: US$0.32 million). We also agreed to report differences below that threshold that, in our view, warranted reporting on qualitative grounds.

6. An overview of the scope of our audit

Whilst Petra Diamonds Limited is a London Stock Exchange listed company, the Group's operating mines are located in South Africa and Tanzania. We assessed there to be six significant components being the Finsch, Cullinan, and Koffiefontein and KEM JV operations in South Africa, the Williamson mine in Tanzania and the Group's head office function.

Full scope audits for Group reporting purposes were performed on the four significant South African reporting components by BDO in South Africa. The BDO firm in South Africa also performed audits on the South African non-significant components for Group reporting purposes. A full scope audit of the one significant component in Tanzania was performed by a non-BDO firm in Tanzania. The Group audit team performed an audit of Petra Diamonds Limited as a standalone entity, along with the audit of the significant head office component, and the consolidation.

The combined effect of the component audits performed to component level materiality levels for the purpose of the Group audit opinion covered:

	Total assets	Revenue	Profit before tax
	98%	100%	99%

The remaining non-significant holding companies were principally subject to analytical review procedures.

As part of our audit strategy, as Group auditors:

- Detailed Group reporting instructions were sent to the component auditors, which included the significant areas to be covered by the audits (including areas that were considered to be key audit matters as detailed above), and set out the information required to be reported to the Group audit team.
- The Group audit team performed procedures independently over key audit risk areas, as considered necessary, including the key audit matters above.
- Members of the Group audit team were physically present in South Africa and Tanzania at certain times during the planning and fieldwork phases of the audits.
- The Group audit team was actively involved in the direction of the audits performed by the component auditors for Group reporting purposes, along with the consideration of findings and determination of conclusions drawn.
- The Responsible Individual or his representative in the Group audit team visited four of the operating mines, attended clearance meetings for all significant components and spent significant periods of time with the component auditors responsible for the significant components during their fieldwork and completion phases.
- We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.
- Our tests included, but were not limited to, agreement of the Financial Statement disclosures to underlying supporting documentation, review of correspondence with regulators, review of correspondence with legal advisers, enquiries of Management, review of significant component auditors' working papers and review of internal audit reports in so far as they related to the Financial Statements. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the Financial Statements, the less likely we would become aware of it.
- We also addressed the risk of Management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Independent Auditors' Report

To the members of Petra Diamonds Limited continued

7. Conclusions relating to principal risks, going concern and viability statement

Notwithstanding the matters relating to going concern set out in the Key audit matters section of this report we have nothing to report in respect of the Directors' statement set out on pages 119 and 120 in the Financial Statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group's use of the going concern basis for period of at least 12 months from the date of approval of the Financial Statements.

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report set out on pages 80 to 87 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 79 in the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on pages 119 and 120 in the Financial Statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the Financial Statements and the Directors' identification of any material uncertainties to the Group's ability to continue to do so over a period of at least 12 months from the date of approval of the Financial Statements; or
- the Directors' explanation set out on page 79 in the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

8. Other information in the Annual Report set out on pages 1 to 103 and 167 to 186

The Directors are responsible for the other information. Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **fair, balanced and understandable set out on page 74** – the statement given by the Directors that they consider the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting set out on pages 72 to 78** – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 62** – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditors in accordance with the Listing Rules do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

9. Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 106, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, 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.

In preparing the Financial Statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

10. Auditors' responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditors' Report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

A further description of our responsibilities for the audit of the Financial Statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditors' Report.

11. Other matters

Following the recommendation of the Audit Committee, we were appointed to audit the Financial Statements for the year ending 30 June 2006 and subsequent financial periods. The period of total uninterrupted engagement is 13 years, covering the years ending 30 June 2006 to 30 June 2018.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company and we remain independent of the Group and the parent company in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit Committee.

12. Use of our report

Our audit work has been undertaken so that we might state to the parent company's members those matters we are required to state to them in an Auditors' Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the parent company and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scott Knight (Senior Statutory Auditors)
For and on behalf of BDO LLP, Statutory Auditor
London
12 October 2018

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 2018

US$ million	Notes	2018	2017[1]
Revenue	2	**495.3**	394.8
Mining and processing costs	3	**(418.6)**	(305.1)
Other direct income	4	**1.2**	1.7
Exploration expenditure	5	**(0.7)**	(0.8)
Corporate expenditure	6	**(10.4)**	(11.2)
Impairment – Koffiefontein	8	**(66.0)**	—
Total operating costs		**(494.5)**	(315.4)
Financial income	9	**8.5**	11.4
Financial expense	9	**(94.3)**	(47.8)
(Loss)/profit before tax		**(85.0)**	43.0
Income tax charge	10	**(13.8)**	(26.9)
(Loss)/profit for the year from continuing operations		**(98.8)**	16.1
(Loss)/profit on discontinued operations including associated impairment charges (net of tax)	35	**(104.3)**	4.6
(Loss)/profit for the Year		**(203.1)**	20.7
(Loss)/profit for the Year attributable to:			
Equity holders of the parent company		**(166.9)**	18.3
Non-controlling interest		**(36.2)**	2.4
		(203.1)	20.7
Earnings per share attributable to the equity holders of the parent during the Year			
From continuing operations:			
Basic (loss)/profit per share – US$ cents	12	**(15.85)**	3.14
Diluted (loss)/profit per share – US$ cents	12	**(15.85)**	3.11
From continuing and discontinued operations:			
Basic (loss)/profit – US$ cents	12	**(31.29)**	3.14
Diluted (loss)/profit – US$ cents	12	**(31.29)**	3.11

1 Comparative results have been amended to reflect the results of the KEM JV within the loss on discontinued operations (net of tax) as per the requirements of IFRS 5 (refer to Note 35).

The notes on pages 119 to 166 form part of these Financial Statements.

Consolidated Statement of Other Comprehensive Income

For the Year ended 30 June 2018

US$ million	2018	2017
(Loss)/profit for the Year	**(203.1)**	20.7
Exchange differences on translation of the share-based payment reserve	**1.3**	(0.4)
Exchange differences on translation of foreign operations[1,2]	**(41.3)**	68.7
Exchange differences on non-controlling interest[1]	**(5.3)**	9.3
Total comprehensive (expense)/income for the Year	**(248.4)**	98.3
Total comprehensive (expense)/income for the Year attributable to:		
Equity holders of the parent company	**(206.9)**	86.6
Non-controlling interest	**(41.5)**	11.7
	(248.4)	98.3

1. Exchange differences arising on translation of foreign operations and non-controlling interest will be reclassified to profit and loss if specific future conditions are met.
2. The Company has disclosed the net assets of the KEM JV under non-current assets held for sale and liabilities directly associated with non-current assets held for sale in the Statement of Financial Position. Upon completion of the transaction, amounts included in the foreign currency translation reserve of US$4.5 million in relation to KEM JV will be reclassified to the Consolidated Income Statement and subject to the terms and structure of the final disposal, the non-controlling interest will be removed.

The notes on pages 119 to 166 form part of these Financial Statements.

Consolidated Statement of Financial Position
At 30 June 2018

US$ million	Notes	2018	2017
ASSETS			
Non-current assets			
Property, plant and equipment	14	**1,244.2**	1,441.3
Deferred tax assets	24	**—**	5.9
BEE loans receivable	15	**64.7**	35.0
Other receivables	17	**20.3**	17.8
Total non-current assets		**1,329.2**	1,500.0
Current assets			
Trade and other receivables	17	**99.4**	75.5
Inventories	18	**78.1**	75.6
Cash and cash equivalents (including restricted amounts)	19	**236.0**	203.7
Total current assets		**413.5**	354.8
Non-current assets classified as held for sale	35	**46.5**	—
Total assets		**1,789.2**	1,854.8
EQUITY AND LIABILITIES			
Equity			
Share capital	20	**133.4**	89.6
Share premium account	20	**790.2**	666.0
Foreign currency translation reserve	20	**(344.7)**	(303.4)
Share-based payment reserve	20	**7.7**	12.8
Other reserves	20	**(0.8)**	(0.8)
(Accumulated losses)/retained earnings	20	**(30.4)**	129.5
Attributable to equity holders of the parent company		**555.4**	593.7
Non-controlling interests	16	**11.2**	52.7
Total equity		**566.6**	646.4
Liabilities			
Non-current liabilities			
Loans and borrowings	21	**601.2**	598.5
BEE loans payable	15	**110.5**	99.5
Provisions	23	**59.5**	72.0
Deferred tax liabilities	24	**139.2**	143.1
Total non-current liabilities		**910.4**	913.1
Current liabilities			
Loans and borrowings	21	**153.6**	158.6
Trade and other payables	22	**130.8**	136.7
Total current liabilities		**284.4**	295.3
Liabilities directly associated with non-current assets classified as held for sale	35	**27.8**	—
Total liabilities		**1,222.6**	1,208.4
Total equity and liabilities		**1,789.2**	1,854.8

The notes on pages 119 to 166 form part of the Financial Statements.

The Financial Statements were approved and authorised for issue by the Directors on 12 October 2018.

Consolidated Statement of Cashflows

For the Year ended 30 June 2018

US$ million	Notes	2018	2017
(Loss)/profit before taxation for the Year from continuing and discontinued operations		**(183.2)**	46.5
Depreciation of property, plant and equipment		**135.7**	79.6
Impairment charge	8	**66.0**	
Impairment charge in relation to discontinued operation	35	**92.7**	
Movement in provisions		**(3.0)**	(0.6)
Fair value uplift on Kimberley Ekapa Mining Joint Venture		**—**	(4.1)
Financial income	9	**(8.9)**	(14.2)
Financial expense	9	**95.6**	49.5
Profit on sale of property, plant and equipment		**—**	(0.3)
Share-based payment provision		**0.6**	0.2
Operating profit before working capital changes		**195.5**	156.6
(Increase)/decrease in trade and other receivables		**(76.8)**	18.5
Increase/(decrease) in trade and other payables		**14.2**	(5.4)
Increase in inventories		**(18.8)**	(9.5)
Cash generated from operations		**114.1**	160.2
Net realised foreign exchange gains/(losses) on foreign exchange contracts		**0.2**	(3.8)
Finance expense		**(38.9)**	(3.9)
Income tax paid		**(7.5)**	—
Net cash generated from operating activities		**67.9**	152.5
Cashflows from investing activities			
Acquisition of property, plant and equipment (including capitalised cash interest paid of US$13.3 million (30 June 2017: US$34.7 million))		**(175.4)**	(282.9)
Proceeds from sale of property, plant and equipment		**0.6**	0.9
Loans advanced to BEE Partners		**(31.0)**	(12.9)
Repayment of loans from BEE Partners		**—**	0.5
Finance income		**3.9**	1.8
Net cash utilised in investing activities		**(201.9)**	(292.6)
Cashflows from financing activities			
Proceeds from the issuance of share capital (net of cash issue costs paid of US$6.5 million (30 June 2017: US$nil))		**166.9**	1.1
Increase in borrowings (net of bond issue costs of US$nil (30 June 2017: US$12.6 million))		**35.6**	798.8
Repayment of borrowings (including bond redemption premium of US$nil (30 June 2017: US$15.0 million))		**(32.8)**	(508.8)
Net cash generated by financing activities		**169.7**	291.1
Net increase in cash and cash equivalents		**35.7**	151.0
Cash and cash equivalents at the beginning of the Year		**190.2**	36.7
Effect of exchange rate fluctuations on cash held		**(2.9)**	2.5
Cash and cash equivalents at the end of the Year[1]	19	**223.0**	190.2

1. Cash and cash equivalents in the Consolidated Statement of Financial Position includes restricted cash of US$14.4 million (30 June 2017: US$13.5 million) and unrestricted cash of US$221.6 million (30 June 2017: US$190.2 million) and excludes unrestricted cash attributable to KEM JV of US$1.4 million (refer to note 35).

The cashflows specific to the discontinued operation (net of tax) are included in the amounts above and are disclosed in note 35.

Notes to the Consolidated Statement of Cashflows are set out in note 28.

The notes on pages 119 to 166 form part of the Financial Statements.

Consolidated Statement of Changes in Equity

For the Year ended 30 June 2018

US$ million	Share capital	Share premium account	Foreign currency translation reserve	Share-based payment reserve	Other reserves	(Accumulated losses) /retained earnings	Attributable to the parent	Non-controlling interest	Total equity
At 1 July 2017	89.6	666.0	(303.4)	12.8	(0.8)	129.5	593.7	52.7	646.4
Loss for the Year	—	—	—	—	—	(166.9)	(166.9)	(36.2)	(203.1)
Other comprehensive income/(expense)	—	—	(41.3)	1.3	—	—	(40.0)	(5.3)	(45.3)
Transfer between reserves for exercise of options	—	—	—	(7.0)	—	7.0	—	—	—
Equity-settled share-based payments	—	—	—	0.6	—	—	0.6	—	0.6
Allotments during the Year:									
Ordinary shares – Rights Issue (net of US$7.4 million issue costs)	43.7	124.1	—	—	—	—	167.8	—	167.8
Share options exercised	0.1	0.1	—	—	—	—	0.2	—	0.2
At 30 June 2018	**133.4**	**790.2**	**(344.7)**	**7.7**	**(0.8)**	**(30.4)**	**555.4**	**11.2**	**566.6**

US$ million	Share capital	Share premium account	Foreign currency translation reserve	Share-based payment reserve	Other reserves	Retained earnings	Attributable to the parent	Non-controlling interest	Total equity
At 1 July 2016	88.6	665.2	(372.1)	14.4	(0.8)	109.1	504.4	42.4	546.8
Profit for the Year	—	—	—	—	—	18.3	18.3	2.4	20.7
Non-controlling interest acquired	—	—	—	—	—	1.4	1.4	(1.4)	—
Other comprehensive income/(expense)	—	—	68.7	(0.4)	—	—	68.3	9.3	77.6
Transfer between reserves for exercise of options	—	—	—	(0.7)	—	0.7	—	—	—
Equity-settled share-based payments	—	—	—	0.2	—	—	0.2	—	0.2
Allotments during the Year:									
– Share options exercised	0.3	0.8	—	—	—	—	1.1	—	1.1
– LTSP share grants	0.7	—	—	(0.7)	—	—	—	—	—
At 30 June 2017	89.6	666.0	(303.4)	12.8	(0.8)	129.5	593.7	52.7	646.4

The notes on pages 119 to 166 form part of these Financial Statements.

Notes to the Annual Financial Statements

For the Year ended 30 June 2018

1. Accounting policies

Petra Diamonds Limited ("Petra" or "the Company"), a limited liability company listed on the Main Market of the London Stock Exchange, is registered in Bermuda and domiciled in the United Kingdom. The Company's registered address is 2 Church Street, Hamilton, Bermuda. The Financial Statements incorporate the principal accounting policies set out below and in the subsequent notes to these Financial Statements, which are consistent with those adopted in the previous year's Financial Statements, apart from the accounting policy relevant to non-current assets held for sale and discontinued operations as per note 35.

1.1 Basis of preparation

The Financial Statements of the Company and its subsidiaries, jointly controlled operations and associates ("the Group") are prepared in accordance with International Financial Reporting Standards ("IFRS") (IFRS and IFRIC interpretations) issued by the International Accounting Standards Board ("IASB"), as adopted by the European Union.

Going concern

Background

The Company's results for the Year were adversely impacted due to the impairments at Koffiefontein and KEM JV at the end of H1 FY 2018, strike action at Petra's South African operations (except Cullinan) in Q1 FY 2018, the Williamson parcel which remains blocked for export and therefore unsold, and the delays in ramp-up of projects at Cullinan and Finsch.

As announced on 9 October 2017, the Group highlighted that it was due to breach its EBITDA maintenance covenant measurements related to its senior debt facilities for the period ending, and as at, 31 December 2017. A waiver was received for the 31 December 2017 measurement period after calendar year end from the Company's lender group (comprising Absa Bank Limited (acting through its Corporate and Investment Banking division), FirstRand Bank Limited (acting through its Rand Merchant Bank division), Investec Asset Management Proprietary Limited and Nedbank Limited (acting through its Corporate and Investment Banking division) (together, "the Lender group"), coupled with the following:

- an increase of 1% in the interest rate charged on the banking facilities in the event that the Company's consolidated net debt is greater than 2.5x but less than 3x consolidated EBITDA; and
- an increase of 2% in the interest rate charged on the banking facilities in the event that the Company's consolidated net debt exceeds or is equal to 3x consolidated EBITDA.

This applied retrospectively to the six-month period ending 30 June 2018 and six monthly thereafter. Covenants for the 30 June 2018, 31 December 2018 and 30 June 2019 measurement periods with reference to the Group's forecasts at the date of this report are outlined below:

Covenant	30 June and 31 December 2018	30 June 2019
Consolidated net debt to consolidated EBITDA	Not more than 3.5x	Not more than 2.5x
Consolidated EBITDA to consolidated net finance charges	Not less than 3.0x	Not less than 4.0x

During May 2018, as part of the Rights Issue process, a written undertaking was received from the Lender group for the waiver of the 30 June 2018 covenant measurement.

The Group's bank debt covenants are set out on page 174.

Forecasts and associated risks

The following have been key considerations for the Board during the Year and to the date of this report:

- the ongoing roll-out and ramp-up of the Group's expansion projects, specifically the new Cullinan plant and C-Cut and the Finsch SLC;
- the initial production results from the Cullinan plant, and the resultant impact on value and grade expectations (which remain subject to the ongoing plant optimisation);
- the impact of the Rand volatility on both liquidity and financial results;
- the production shortfalls at Koffiefontein;
- the impact of labour disruptions at the Group's South African mines (excluding Cullinan); and
- the uncertainty surrounding the outlook for sale of the blocked Williamson parcel.

To address the above forecasts, associated risks, future operational cashflows to be used to service debt repayments and potential future covenant breaches, the Company raised funds in the form of a 5 for 8 Rights Issue, wherein the Company issued 332,821,725 ordinary shares to shareholders at 40 pence. Post the Year end, the proceeds of the Rights Issue were used to repay the revolving credit and working capital facilities due to the Group's Lender group, although these facilities were not cancelled and remain available.

The Board has reviewed the Group's forecasts and sensitivities for a period of at least 12 months from the date of this report, including both forecast cashflows and covenants. In doing so, careful consideration was given to potential risks to the forecasts, including the matters above as applicable, with scenarios subsequently assessed for: a) reduced diamond prices; b) reduced value at Cullinan during the ramp up of the C-cut and optimisation of the plant; c) potential volatility in the Rand; or d) increased operating costs.

The forecasts indicate that the Group retains sufficient liquidity from existing cash resources and operating cashflows, without the need to utilise existing facilities, to meet its liabilities as they fall due under the forecasts and reasonably possible sensitivities. Under the base case, the Company forecasts to maintain headroom against its financial covenants going forward. Base case forecasts assume an average exchange rate of ZAR13.40:US$1 but excludes the proceeds from the sale of the blocked Williamson parcel during the forecast period.

Notes to the Annual Financial Statements

For the Year ended 30 June 2018 continued

1. Accounting policies continued

1.1 Basis of preparation continued

Going concern continued

Conclusion

The Board is cognisant of the scope and significance of the projects undertaken to date, and the ongoing risks around ramp-up and commissioning, coupled with the significant debt financing that has been required to accompany this transformational expansion programme alongside the macro-economic factors relating to the industry.

However, subsequent to the receipt of the Rights Issue proceeds, with the Cullinan plant having achieved nameplate capacity, and Cullinan's C-Cut and Finsch's SLC in place and ramping up, the Board is of the opinion that the fundamental business plan of the Group is intact, given that the operations will be mining the majority of their ROM tonnes from new, undiluted areas from FY 2019 onwards.

Based on this, alongside the Group's existing cash resources and facilities, the Board remains satisfied that the liquidity headroom remains adequate under the Group's current base case and reasonable sensitivities. Furthermore, the Board recognises the Company has some ability to preserve cash should it be required in the short term (for example, by deferring non-essential cash payments, maintaining very tight control over costs and overheads, and potentially deferring certain elements of its capital expenditure that are not essential to the current ramp-up plans).

Accordingly, the Board has concluded that the going concern basis in the preparation of the unaudited condensed preliminary financial statements remains appropriate and that there are no material uncertainties that would cast doubt on that basis of preparation.

Currency reporting

The functional currency of the Company is Pounds Sterling (GBP). The functional currency of the Group's business transactions in Botswana is Botswana Pula (BWP) and Tanzania is US Dollars (US$). The functional currency of the South African operations is South African Rand (ZAR or R). The Group Financial Statements are presented in US Dollars (US$). ZAR balances are translated to US Dollars at ZAR13.73 as at 30 June 2018 (30 June 2017: ZAR13.05) and at an average rate of ZAR12.86 for transactions during the Year ended 30 June 2018 (30 June 2017: ZAR13.59).

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 recorded in the Consolidated Statement of Other Comprehensive Income and recycled to the Consolidated Income Statement on disposal of the foreign entity.

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. Such unrealised gains and losses are recycled through the Consolidated Income Statement on disposal of the Group's shares in the entity.

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.

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 is included in share capital and share premium at the prevailing US$/GBP spot rate at the date of the transaction.

Significant judgements and estimates relevant to the basis of preparation

Net investments in foreign operations

Management assesses the extent to which intra-group loans to foreign operations that give rise to unrealised foreign exchange gains and losses are considered to be permanent as equity or repayable in the foreseeable future. The judgement is based upon factors including the life of mine ("LOM") plans, cashflow forecasts and strategic plans. The foreign exchange on permanent as equity loans is recorded in the foreign currency translation reserve until such time as the operation is sold, whilst the foreign exchange on loans repayable in the foreseeable future are recorded in the Consolidated Income Statement.

1.2 Basis of consolidation

Subsidiaries

Subsidiaries are those entities over whose financial and operating policies the Group has the power to exercise control. Control is achieved where the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. 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 date control ceases. Where necessary, the accounting policies of subsidiaries are changed to ensure consistency with the policies adopted by the Group.

1. Accounting policies continued

1.2 Basis of consolidation continued

Subsidiaries continued

Subsidiaries are deconsolidated from the date control ceases. The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholders' proportionate share of the acquiree's identifiable net assets (after any relevant fair value adjustments to the assets, liabilities and contingent liabilities recognised as part of the business combination).

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

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 are eliminated to the extent of the Group's interest in the enterprises and 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.

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 shareholders' share of changes in equity since the date of the combination. The non-controlling interests' share of losses, where applicable, is 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.

Joint arrangements

The Group is a party to a joint arrangement when there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to the Group and at least one other party. The Group classifies its interests in joint arrangements as jointly controlled operations where the Group has the rights to both assets and obligations for the liabilities of the joint arrangement. In assessing the classification of interests in joint arrangements, the Group considers the structure of the arrangement, the legal form and the contractual agreements between the parties.

The Group accounts for its interests in joint operations by recognising its share of assets, liabilities, revenues and expenses in accordance with its contractually conferred rights and obligations (refer to note 30 for further details).

1.3 Key estimates 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. 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 in the relevant sections of this report and summarised as follows:

Key estimate or judgement	Note
Net investments in foreign operations judgements	1.1
Life of mine and ore reserves and resources estimates and judgements	8
Impairment review estimates and judgements	8
Capitalisation of borrowing costs judgements	9 and 14
Depreciation judgements	14
BEE guarantee	15
Recoverbility of VAT in Tanzania	17
Inventory stockpile and recoverability of confiscated diamond parcel in Tanzania	18
Provision for rehabilitation estimates	23
Kimberley Ekapa Mining Joint Venture – 30 June 2017	30
Pension scheme estimates	31
Post-retirement medical fund estimates	32
Non-current assets held for sale and discontinued operations	35

1.4 New standards and interpretations applied

The IASB has issued no new standards, amendments to published standards or interpretations to existing standards with effective dates on or prior to 1 July 2017 which have a material effect on the Group, although an amendment to IAS 7 "Statement of Cash Flows" has resulted in a reconciliation of liabilities disclosed for the first time in note 28.

Notes to the Annual Financial Statements
For the Year ended 30 June 2018 continued

1. Accounting policies continued
1.4 New standards and interpretations applied continued
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 on, or after 1 July 2018 or in later periods, which the Group has decided not to adopt early.

		Effective period commencing on or after
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Leases	1 January 2019

The only standards which are anticipated to be significant or relevant to the Group are:

IFRS 15 "Revenue from Contracts with Customers"

The Group is required to apply IFRS 15 for annual reporting periods beginning on or after 1 January 2018. Management has assessed the core principle of IFRS 15, that the Group will recognise revenue to depict the transfer of promised diamond sales to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for the diamond sales.

Diamonds sales are made through a competitive tender process. Diamond sales are recognised when significant risks and rewards of ownership are transferred to the buyer, costs can be reliably measured and receipt of tender proceeds is probable – this is deemed to be the point at which the tender is awarded. The Group has reviewed the terms and conditions of the current tender contract entered into with each of the buyers and is satisfied that, based on the terms of the current contracts, there is no change to the timing of revenue recognition on tender sales under IFRS 15.

Where the Group makes rough diamond sales to customers and retains a vested right in the future sale of the polished diamond, the Group will record such revenue only at the date when the polished diamond is sold (and only its interest therein). The Group has reviewed the terms and conditions of its current contracts pertaining to such scenarios and is satisfied that there is no change, based on the terms of the current contracts, to the timing of revenue recognition on such sales under IFRS 15.

IFRS 16 "Leases"

The Group is required to apply IFRS 16 for annual reporting periods beginning on or after 1 January 2019. IFRS 16 introduces a single lease accounting model. This standard requires lessees to account for all leases under a single on-balance sheet model. Under the new standard, a lessee is required to recognise all lease assets and liabilities on the balance sheet; recognise amortisation of leased assets and interest on lease liabilities over the lease term; and separately present the principal amount of cash paid and interest in the cashflow statement. The requirements of IFRS 16 extend to certain service contracts, such as mining contractors in which the contractor provides services, and the use of assets, which may impact the Group. Accordingly, the Group is performing a review of relevant contracts to complete an impact assessment.

IFRS 9 "Financial Instruments"

IFRS 9 "Financial Instruments" addresses the classification and measurement of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income (OCI) and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cashflow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. There is now a new expected credit loss model that replaces the incurred loss impairment model used in IAS 39. It is noted that VAT receivables are outside the scope of this standard. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. The impact of IFRS 9 will be largely affected by the Group's hedge accounting policies in place together with the assessment of expected credit losses on financial assets such as the BEE trade receivables. The Group is finalising its assessment; however, Management does not expect IFRS 9 to have a material impact.

2. Revenue
Significant accounting policies relevant to 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. Where the Group makes rough diamond sales to customers and also retains a right to an interest in their future sale as polished diamonds, the Group records the sale of the rough diamonds but such contingent revenue on the onward sale is only recognised at the date when the polished diamonds are sold.

Revenue from test production on projects pending formal commissioning is credited to revenue and an attributable amount associated with generating the revenue is charged to cost of sales.

US$ million	**2018**	Restated 2017
Revenue from diamond sales	**495.3**	394.8

3. Mining and processing costs

Refer to notes 11, 14, 18, and 26 for the Group's policies, relevant to the significant cost lines below, on employment costs, depreciation, inventories, share-based payments and related key judgements and estimates.

US$ million	2018	Restated 2017
Raw materials and consumables used	**152.2**	131.9
Employee expenses (including share-based payments)	**134.5**	114.4
Depreciation of mining assets	**127.2**	62.3
Diamond royalty	**14.2**	4.6
Changes in inventory of finished goods and stockpiles	**(9.5)**	(1.7)
	418.6	305.1

4. Other direct income

US$ million	2018	Restated 2017
Profit on disposal of fixed assets	**—**	(0.3)
Other mining income	**(1.2)**	(1.4)
	(1.2)	(1.7)

5. Exploration expenditure

Exploration costs relate to the Company's exploration activities in Botswana and are written off in the year in which they are incurred.

US$ million	2018	2017
Direct exploration costs	**0.2**	0.4
Employee expenses	**0.4**	0.3
Depreciation of exploration assets	**0.1**	0.1
	0.7	0.8

6. Corporate expenditure

Corporate expenditure includes:

US$ million	2018	2017
Depreciation of property, plant and equipment	**0.7**	0.8
London Stock Exchange and other regulatory expenses	**1.4**	1.1
Share-based expense – Directors	**0.6**	(0.3)
Salaries and other staff costs	**3.6**	3.8
Total staff costs	**4.2**	3.5

7. Auditors' remuneration

US$ million	2018	2017
Audit services[1]	**0.9**	0.9
Audit-related assurance services[2]	**0.4**	0.4
Total	**1.3**	1.3

1. Audit services are in respect of audit fees for the Group.
2. Audit-related services are in respect of the interim review (US$0.1 million) (FY 2017: US$0.1 million) plus services in respect of the issuance of comfort letters in respect of the Rights Issue (FY 2017: services in respect of the issuance of comfort letters in respect of the issue of the US$650 million loan notes), which were capitalised to share premium (US$0.4 million) (FY 2017: US$0.3 million) capitalised under non-current loans and borrowings).

Notes to the Annual Financial Statements
For the Year ended 30 June 2018 continued

8. Impairment of operational assets and investments

Significant accounting policies relevant to 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 fair value less cost to sell 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. The LOM plan for each mine is the approved management plan at the reporting date for ore extraction and its associated capital expenditure. The capital expenditure included in the impairment model does not include capital expenditure to enhance the asset performance outside of the existing LOM plan. The ore tonnes included in the Resource Statement, which Management considers economically viable, often includes ore tonnes in excess of those used in the LOM model and therefore the impairment test.

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. Each mine represents a separate cash-generating unit. An impairment loss is recognised in the Consolidated Income Statement whenever the carrying amount of the cash-generating unit exceeds its recoverable amount.

Significant judgements and estimates relevant to impairment

Life of mine and ore reserves/resources

There are numerous risks inherent in estimating ore reserves and resources and the associated current LOM plan. The LOM plan for each mine is the current approved management plan for ore extraction that considers specific ore reserves and resources and associated capital expenditure. The LOM plan frequently includes fewer tonnes than the total reserves and resources that are set out in the Group's Resource Statement and which Management may consider to be economically viable and capable of future extraction.

Management must make a number of assumptions when making estimates of reserves and resources, including assumptions as to exchange rates, rough diamond and other commodity prices, extraction costs and recovery and production rates. Any such estimates and assumptions may change as new information becomes available. Changes in exchange rates, rough diamond and commodity prices, extraction and recovery costs and production rates may change the economic viability of ore reserves and resources and may ultimately result in the restatement of the ore reserves and resources and potential impairment to the carrying value of the mining assets and LOM.

The current LOM plans are used to determine the ore tonnes and capital expenditure in the impairment tests.

Ore reserves and resources, both those included in the LOM and certain additional tonnes contained within the Group's Resource Statement which form part of reserves and resources considered to be sufficiently certain and economically viable, also impact the depreciation of mining assets depreciated on a units-of-production basis (refer to note 14). Ore reserves and resources further impact the estimated date of decommissioning and rehabilitation (refer to note 23).

Impairment reviews

While conducting an impairment review of its assets using value in use impairment models, the Group exercises judgement in making assumptions about future exchange rates, rough diamond prices, contribution from Exceptional Diamonds, volumes of production, ore reserves and resources included in the current LOM plans, feasibility studies, future development and production costs and macro-economic factors such as inflation and discount rates. Changes in estimates used can result in significant changes to the Consolidated Income Statement and the Consolidated Statement of Financial Position. The key inputs and sensitivities are detailed on pages 125 and 126.

30 June 2018

During the year ended 30 June 2018, the Group reviewed the carrying value of its investments and operational assets for indicators of impairment. Given the recent production volumes and costs, as well as engineering and pricing challenges, indicators of impairment were deemed to exist at Koffiefontein and KEM JV. Whilst conducting an impairment review of the Koffiefontein assets using a value in use impairment model, the Group exercises judgement in making assumptions about future exchange rates, rough diamond prices, volumes of production, ore reserves and resources included in the current life of mine ("LOM") plans, feasibility studies, future development and production costs and macro-economic factors such as inflation and discount rates. Impairment of property, plant and equipment was considered appropriate given the outcome of the impairment review exercise and the Group recognised a Consolidated Income Statement charge of US$66.0 million, being management's estimate of value in use of the Koffiefontein assets. Details of the impairment test assessments for Koffiefontein are shown in note 8.1.

For impairment considerations at KEM JV refer to note 35.

30 June 2017

No operations were impaired during the period ending 30 June 2017.

8. Impairment of operational assets and investments continued

8.1 Impairment testing assumptions

(a) Impaired continuing operations

Koffiefontein

The key assumptions used in the Koffiefontein impairment review are set out in the table below:

Key assumptions	Explanation
LOM and recoverable value of reserves and resources	Economically recoverable reserves and resources are based on Management's expectations on the availability of reserves and resources at Koffiefontein and technical studies undertaken in house and by third party specialists. Resources remaining after the current LOM plans have not been included in impairment testing for the operations.
LOM – capital expenditure	Management has estimated the timing and quantum of the capital expenditure based on Koffiefontein's current LOM plans. There is no inclusion of capital expenditure to enhance the asset beyond exploitation of the LOM plan orebody.
Diamond prices	Diamond prices of US$543 per carat in FY 2019 rising to US$573 per carat in FY 2020 (reflecting product mix and a short-term price escalator) used in the impairment test have been set with reference to recent achieved pricing and market trends, product mix as a result of increased undiluted ore, increased volumes and diamond price escalators. Diamond prices are increased at a long-term diamond price escalator reflecting the Group's assessment of market supply/demand fundamentals post FY 2019 of 3.0% (30 June 2017: 4.0%) above a long-term US inflation rate of 2.5% (30 June 2017: 2.5%).
Discount rate	A discount rate of 8.5% was used and was calculated based on a nominal weighted cost of capital including the effect of factors such as market risk and country risk as at the Year end.
ROM	An increase in ROM throughput of 76% for FY 2019 which takes account of the completion of the SLC expansion project. The steady-state ore production has been reduced to reflect a more conservative outlook compared to earlier guidance.
Cost inflation rate	Long-term South African inflation rate of 7.5% (30 June 2017: 7.5%) was used for Opex and Capex escalators.
Exchange rates	Exchange rates are estimated based on an assessment of current market fundamentals and long-term expectations. The US$/ZAR exchange rate range used commenced at ZAR12.75 (30 June 2017: ZAR13.25), further devaluing at 3.9% (30 June 2017: 3.5%) per annum for a period of three years, reverting to 3.4% per annum thereafter.
Valuation basis	Discounted present value of future cashflows.

Sensitivity analysis

The impairment charge recognised has been calculated on the basis of management's best estimates; however, any adverse change in any of the above assumptions would lead to an additional impairment charge. At Koffiefontein, Management considers that future development of new areas below the current SLC, increased production and expansion capital, exchange rates and diamond prices are the most sensitive assumptions. For example, a 5% reduction in carat production would result in a further impairment of US$20 million, a 5% strengthening of the South African Rand to the US Dollar would result in a further impairment of US$20 million, a 5% reduction in diamond prices would result in a further impairment of US$20 million and a 5% increase in operating costs would result in a further impairment of US$12 million. To address the production sensitivities, Management is currently focusing on increasing the average tonnes per day hoisted and undertaking a detailed Capex review which will also determine whether the Group will access areas below current SLC in the existing LOM plan; the outcomes of such reviews will be assessed once completed.

Detail of the impairment assessment is shown below.

Impairment (US$ million)	Asset class	Carrying value pre impairment	Impairment	Carrying value post impairment
Koffiefontein	Property, plant & equipment	118.2	(66.0)	52.2

Notes to the Annual Financial Statements

For the Year ended 30 June 2018 continued

8. Impairment of operational assets and investments continued

8.1 Impairment testing assumptions continued

(b) Non-impaired continuing operations

The Group performs impairment testing on an annual basis for all operations and when there are potential indicators of impairment. In addition to Koffiefontein, the Group also performed impairment testing for Finsch, Cullinan and Williamson. The results of the impairment testing performed did not indicate any impairments on these 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
LOM and recoverable value of reserves and resources	Economically recoverable reserves and resources are based on Management's expectations based on the availability of reserves and resources at mine sites and technical studies undertaken in house and by third party specialists. Resources remaining after the current LOM plans have not been included in impairment testing for the operations.
LOM – capital expenditure	Management has estimated the timing and quantum of the capital expenditure based on the Group's current LOM plans for each operation. There is no inclusion of capital expenditure to enhance the asset beyond exploitation of the LOM plan orebody.
Diamond prices	The diamond prices used in the impairment test have been set with reference to recent achieved pricing and market trends, and long-term diamond price escalators which reflect the Group's assessment of market supply/demand fundamentals as further guided on pages 18 and 19. A long-term inflation rate of 3.0% (30 June 2017: 4.0%) above a long-term US inflation rate of 2.5% (30 June 2017: 2.5%) per annum was used for US$ diamond prices. Estimates for the contribution of Exceptional Diamonds are determined with reference to historical trends. Contribution for Exceptional Diamonds are included at Cullinan and Williamson.
Discount rate	A discount rate of 8.5% (30 June 2017: 9.0%) was used for the South African operations and 9.0% (30 June 2017: 9.0%) for Williamson. Discount rates calculated based on a nominal weighted cost of capital including the effect of factors such as market risk and country risk as at the Year end.
Cost inflation rate	Long-term inflation rates of 3.5–7.5% (30 June 2017: 3.5–7.5%) above the long-term US$ inflation rate were used for Opex and Capex escalators.
Exchange rates	Exchange rates are estimated based on an assessment of current market fundamentals and long-term expectations. The US$/ZAR exchange rate range used for all South African operations commenced at ZAR12.75 (30 June 2017: ZAR13.25), further devaluing at 3.9% (30 June 2017: 3.5%) per annum for a period of three years, reverting to 3.4% per annum thereafter.
Valuation basis	Discounted present value of future cashflows.

Specific assumptions and sensitivity analysis

South African mines

At Cullinan specific assumptions were made in relation to grade and pricing as production from the C-Cut Phase 1 ramps up and ongoing plant optimisation continues. At Finsch specific assumptions were made in relation to the reduction in certain operation costs such as outsourced services, automation of processes and reduction in processing of tailings and overburden dump material. The impact of applying sensitivities on the key inputs is noted below:

	Finsch headroom %	Cullinan headroom %
Base case headroom	23%	20%
Increase in discount rate by 2%	9%	10%
Reduction in pricing by 5%	8%	11%
Reduction in short-term production by 10%	17%	16%
Increase in Opex by 5%	17%	16%

Williamson – Tanzania

At Williamson, the key judgement is around the recoverability of the VAT receivable under the new legislation effective 20 July 2018. As detailed in note 17, Management considers the VAT to be fully recoverable. However, if the VAT were not to be recoverable the impact would be to reduce the base case headroom from 34% to 10%.

9. Net financing expense

Significant accounting policies relevant to net financial expense

Finance income comprises income from interest and finance-related exchange gains and losses. 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.

Borrowing costs, including any upfront 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. The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale. Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

Other borrowing costs are recognised as an expense in the period in which the borrowing cost is incurred.

Refer to notes 1.1, 14, 23 and 33 for the Group's policy on foreign exchange, borrowing cost capitalisation, unwinding of rehabilitation provisions and derivative instruments together with key estimates and judgements.

US$ million	2018	Restated 2017
Net unrealised foreign exchange gains	—	8.6
Interest received on BEE loans and other receivables	**4.1**	1.1
Interest received bank deposits	**3.5**	1.7
Realised foreign exchange gains on the settlement of foreign loans and forward exchange contracts	**0.9**	—
Financial income	**8.5**	11.4
Gross interest on bank loans and overdrafts	**(62.7)**	(48.0)
Interest on bank loans and overdrafts capitalised	**15.2**	44.1
Net interest expense on bank loans and overdrafts	**(47.5)**	(3.9)
Bond redemption premium and acceleration of unamortised bond costs[1]	—	(22.3)
Other debt finance costs, including BEE loan interest and facility fees	**(16.5)**	(13.9)
Unwinding of present value adjustment for rehabilitation costs	**(4.1)**	(3.8)
Net unrealised foreign exchange losses[2]	**(26.2)**	—
Realised foreign exchange losses on the settlement of foreign loans and forward exchange contracts	—	(3.9)
Financial expense	**(94.3)**	(47.8)
Net financial expense	**(85.8)**	(36.4)

1. During FY 2017, the bond redemption premium and acceleration of unamortised bond costs of US$22.3 million were in respect of costs associated with the refinancing and early redemption of the US$300 million Bond comprising unamortised upfront costs (US$7.3 million previously capitalised) and make-whole premium (US$15.0 million).
2. The Group predominantly enters into hedge contracts where the risk being hedged is the volatility in the South African Rand, Pound Sterling and US Dollar exchange rates affecting the proceeds in South African Rand of the Group's US Dollar denominated diamond tenders. In the event of a capital raising, as was the case with the recent Rights Issue, the Group may also enter into short-dated hedges to facilitate the conversion between functional currencies across the Group as was the case with the settlement of the South African lender facilities out of the Pound Sterling Rights Issue proceeds shortly after Year end. The fair value of the Group's hedges as at 30 June are based on Level 2 mark-to-market valuations performed by the counterparty financial institutions. The contracts are all short dated in nature and mature within the next 12 months. An unrealised loss of US$26.2 million (30 June 2017: US$8.6 million gain) in respect of foreign exchange contracts held at year end was mainly attributable to hedging the proceeds of the Rights Issue and a realised foreign exchange gain of US$0.9 million (30 June 2017: US$3.9 million loss) in respect of foreign exchange contracts closed during the year is included in the net finance and expense amount.

10. Taxation

Significant accounting policies relevant to taxation

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. 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.

Notes to the Annual Financial Statements
For the Year ended 30 June 2018 continued

10. Taxation continued
Significant accounting policies relevant to taxation continued

US$ million	2018	Restated 2017
Current taxation:		
– Current tax charge	**10.5**	1.1
Deferred taxation:		
– Current period (origination and reversal of temporary differences)	**3.3**	25.8
	13.8	26.9
Reconciliation of tax rate:		
– (Loss)/profit before taxation	**(85.0)**	47.1
Tax at South African corporate rate of 28%	**(23.8)**	13.2
Effects of:		
– Tax charge at rates in foreign jurisdictions	**3.1**	(1.2)
– Non-deductible expenses	**46.3**	9.5
– Non-taxable income	**(45.3)**	(16.8)
– Tax losses not recognised	**25.4**	16.3
– Prior year under provision of deferred tax	**8.1**	5.9
Total tax charge	**13.8**	26.9

In the current year there are unrecognised tax losses which increase the current taxation payable totalling US$25.4 million (30 June 2017: US$16.3 million unrecognised tax losses). Tax losses not utilised do not have an expiry period in the country in which they arise, unless the entity ceases to continue trading. Gross tax losses available but not utilised as at 30 June 2018 amount to US$146.6 million (30 June 2017: US$162.0 million) and primarily arise in South Africa and Tanzania; amounts stated provide tax benefit at 28%, being the tax rate in South Africa, and 30%, being the tax rate in Tanzania. Gross other temporary differences as at 30 June 2018 amount to US$18.6 million (30 June 2017: US$65.8 million) and arise in South Africa. There is no taxation arising from items of other comprehensive income and expense.

11. Director and employee remuneration
Significant accounting policies relevant to remuneration
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. Provisions are calculated based on current wage and salary rates.

Refer to note 26 for the Group's policy in respect of share-based payments and related key judgements and estimates.

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

US$ million	2018	2017
Wages and salaries – mining	**134.5**	142.0
Wages and salaries – exploration	**0.4**	0.3
Wages and salaries – administration	**4.2**	3.5
	139.1	145.8

	Number	Number
Number of employees (excluding the Non-Executive Directors and contractors)	**5,497**	5,602

Key Management personnel
Key Management is considered to be the Executive Directors and the Chief Operating Officer (30 June 2017: Key Management comprised the Executive Directors, the Chief Financial Officer and the Chief Technical Officer). Remuneration for the Year for key Management is disclosed in the table below:

US$ million	2018	2017
Salary	**1.5**	2.0
Benefits	**0.1**	0.1
Annual bonus – paid in cash	**0.1**	0.3
Annual bonus – deferred to shares	**0.4**	0.2
Share-based payment charge/(credit)	**0.6**	(0.3)
	2.7	2.3

12. Earnings per share

Significant accounting policies relevant to earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the Year attributable to ordinary equity holders of the parent by the weighted average number of Ordinary Shares outstanding during the Year. Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of Ordinary Shares outstanding during the Year plus the weighted average number of Ordinary Shares that would be issued on conversion of all the dilutive potential Ordinary Shares into Ordinary Shares.

Numerator	Continuing operations 30 June 2018 US$	Discontinued operations 30 June 2018 US$	Total 30 June 2018 US$	(Restated) Continuing operations 30 June 2017 US$	(Restated) Discontinued operations 30 June 2017 US$	(Restated) Total 30 June 2017 US$
(Loss)/profit for the Year attributable to parent	**(84,562,428)**	**(82,312,465)**	**(166,874,893)**	18,315,283	14,914	18,330,197
Denominator	**Shares**	**Shares**	**Shares**	Shares	Shares	Shares
Weighted average number of Ordinary Shares used in basic EPS						
As at 1 July	**531,986,218**	**531,986,218**	**531,986,218**	524,172,967	524,172,967	524,172,967
Effect of shares issued during the Year	**1,248,794**	**1,248,794**	**1,248,794**	4,397,609	4,397,609	4,397,609
Effect of FY 2018 Rights Issue on prior year	**—**	**—**	**—**	53,996,512	53,996,512	53,996,512
As at 30 June	**533,235,012**	**533,235,012**	**533,235,012**	582,567,088	582,567,088	582,567,088
	Shares	**Shares**	**Shares**	Shares	Shares	Shares
Dilutive effect of potential Ordinary Shares	**2,011,279**	**—**	**2,011,279**	5,904,758	—	5,904,758
Weighted average number of Ordinary Shares in issue used in diluted EPS	**535,246,291**	**533,235,012**	**535,246,291**	588,471,846	582,567,088	588,471,846
	US$ cents	**US$ cents**	**US$ cents**	US$ cents	US$ cents	US$ cents
Basic (loss)/profit per share	**(15.85)**	**(15.44)**	**(31.29)**	3.14	—	3.14
Diluted (loss)/profit per share	**(15.85)**	**(15.44)**	**(31.29)**	3.11	—	3.11

Due to the loss for the Year, the diluted loss per share is the same as the basic loss per share. The number of potentially dilutive ordinary shares, in respect of employee share options and Executive Director and Senior Management share award schemes is 2,011,279 (30 June 2017: 5,904,758). These potentially dilutive Ordinary Shares may have a dilutive effect on future earnings per share. There have been no significant post balance sheet changes to the number of options and awards under the share schemes to impact the dilutive number of Ordinary Shares.

The prior year basic and diluted profit per share have been restated and adjusted by the bonus factor of 1.10 to reflect the bonus element of the June 2018 Rights Issue, in accordance with IAS 33 "Earning per Share". Amounts as originally stated were 3.47 cents basic and 3.43 cents dilutive profit per share.

Notes to the Annual Financial Statements

For the Year ended 30 June 2018 continued

13. Adjusted earnings per share (non-GAAP measure)

In order to show earnings per share from operating activities on a consistent basis, an adjusted earnings per share is presented which excludes certain items as set out below. It is emphasised that the adjusted earnings per share is a non-GAAP measure. The Petra Board considers the adjusted earnings per share to better reflect the underlying performance of the Group. The Company's definition of adjusted earnings per share may not be comparable to other similarly titled measures reported by other companies.

	Continuing operations 30 June 2018 US$	**Discontinued operations 30 June 2018 US$**	**Total 30 June 2018 US$**	(Restated) Continuing operations 30 June 2017 US$	(Restated) Discontinued operations 30 June 2017 US$	(Restated) Total 30 June 2017 US$
(Loss)/profit for the Year attributable to parent	**(84,562,428)**	**(82,312,465)**	**(166,874,893)**	18,315,283	14,914	18,330,197
Adjustments:						
Net unrealised foreign exchange losses/(gains)	**26,233,603**	**—**	**26,233,603**	(8,608,330)	(1,299,850)	(9,908,180)
Impairment charge[1]	**54,232,200**	**67,306,108**	**121,538,308**	—	—	—
Taxation charge on reduction of unutilised Capex benefits[1]	**6,736,719**	**—**	**6,736,719**	—	—	—
Kimberley Ekapa Mining JV fair value adjustment	**—**	**—**	**—**	—	(4,140,552)	(4,140,552)
Bond redemption premium and accelerated unamortised bond costs	**—**	**—**	**—**	22,347,670	—	22,347,670
Adjusted (loss)/profit for the Year attributable to parent	**2,640,094**	**(15,006,357)**	**(12,366,263)**	32,054,623	(5,425,488)	26,629,155

1. Portion attributable to equity shareholders of the Company.

13. Adjusted earnings per share (non-GAAP measure) continued

	Continuing operations 30 June 2018 Shares	**Discontinued operations 30 June 2018 Shares**	**Total 30 June 2018 Shares**	(Restated) Continuing operations 30 June 2017 Shares	(Restated) Discontinued operations 30 June 2017 Shares	(Restated) Total 30 June 2017 Shares
Weighted average number of Ordinary Shares used in basic EPS						
As at 1 July	**531,986,218**	**531,986,218**	**531,986,218**	524,172,967	524,172,967	524,172,967
Effect of shares issued during the Year	**1,248,794**	**1,248,794**	**1,248,794**	4,397,609	4,397,609	4,397,609
Effect of FY 2018 Rights Issue on prior Year	**—**	**—**	**—**	53,996,512	53,996,512	53,996,512
As at 30 June	**533,235,012**	**533,235,012**	**533,235,012**	582,567,088	582,567,088	582,567,088

	Shares	**Shares**	**Shares**	Shares	Shares	Shares
Dilutive effect of potential Ordinary Shares	**2,011,279**	**—**	**2,011,279**	5,904,758	—	5,904,758
Weighted average number of Ordinary Shares in issue used in diluted EPS	**535,246,291**	**533,235,012**	**535,246,291**	588,471,846	582,567,088	588,471,846

	US$ cents	**US$ cents**	**US$ cents**	US$ cents	US$ cents	US$ cents
Adjusted basic (loss)/profit per share	**0.50**	**(2.81)**	**(2.32)**	5.50	(0.93)	4.57
Adjusted diluted (loss)/ profit per share	**0.49**	**(2.81)**	**(2.32)**	5.45	(0.93)	4.52

The prior year basic and diluted profit per share have been restated and adjusted by the bonus factor of 1.10 to reflect the bonus element of the June 2018 Rights Issue, in accordance with IAS 33 "Earning per Share". Amounts as originally stated were 5.04 cents basic and 4.98 cents dilutive profit per share.

14. Property, plant and equipment

Significant accounting policies relevant to property, plant and equipment

Capital expenditure

Property, plant and equipment are stated at historical 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. 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. Assets under construction, such as the Group's expansion projects, start to be depreciated once the asset is ready and available for use and commercially viable levels of production are being obtained.

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.

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.

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For the Year ended 30 June 2018 continued

14. Property, plant and equipment continued

Significant accounting policies relevant to property, plant and equipment continued

Stripping costs

Costs associated with the removal of waste overburden at the Group's open cast mine are classified as stripping costs within property, plant and equipment or inventory, depending on whether the works provide access to future ore tonnes in a specific orebody section or generate ore as part of waste removal. When costs provide both benefits, they are allocated, although the stripping to date has not generated inventory ore. The stripping asset is depreciated on a units-of-production basis over the tonnes of the relevant orebody section to which it provides future access.

Depreciation

The Group depreciates its mining assets using a units-of-production or straight-line basis, depending on its assessment of the most appropriate method for the individual asset. When a units-of-production basis is used, the relevant assets are depreciated at a rate determined as the tonnes of ore treated (typically production facility assets) or hoisted (typically underground development and conveying assets) from the relevant orebody section, divided by the Group's estimate of ore tonnes held in reserves and resources which have sufficient geological and geophysical certainty and are economically viable. The relevant reserves and resources are matched to the existing assets which will be utilised for their extraction. The assets depreciated in the units-of-production method are existing assets. Future capital expenditure is only subject to depreciation over remaining reserves and resources once incurred. The Group depreciates its assets according to the relevant sections of the orebody over which they will be utilised. A key estimate involves determination of future production units assigned to on-mine shared infrastructure, which is an ongoing assessment given the mining plan and development projects. Shared infrastructure is defined as common infrastructure enabling ore extraction, treatment and related support services, shared across more than one section of the orebody (such as the mine shaft or processing plant).

In applying the Group's policy, assets associated solely with specific sections of the orebody are depreciated over reserves associated with that section of the orebody. Examples include underground development associated with accessing a specific orebody section. By contrast, shared infrastructure, including shared surface and underground infrastructure, is utilised for the extraction of multiple sections of the orebody or is considered to have a life in excess of the ore tonnes included in the current approved LOM plan given the substantial residual resources that exist at deeper levels in certain of the Group's kimberlite pipe mines. When the shared infrastructure assets provide benefit over multiple sections of the orebody they are depreciated over the reserves of the relevant sections of the orebody. When the shared infrastructure is expected to be utilised to access or process ore tonnes from deeper areas of the mine, which frequently represent ore resources that are outside of the current approved LOM plans but for which the Group considers there to be sufficient certainty of future extraction, such assets are depreciated over those reserves and resources.

The depreciation rates are as follows:

Mining assets	
Plant, machinery and equipment	Units-of-production method or 4–33% straight-line basis depending on the nature of the asset
Mineral properties	Units-of-production method
Exploration and other assets	
Plant and machinery	10–25% straight-line basis

Refer to notes 8, 9 and 23 for the Group's policy on impairment, borrowing cost capitalisation and rehabilitation provisions and associated decommissioning assets.

Judgement is applied in making assumptions about the depreciation charge for mining assets as noted above. Judgement is applied when using the units-of-production method in estimating the ore tonnes held in reserves and resources which have sufficient geological and geophysical certainty of being economically viable and are extractable using existing assets. The relevant reserves and resources include those included in current approved LOM plans and, in respect of certain surface and underground shared infrastructure, certain additional resources which also meet these levels of certainty and viability. The Group depreciates its assets according to relevant sections of the orebody over which these will be utilised and a key judgement exists in determining the future production unit assigned to on-mine shared infrastructure which is utilised over more than one section of the orebody or is used to access ore tonnes outside the current approved LOM plan as noted above. Judgement is also applied when assessing the estimated useful life of individual assets and residual values. The assumptions are reviewed at least annually by Management and the judgement is based on consideration of the LOM plans and structure of the orebody, as well as the nature of the assets. The assessment is determined by the Group's capital project teams and geologists.

Borrowing cost capitalisation

The Group capitalises effective interest costs (inclusive of fees) to property, plant and equipment when the loans are considered to have been drawn down for the purpose of funding the Group's capital development programmes. Judgement is required in determining the extent to which borrowing costs relate to qualifying capital projects. The US$650 million bond raised in April 2017 and existing bank borrowings were utilised to fund the completion of underground expansion projects, the processing plant at Cullinan and the refinancing of existing bond and bank borrowings. The remaining bank borrowings have continued to fund capital expansion projects. When the Group's borrowings are refinanced, the difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised as a charge in the income statement on an accelerated basis when the refinancing is considered to be a substantial modification of terms. Judgement is required in determining the extent to which borrowing costs relate to qualifying capital projects.

14. Property, plant and equipment continued

Significant accounting policies relevant to property, plant and equipment continued

Borrowing cost capitalisation continued

US$ million	Plant and machinery	Mineral properties	Assets under construction[1]	Total
Cost				
Balance at 1 July 2016	582.0	61.3	598.0	1,241.3
Exchange differences	96.8	8.0	62.1	166.9
Share of KEM JV assets	10.6	4.1	—	14.7
Additions	0.3	—	299.8	300.1
Transfer of assets under construction	547.7	—	(547.7)	—
Disposals	(1.9)	—	—	(1.9)
Balance at 30 June 2017	1,235.5	73.4	412.2	1,721.1
Balance at 1 July 2017	1,235.5	73.4	412.2	1,721.1
Exchange differences	(90.3)	(3.6)	(1.2)	(95.1)
Additions	0.5	—	158.8	159.3
Transfer of assets under construction	468.4	—	(468.4)	—
Change in rehabilitation asset	2.7	—	—	2.7
Non-current assets held for sale[2]	(36.1)	(1.5)	(8.7)	(46.3)
Disposals	(3.8)	—	—	(3.8)
Balance at 30 June 2018	**1,576.9**	**68.3**	**92.7**	**1,737.9**
Depreciation and impairment				
Balance at 1 July 2016	150.0	10.4	1.6	162.0
Exchange differences	37.4	2.1	—	39.5
Disposals	(1.3)	—	—	(1.3)
Provided in the Year	73.8	4.7	1.1	79.6
Balance at 30 June 2017	259.9	17.2	2.7	279.8
Balance at 1 July 2017	259.9	17.2	2.7	279.8
Exchange differences	(28.1)	(1.7)	(0.2)	(30.0)
Disposals	(8.9)	—	—	(8.9)
Non-current assets held for sale	(24.3)	(1.6)	—	(25.9)
Impairments[3]	134.3	8.7	—	143.0
Provided in the Year	129.4	5.9	0.4	135.7
Balance at 30 June 2018	**462.3**	**28.5**	**2.9**	**493.7**
Net book value				
At 30 June 2017	975.6	56.2	409.5	1,441.3
At 30 June 2018	**1,114.6**	**39.8**	**89.8**	**1,244.2**

1. During the Year, assets under construction comprising stay-in-business and expansion capital expenditure of US$468.4 million (30 June 2017: US$547.7 million) were commissioned and transferred to plant and machinery. Included within assets under construction are amounts mainly for expansion projects at the Finsch, Cullinan and Koffiefontein mines.
2. Non-current assets held for sale are in respect of the Kimberley Ekapa Mining JV mining assets and the exploration assets in Botswana (refer to note 35).
3. Refer to note 8 for additional detail on the Koffiefontein impairment of US$66.0 million and note 35 for additional detail on the KEM JV impairment of US$77.0 million.

Capital commitments

The Group's total commitments of US$24.4 million (30 June 2017: US$25.6 million), mainly comprising Cullinan US$16.9 million (30 June 2017: US$6.8 million), Finsch US$6.3 million (30 June 2017: US$13.8 million), Koffiefontein US$1.2 million (30 June 2017: US$2.6 million), KEM JV US$nil (30 June 2017: US$1.9 million) and Williamson US$nil (30 June 2017: US$0.5 million). Borrowing costs of US$15.2 million (30 June 2017: US$44.1 million) have been capitalised to assets under construction.

The contract entered into by the Group for the construction of a new processing plant at Cullinan at a cost of ZAR1.6 billion (circa US$123.0 million) was completed with the plant commissioned at the end of July 2017.

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For the Year ended 30 June 2018 continued

15. BEE loans receivable and payable

Significant accounting policies relevant to BEE loans receivable and payable

Refer to note 33 for the Group's policy in respect of financial instruments, which include BEE receivables and payables.

US$ million	2018	2017
Non-current assets		
BEE loans receivable[1]	**64.7**	35.0
Non-current liabilities		
BEE loans payable[2]	**110.5**	99.5

1. Interest on the BEE loans receivable is charged at the prevailing South African prime interest rate plus an interest margin ranging between 0–2%. The movement in the Year includes advances, repayments, accrued interest and foreign exchange retranslation. The loans are repayable from future cashflows, attributable to the loan holders, generated from the underlying mining operations.
2. The BEE loans payable bear interest at the prevailing South African prime interest rate. The movement includes accrued interest and foreign exchange retranslation. The loans are repayable from future cashflows from the underlying mining operations.

BEE loans receivable

The non-current BEE loans receivable represents those amounts receivable from the Group's BEE Partners (Kago Diamonds, Sedibeng Mining and the IPDET) in respect of financing their interests in the KEM JV (the BEE receivable of KEM JV will still be due to the Group subsequent to the KEM JV disposal) and Koffiefontein mines, advances provided to the BEE Partners to enable the BEE Partners to discharge interest and capital commitments under the BEE Lender facilities (refer below for the guarantee provided by the Company) and other advances to the BEE Partners which have enabled the BEE Partners to make distributions to their beneficiaries (Petra Directors do not qualify as beneficiaries under the IPDET Trust Deed).

As a result of delays in the Cullinan plant ramp-up and the Finsch SLC ramp-up, the Group has elected to advance the BEE Partners' funds using Group treasury to enable the BEE Partners to service their interest and capital commitments under the BEE Lender facilities (refer below). As a result the BEE loans receivable due to Petra have increased. The BEE Partners are also required to settle future interest and capital repayments under the BEE Lender facilities and Petra may, at its discretion, elect to advance the BEE Partners funds to enable the BEE Partners to service those future interest and capital commitments. These loan advances, including interest raised, will be recoverable from the BEE Partners' share of future cashflows from the underlying mining operations.

US$ million	2018	2017
As at 1 July	**35.0**	28.8
Foreign exchange movement on opening balances	**(3.7)**	3.6
Discretionary advance – capital and interest commitment (BEE Lender facility)	**24.3**	6.2
Discretionary advance – distributions to beneficiaries (net)	**6.7**	6.2
Interest receivable	**2.4**	1.2
Restructuring of BEE Partner structures and reclassification	**—**	(11.0)
As at 30 June	**64.7**	35.0

BEE loans payable

BEE loans payable represent those loans advanced by the BEE Partners to the Group to acquire their interest in Finsch and Cullinan. Details of the movements are set out below.

US$ million	2018	2017
As at 1 July	**99.5**	84.6
Foreign exchange movement on opening balances	**(1.5)**	10.6
Interest payable	**12.5**	10.8
Restructuring of BEE Partner structures and reclassification	**—**	(6.5)
As at 30 June	**110.5**	99.5

During FY 2017, the Company completed the restructuring of the Group and its BEE Partner structures, allowing for a simplified Group structure. The IPDET now owns a 12% interest in each of the Group's South African operations, with Petra's commercial BEE Partners holding the remaining 14% interest through their respective shareholdings in Kago Diamonds, in which Petra has a 31.46% interest. The effect of the restructuring for shareholders at 1 July 2016 was an increase in the equity attributable to the shareholders of the Company as the non-controlling interest in the underlying net assets of the operations decreased by US$1.4 million. This decrease reflected the non-controlling interest's increased share of cumulative profits at Finsch, a reduction in the share of the cumulative profits at Cullinan and an increased share of cumulative losses at Kimberley, Koffiefontein and Helam. The increase of US$1.4 million, attributable to the Group's shareholders, excludes the effect of the KEM JV transaction in note 30. The table below shows the BEE Partners' nominal interest and the Group's effective interest in the operations.

15. BEE loans receivable and payable continued

BEE loans payable continued

Mine	BEE Partner	BEE interest %	Resultant Group's effective interest %
Finsch	Kago Diamonds and IPDET	26.00	78.4
Cullinan	Kago Diamonds and IPDET	26.00	78.4
Koffiefontein	Kago Diamonds and IPDET	26.00	78.4
KEM JV	Kago Diamonds and IPDET	20.40[1]	58.3[2]
Helam	Sedibeng Mining	26.00	74.0

1. The 20.4% reflects the BEE Partners' effective interest in the KEM JV. The BEE interest at the Group's subsidiary level is 31.5%, comprising Kago (14.0%) and IPDET (17.5%).
2. The 58.3% effective interest in KEM JV post-restructuring reflects both the Group's interest in KEM JV following the transaction in note 30 and the impact of the BEE restructuring.

Group guarantee provided to BEE Lenders

The BEE Partners obtained bank financing from ABSA, RMB and Investec ("the BEE Lenders") to refinance amounts owing by the BEE Partners to Petra, which had provided funding to the BEE Partners to enable them to acquire their interests in Finsch and Cullinan. As part of the refinancing the Group provided a guarantee to the BEE Lenders over the repayment of loans advanced to the Group's BEE Partners. The BEE Partners will settle their loan obligations with the BEE Lenders from their share of future operational cashflows, either through repayment of the amounts owing to the BEE Partners by Petra or through recoverable advances provided by Petra from Group treasury.

As at 30 June 2018 the BEE Lender facility for which Petra stands surety was US$85.9 million (30 June 2017: US$104.7 million) with interest and capital commitments as detailed below:

US$ million	Interest repayments	Capital repayments	Balance
BEE Lender facility as at 30 June 2018			85.9
Due and payable within 12 months	(9.9)	(29.9)	(39.8)
Due and payable in 1–2 years			46.1

The BEE Lender facility forms part of Petra's consolidated net debt for Petra's covenant measurement purposes and is subject to the same covenant requirements (refer to note 21).

The BEE Lender facility bears interest at SA JIBAR plus 6.5% and is repayable in bi-annual instalments (capital plus interest) in November and May with a final repayment date in May 2020. The probability of repayment default by the BEE Partners to Absa, Investec and RMB and any subsequent call by the Lender group on the guarantee provided by Petra is considered remote.

Further details of the transactions with the BEE Partners are included in note 27.

16. Non-controlling interests

The non-controlling interests of the Group's partners in its operations are presented in the table below:

US$ million	Cullinan	Finsch	Koffiefontein	KEM JV[1]	Helam	Tarorite	Williamson	Total
Effective interest %	21.6	21.6	21.6	17.58	21.6	17.85	25.0	
Country	South Africa	South Africa	South Africa	South Africa	South Africa	South Africa	Tanzania	
As at 1 July 2017	21.3	56.3	(4.9)	(7.5)	(9.4)	0.2	(3.3)	52.7
Profit/(loss) for the Year	(7.7)	8.0	(17.3)	(21.9)	(0.5)	(0.1)	3.3	(36.2)
Foreign currency translation difference	(1.9)	(5.1)	0.5	0.5	0.7	—	—	(5.3)
At 30 June 2018	**11.7**	**59.2**	**(21.7)**	**(28.9)**	**(9.2)**	**0.1**	**—**	**11.2**

1. The non-controlling interest in respect of the KEM JV arises due to the BEE ownership interests in Crown Resources (Pty) Ltd, which holds part of the Company's interest in the unincorporated JV.

During the Year, no dividends were paid to the non-controlling interests (30 June 2017: US$nil). For additional information on total assets, total liabilities and segment results for each operation in the table above refer to note 34.

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For the Year ended 30 June 2018 continued

17. Trade and other receivables

Significant accounting policies relevant to trade and other receivables

Refer to note 33 for the Group's policy in respect of financial instruments, which include trade and other receivables.

Significant judgements and estimates relevant to VAT receivable at Williamson

The Group holds VAT receivables carried at US$20.3 million (30 June 2017: US$15.8 million) in the Statement of Financial Position in respect of the Williamson mine, all of which is past due and the receivables have been classified, after providing for a time value of money provision, as non-current given the potential delays in receipt. Of the total VAT receivable, US$12.7 million (30 June 2017: US$15.8 million) relates to historical VAT pre-July 2017. The assessment of the carrying value of the VAT receivable under the historical VAT legislation required significant judgement over the timing of future payments, progress and finalisation of VAT audits, ongoing discussions with the relevant authorities in Tanzania and the wider operating environment.

A further US$7.6 million of VAT is receivable which relates to VAT under the current legislation, effective from July 2017. The assessment of the carrying value of the VAT receivable under the current VAT legislation required significant judgement over the timing of future payments, the definition of raw minerals under the new VAT legislation, ongoing discussions with the relevant authorities in Tanzania, legal advice and the wider operating environment. Management has considered the current legislation and considers that input VAT can continue to be recovered in relation to the export of rough diamonds; however, note that the current legislation is unclear. As such, Management considers the VAT receivables under the new VAT legislation to be valid. Accordingly, the Group is pursuing near term payment in accordance with legislation.

While the total VAT balance is considered receivable, uncertainty exists regarding the timing of receipt. Accordingly, the receivable has been discounted by US$3.9 million (30 June 2017: US$2.7 million) which required estimates as to the timing of future receipts. A discount rate of 9.0% has been applied to the expected cash receipts. A 1% increase in the discount rate would increase the provision by US$0.3 million and a one-year delay would increase the provision by US$1.7 million.

US$ million	**2018**	2017
Current		
Trade receivables[1]	**79.6**	42.9
Other receivables[1]	**16.2**	28.8
Prepayments[1]	**3.6**	3.8
	99.4	75.5
Non-current		
Other receivables[2,3]	**20.3**	17.8
	20.3	17.8

1. Current trade, prepayments and other receivables exclude amounts classified as non-current assets held for sale of US$12.1 million (refer to note 35).
2. Other non-current receivables comprise VAT receivable at Williamson of US$20.3 million (30 June 2017: US$15.8 million).
3. Other non-current receivables exclude amounts classified as non-current assets held for sale of US$nil (2017: US$2.0 million) due from Ekapa Mining and its subsidiaries. The receivable due from Ekapa Mining has been impaired in the current year (refer to note 35).

Included in trade and other receivables are amounts due from related parties (refer to note 27).

18. Inventories

Significant accounting policies relevant to 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. Net realisable value also incorporates costs of processing in the case of the ore stockpiles. 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.

Judgement is applied in making assumptions about the value of inventories and inventory stockpiles, including diamond prices, production grade and expenditure, to determine the extent to which the Group values inventory and inventory stockpiles. The Group uses empirical data on prices achieved, grade and expenditure in forming its assessment.

Recoverability of diamond parcel in Tanzania

The Group holds diamond inventory valued at lower of cost and net realisable value of US$12.5 million (30 June 2017: US$nil) in the Statement of Financial Position in respect of the Williamson mine's confiscated diamond parcel. During the Year, an investigation into the Tanzanian diamond sector by a parliamentary committee in Tanzania was undertaken to determine if diamond royalty payments were being understated. In connection with this, Petra announced on 11 September 2017 that a parcel of diamonds (71,654.45 carats) from the Williamson mine in Tanzania (owned 75% by Petra and 25% by the Government of the United Republic of Tanzania ("GoT")) had been blocked for export to Petra's marketing office in Antwerp.

The assessment of the recoverability of the diamond parcel required significant judgement. In making such a judgement, the Group considered its ongoing discussions with the GoT, confirmation received from the GoT post Year end that it still holds the diamond parcel of 71,654.45 carats, an assessment of the internal process used for the sale and export of diamonds confirming such process is in full compliance with legislation in Tanzania and the Kimberley Process and legal advice received from the Group's in-country attorneys which supports the Group's position.

During the Year, Petra received authorisation from the GoT to resume diamond exports and sales from Williamson and all subsequent parcels of diamonds have been exported from Tanzania, for eventual sale at the Company's marketing office in Antwerp. While a resolution has not yet been reached with regards to the parcel of diamonds that was blocked from export, based on the above judgements and assessment thereof, management remains confident that the diamond parcel will be released by GoT and will be available for future sale.

US$ million	2018	2017
Diamonds held for sale	**54.0**	50.2
Work in progress stockpiles	**10.5**	11.2
Consumables and stores	**13.6**	14.2
	78.1	75.6

1. Inventories exclude amounts classified as non-current assets held for sale of US$12.6 million (refer to note 35).

19. Cash

Significant accounting policies relevant to cash

Cash and cash equivalents comprise cash on hand, deposits held on call with banks and investments in money market instruments, net of bank overdrafts, all of which are available for use by the Group unless otherwise stated. Restricted cash represents amounts held by banks, the Group's insurance cell captive and other financial institutions as guarantees in respect of environmental rehabilitation obligations in respect of the Group's South African mines.

US$ million	2018	2017
Cash and cash equivalents – unrestricted	**221.6**	190.2
Cash – restricted	**14.4**	13.5
	236.0	203.7

1. Cash excludes amounts classified as non-current assets held for sale of US$1.4 million (refer to note 35).

The Group's insurance product, which currently includes the Finsch, Cullinan, Koffiefontein, Kimberley Underground and Helam mines, has secured cash assets of US$13.6 million (30 June 2017: US$12.6 million) held in a cell captive. The Group has a commitment to pay insurance premiums over the next year of US$2.3 million (30 June 2017: US$2.4 million) to fund the insurance product. The rehabilitation provisions are disclosed in note 23.

Notes to the Annual Financial Statements
For the Year ended 30 June 2018 continued

20. Equity and reserves
Share capital
Significant accounting policies relevant to share capital
Financial instruments issued by the Group are treated as equity only to the extent that they do not meet the definition of a financial liability. The Group's Ordinary Shares are classified as equity instruments.

US$ million	Number of shares	2018	Number of shares	2017
Authorised – Ordinary Shares of 10 pence each				
At 1 July 2017 and 30 June 2018	**1,000,000,000**	**164.3**	750,000,000	131.4
Issued and fully paid				
At 1 July	**531,986,218**	**89.6**	524,172,967	88.6
Allotments during the Year	**333,350,267**	**43.8**	7,813,251	1.0
At 30 June	**865,336,485**	**133.4**	531,986,218	89.6

Allotments during the Year were in respect of the issue of 332,821,725 Ordinary Shares to shareholders pursuant to the Rights Issue, the award of 136,519 Ordinary Shares to Executive Directors granted under the 2012 Performance Share Plan in receipt of performance measured over the period 1 July 2013 to 30 June 2017, the award to the Executive Directors of 135,545 Ordinary Shares granted under the deferred bonus plan, in respect of performance measured over the period 1 July 2014 to 30 June 2015, the exercise of 135,821 share options held by Executive Directors and employees, and the award to David Abery (as per FY 2016 Remuneration Committee minutes), share awards of 10,163 under the 2012 Performance Share Plan, in receipt of performance measured over the period 1 July 2014 to 30 June 2017 and 110,494 ordinary shares granted under the FY 2015 and FY 2016 deferred share awards based on the annual performance bonus plan.

The Company raised gross proceeds of US$175.2 million (£133.1 million) comprising share capital of US$43.7 million (£33.3 million) and share premium of US$131.5 million (£99.8 million). The costs of US$7.4 million associated with the Rights Issue have been capitalised against share premium. Subsequent to Year end, the proceeds from the Rights Issue were used to settle costs of US$7.4 million in respect of the Rights Issue, the RCF (capital plus interest) of US$73.1 million and the WCF (capital plus interest) of US$33.6 million held with the Group's Lenders, post Year end (refer note 21).

Allotments during the prior year were in respect of the award of 646,398 Ordinary Shares to Executive Directors granted under the 2012 Performance Share Plan (in respect of performance measured over the period 1 July 2012 to 30 June 2016), the award to the Executive Directors of 507,600 Ordinary Shares granted under the 2011 Longer-term Share Plan, in respect of performance measured over the period 1 July 2012 to 30 June 2016, the award to the Executive Directors of 156,233 Ordinary Shares granted under the deferred bonus plan, in respect of performance measured over the period 1 July 2013 to 30 June 2014, the award to Senior Management of 4,371,770 Ordinary Shares granted under the 2011 Longer-term Share Plan, in respect of performance measured over the period 1 July 2012 to 30 June 2016, and the exercise of 2,131,250 share options held by Executive Directors and employees.

The Group's equity and reserve balances include the following:

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 less share issue costs.

Foreign currency translation reserve
The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of entities with a functional currency other than US Dollars 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 and Director options as measured at grant date and spread over the period during which the employees or Directors become unconditionally entitled to the options;
- the fair value of shares awarded under the 2011 Longer-term Share Plan and the 2012 Performance Share Plan measured at grant date (inclusive of market-based vesting conditions) with estimated numbers of awards to vest due to non-market-based vesting conditions evaluated each period and the fair value spread over the period during which the employees or Directors become unconditionally entitled to the awards;
- foreign exchange retranslation of the reserve;
- amounts transferred to retained losses in respect of exercised and lapsed warrants and options; and
- amounts derecognised as part of cash settlement of vested awards originally planned for equity settlement.

Other reserves
The other reserves comprise the cumulative gains or losses arising from available-for-sale financial assets of US$0.8 million (30 June 2017: US$0.8 million). The Directors do not consider there to be objective evidence that the available-for-sale financial asset is permanently impaired.

20. Equity and reserves continued

Share capital continued

Accumulated losses/retained earnings

The accumulated losses/retained earnings comprise the Group's cumulative accounting profits and losses incurred since incorporation.

Non-controlling interest

Non-controlling interest comprises amounts attributable to BEE (in South Africa) and Government (in Tanzania) shareholders in the Finsch, Cullinan, Koffiefontein, KEM JV, Helam and Williamson mines together with foreign exchange retranslation of the reserve. The non-controlling interest share of total comprehensive income includes US$41.5 million total comprehensive expense (30 June 2017: US$11.7 million income) for the Year. Refer to note 16 for further detail.

21. Interest-bearing loans and borrowings

Significant accounting policies relevant to loans and borrowings

Bank borrowings 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, as well as any interest or coupon payable while the liability is outstanding.

The following table summarises the Group's current and non-current interest-bearing borrowings:

US$ million	**2018**	2017
Current		
Loans and borrowings – senior secured lender debt facilities	**106.7**	109.0
Loans and borrowings – senior secured second lien notes	**46.9**	49.6
	153.6	158.6
Non-current		
Loans and borrowings – senior secured second lien notes	**601.2**	598.5
	601.2	598.5

(a) US$650 million senior secured second lien notes

In the prior year, Petra Diamonds US$ Treasury Plc, a wholly owned subsidiary of the Company, issued debt securities consisting of US$650 million five-year senior secured second lien loan notes ("the Notes"), with a maturity date of 1 May 2022. The Notes carry a coupon of 7.25% per annum, which is payable semi-annually in arrears on 1 May and 1 November of each year. The costs associated with issuing the Notes of US$12.6 million were capitalised against the principal amount. As at 30 June 2018, the Notes had accrued interest of US$7.7 million (30 June 2017: US$10.7 million). The Notes are guaranteed by the Company and by the Group's material subsidiaries and are secured on a second-priority basis on the assets of the Group's material subsidiaries. The Notes are listed on the Irish Stock Exchange and traded on the Global Exchange Market. On or after 1 May 2019, the Company has the right to redeem all or part of the Notes at the following redemption prices (expressed as percentages of the principal amount), plus any unpaid accrued interest:

	Redemption price
Period of 12 months from 1 May 2019	103.6250%
Period of 12 months from 1 May 2020	101.8125%
Period of 12 months from 1 May 2021	100.0000%

The Notes are secured on a second-priority basis to the senior secured lender debt facilities by:

- the cession of all claims and shareholdings held by the Company and certain of the Guarantors within the Group;
- the cession of all unsecured cash balances held by the Company and certain of the Guarantors;
- the creation of liens over the moveable assets of the Company and certain of the Guarantors; and
- the creation of liens over the mining rights and immovable assets held and owned by certain of the Guarantors.

Notes to the Annual Financial Statements
For the Year ended 30 June 2018 continued

21. Interest-bearing loans and borrowings continued
(b) Senior secured lender debt facilities
In the prior year, the Group amended its debt and hedging facilities and its banking partners (Absa Corporate and Investment Banking ("Absa"), FirstRand Bank Limited (acting through its Rand Merchant Bank division) ("RMB"), IFC and Nedbank Limited) to facilitate the exit of Bank of China Limited from its amortising term facility. As part of the US$650 million senior secured loan notes issuance (in (a) above), the Group repaid the IFC amortised term facility (capital and interest) of US$35.2 million, the IFC revolving credit facility (capital and interest) of US$18.9 million, the FirstRand, Absa, Nedbank ZAR amortising term facility (capital and interest) of US$68.7 million and a portion of the FirstRand, Absa ZAR revolving credit facility (capital and interest) of US$19.9 million. Both IFC facilities were cancelled, the ZAR revolving credit facility adjusted to ZAR1 billion (previously ZAR1.5 billion), the ZAR working capital facility adjusted to ZAR500 million (previously ZAR700 million) and the ZAR amortising term facility adjusted to ZAR nil (previously ZAR900 million).

The Group's debt and hedging facilities are detailed in the table below:

	Bank loan – secured		Bank loan – secured		Senior second lien notes – secured	
	2018	2017	**2018**	2017	**2018**	2017
Institution	Nedbank, Absa		FirstRand, Absa, Nedbank		Bond holders	
Type	Revolving credit facility		Working capital facility		Bond notes	
Total facility (ZAR million)	**1,000.0**	1,000.0	**500.0**[1]	500.0	**—**	—
Total facility (US$ million)	**—**	—	**—**	—	**650.0**	650.0
Draw-down ZAR facility (US$ million)	**72.9**	76.7	**33.8**	32.3	**—**	—
Draw-down (US$ million)	**—**	—	**—**	—	**650.0**	650.0
Interest rate (ZAR)	**SA JIBAR plus 5.0%**	SA JIBAR plus 5.0%	**SA Prime less 1.0%**	SA Prime less 1.0%	**—**	—
Interest rate (US$)	**—**	—	**—**	—	**7.25%**	7.25%
Interest rate at Year end (ZAR)	**13.7%**	12.1%	**9.0%**	9.5%	**—**	—
Interest rate at Year end (US$)	**—**	—	**—**	—	**7.25%**	7.25%
Interest repayment period	**Monthly**	Monthly	**Monthly**	Monthly	**Bi-annually**	Bi-annually
Latest date available for draw-down	**20 October 2021**	20 October 2021	**Annual review**	Annual review	**Fully drawn down**	Fully drawn down
Capital repayment profile	**Single payment**	Single payment	**On demand**	On demand	**Single payment**	Single payment
Final repayment date (US$ million)	**—**	—	**—**	—	**1 May 2022**	1 May 2022
Final repayment date (ZAR million)	**20 October 2021**	20 October 2021	**On demand**	On demand	**—**	—

1. The facility also comprises a ZAR300 million (30 June 2017: ZAR300 million) foreign exchange settlement line not included above.

As mentioned in (b) above, the amortising term facilities held with FirstRand, Absa, Nedbank and IFC and the revolving credit facility held with the IFC were settled and cancelled in April 2017.

Subsequent to Year end, the revolving credit and working capital facilities were settled in full (refer note 36).

The revolving credit, working capital and amortising term facilities are secured on the Group's interests in Finsch, Cullinan, Koffiefontein, Kimberley Underground and Williamson.

21. Interest-bearing loans and borrowings continued

Covenant ratios

On 9 September 2017, agreement was reached with Petra's Lender group to waive the two EBITDA maintenance measurement covenant tests relating to its senior debt facilities for the 12-month period to, and as at, 30 June 2017. The Lender group further agreed to revised covenant ratios relating to EBITDA for the 12-month measurement period to 31 December 2017 as follows:

(i) the interest cover ratio is changed to no less than 2.7x (previously 3.85x); and

(ii) the net debt to EBITDA ratio is changed to no more than 4.0:1 (previously 2.80:1).

As announced on 9 October 2017, the Group highlighted that it was due to breach its EBITDA maintenance covenant measurements related to its senior debt facilities for the period ending, and as at, 31 December 2017 and a waiver was received for the 31 December 2017 measurement period after calendar year end from the Company's Lender group, coupled with the following:

- an increase of 1% in the interest rate charged on the banking facilities in the event that the Company's consolidated net debt is greater than 2.5x but less than 3x consolidated EBITDA; and
- an increase of 2% in the interest rate charged on the banking facilities in the event that the Company's consolidated net debt exceeds or is equal to 3x consolidated EBITDA.

This will apply retrospectively to the six-month period ending 30 June 2018 and six monthly thereafter, as applicable.

Furthermore, covenants for the 30 June 2018, 31 December 2018 and 30 June 2019 measurement periods were set at the following levels (refer to page 174).

	Maintenance covenants[1]			Distribution covenants
	12 months to 30 June 2018	12 months to 31 December 2018[2]	12 months to 30 June 2019 and thereafter	All periods
Consolidated net debt[2] to consolidated EBITDA	≤3.50:1 (revised from 2.50:1)	≤3.50:1 (revised from 2.50:1)	≤2.50:1 (no change)	≤2.0x
Consolidated EBITDA to consolidated net finance charges	≥3.0:1 (revised from 4.0:1)	≥3.00:1 (revised from 4.00:1)	≥4.00:1 (no change)	≥6.0x
Consolidated net senior debt[3] to book equity items[4]	≤0.40:1	≤0.40:1	≤0.4:1 (no change)	≤0.3x

1. Fees to the Lender group relating to the above mentioned changes in covenants and facilities are US$0.8 million (30 June 2017: US$0.6 million).
2. Consolidated net debt is consolidated debt per published results, less cash and diamond debtors plus the guarantee for the BEE Partners' loan facilities of ZAR1,179 million as at 30 June 2018 (30 June 2017: ZAR1,366 million).
3. Consolidated net senior debt is consolidated debt per published results excluding senior secured second lien notes and other subordinated debt.
4. Book equity is equity excluding accounting reserves.

As part of the Rights Issue in June 2018, the Company requested and was granted a waiver from the Lender group in respect of the consolidated EBITDA to consolidated net finance charges covenant and the consolidated net debt to consolidated EBITDA covenants for the 12-month measurement period to 30 June 2018 should a breach of either or both of these covenants be anticipated. In the event of a breach the existing senior lender debt facilities would remain available to the Group.

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

22. Trade and other payables

Significant accounting policies relevant to trade and other payables

Refer to note 33 for the Group's policy in respect of financial instruments, which include trade and other payables, together with note 10 for the Group's policy on taxation.

US$ million	**2018**	2017
Current		
Trade payables[1]	**34.9**	39.1
Accruals and other payables	**92.4**	96.3
	127.3	135.4
Income tax payable	**3.5**	1.3
	130.8	136.7

1. Current trade and other payables exclude amounts classified as non-current assets held for sale of US$13.6 million (refer to note 35).

Included in trade and other payables are amounts due to related parties (refer to note 27).

Notes to the Annual Financial Statements

For the Year ended 30 June 2018 continued

23. Provisions

Significant accounting policies relevant to 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 obligation to restore environmental damage caused through mining is raised as the relevant mining takes place. Assumptions are made as to the remaining life of existing operations based on the approved current LOM plan and assessments of extensions to the LOM plans to access resources in the Resources Statement that are considered sufficiently certain of extraction.

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. Increases in the provision, as a result of the unwinding of discounting, are charged to the Consolidated Income Statement within 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.

Changes to the present value of the obligation due to changes in assumptions are recognised as adjustments to the provision together with an associated increase/(decrease) in the related decommissioning asset. In circumstances where the decommissioning asset has been fully amortised, reductions in the provision give rise to other direct income.

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 7.5–9.7% (30 June 2017: 7.7–9.9%), estimated rehabilitation timing of 9 to 47 years (30 June 2017: 10 to 48 years) and an inflation rate range of 5.5–7.7% (30 June 2017: 5.7–7.9%). The Group estimates the cost of rehabilitation with reference to approved environmental plans filed with the local authorities. Reductions in estimates are only recognised when such reductions are approved by local legislation and are consistent with the Group's planned rehabilitation strategy. Increases in estimates are immediately recognised.

US$ million	Pension and post-retirement medical fund	Rehabilitation	Total
Balance at 1 July 2016	12.2	47.5	59.7
Decrease in rehabilitation liability provision – change in estimate	—	(2.8)	(2.8)
Increase in provisions	1.5	—	1.5
Unwinding of present value adjustment of rehabilitation provision	—	5.0	5.0
Exchange differences	1.8	6.8	8.6
Balance at 30 June 2017	15.5	56.5	72.0
Balance at 1 July 2017	15.5	56.5	72.0
Increase in rehabilitation liability provision – change in estimate	—	2.3	2.3
Provisions directly associated with non-current assets held for sale (refer to note 35)	(1.2)	(13.0)	(14.2)
Decrease in provisions	(1.2)	—	(1.2)
Unwinding of present value adjustment of rehabilitation provision	—	4.0	4.0
Exchange differences	(1.0)	(2.4)	(3.4)
Balance at 30 June 2018	**12.1**	**47.4**	**59.5**

Employee entitlements and other provisions

The provisions relate to provision for an unfunded post-retirement medical fund and pension fund. The Group's policy in respect of the post-retirement medical and pension schemes and related key judgements and estimates are disclosed in notes 31 and 32. Additional information on the provision for post-retirement medical and pension funds is also described in notes 31 and 32.

23. Provisions continued

Rehabilitation

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

	Total		Finsch		Cullinan		Koffiefontein		KEM JV[1]		Helam		Williamson	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Decommissioning period (years)			**15**	16	**47**	48	**9**	10	**18**	19	**—**	—	**15**	16
Estimated rehabilitation cost (US$ million)	**47.4**	56.5	**21.3**	21.1	**13.4**	13.3	**6.4**	6.4	**—**	11.9	**1.5**	1.6	**4.8**	2.2

The vast majority of the rehabilitation expenditure is expected to be incurred at the end of mining activities.

The movements in the provisions are attributable to the unwinding of discount, reclassification of KEM JV to non-current assets held for sale, change in estimates and unrealised foreign exchange on retranslation from functional to presentational currency.

In FY 2017, the increase in the provisions was attributable to unwinding of discount, change in estimates and unrealised foreign exchange on retranslation from functional to presentational currency.

Cash and cash equivalents have been secured in respect of rehabilitation provisions, as disclosed in note 19.

24. Deferred taxation

Significant accounting policies relevant to deferred taxation

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.

Judgement is applied in making assumptions about recognition of deferred tax assets. Judgement is required in respect of recognition of such deferred tax assets including the timing and value of estimated future taxable income and available tax losses, as well as the timing of rehabilitation costs and the availability of associated taxable income.

US$ million	**2018**	2017
Balance at the beginning of the Year	**137.2**	98.9
Income statement charge	**3.3**	25.8
Reclassified to assets held for sale and loss on discontinued operations	**5.9**	(1.1)
Foreign currency translation difference	**(7.2)**	13.6
Balance at the end of the Year	**139.2**	137.2
Comprising:		
Deferred tax asset	**—**	(5.9)
Deferred tax liability	**139.2**	143.1
	139.2	137.2

The deferred tax assets and liabilities are offset to determine the amounts stated in the Consolidated Statement of Financial Position when the taxes can legally be offset and will be settled net.

Notes to the Annual Financial Statements
For the Year ended 30 June 2018 continued

24. Deferred taxation continued
Significant accounting policies relevant to deferred taxation continued
Deferred taxation comprises:

US$ million	Total	2018 Recognised	2018 Unrecognised
Deferred tax liability			
– Property, plant and equipment	**189.0**	**189.0**	**—**
– Prepayment and accruals	**—**	**—**	**—**
	189.0	**189.0**	**—**
Deferred tax asset			
– Capital allowances	**(57.0)**	**(32.5)**	**(24.5)**
– Provisions and accruals	**(20.4)**	**(17.3)**	**(3.1)**
– Tax losses	**(42.1)**	**—**	**(42.1)**
	(119.5)	**(49.8)**	**(69.7)**
Net deferred taxation liability/(asset)	**69.5**	**139.2**	**(69.7)**

US$ million	Total	2017 Recognised	2017 Unrecognised
Deferred tax liability			
– Property, plant and equipment	212.3	212.3	—
– Prepayment and accruals	0.2	0.2	—
	212.5	212.5	—
Deferred tax asset			
– Capital allowances	(54.6)	(51.2)	(3.4)
– Provisions and accruals	(22.7)	(20.2)	(2.5)
– Tax losses	(35.8)	(3.9)	(31.9)
	(113.1)	(75.3)	(37.8)
Net deferred taxation liability/(asset)	99.4	137.2	(37.8)

In the current year no deferred tax assets have been recognised in respect of tax losses and other temporary differences. In the prior year, deferred tax assets of US$5.9 million were recognised in respect of tax losses and other temporary differences to be utilised by future taxable profits at KEM JV.

Movements in deferred tax include amounts recognised in the Consolidated Income Statement, amounts reclassified as held for sale and foreign exchange retranslation. The Consolidated Income Statement deferred tax charge for the Year reflects movements in deferred tax of US$0.9 million (30 June 2017: US$25.9 million) in respect of property, plant and equipment and associated capital allowances, with the remainder US$4.2 million credit (30 June 2017: US$1.2 million credit) comprised of provisions and utilisation of tax losses.

25. Contingent assets/liabilities
Significant accounting policies relevant to contingent assets/liabilities
Contingent assets and liabilities refer to potential receivables or obligations arising on the Group as a result of past events. Items are disclosed when considered to be probable receivables or possible obligations and are recognised as assets when virtually certain, or provisions or liabilities if they are considered probable.

Revenue
In FY 2016, the Group has sold two pink rough diamonds into polishing partnerships, retaining a 20% and 10% interest in the sales proceeds (net of expenses) and value uplift of the polished sale of the diamonds respectively. The polished stones from both pink diamonds are expected to be sold in the foreseeable future and only then will Petra's share of the proceeds in the retained interest be recognised as revenue.

Environmental
The controlled entities of the Company provide for all known environmental liabilities. While the Directors believe that, based upon current information, the 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.

25. Contingent assets/liabilities continued

BEE Lender guarantees

The BEE Partners obtained bank financing from ABSA, RMB and Investec (the "BEE Lenders") to refinance amounts owing by the BEE Partners to Petra, which had provided funding to the BEE Partners to enable them to acquire their interests in Finsch and Cullinan. As part of the refinancing the Group provided a guarantee to the BEE Lenders over the repayment of loans advanced to the Group's BEE Partners. The BEE Partners will settle their loan obligations with the BEE Lenders from their share of future operational cashflows, either through repayment of the amounts owing to the BEE Partners by Petra or through recoverable advances provided by Petra from Group treasury.

Judgement has been applied by management is assessing the risk of the BEE Partners defaulting under their obligations to the BEE Lenders. Management have considered the Group's future cashflows forecasts and its ability to meet, at its discretion, planned forecast BEE Partner distributions. Accordingly management are of the opinion the risk of default by the BEE Partners to the BEE Lenders is remote (refer to note 15).

Details of related parties are disclosed in note 27.

26. Share-based payments

Significant accounting policies relevant to share-based payments

Employee and Director share option scheme

The fair value of options granted to employees or Directors 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 or Directors 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 applicable to the option strike price.

The LTIP award fair value is recognised annually at the date of grant as an employee expense with reference to the Company share price and award quantum. The amount recognised as an expense is then adjusted to reflect the final number of LTIPs which vest once the final performance conditions and weighted average share price are determined. Measurement of the expense is calculated on a straight-line basis (LTIP award multiplied by the vesting percentage, multiplied by the Company's share price multiplied by the foreign exchange rate).

2011 Longer-term Share Plan ("LTSP"), 2012 Performance Share Plan ("PSP") and 2016 Longer-term Incentive Plan ("LTIP")

Share-based awards granted under the LTSP and PSP are valued using the Monte Carlo model at the date of grant and the associated expense recognised over the vesting period during which the associated vesting conditions are satisfied unconditionally by the beneficiaries with a corresponding increase in reserves.

Where the awards are subject to non-market-based performance conditions, the expense will be adjusted subject to the actual vesting outcome of those specific performance conditions.

The LTSP performance conditions were non-market-based (i.e. production which is independent of the Company's share price) such that performance conditions are not reflected in the fair value of the award at grant date; however, at each reporting period, the Company would assess the likelihood of the conditions being met and revise the cumulative expense accordingly. In the event that vesting conditions were not met the charge would be reversed.

The PSP performance conditions are a combination of market-based (i.e. movement/growth in Company share price) and non-market-based conditions. The vesting conditions attributable to market-based conditions are valued by taking into account the considered likelihood of meeting the vesting conditions at the date the fair value is calculated. Unlike non-market conditions, no adjustment is made for changes in the likelihood of the market conditions being met. The non-market-based vesting conditions are treated as per the LTSP above.

The LTIP performance conditions are non-market-based (i.e. HSSE, production, project delivery and adjusted EBITDA) with vesting conditions measured annually.

Company schemes

The total share-based payment charge of US$0.6 million (30 June 2017: US$0.2 million) for the LTSP and PSP share plans comprises US$0.6 million (30 June 2017: US$0.1 million credit) charged to the Consolidated Income Statement and US$nil (30 June 2017: US$0.3 million) capitalised within property, plant and equipment.

The total charge of US$0.9 million (30 June 2017: US$1.3 million) for the LTIP share plan was charged to the Consolidated Income Statement.

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For the Year ended 30 June 2018 continued

26. Share-based payments continued

Share grants to Directors: PSP and deferred awards

The share-based payment awards are considered to be equity settled, albeit they can be cash settled at the Company's option. The fair value of the PSP granted during the current and prior year and the assumptions used in the Monte Carlo model are as follows:

PSP – market and non-market-based performance conditions	2018	2017
Fair value (PSP absolute TSR/PSP relative TSR/PSP non-market)	**36.4p/46.6p/75.5p**	81.9p/99.0p/139.8p
Grant date	**5 October 2017**	6 October 2016
Share price at grant date	**75.5p**	139.8p
Expected volatility	**49.7%**	46.9%
Life of award	**3 years**	3 years
Expected dividends	**—**	—
Performance period	**3 years**	3 years
Correlation	**23.4%**	22%
Risk-free interest rate (based on national Government bonds)	**0.5%**	0.1%

The expected volatility is based on historical volatility of the Group's share price, adjusted for any extreme changes in the share price during the historical period. During the Year, 806,417 (30 June 2017: 551,179) PSP shares were awarded at a fair value price of 75.5 pence (30 June 2017: 139.8 pence). The correlation factor used above is based on analysis of historical correlation rates between the Company and mining companies within the FTSE 350. The grant date fair values incorporate the effect of the relevant market-based conditions. The awards have no exercise price.

On 3 November 2017, the Executive Directors of the Company were granted a total of 137,898 (30 June 2017: 161,773) deferred awards over Ordinary Shares in the Company. The deferred share awards were fair valued using the market price of the share awards which approximated the fair value in a Black-Scholes model. The awards represent 100% (30 June 2016: 25%) of the total bonus in respect of performance for the financial year ended 30 June 2017. The awards vest on 30 June 2019 and vesting is subject to continued employment. These awards have no exercise price.

Further information on the terms of the awards (including their vesting conditions) can be found in the Directors' Remuneration Report on pages 92 to 103.

Share grants to Senior Management: 2011 LTSP

The share-based payment awards are considered to be equity settled, albeit they can be cash settled at the Company's option. There were no shares granted in the current Year.

During the prior year, nil 2011 LTSP shares were awarded, 1,404,480 lapsed and 4,371,770 vested subject to the 50% partial vesting criteria. These awards had no exercise price. The awards vested at 84.4% based on performance conditions measured over the period ending 30 June 2016. The awards had the same performance targets as the awards to Directors under the 2011 LTSP.

The interests of Senior Management under the LTSP are as follows:

	2018 Number	2017 Number
Outstanding at the beginning of the Year	**—**	5,776,250
Granted during the Year	**—**	—
Lapsed during the Year	**—**	(1,404,480)
Vested during the Year	**—**	(4,371,770)
Outstanding at the end of the Year	**—**	—
Vested at the end of the Year	**—**	—

There are no Senior Management awards outstanding at 30 June 2018.

Senior Management LTIP: 2018

The Senior Management LTIP awards will be cash settled. The fair value of the LTIP granted to Senior Management during the current Year and the assumptions used are as follows:

LTIP – non-market-based subject to performance conditions	2018	2017
Number of awards	**3,152,083**	6,060,168
Fair value	**74.9p**	109.0p
Grant date	**15 November 2017**	1 September 2016
Share price at grant date	**74.9p**	109.0p
Life of award	**3 years**	3 years
Foreign exchange rate (ZAR/US$)	**ZAR14.07**	ZAR13.05

26. Share-based payments continued

Senior Management LTIP: 2018 continued

During the Year 3,152,083 LTIP shares were awarded, 954,788 lapsed and 1,129,939 vested. These awards had no exercise price. The awards vested at 54.2% based on performance conditions measured over the period ending 30 June 2018.

Employee and Director share options

The Company has a legacy share option plan, the 2005 Executive Share Option scheme. The last awards under this plan were granted in March 2010 and no further awards will be granted to Executive Directors or Senior Management under this plan. The share-based payment expense has been calculated using the Black-Scholes model. All share options are equity settled.

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

Employees and Directors entitled	Grant date	Number	Vesting period	Remaining life of options (years)
Options granted to Directors	12 March 2009	1,500,000	1/3 per annum from grant date	1
	30 September 2009	800,000	1/3 per annum from grant date	1
	17 March 2010	800,000	1/3 per annum from grant date	2
Options granted to Senior Management	12 March 2009	738,330	1/3 per annum from grant date	1
	30 September 2009	373,333	1/3 per annum from grant date	1
	17 March 2010	667,516	1/3 per annum from grant date	2
	25 November 2010	165,000	1/3 per annum from grant date	2

	2018		2017	
	Weighted average exercise price (pence)	**Number**	Weighted average exercise price (pence)	Number
Outstanding at the beginning of the Year	**43.7**	**5,255,000**	42.4	7,386,250
Cancelled	**33.5**	**(75,000)**	—	—
Exercised during the Year	**60.5**	**(135,821)**	37.6	(2,131,250)
Outstanding at the end of the Year	**43.4**	**5,044,179**	43.7	5,255,000
Exercisable at the end of the Year	**43.4**	**5,044,179**	43.7	5,255,000

The weighted average market price of the shares in respect of options exercised during the Year was 81.2 pence (30 June 2017: 131.9 pence). The options outstanding at 30 June 2018 have an exercise price in the range of 27.5 pence to 92.8 pence (30 June 2017: 27.5 pence to 92.8 pence) and a weighted average remaining contractual life of one year (30 June 2017: two years).

The above mentioned options are fully vested and due to be equity settled under the plan terms. No legal or constructive obligation to cash settle the remaining options or share awards is considered to exist.

27. Related parties

Subsidiaries and jointly controlled operations

Details of subsidiaries and jointly controlled operations are disclosed in note 29 and note 30 respectively.

Directors

Details relating to Directors' emoluments are disclosed in note 11 and in the Directors' Remuneration Report on pages 92 to 103. Details relating to Directors' shareholdings in the Company are disclosed in the Corporate Governance Report on pages 60 and 61. Key Management remuneration is disclosed in note 11.

Mr Davidson retired as Petra's Technical Director, effective 30 June 2018. He entered into a fixed term employment contract for technical advisory services with the Company effective from 1 July 2018 for a fixed period of 18 months until 31 December 2019 as part of the succession process. Further details with regards to Mr Davidson's resignation and subsequent fixed term employment contract are disclosed in the Directors' Remuneration Report.

Mr Abery stepped down as Petra's Finance Director, effective 30 June 2016. He entered into a fixed term contract for advisory services to the Company for a period of 7 months from 1 July 2016 to 31 January 2017, as part of the succession process.

Notes to the Annual Financial Statements

For the Year ended 30 June 2018 continued

27. Related parties continued

BEE Partners and related party balances

The Group's related party BEE Partners, Kago Diamonds and Sedibeng Mining and their gross interests in the mining operations of the Group are disclosed in the table and Group restructuring paragraph below.

Mine	Partner and respective interest as at 30 June 2018	Partner and respective interest as at 30 June 2017
Finsch	**Kago Diamonds (14%)**	Kago Diamonds (14%)
Cullinan	**Kago Diamonds (14%)**	Kago Diamonds (14%)
Koffiefontein	**Kago Diamonds (14%)**	Kago Diamonds (14%)
KEM JV[1]	**Kago Diamonds (8.4%)**	Kago Diamonds (8.4%)
	Ekapa Mining (24.1%)	Ekapa Mining (24.1%)
Helam	**Sedibeng Mining (26%)**	Sedibeng Mining (26%)

1. The KEM JV was formed effective 1 July 2016 (refer to note 30).

The non-current loans receivable, non-current loans payable, finance income and finance expense due from and due to the related party BEE Partners and other related parties are disclosed in the table below:

US$ million	2018	2017
Non-current receivable		
Sedibeng Mining	**0.9**	1.0
Kago Diamonds[1]	**26.2**	11.8
Ekapa Mining[2]	**—**	2.0
	27.1	14.8
Non-current payable		
Kago Diamonds[1]	**59.5**	53.6
	59.5	53.6
Finance income		
Kago Diamonds[1]	**1.8**	0.7
Ekapa Mining	**0.2**	0.2
	2.0	0.9
Finance expense		
Kago Diamonds[1]	**6.7**	5.8
Ekapa Mining	**0.2**	0.2
	6.9	6.0

1. Included in non-current receivables and payables are amounts advanced during the Year of US$13.4 million (30 June 2017: US$3.4 million).
2. Also included in current trade and other receivables and current trade and other payables are amounts of US$nil (30 June 2017: US$10.6 million) receivable from and US$nil (30 June 2017: US$nil) payable to Ekapa Mining relating to working capital loans with the Group. The Ekapa Mining (Pty) Ltd receivable had no value attributable to it as part of the proposed KEM JV sale proceeds and was therefore reduced to US$nil.

Interest on the BEE loans and receivables is charged at the prevailing South African prime interest rate plus an interest margin ranging between 0% and 2%.

The BEE loans payable bear interest at the prevailing South African prime interest rate.

Further details on the BEE guarantees are in note 15.

Rental income receivable

The Group received US$nil (30 June 2017: US$nil) of rental income from Pella Resources Ltd and US$0.4 million (30 June 2017: US$0.3 million) from Alufer Mining Ltd. The Group has US$0.3 million (30 June 2017: US$0.3 million) receivable from Pella Resources Ltd and US$0.4 million (30 June 2017: US$0.1 million) receivable from Alufer Mining Ltd, both companies of which Mr Pouroulis is a director.

Group restructuring

As at 1 July 2016, the Company completed the restructuring of the Group and its BEE Partner structures, allowing for a simplified Group structure. The IPDET now owns a 12% interest in each of the Group's South African operations, with Petra's commercial BEE Partners holding the remaining 14% interest through their respective shareholdings in Kago Diamonds, in which Petra has a 31.46% interest. The effect of the restructuring for shareholders at 1 July 2016 is an increase in the equity attributable to the shareholders of the Company as the non-controlling interest in the underlying net assets of the operations decreased by US$1.4 million. This decrease reflects the non-controlling interest's increased share of cumulative profits at Finsch, a reduction in the share of the cumulative profits at Cullinan and an increased share of cumulative losses at Kimberley, Koffiefontein and Helam. The increase of US$1.4 million, attributable to the Group's shareholders, excludes the effect of the KEM JV transaction in note 30.

27. Related parties continued

Group restructuring continued

The effective interest percentages attributable to the Group's shareholders are disclosed in the table below:

Mine	Resultant Group's effective interest % – pre-restructuring	Resultant Group's effective interest % – post-restructuring
Finsch	82.38	78.4
Cullinan	77.03	78.4
Koffiefontein	81.39	78.4
KEM JV	86.80	58.3[1]
Helam	86.80	74.0

1. The 58.3% effective interest in KEM JV post-restructuring reflects both the Group's interest in KEM JV following the transaction in note 30 and the impact of the BEE restructuring.

Shareholders

The principal shareholders of the Company are detailed in Supplementary Information on page 180.

28. Notes to the cashflow statement

Significant non-cash transactions

(a) Operating and investing activities

US$ million	2018	2017
Operating activities		
Depreciation of property, plant and equipment	**135.7**	79.6
Impairment charge	**66.0**	—
Impairment charge in relation to discontinued operation	**92.7**	—
Movement in provisions	**(3.0)**	(0.6)
Fair value uplift on Kimberley Ekapa Mining Joint Venture	**—**	(4.1)
Other finance expense – pension scheme	**0.2**	0.2
Other finance expense – unwinding of present value adjustment for rehabilitation costs	**4.0**	5.0
Other finance expense – post-retirement medical fund	**1.2**	1.1
Net unrealised foreign exchange losses/(gains)	**26.2**	(9.9)
Profit on sale of property, plant and equipment	**—**	(0.3)
Share-based payment provision	**0.6**	0.2
	323.6	71.2
Investing activities		
Non-cash capital expenditure (capitalisation of borrowing costs and employee costs)	**13.3**	10.7
Non-cash rehabilitation asset adjustment – change in estimate	**2.4**	—
Non-cash interest receivable from BEE loans on investing activity	**2.4**	1.2
	18.1	11.9
Investing activities		
Non-cash interest payable on BEE loans on investing activity	**12.5**	10.8
	12.5	10.8

(b) Financing activities – change in loans and borrowings (per note 21)

US$ million	Senior secured second lien notes 2018	Senior secured lender debt facilities 2018	Total 2018	Senior secured second lien notes 2017	Senior secured lender debt facilities 2017	Total 2017
Loans and borrowings						
At 1 July	**648.1**	**109.0**	**757.1**	293.0	131.5	424.5
Cash drawdowns	**—**	**35.6**	**35.6**	650.0	161.5	811.5
Cash repayments	**(49.6)**	**(44.6)**	**(94.2)**	(333.5)	(213.2)	(546.7)
Non-cash						
– Interest accruing during Year	**49.6**	**11.8**	**61.4**	31.3	19.5	50.8
– Unamortised upfront costs	**—**	**—**	**—**	7.3	—	7.3
– Effect of foreign exchange		**(5.1)**	**(5.1)**	—	9.7	9.7
At 30 June	**648.1**	**106.7**	**754.8**	648.1	109.0	757.1

Notes to the Annual Financial Statements

For the Year ended 30 June 2018 continued

29. Subsidiaries and jointly controlled interests

Significant accounting policies relevant to subsidiaries

At 30 June 2018 the Group held 20% or more of the allotted share capital of the following significant subsidiaries:

	Country of incorporation	Class of share capital held	**Direct percentage held 30 June 2018**	Direct percentage held 30 June 2017	Nature of business
Blue Diamond Mines (Pty) Ltd[1]	South Africa	Ordinary	**74%**	74%	Mining and exploration
Crown Resources (Pty) Ltd	South Africa	Ordinary	**74%**	74%	Mining and exploration
Cullinan Diamond Mine (Pty) Ltd	South Africa	Ordinary	**74%**	74%	Mining and exploration
Cullinan Investment Holdings Ltd[4]	British Virgin Islands	Ordinary	**100%**	100%	Investment holding
Ealing Management Services (Pty) Ltd	South Africa	Ordinary	**100%**	100%	Treasury
Ekapa Minerals (Pty) Ltd	South Africa	Ordinary	**49.9%**	49.9%	Mining and exploration
Finsch Diamond Mine (Pty) Ltd	South Africa	Ordinary	**74%**	74%	Mining and exploration
Helam Mining (Pty) Ltd	South Africa	Ordinary	**74%**	74%	Mining and exploration
Kalahari Diamonds Ltd	United Kingdom	Ordinary	**100%**	100%	Investment holding
Kimberley Ekapa Mining JV[2]	Unincorporated JV	n/a	**55.5%**	55.5%	Mining and exploration
Petra Diamonds Botswana (Pty) Ltd	Botswana	Ordinary	**100%**	100%	Exploration
Petra Diamonds Holdings SA (Pty) Ltd[5]	South Africa	Ordinary	**100%**	100%	Investment holding
Petra Diamonds Jersey Treasury Ltd	Jersey	Ordinary	**100%**	100%	Treasury
Petra Diamonds Netherlands Treasury B.V.	Netherlands	Ordinary	**100%**	100%	Treasury
Petra Diamonds Southern Africa (Pty) Ltd	South Africa	Ordinary	**100%**	100%	Services provision
Petra Diamonds UK Treasury Ltd	United Kingdom	Ordinary	**100%**	100%	Treasury
Petra Diamonds US$ Treasury Plc	United Kingdom	Ordinary	**100%**	100%	Treasury
Premier Rose Management Services (Pty) Ltd[4]	South Africa	Ordinary	**100%**	100%	Treasury
Tarorite (Pty) Ltd[3]	South Africa	Ordinary	**74%**	74%	Beneficiation
Willcroft Company Ltd	Bermuda	Ordinary	**100%**	100%	Investment holding
Williamson Diamonds Ltd	Tanzania	Ordinary	**75%**	75%	Mining and exploration

1. In the prior year, the Company disposed of its 13.33% share of Re Teng Diamonds, held through Blue Diamond Mines (Pty) Ltd, as part of the Group restructuring disclosed in note 27.
2. On 8 July 2016, Petra and Ekapa Mining entered into a joint venture agreement (effective 1 July 2016) to combine the operations they owned in the Kimberley area into an unincorporated joint venture named the KEM JV; refer to note 30 for further information.
3. As part of the Group restructuring in the prior year, Kago acquired a 26% interest in Tarorite (Pty) Ltd.
4. As part of the Group restructuring in the prior year, Cullinan Investment Holdings Ltd and Premier Rose Management Services (Pty) Ltd are to be deregistered.
5. During the Year, Luxanio Trading 105 (Pty) Ltd changed its name to Petra Diamonds Holdings SA (Pty) Ltd.

30. Acquisition

Significant accounting policies relevant to acquisitions

Refer to note 1.2 for the Group's policy relevant to acquisition of joint operations.

Significant judgements and estimates relevant to acquisitions

Kimberley Ekapa Mining Joint Venture ("KEM JV") – 30 June 2017

In July 2016, Petra entered into a joint venture agreement to combine the operations they owned with those of Ekapa Mining to create the KEM JV. Subsequent to the transaction, Petra and its BEE Partners had a 75.9% jointly controlled interest in KEM JV, held through Crown Resources (Pty) Ltd and Ekapa Minerals, with Ekapa Mining owning the remaining 24.1%. Petra and its BEE Partners effectively contributed 24.1% of their interest in Kimberley Underground Mine in return for a 75.9% interest in the tailings operations (contributed by Super Stone and Kimberley Miners Forum (Pty) Ltd, subsidiaries of Ekapa Mining) and a 26% increase in the interest in the Kimberley Mines tailings operation taking its interest to 75.9%. In line with IAS 28, gains and losses resulting from upstream and downstream transactions between an entity and its joint venture are recognised in the entity's financial statements only to the extent of unrelated investors' interest in the joint venture. As a result, Petra's incremental increase of 26% in Ekapa Minerals and its share (75.9%) of Super Stone have been recognised at fair value with the gain being recognised in the Consolidated Income Statement. Petra's remaining share of Kimberley Underground Mine (75.9%) continues to be recognised at book value whilst the 24.1% of the assets and liabilities classified as held for sale at 30 June 2016 were derecognised and expensed during the period ended 30 June 2017 and recorded as part of the net US$4.1 million fair value gain.

The Group accounts for its interest in the KEM JV as a joint arrangement. The Group is a party to a joint arrangement when there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to the Group and at least one other party. The Group classifies its interests in joint arrangements as jointly controlled operations where the Group has the rights to both assets and obligations for the liabilities of the joint arrangement. In assessing the classification of interests in joint arrangements, the Group considers the structure of the arrangement, the legal form and the contractual agreements between the parties.

The Group accounts for its interests in joint operations by recognising its share of assets, liabilities, revenues and expenses in accordance with its contractually conferred rights and obligations.

30. Acquisition continued

Significant judgements and estimates relevant to acquisitions continued

Kimberley Ekapa Mining Joint Venture ("KEM JV") – 30 June 2017 continued

Judgement was applied in determining the fair value adjustments in respect of the KEM JV acquisition. The fair value adjustments to mineral properties were to ensure the asset values for Petra's incremental share in Ekapa Minerals and Petra's interest in Super Stone were reflected at fair value. The Group has joint control over the KEM JV and recognises its share of the assets, liabilities, income and expenses. The accounting treatment involved consideration of the structure of the arrangement, the legal form and the contractual agreements between the parties.

Effect of the transaction

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

Summary of net fair value gain recognised

US$ million	Table	Fair values
Fair value uplift for 26% incremental interest in Ekapa Minerals	a)	2.2
Fair value uplift for 75.9% interest in Super Stone	b)	8.5
Derecognition of 24.1% net book value of Kimberley Underground Mines	c)	(6.6)
Net fair value gain recognised in the Consolidated Income Statement		4.1

(a) Ekapa Minerals

US$ million	Book values	Fair value adjustments	Fair values
Mining property, plant and equipment	18.9	—	18.9
Mineral property	—	3.7	3.7
Cash and cash equivalents, inventory and trade and other receivables	6.9	—	6.9
Environmental liabilities and trade and other payables	(21.0)	—	(21.0)
Net assets at 1 July 2016	4.8	3.7	8.5
Recognition of Petra's 26% incremental interest in Ekapa Minerals	1.2	1.0	2.2

(b) Super Stone

US$ million	Book values	Fair value adjustments	Fair values
Mining property, plant and equipment	7.4	—	7.4
Mineral property	2.0	0.9	2.9
Cash and cash equivalents, inventory and trade and other receivables	2.5	—	2.5
Environmental liabilities and trade and other payables	(1.6)	—	(1.6)
Net assets at 1 July 2016	10.3	0.9	11.2
Recognition of Petra's 75.9% interest in Super Stone	7.8	0.7	8.5

(c) Kimberley Underground mine

US$ million	Book values
Partial disposal of 24.1% of Kimberley Underground mine	(6.6)

The US$4.1 million gain recorded on the formation of KEM JV represented Petra's newly recognised incremental 26% share of the fair value of Ekapa Minerals' assets and liabilities and its 75.9% share of the fair value of Super Stone's assets and liabilities, less the 24.1% of the net book value assets and liabilities of Kimberley Underground mine relinquished by Petra as part of the transaction.

31. Pension scheme

Significant accounting policies relevant to pensions

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 Consolidated 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. Changes in the defined benefit valuation are recorded in the Consolidated Income Statement when they refer to current service costs, past service costs or net interest calculated on the net deficit. All other changes in the defined benefit valuation are recorded within other comprehensive income. The actuarial calculation is performed by a qualified actuary using the projected unit credit method every second year unless the actuarial assumptions are considered to have materially changed since the previous external valuation, in which case the valuation is revisited earlier.

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For the Year ended 30 June 2018 continued

31. Pension scheme continued

Significant judgements and estimates relevant to pensions

The pension charge or income for the defined benefit scheme is regularly assessed in accordance with the advice of a qualified actuary using the projected unit credit method and was updated for 30 June 2018. The most important assumptions made in connection with the scheme valuation and charge or income are the return on the funds, the average yield of South African Government long-dated bonds, salary increases, withdrawal rates, life expectancies and the current South African consumer price index. The details of these assumptions are set out below.

The Company operates a defined benefit scheme and defined contribution scheme. The defined benefit scheme was acquired as part of the acquisitions of Cullinan and Finsch 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 are the average yield of South African Government long-dated bonds of 9.81% (30 June 2017: 9.62%), and that salaries will be increased at 7.61% (30 June 2017: 7.95%), based on the current South African consumer price index of 6.61% (30 June 2017: 6.95%). Estimated future benefit payments to members for the 12-month period ending 30 June 2019 are US$0.9 million.

US$ million	**2018**	2017
Defined benefit obligations		
Present value of funded obligations	**(11.3)**	(14.1)
Fair value of plan assets	**11.0**	13.4
Recognised deficit for defined benefit obligations	**(0.3)**	(0.7)
Expense recognised in the income statement		
Current service cost	**(0.3)**	(0.3)
Net interest on deficit	**0.2**	0.2
	(0.1)	(0.1)
Change in the fair value of the defined benefit assets		
At 1 July	**13.4**	11.9
Foreign exchange movement on opening balances	**(0.8)**	1.4
Return on plan assets	**1.1**	0.6
Benefits paid to members	**(2.9)**	(1.1)
Contributions by Group – net	**0.2**	0.6
At 30 June	**11.0**	13.4
Change in the present value of the defined benefit obligations		
At 1 July	**(14.1)**	(12.9)
Foreign exchange movement on opening balance	**0.9**	(1.4)
Benefits paid to members	**2.9**	1.1
Current service cost	**(0.3)**	(0.3)
Finance expense	**(1.2)**	(0.3)
Contributions by members	**(0.1)**	(0.1)
Net transfers in/(out)	**0.6**	(0.2)
At 30 June	**(11.3)**	(14.1)
Analysis of plan assets		
Cash	**9.9%**	13.3%
Equity	**41.5%**	41.7%
Bonds	**24.1%**	22.4%
Property	**7.4%**	7.2%
Other – offshore	**17.1%**	15.4%
	100.0%	100.0%

31. Pension scheme continued

Defined benefit scheme continued

US$ million	2018	2017	2016	2015
Plan assets	**11.0**	13.4	11.9	14.3
Plan liabilities	**(11.3)**	(14.1)	(12.9)	(15.5)
Deficit	**(0.3)**	(0.7)	(1.0)	(1.2)

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 2018 is as follows:

	2018	2017
Male	**15.92**	15.92
Female	**20.02**	20.02

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

The valuation is subject to risks. The key sensitivities are changes in discount rates and mortality assumptions. A 0.5% change in the discount rate changes the pension obligation by approximately US$0.7 million (30 June 2017: US$0.8 million). A two-year change in mortality changes the pension obligation by approximately US$0.4 million (30 June 2017: US$0.5 million).

32. Post-retirement medical fund

Significant accounting policies relevant to medical funds

The Group's post-retirement medical fund is unfunded and therefore recognised as a liability on the Consolidated Statement of Financial Position within provisions. The actuarial calculation is performed by a qualified actuary using the projected unit credit method every second year unless the actuarial assumptions are considered to have materially changed since the previous external valuation, in which case the valuation is revisited earlier.

Significant judgements and estimates relevant to medical funds

The benefit liability for the post-employment healthcare liability scheme is regularly assessed in accordance with the advice of a qualified actuary using the projected unit credit method. The most recent actuarial valuation was at 30 June 2018 in line with the Group's policy of obtaining an external valuation of the post-employment healthcare liability scheme every two years. The most important assumptions made in connection with the scheme valuation and charge or income are the healthcare cost of inflation, the average yield of South African Government long-dated bonds and salary increases, withdrawal rates and life expectancies. The details of these assumptions are set out on page 154.

The post-employment healthcare liability scheme was acquired as part of the acquisitions of the Cullinan, Finsch and Kimberley Mines and is closed to new members. All new employees will be responsible for funding their own post-employment healthcare liability costs.

The benefit liability for the post-employment healthcare liability scheme is regularly assessed in accordance with the advice of a qualified actuary using the projected unit credit method. The Group's post-employment healthcare 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 healthcare cost of inflation will be 7.75% (30 June 2017: 9.50%), based on the average yield of relevant South African Government long-dated bonds of 10.0% (30 June 2017: 9.75%), and that salaries will be increased at 6.25% (30 June 2017: 7.25%).

Notes to the Annual Financial Statements
For the Year ended 30 June 2018 continued

32. Post-retirement medical fund continued
Significant judgements and estimates relevant to medical funds continued

US$ million	2018	2017
Post-retirement medical fund		
Present value of post-employment medical care obligations	**11.8**	14.8
Unfunded status at 30 June	**11.8**	14.8
Movements in present value of the post-retirement medical fund obligations recognised in the Consolidated Statement of Financial Position		
Net liability for the post-retirement medical fund obligation as at 1 July	**14.8**	11.2
Foreign exchange movement on opening balances	**(0.9)**	2.0
Reclassified to assets held for sale	**(1.2)**	—
Net (income)/expense recognised in the income statement	**(1.5)**	1.7
Membership changes	**0.9**	—
Benefit payments	**(0.3)**	(0.1)
Net liability for post-employment medical care obligations at 30 June	**11.8**	14.8
Expense recognised in the income statement		
Current service cost	**0.3**	0.6
Finance expense	**1.2**	1.1
	1.5	1.7
The expense is recognised in the following line items in the income statement		
Mining and processing costs	**0.3**	0.6
Finance expense	**1.2**	1.1
	1.5	1.7
Reconciliation of fair value of scheme liabilities		
At 1 July	**14.8**	11.2
Foreign exchange movement on opening balances	**(3.9)**	2.0
Reclassified to assets held for sale	**(1.2)**	—
Net (income)/expense recognised in the income statement	**1.5**	1.7
Membership changes	**0.9**	—
Benefit payments	**(0.3)**	(0.1)
Liabilities at fair market value at 30 June	**11.8**	14.8

	2018	2017
Principal actuarial assumptions		
Discount rate	**10.0%**	9.75%
Healthcare cost inflation	**7.75%**	9.50%
Future salary increases	**6.25%**	7.25%
Net replacement ratio	**86%**	86%
Net discount rate	**2.09%**	0.92%
Normal retirement age (years)	**60.0**	60.0
Fully accrued age (years)	**60.0**	60.0

US$ million	2018	2017
Determination of estimated post-retirement medical fund expense for the year ended 30 June 2019		
Current service cost	**0.3**	0.2
Finance expense	**1.0**	0.8
Benefit payments	**(0.5)**	(0.2)

US$ million	2018	2017	2016	2015
Actuarial accrued liability				
Funded status	**11.8**	14.8	11.2	11.9

32. Post-retirement medical fund continued

Sensitivity analysis

Healthcare inflation rate

The effect of a 1% increase or decrease in the healthcare inflation rate on the post-retirement medical fund accrued liability is as follows:

US$ million	30 June 2018	1% increase	1% decrease
Accrued liability	11.8	12.5	10.1
% difference	—	5.9%	(14.4%)

US$ million	30 June 2017	1% increase	1% decrease
Accrued liability	14.8	15.3	13.1
% difference	—	3.4%	(11.5%)

Average retirement age

The table below shows the impact of a one-year change in the expected average retirement age:

US$ million	30 June 2018	Retirement one year earlier	Retirement one year later
Accrued liability	11.8	11.9	11.0
% difference	—	0.8%	(6.8%)

US$ million	30 June 2017	Retirement one year earlier	Retirement one year later
Accrued liability	14.8	15.4	13.4
% difference	—	4.0%	(9.5%)

33. Financial instruments

Significant accounting policies relevant to financial instruments

The Group classifies its financial assets (excluding derivatives) into the following category and the Group's accounting policy for the category is as follows:

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.

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.

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

US$ million	Statement of Financial Position 2018	Non-current assets held for sale 2018	Total 2018	Total 2017
Current trade receivables	79.6	9.0	88.6	42.9
Other receivables (excluding VAT and prepayments)	16.8	—	16.8	19.5
Non-current receivables (excluding VAT)	64.7	—	64.7	37.0
	161.1	9.0	170.1	99.4

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 tender's proximity to Year end. The trade receivables relating to the Year-end tender have all been received post Year end, with the exception of US$2.8 million which is still outstanding. No trade receivables are considered to be past due or impaired.

Notes to the Annual Financial Statements

For the Year ended 30 June 2018 continued

33. Financial instruments continued

Significant accounting policies relevant to financial instruments continued

Impairment of financial assets continued

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

US$ million	Statement of Financial Position 2018	Non-current assets held for sale 2018	Total 2018	Total 2017
Euro	**17.3**	—	**17.3**	5.9
Pound Sterling	**16.7**	—	**16.7**	9.0
South African Rand	**87.7**	**9.0**	**96.7**	49.6
US Dollar	**39.4**	—	**39.4**	34.9
	161.1	**9.0**	**170.1**	99.4

The Group classifies its financial liabilities (excluding derivatives) into one category: other liabilities. The Group's accounting policy is as follows:

Substantial modification of financial liabilities

When the Group's borrowings are refinanced, and the refinancing is considered to be a substantial modification, the difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised as a charge in the income statement on an accelerated basis.

Other liabilities

Trade payables, other payables and long-term BEE liabilities

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

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

US$ million	Statement of Financial Position 2018	Liabilities directly associated with non-current assets held for sale 2018	Total 2018	Total 2017
Trade payables	**34.9**	**3.3**	**38.2**	39.1
Other payables (excluding taxation, VAT and derivatives)	**76.1**	**9.1**	**85.2**	96.3
Non-current trade payables owing to BEE Partners	**110.5**	—	**110.5**	99.5
	221.5	**12.4**	**233.9**	234.9

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

US$ million	Statement of Financial Position 2018	Liabilities directly associated with non-current assets held for sale 2018	Total 2018	Total 2017
Botswana Pula	—	**0.7**	**0.7**	0.7
Pound Sterling	**12.1**	—	**12.1**	6.8
South African Rand	**186.6**	**11.7**	**198.3**	208.6
US Dollar	**22.8**	—	**22.8**	18.8
	221.5	**12.4**	**233.9**	234.9

33. Financial instruments continued

Interest-bearing borrowings

Refer to note 21 for the Group's policy on interest-bearing borrowings.

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

US$ million	Statement of Financial Position 2018	Non-current assets/liabilities held for sale 2018	Total 2018	Total 2017
Financial assets				
Loans and receivables:				
– Non-current trade and other receivables (excluding VAT)	64.7	—	64.7	37.0
– Trade receivables	79.6	9.0	88.6	42.9
– Other receivables (excluding prepayments and VAT)	16.8	—	16.8	19.5
– Cash and cash equivalents – restricted	14.4	—	14.4	13.5
– Cash and cash equivalents – unrestricted	221.6	1.4	223.0	190.2
	397.1	10.4	407.5	303.1
Financial liabilities				
Held at amortised cost:				
– Non-current amounts owing to BEE Partners	110.5	—	110.5	99.5
– Non-current loans and borrowings	601.2	—	601.2	598.5
– Current loans and borrowings	153.6	—	153.6	158.6
– Trade and other payables (excluding taxation, VAT and derivatives)	111.0	12.4	123.4	135.4
	976.3	12.4	988.7	992.0

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 loan receivables and payables bear interest.

The derivative financial liabilities were valued using Level 2 of the financial instrument valuation hierarchy. The valuation is provided by the Group's bankers, which act as the instrument's counterparty, and was prepared using a Black-Scholes model. The inputs include the strike price range, spot price at Year end, volatility and discount rate.

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

US$ million	Statement of Financial Position 2018	Non-current assets/liabilities held for sale 2018	Total 2018	Total 2017
Financial assets				
Botswana Pula	—	—	—	0.1
Euro	19.3	—	19.3	8.3
Pound Sterling	183.9	—	183.9	11.0
South African Rand	93.2	10.4	103.6	132.8
US Dollar	100.7	—	100.7	150.9
	397.1	10.4	407.5	303.1
Financial liabilities				
Botswana Pula	—	0.7	0.7	0.7
Euro	0.1	—	0.1	—
Pound Sterling	12.1	—	12.1	6.8
South African Rand	297.1	11.7	308.8	321.0
US Dollar	667.0	—	667.0	663.5
	976.3	12.4	988.7	992.0

Notes to the Annual Financial Statements

For the Year ended 30 June 2018 continued

33. Financial instruments continued

Interest-bearing borrowings continued

Further quantitative information in respect of these risks is presented throughout these Financial Statements.

Exposures to currency, liquidity, market price, credit and interest rate risk arise in the normal course of the Group's business. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. The Group uses financial instruments, in particular forward currency option contracts, to help manage foreign exchange risk. The Directors review and agree policies for managing each of these risks.

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 material 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, prior to any payments to the BEE Partners, from future cashflows generated by the Group's operations in which the BEE Partners hold interests. The amounts due from the Group's principal BEE Partner are recoverable either through cashflows from the mines against which the loans were originally made or through cashflows from other Group mines in which the BEE Partner has an interest.

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 19 for restricted cash secured in respect of rehabilitation obligations. At Year end the Group had undrawn borrowing facilities of US$2.6 million (30 June 2017: US$5.6 million).

Derivatives

The fair values of derivatives are separately recorded on the Consolidated Statement of Financial Position within 'Trade and other receivables' or 'Trade and other payables'. Derivatives are classified as current or non-current depending on the date of expected settlement of the derivative.

The Group utilises derivative instruments to manage certain market risk exposures. The Group does not use derivative financial instruments for speculative purposes; however, it may choose not to designate certain derivatives as hedges for accounting purposes. Such derivatives are classified as 'non-hedges' and fair value movements are recorded in the Consolidated Income Statement.

The use of derivative instruments is subject to limits and the positions are regularly monitored and reported to the Board.

Foreign exchange risk

Foreign exchange risk arises because the Group has operations located in parts of the world where the functional currency is not 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.

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, having converted US Dollar diamond revenues to local currencies. 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.

33. Financial instruments continued

Foreign exchange risk continued

The sensitivity analysis to foreign currency rate changes is as follows:

	30 June 2018			
US$ million	Year-end US$ rate	Year-end amount	US$ strengthens 10%	US$ weakens 10%
Financial assets				
Botswana Pula	0.0960	—	—	—
Euro	0.8559	19.3	17.3	21.2
Pound Sterling	0.7572	183.9	165.5	202.3
South African Rand	0.0729	103.6	93.2	114.0
US Dollar	1.0000	100.7	100.7	100.7
		407.5	376.7	438.2
Financial liabilities				
Botswana Pula	0.0960	0.7	0.6	0.8
Euro	0.8559	0.1	0.1	0.2
Pound Sterling	0.7572	12.1	10.9	13.3
South African Rand	0.0729	308.8	277.9	339.7
US Dollar	1.0000	667.0	667.0	667.0
		988.7	956.5	1,021.0

	30 June 2017			
US$ million	Year-end US$ rate	Year-end amount	US$ strengthens 10%	US$ weakens 10%
Financial assets				
Botswana Pula	0.0965	0.1	0.1	0.1
Euro	0.8754	8.3	7.5	9.1
Pound Sterling	0.7678	11.0	9.9	12.1
South African Rand	0.0766	132.8	119.5	146.1
US Dollar	1.0000	150.9	150.9	150.9
		303.1	287.9	318.3
Financial liabilities				
Botswana Pula	0.0965	0.7	0.6	0.8
Pound Sterling	0.7678	6.8	6.1	7.5
South African Rand	0.0766	321.0	289.0	353.2
US Dollar	1.0000	663.5	663.5	663.5
		992.0	959.2	1,025.0

The tables above reflect the impact of a 10% cumulative currency movement over the next 12 months and are shown for illustrative purposes.

Liquidity risk

Liquidity risk arises from the Group's management of working capital, capital expenditure, 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 and/or debt.

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 as disclosed in note 1.1. The maturity analysis of the actual cash payments due in respect of loans and borrowings is set out in the table below. The maturity analysis of trade and other payables is 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 those terms are set out in notes 15 and 22, as reflected under non-current.

Notes to the Annual Financial Statements
For the Year ended 30 June 2018 continued

33. Financial instruments continued
Maturity analysis
The below maturity analysis reflects cash and cash equivalents and loans and borrowings based on actual cashflows rather than carrying values.

		30 June 2018					
US$ million	Notes	Interest rate	Total	6 months or less	6–12 months	1–2 years	2–5 years
Cash							
Cash and cash equivalents – unrestricted	19	**0.1 – 5.0%**	**221.6**	**221.6**	**—**	**—**	**—**
Cash – restricted	19	**0.1 – 5.0%**	**14.4**	**—**	**—**	**—**	**14.4**
Total cash			**236.0**	**221.6**	**—**	**—**	**14.4**
Loans and borrowings							
Bank loan – secured	21	**13.7%**	**73.1**	**73.1**	**—**	**—**	**—**
Bank loan – secured	21	**9.0%**	**33.6**	**33.6**	**—**	**—**	**—**
Senior secured second lien notes	21	**7.25%**	**838.6**	**23.6**	**23.4**	**47.3**	**744.3**
Cashflow of loans and borrowings			**945.3**	**130.3**	**23.4**	**47.3**	**744.3**

		30 June 2017					
US$ million	Notes	Interest rate	Total	6 months or less	6–12 months	1–2 years	2–5 years
Cash							
Cash and cash equivalents – unrestricted	19	0.1–5.5%	190.2	190.2	—	—	—
Cash – restricted	19	0.1–5.5%	13.5	—	—	—	13.5
Total cash			203.7	190.2	—	—	13.5
Loans and borrowings							
Bank loan – secured	21	12.1%	76.7	76.7	—	—	—
Bank loan – secured	21	9.5%	32.3	32.3	—	—	—
Senior secured second lien notes	21	7.25%	888.1	26.1	23.4	47.1	791.5
Cashflow of loans and borrowings			997.1	135.1	23.4	47.1	791.5

Interest rate risk
The Group has borrowings that incur interest at fixed and floating rates. The Group's fixed rate borrowings comprise the senior secured second lien notes which incur interest at a fixed interest rate of 7.25%. Management constantly monitors the floating interest rates so that action can be taken should it be considered necessary. Management considers the impact of a change in the floating interest rate to the Group's financial results not to be material as the quantum of borrowings at floating rates is US$106.7 million (30 June 2017: US$109.0 million). In the current Year the impact of a 100 basis point increase/decrease would result in a financial loss/gain of US$1.1 million (30 June 2017: US$1.1 million).

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 USD/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 US$ loan notes (less transaction costs) and bank loans and borrowings less restricted and unrestricted cash and cash equivalents. Equity comprises all components of equity attributable to equity holders of the parent company.

33. Financial instruments continued

Interest rate risk continued

Capital disclosures continued

The debt to equity ratios at 30 June 2018 and 30 June 2017 are as follows:

US$ million	2018	2017
Total debt	**754.8**	757.1
Cash and cash equivalents	**(236.0)**	(203.7)
Net debt	**518.8**	553.4
Total equity attributable to equity holders of the parent company	**555.4**	593.7
Net debt to equity ratio	**0.93:1**	0.93:1

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

34. Segment information

Significant accounting policies relevant to segmental 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.

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 (which have been reclassified as assets held for sale in the current Year) and South Africa.

Corporate – administrative activities in the United Kingdom.

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 exploration activities in Botswana and South Africa, and reviewing the corporate administration expenses in the United Kingdom. Each segment derives, or aims to derive, its revenue from diamond mining and diamond sales, except for the United Kingdom 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, depreciation and other income and expenses. Unallocated items comprise mainly interest-earning assets and revenue, interest-bearing borrowings and expenses and corporate assets and expenses. Segment capital expenditure is the total cost incurred during the Year to acquire 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 South Africa 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$1,178.6 million (30 June 2017: US$1,345.1 million), Tanzania US$150.4 million (30 June 2017: US$153.8 million), Botswana US$nil (30 June 2017: US$0.8 million) and United Kingdom US$0.2 million (30 June 2017: US$0.3 million).

The Group's property, plant and equipment included in non-current assets are located in South Africa US$1,113.9 million (30 June 2017: US$1,302.2 million), Tanzania US$130.1 million (30 June 2017: US$138.0 million), Botswana US$nil (30 June 2017: US$0.8 million) and United Kingdom US$0.2 million (30 June 2017: US$0.3 million).

Notes to the Annual Financial Statements
For the Year ended 30 June 2018 continued

34. Segment information continued

Significant accounting policies relevant to segmental reporting continued

	South Africa – mining activities				Care and maintenance	Tanzania – mining activities	Botswana	United Kingdom	South Africa		
Operating segments US$ million	Finsch 2018	Cullinan 2018	Koffiefontein 2018	KEM JV[4,5] 2018	Helam 2018	Williamson 2018	Exploration[4] 2018	Corporate and treasury 2018	Beneficiation[3] 2018	Inter-segment 2018	Consolidated 2018
Revenue	231.9	167.0	27.2	—	—	68.5	—	—	25.5	(24.8)	495.3
Segment result[1]	67.7	14.2	(12.5)	—	(1.7)	13.0	(0.7)	(10.4)	(1.0)	(3.0)	65.6
Impairment charge	—	—	(66.0)	—	—	—	—	—	—	—	(66.0)
Other direct income	0.3	(0.2)	—	—	(0.4)	0.4	—	—	—	1.1	1.2
Operating profit/(loss)[2]	68.0	14.0	(78.5)	—	(2.1)	13.4	(0.7)	(10.4)	(1.0)	(1.9)	0.8
Financial income											8.5
Financial expense											(94.3)
Income tax expense											(13.8)
Loss on discontinued operation (net of tax)[5]											(104.3)
Non-controlling interest											36.2
Loss attributable to equity holders of the parent company											(166.9)
Segment assets[6]	557.4	727.3	135.8	—	7.2	211.3	—	3,323.8	13.0	(3,233.1)	1,742.7
Segment liabilities[6]	281.8	653.3	291.0	—	50.1	302.5	—	2,304.5	14.1	(2,702.6)	1,194.7
Capital expenditure	54.0	73.9	12.3	—	—	4.6	—	0.7	—	—	145.5

1. Total depreciation of US$128.0 million included in the segmental result comprises depreciation incurred at Finsch US$41.7 million, Cullinan US$66.1 million, Koffiefontein US$9.1 million, Williamson US$9.5 million, Helam US$0.7 million, Exploration US$0.1 million and Corporate administration US$0.8 million.
2. Operating profit is equivalent to revenue of US$495.3 million less total costs of US$494.5 million as disclosed in the Consolidated Income Statement.
3. The beneficiation segment represents Tarorite, a cutting and polishing business in South Africa, which can on occasion cut and polish select rough diamonds.
4. Assets of US$46.5 million and liabilities of US$27.8 million in respect of KEM JV and the exploration assets in Botswana have been classified as non-current assets held for sale (refer to note 35).
5. The operating results in respect of KEM JV have been reflected within loss on discontinued operation (refer to note 35).
6. Segment assets and liabilities include inter-company receivables and payables which are eliminated on consolidation.

34. Segment information continued

Significant accounting policies relevant to segmental reporting continued

Operating segments US$ million	Finsch 2017	Cullinan 2017	Koffiefontein 2017	KEM JV[5] 2017	Helam 2017	Williamson 2017	Exploration 2017	Corporate and treasury 2017	Beneficiation[4] 2017	Inter-segment 2017	Consolidated 2017
	South Africa – mining activities				Care and maintenance	Tanzania – mining activities	Botswana	United Kingdom[6]	South Africa		
Revenue	216.7	91.3	28.4	—	—	58.4	—	—	0.3	(0.4)	394.8
Segment result[1]	101.2	4.8	(11.0)	—	(2.5)	(3.4)	(0.8)	(11.2)	1.1	(0.6)	74.9
Other direct income	0.5	—	0.1	—	0.3	0.5	—	—	—	0.4	2.8
Operating profit/(loss)[2]	101.7	4.8	(10.9)	—	(2.2)	(2.9)	(0.8)	(11.2)	1.1	(0.2)	77.7
Financial income											11.4
Financial expense											(47.8)
Income tax expense											(26.9)
Profit on discontinued operation (net of tax)[5]											4.6
Non-controlling interest											(2.4)
Profit attributable to equity holders of the parent company											18.3
Segment assets[7]	661.6	828.7	248.0	212.1	5.0	171.1	0.9	3,214.0	7.4	(3,494.0)	1,854.8
Segment liabilities[7]	394.6	694.3	265.6	220.7	50.9	277.8	44.2	2,178.8	8.0	(2,926.5)	1,208.4
Capital expenditure	85.6	151.2	18.8	28.4	—	15.0	—	1.4	—	(0.3)[3]	300.1

1. Total depreciation of US$63.3 million included in the segmental result comprises depreciation incurred at Finsch US$14.6 million, Cullinan US$31.6 million, Koffiefontein US$8.9 million, Williamson US$6.6 million, Helam US$0.6 million, Exploration US$0.2 million and Corporate administration US$0.8 million.
2. Operating profit is equivalent to revenue of US$394.8 million less total costs of US$315.4 million as disclosed in the Consolidated Income Statement.
3. Inter-segment capital expenditure represents work in progress at Helam of US$0.3 million in respect of the manufacture of plant and equipment for other mines within the Group.
4. The beneficiation segment represents Tarorite, a cutting and polishing business in South Africa, which can on occasion cut and polish select rough diamonds.
5. KEM JV comprises the combined operations of Kimberley Underground, Super Stone and the Kimberley Mines tailings operations (refer to note 30). The operating results in respect of KEM JV have been reflected within loss on discontinued operation (refer to note 35).
6. With effect from 1 May 2017 the Company is domiciled in the United Kingdom.
7. Segment assets and liabilities include inter-company receivables and payables which are eliminated on consolidation.

Notes to the Annual Financial Statements
For the Year ended 30 June 2018 continued

35. Non-current assets held for sale

Significant accounting policies relevant to non-current assets held for sale and discontinued operations

Where an operation within the Group is separately identified or forms part of a separate reporting structure, the Group will classify the asset as held for sale, in accordance with IFRS 5, if management has committed to a plan to sell, the operation is available for sale, an active search for a buyer is in place, the disposal is highly probably within 12 months of classifying as held for sale and completion of the disposal is unlikely to significantly change. The KEMJV and Botswana exploration operations met the criteria mentioned above and as such have been classified as held for sale. The assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition. Non-current assets classified as held for sale and the assets of an operation classified as held for sale are presented separately from the other assets in the statement of financial position. The liabilities of an identified operation classified as held for sale are presented separately from other liabilities in the statement of financial position.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of profit or loss.

Unrealised foreign exchange gains and losses on historic retranslation of the subsidiaries results into US Dollars are recycled to the consolidated income statement upon completion of the disposal. The non-controlling interest attributable to minority shareholders is recycled to the consolidated income statement upon completion of the disposal. The Group designates the results of discontinued activities, including those of disposed subsidiaries, separately in accordance with IFRS and reclassifies the results of the operation in the comparative period from continuing to discontinued operations. The Group does not consider mines held on care and maintenance to be discontinued activities unless the mine is abandoned.

Kimberley Ekapa Mining Joint Venture (30 June 2018)

In line with IFRS 5 and the Group's accounting policy for assets held for sale and discontinued, the Kimberley Ekapa Mining Joint Venture ("KEM JV") was classified as held for sale at the Year end. Judgement was required in determining the fair value adjustment on reclassification of the KEM JV to non-current assets held for sale, with regards to the purchase offer, received from Ekapa Mining, for the Company's and its black economic empowerment ("BEE") Partners' 75.9% interest. The fair value adjustment to property, plant and equipment, non-current trade and other receivables and trade and other receivables was to ensure the asset values of the KEM JV were reflected at fair value based on the consideration receivable under the purchase offer if the transaction completes. The accounting treatment involved consideration of the structure of the arrangement, the legal form and the contractual agreements between the parties.

Significant judgements and estimates relevant to non-current assets held for sale

The carrying value of assets at KEM JV and Botswana, considered on the basis of classification as non-current assets held for sale, were carried at the lower of carrying value and fair value less cost to sell. The assessment of fair value less cost to sell was considered by the Board and represented a key judgement, based on internal valuation models, discounts for market pricing and progress of the current sale process. The book value of the assets was greater than fair value less costs to sell.

(a) KEM JV assets held for sale

At Year end, the Group was in active negotiations to dispose of the KEM JV operation and on 5 July 2018 entered into a binding Heads of Agreement with regards to the disposal of the Company's and its black economic empowerment ("BEE") Partners' 75.9% interest in the KEM JV to the Company's joint venture partner Ekapa Mining (Pty) Ltd ("Ekapa Mining") for a gross cash consideration of circa ZAR300 million (US$18.6 million) ("the Disposal").

The Disposal will be on a going concern basis, through the sale of the Group's 68.5% interest in Crown Resources (Pty) Ltd and its 49.9% in Ekapa Minerals (Pty) Ltd, with Ekapa Mining taking on all of the Company's financial, employee, environmental, health, safety and social obligations with regards to the KEM JV operation. The circa ZAR300 million gross purchase consideration will be payable in 24 monthly instalments, 40% by way of equal instalments paid over the period 1 January 2019 to 31 December 2019 and 60% by way of equal instalments paid over the period 1 January 2020 to 31 December 2020.

The rationale for the Disposal is to ensure a sustainable future for KEM JV by placing the operation under the sole stewardship of an operator best suited to maximise its value. Ekapa Mining's extensive experience of operating specifically within Kimberley and its ability to solely focus on these assets is expected to provide the right fit for the operation, thereby ensuring continuation of diamond mining employment and related economic activity in this renowned diamond centre.

Completion of the Disposal will be subject to a number of conditions, including:

- approval by the South African Competition Commission;
- Section 11 Ministerial consent in terms of the South African Mineral and Petroleum Resources Development Act 2002 in respect of the underground mining operations;
- the consent of Petra's South African lender group and the release of relevant securities in relation to the KEM JV; and
- the passing of resolutions approving the Disposal by the relevant boards.

The Disposal is expected to effectively complete in Petra's H1 FY 2019.

35. Non-current assets held for sale continued

(a) KEM JV assets held for sale continued

As a result of this transaction, the assets and liabilities of the KEM JV mining operation (being Petra's effective 75.9% interest) have been classified as held for sale in the Statement of Financial Position at 30 June 2018, in accordance with IFRS 5. The financial results of the KEM JV for the Year have been disclosed in the Consolidated Income Statement in loss on discontinued operation. The KEM JV mining operation is a separate operating segment for the purposes of the Group's segmental reporting.

Effect of the transaction

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

(i) Net assets:

US$ million	Book value prior to reclassification as held for sale	Impairment	Book value 30 June 2018
Mining property, plant and equipment	96.8	(77.0)[1]	19.8
Non-current trade and other receivables	1.9	(1.9)	—
Trade and other receivables	25.8	(13.8)	12.0
Inventory	12.6	—	12.6
Cash and cash equivalents	1.4	—	1.4
Non-current assets held for sale	**138.5**	**(92.7)**	**45.8**
Environmental liabilities and other non-current trade and other payables	(14.2)	—	(14.2)
Trade and other payables	(13.0)	—	(13.0)
Non-current liabilities associated with non-current assets held for sale	**(27.2)**	**—**	**(27.2)**
Net assets			**18.6**

1. This includes US$52.0 million impairment recognised in H1 FY 2018 and US$4.2 million impairment of assets damaged in the mudrush during H2 FY 2018.

(ii) Result of discontinued operation:

US$ million	1 July 2017– 30 June 2018	1 July 2016– 30 June 2017
Revenue	**81.6**	82.3
Cost of sales	**(86.1)**	(83.9)
Gross loss	**(4.5)**	(1.6)
Financial income	**0.4**	2.7
Financial expense	**(1.3)**	(1.7)
Loss before tax	**(5.4)**	(0.6)
Income tax (charge)/credit	**(6.2)**	1.1
(Loss)/profit after tax before impairment charge	**(11.6)**	0.5
Kimberley Ekapa Mining JV fair value adjustment (refer to note 30)	**—**	4.1
Impairment charge	**(92.7)**	—
Net (loss)/profit for the Year	**(104.3)**	4.6

The US$92.7 million impairment loss recorded on the KEM JV assets represents the difference between the fair value of the assets and liabilities and the consideration receivable upon the proposed completion of the transaction. An impairment charge of US$56.2 million was recognised in respect of assets written down to carrying values in accordance with IAS 36 "Impairment of Assets". This includes US$52.0 million impairment recognised in H1 FY 2018 and US$4.2 million impairment of assets damaged in the mudrush during H2 FY 2018. In addition, a further impairment charge of US$36.5 million has been recognised to reduce assets of the KEM JV to equal the fair value less costs to sell, being the fair value of the consideration receivable. Upon completion of the transaction, amounts included in the foreign currency translation reserve of US$4.5 million in relation to KEM JV will be reclassified to the Consolidated Income Statement and, subject to the terms and structure of the final disposal, the non-controlling interest will be removed.

(iii) The consolidated cashflow statement includes the following amounts relating to discontinued operations:

US$ million	1 July 2017– 30 June 2018	1 July 2016– 30 June 2017
Operating activities	**(0.5)**	(9.4)
Investing activities	**(23.4)**	(36.0)
Net cash utilised in discontinued operations	**(0.6)**	(0.9)

Notes to the Annual Financial Statements
For the Year ended 30 June 2018 continued

35. Non-current assets held for sale continued
(b) Botswana (exploration)
During the Year, the Company took the decision to dispose of its exploration assets held in Botswana and subsequently considered from potential purchasers offers to purchase its exploration assets held in Botswana. As such, the assets and liabilities of the Botswana exploration operation have been classified as held for sale in the Statement of Financial Position at 30 June 2018, in accordance with IFRS 5.

US$ million	30 June 2018
Mining property, plant and equipment	0.6
Trade and other receivables	0.1
Non-current assets held for sale	**0.7**
Trade and other payables	(0.6)
Non-current liabilities associated with non-current assets held for sale	**(0.6)**
Net assets	**0.1**

36. Post balance sheet events
(i) RCF and WCF settlement
On 9 July 2018, the Company settled its RCF loan (capital plus interest) of US$73.1 million with its lending group.

On 13 July 2018, the Company settled its WCF loan (capital plus interest) of US$33.6 million with its lending group.

As at the date of this report, both the RCF and WCF remain undrawn.

Five-year Summary of Consolidated Figures
For the Year ended 30 June 2018

US$ million	2018	2017	2016	2015	2014
Income statement					
Revenue (gross)[1]	**576.4**	477.0	430.9	425.0	472.6
Adjusted mining and processing costs[2]	**(291.4)**	(311.3)	(257.7)	(272.7)	(277.4)
Profit from mining activity[3]	**205.1**	168.5	176.0	154.5	201.1
Adjusted EBITDA[4]	**195.4**	157.2	164.3	139.3	187.7
Adjusted net profit after tax[5]	**1.6**	29.0	63.6	62.8	93.7
Net (loss)/profit after tax – Group	**(203.1)**	20.7	66.8	59.6	67.5
Statement of financial position					
Current assets	**413.5**	354.8	222.5	303.2	167.6
Non-current assets	**1,329.2**	1,500.0	1,117.9	1,004.7	931.3
Non-current assets held for sale	**46.5**	—	18.8	—	—
Total assets	**1,789.2**	1,854.8	1,359.2	1,307.9	1,098.9
Borrowings (short and long term)	**754.8**	757.1	424.5	327.1	158.9
Current liabilities (excluding borrowings)	**130.8**	136.7	125.4	79.3	72.1
Liabilities directly associated with non-current assets held for sale	**27.8**	—	12.2	—	—
Total equity	**566.6**	646.4	546.8	622.5	631.9
Movement in cash					
Net cash generated from operating activities	**67.9**	152.5	153.7	132.7	196.1
Net cash utilised in investing activities	**(201.9)**	(292.6)	(324.4)	(174.4)	(211.0)
Net cash generated by financing activities	**169.7**	291.1	82.6	179.0	22.0
Net increase/(decrease) in cash and cash equivalents	**35.7**	151.0	(98.1)	137.3	7.1
Ratios and other key information					
Basic (loss)/earnings per share attributable to the equity holders of the Company – US$ cents	**(15.85)**	3.14	10.38	9.46	9.69
Adjusted basic earnings per share from continuing operations attributable to the equity holders of the Company – US$ cents[5]	**0.5**	5.50	9.76	10.09	14.82
Capex	**145.5**	300.1	324.1	274.1	211.2
Cash at bank (including restricted)	**236.0**	203.7	48.7	166.6	34.0

The Group uses several non-GAAP measures above and, as these are non-GAAP measures, they should not be considered as replacements for IFRS measures. The Company's definition of these non-GAAP measures may not be comparable to other similarly titled measures reported by other companies.

1. Revenue (gross) includes revenues for the KEM JV for FY 2018 and FY 2017 (Sedibeng JV and Star mines for FY 2014). Under IFRS, these revenues are classified in the Consolidated Income Statement as part of the loss from discontinued operations (including KEM JV).
2. Adjusted mining and processing costs are mining and processing costs (including KEM JV) stated before depreciation and share-based expense.
3. Profit from mining activities is revenue less adjusted mining and processing costs plus other direct income.
4. Adjusted EBITDA is net profit after tax stated before bond redemption premium and acceleration of unamortised costs, depreciation, share-based expense, impairment charges, net finance expense, tax expense, net unrealised foreign exchange gains and losses, loss on discontinued operations and taxation charge on reduction of unutilised Capex benefits, as applicable to relevant years.
5. Adjusted net profit after tax and adjusted (basic) earnings per share from continuing operations is net profit after tax and earnings per share from continuing operations stated before net unrealised foreign exchange gains and losses, bond redemption and acceleration of unamortised costs, impairment charges, loss on discontinued operations and taxation charge on reduction of unutilised Capex benefits, as applicable to relevant years.

FY 2018 Summary of Results and Non-GAAP Disclosures

US$ million	2018	Restated 2017
Revenue	**495.3**	394.8
Adjusted mining and processing costs[1]	**(291.4)**	(242.6)
Other direct income	**1.2**	1.7
Profit from mining activities[2]	**205.1**	153.9
Exploration expense	**(0.6)**	(0.6)
Corporate overhead	**(9.1)**	(10.7)
Adjusted EBITDA[3]	**195.4**	142.6
Depreciation	**(128.0)**	(63.3)
Share-based expense	**(0.6)**	0.1
Net finance expense	**(59.6)**	(22.7)
Tax expense	**(5.6)**	(26.9)
Adjusted net profit after tax[4]	**1.6**	29.5
Impairment charge[5]	**(66.0)**	—
Net unrealised foreign exchange gain	**(26.2)**	8.6
Taxation charge on reduction of unutilised Capex benefits	**(8.2)**	—
Bond redemption premium and unamortised costs[7]	**—**	(22.3)
(Loss)/profit from continuing operations	**(98.8)**	16.1
(Loss)/profit on discontinued operations, net of tax[8]	**(104.3)**	4.6
Net profit after tax	**(203.1)**	20.7
Earnings per share attributable to equity holders of the Company – US$ cents		
Basic (loss)/profit per share – from continuing operations	**(31.29)**	3.14
Adjusted profit per share – from continuing operations[6]	**0.50**	5.50

The Group uses several non-GAAP measures above and throughout this report to focus on actual trading activity by removing non-cash or non-recurring items. These measures include adjusted mining and processing costs, profit from mining activities, adjusted EBITDA, adjusted net profit after tax, adjusted earnings per share, adjusted US$ loan notes and net debt. As these are non-GAAP measures, they should not be considered as replacements for IFRS measures. The Company's definition of these non-GAAP measures may not be comparable to other similarly titled measures reported by other companies.

1. Adjusted mining and processing costs are mining and processing costs stated before depreciation and share-based expense.
2. Profit from mining activities is revenue less adjusted mining and processing costs plus other direct income.
3. Adjusted EBITDA is stated before depreciation, share-based expense, net finance expense (excluding net unrealised foreign exchange gain), tax expense (excluding taxation charge on unutilised Capex benefits), impairment charge, net unrealised foreign exchange gains and losses, taxation charge on reduction of unutilised Capex benefits and bond redemption premium, acceleration of unamortised cost and (loss)/profit on discontinued operation.
4. Adjusted net profit after tax is net profit after tax stated before, impairment charge, net unrealised foreign exchange gains and losses, taxation charge on reduction of unutilised Capex benefits and bond redemption, acceleration of unamortised costs and (loss)/profit on discontinued operation.
5. Impairment charge of US$66.0 million is due to the Group's impairment review of the Koffiefontein operation. Refer to note 8 for further details.
6. Adjusted EPS from continuing operations is stated before the impairment charge, net unrealised foreign exchange gains and losses, taxation charge on reduction of unutilised Capex benefits and bond redemption premium and acceleration of unamortised costs.
7. Bond redemption premium and acceleration of unamortised costs represent those costs incurred as a result of the early redemption of the US$300 million loan notes in April 2017.
8. The (loss)/profit on discontinued operation reflect the results of the KEM JV (net of tax), including impairment (FY 2017 results have been amended for comparability) as per the requirements of IFRS 5 (refer to note 35).

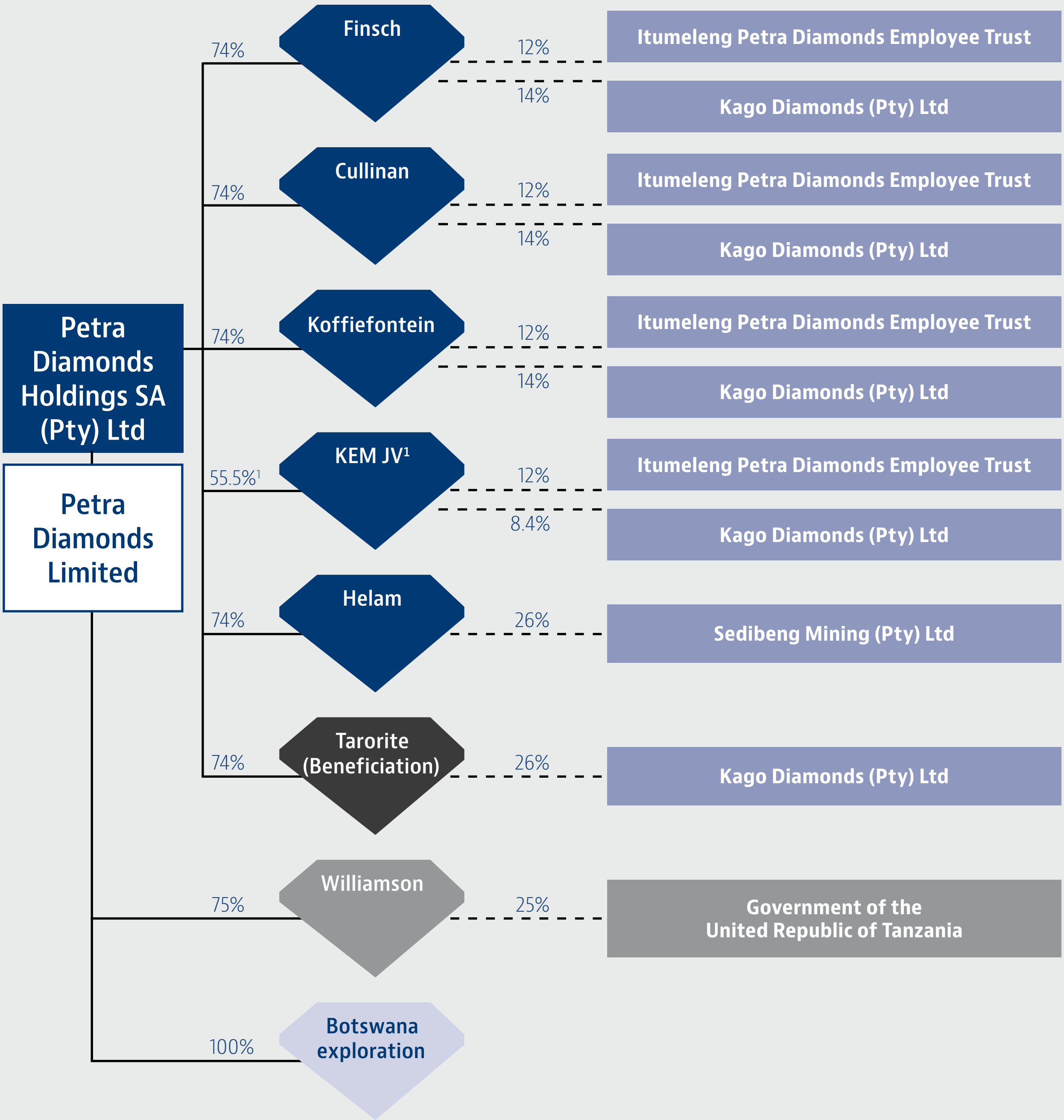
Petra's Partners

The Company's partnerships are key in terms of stakeholder sustainability and the long-term success of its operations.

In South Africa, the Company has partner shareholders in its operations who represent the interests of BEE shareholders. These BEE Partners include various commercial BEE entities (including women's groups), as well as, importantly, the Itumeleng Petra Diamonds Employee Trust.

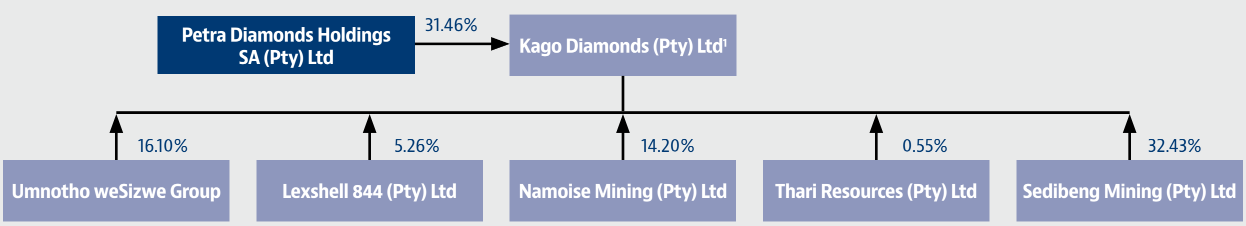
In Tanzania, Petra's partner is the Government of the United Republic of Tanzania at the Williamson mine, the country's most important diamond producer.

Summary of mine ownership



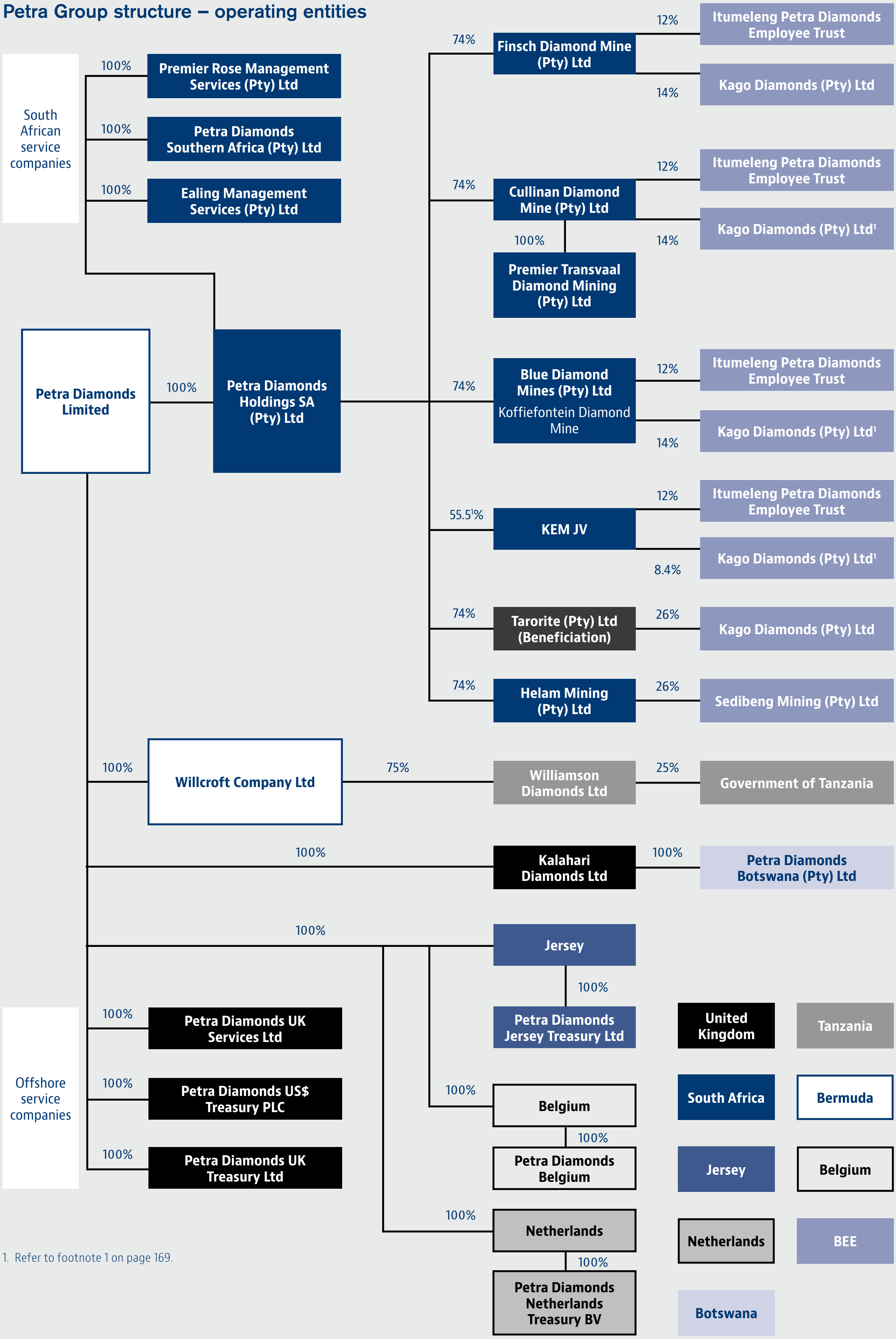
1. Petra and its BEE partners have a 75.9% interest in the KEM JV (55.5% Petra and 20.4% BEE partners). The BEE partners' interest is held indirectly through their 31.5% shareholding in Crown Resources (Pty) Limited, a company controlled and consolidated by Petra. As such, Petra consolidates its 75.9% interest in the results, assets and liabilities, with a non-controlling interest shown separately. The proposed disposal of KEM JV was announced after year end.

BEE partner structures



Petra's Partners continued

Petra Group structure – operating entities



1. Refer to footnote 1 on page 169.

FY 2018 Operations Results Tables

Finsch – South Africa

	Unit	FY 2018	FY 2017	Variance
Sales				
Revenue	US$m	**231.9**	216.7	+7%
Diamonds sold	Carats	**2,152,786**	2,141,885	+1%
Average price per carat	US$	**108**	101	+7%
ROM production				
Tonnes treated	Tonnes	**3,084,395**	3,212,169	-4%
Diamonds produced	Carats	**1,926,467**	1,818,454	+6%
Grade[1]	Cpht	**62.5**	56.6	+10%
Tailings production				
Tonnes treated	Tonnes	**794,973**	1,651,089	-52%
Diamonds produced	Carats	**147,010**	331,442	-56%
Grade[1]	Cpht	**18.5**	20.1	-8%
Total production				
Tonnes treated	Tonnes	**3,879,368**	4,863,258	-20%
Diamonds produced	Carats	**2,073,477**	2,149,896	-4%
Costs				
On-mine cash cost per tonne treated	ZAR	**329**	253	+30%
Capex				
Expansion Capex	US$m	**42.3**	58.4	-28%
Sustaining Capex	US$m	**7.7**	9.1	-15%
Borrowing costs capitalised	US$m	**4.0**	18.1	-78%
Total Capex	US$m	**54.0**	85.6	-37%

1. The Company is not able to precisely measure the ROM/tailings grade split because ore from both sources is processed through the same plant; the Company therefore back-calculates the grade with reference to resource grades.

Cullinan – South Africa

	Unit	FY 2018	FY 2017	Variance
Sales				
Revenue	US$m	**167.0**	91.3	+83%
Diamonds sold	Carats	**1,335,669**	760,957	+76%
Average price per carat	US$	**125**	120	+4%
ROM production				
Tonnes treated	Tonnes	**3,741,086**	1,882,911	+99%
Diamonds produced	Carats	**1,342,020**	679,622	+97%
Grade[1]	Cpht	**35.9**	36.1	-1%
Tailings production				
Tonnes treated	Tonnes	**412,749**	506,176	-18%
Diamonds produced	Carats	**26,700**	106,887	-75%
Grade[1]	Cpht	**6.5**	21.1	-69%
Total production				
Tonnes treated	Tonnes	**4,153,835**	2,389,087	+74%
Diamonds produced	Carats	**1,368,720**	786,509	+74%
Costs				
On-mine cash cost per tonne treated	ZAR	**239**	316	-24%
Capex				
Expansion Capex	US$m	**56.2**	120.9	-54%
Sustaining Capex	US$m	**6.5**	4.3	+51%
Borrowing costs capitalised	US$m	**11.2**	26.0	-57%
Total Capex	US$m	**73.9**	151.2	-51%

1. The Company is not able to precisely measure the ROM/tailings grade split because ore from both sources is processed through the same plant; the Company therefore back-calculates the grade with reference to resource grades.

FY 2018 Operations Results Tables continued

Koffiefontein – South Africa

	Unit	FY 2018	FY 2017	Variance
Sales				
Revenue	US$m	**27.2**	28.4	-4%
Diamonds sold	Carats	**51,936**	56,068	-7%
Average price per carat	US$	**525**	506	+4%
ROM production				
Tonnes treated	Tonnes	**649,259**	667,821	-3%
Diamonds produced	Carats	**52,537**	51,173	+3%
Grade	Cpht	**8.1**	7.7	+6%
Total production				
Tonnes treated	Tonnes	**649,259**	667,821	-3%
Diamonds produced	Carats	**52,537**	51,173	+3%
Costs				
On-mine cash cost per tonne treated	ZAR	**596**	532	+12%
Capex				
Expansion Capex	US$m	**9.6**	13.3	-28%
Sustaining Capex	US$m	**2.7**	5.5	-51%
Total Capex	US$m	**12.3**	18.8	-35%

Williamson – Tanzania

	Unit	FY 2018	FY 2017	Variance
Sales				
Revenue	US$m	**68.5**	58.4	+17%
Diamonds sold	Carats	**253,524**[1]	226,110	+12%
Average price per carat	US$	**270**	258	+5%
ROM production				
Tonnes treated	Tonnes	**4,659,563**	3,667,781	+27%
Diamonds produced	Carats	**328,681**	212,215	+55%
Grade	Cpht	**7.0**	5.8	+22%
Alluvial production				
Tonnes treated	Tonnes	**385,721**	403,811	-4%
Diamonds produced	Carats	**12,421**	12,987	-4%
Grade	Cpht	**3.2**	3.2	—
Total production				
Tonnes treated	Tonnes	**5,045,284**	4,071,592	+24%
Diamonds produced	Carats	**341,102**	225,202	+51%
Costs				
On-mine cash cost per tonne treated	US$	**10.7**	11.6	-8%
Capex				
Expansion Capex	US$m	**2.6**	14.1	-82%
Sustaining Capex	US$m	**2.0**	0.9	+122%
Total Capex	US$m	**4.6**	15.0	-69%

1. Negatively impacted by the 71,654 carat parcel blocked for export.

KEM JV – South Africa (all figures reflect Petra's 75.9% attributable share)

The proposed disposal of KEM JV was announced in July 2018.

	Unit	FY 2018[1]	FY 2017	Variance
Sales				
Revenue	US$m	**81.6**	82.3	-1%
Diamonds sold	Carats	**756,493**	821,963	-8%
Average price per carat	US$	**108**	100	+8%
Kimberley Underground Mine production[1]				
Tonnes treated	Tonnes	**768,776**	597,025	+29%
Diamonds produced	Carats	**82,246**	87,783	-6%
Grade	Cpht	**10.7**	14.7	-27%
Tailings production				
Tonnes treated	Tonnes	**6,050,991**	6,153,657	-2%
Diamonds produced	Carats	**693,399**	712,651	-3%
Grade	Cpht	**11.5**	11.6	-1%
Total production				
Tonnes treated	Tonnes	**6,819,767**	6,750,682	+1%
Diamonds produced	Carats	**775,645**	800,434	-3%
Costs				
On-mine cash cost per tonne treated	ZAR	**153**	133	+15%
Capex				
Expansion Capex	US$m	**10.1**	23.9	-58%
Sustaining Capex	US$m	**3.7**	4.5	-18%
Total Capex	US$m	**13.8**	28.4	-51%

1. Data represents Petra's 75.9% attributable share (including both ROM production from Kimberley Underground and tailings production).

Debt Facilities Information

Banking facilities

As at 30 June 2018 Petra had bank facilities (excluding foreign exchange lines) of circa $190.0 million[1].

The Group had bank debt facilities undrawn and available as at 30 June 2018 of US$2.3 million, in addition to US$236.0 million cash at bank.

Lender	Type	Size ZARm	Size US$m equivalent[1]	Utilised at 31 Mar 2018 ZARm US$M equivalent[1]	Interest rate	Repayment
Absa & Nedbank	ZAR Revolving Credit Facility	1,000	72.9	72.9	1M JIBAR +5.0%[2&3]	October 2021
Absa & RMB (FNB)	ZAR Working Capital Facility	500	36.4	33.8	SA Prime – 1.0%[2&3]	Subject to annual renewal

1. Converted to USD using exchange rate of ZAR13.73/USD1.
2. An increase of 1% will apply in the event that the Company's consolidated net debt is greater than 2.5x but less than 3x consolidated EBITDA.
3. An increase of 2% will apply in the event that the Company's consolidated net debt exceeds or is equal to 3x consolidated EBITDA.

Banking covenants

The below covenants relate to Petra's banking facilities.

The following ratios are measured twice annually, on a rolling 12 month period at 30 June and 31 December, respectively.

Maintenance Covenants	12 months to 30 June 2018	12 months to 31 December 2018	12 months to 30 June 2019 and thereafter
Consolidated net debt[1] to consolidated EBITDA	≤3.5x	≤3.5x	≤2.5x
Consolidated EBITDA[2] to consolidated net finance charges	≥3.0x	≥3.0x	≥4.0x
Consolidated net senior debt[3] to book equity[4]	≤0.4x	≤0.4x	≤0.4x

Distribution Covenants	All periods
Consolidated net debt[1] to consolidated EBITDA	≤2.00x
Consolidated EBITDA[2] to consolidated net finance charges	≥6.00x
Consolidated net senior debt[3] to book equity[4]	≤0.30x

1. Waiver obtained for 30 June 2018 measurement period.
2. Consolidated net debt is loans and borrowings, less cash, less diamond debtors and includes the BEE guarantees of circa ZAR1.179 billion ($85.9 million) as at 30 June 2018, issued by Petra to the lenders as part of the BEE financing concluded in December 2014.
3. Consolidated net senior debt means at any time the consolidated net debt (excluding any second lien and other subordinated debt).
4. Book equity is equity excluding accounting reserves.

Leverage ratios

	30 June 2018	30 June 2017
Net debt[1]	**US$520.7m**	US$555.3m
Consolidated net debt for bank debt covenant measurement	**US$531.6m**	US$618.5m
Gearing[2]	**92%**	86%
Adjusted EBITDA[3]	**US$195.4m**	US$142.6m
EBITDA margin[4]	**39%**	36%
Consolidated net debt: EBITDA[5]	**2.7x**	3.9x*
EBITDA net interest cover[6]	**2.7x**	2.8x

* Including KEM JV.
1. Net debt is the US$ loan notes and bank loans and borrowings net of cash at bank.
2. Gearing is calculated as net debt divided by total equity.
3. Adjusted EBITDA is net profit after tax stated before bond redemption premium and acceleration of unamortised costs, depreciation, share-based expense, impairment charges, net finance expense, tax expense, net unrealised foreign exchange gains and losses, loss on discontinued operations and taxation charge on reduction of unutilised Capex benefits, as applicable to relevant years.
4. EBITDA margin is adjusted EBITDA divided by revenue.
5. Consolidated net debt: EBITDA is consolidated net debt divided by Adjusted EBITDA.
6. EBITDA: net interest cover is EBITDA divided by net finance costs (excluding exchange gains or losses and unwinding of present value adjustment for rehabilitation costs) plus capitalised interest.

FY 2018 Resource Statement

Petra Diamonds Limited ("Petra" or "the Company" or "the Group") manages one of the world's largest diamond Resources of 290 million carats ("Mcts"). This major Resource implies that the potential mine lives of Petra's core assets could be considerably longer than the current mine plans in place at each operation, or could support significantly higher production rates.

Gross Resources

As at 30 June 2018, the Group's gross Diamond Resources (inclusive of Reserves) decreased 4.8% to 290.48 Mcts (30 June 2017: 304.97 Mcts), due to depletion by mining activity at all operations and the proposed disposal of Petra's interest in KEM JV. A new Resource estimation exercise for Cullinan is currently in progress.

Gross Reserves

The Group's gross Diamond Reserves decreased 16.1% to 42.92 Mcts (30 June 2017: 51.13 Mcts) due to depletions at all operations, the exclusion of the KEM JV Reserves, and a reduction in the recovered grade in the Cullinan Life Of Mine ("LOM") planning, as a result of the revised grade guidance issued at the time of the H1 FY 2018 Trading Update.

The following table summarises the gross Reserves and Resources status of the combined Petra Group operations as at 30 June 2018.

	Gross		
Category	Tonnes millions	Grade cpht	Contained diamonds Mcts
Reserves			
Proved	—	—	—
Probable	93.9	45.7	42.92
Sub-total	**93.9**	**45.7**	**42.92**
Resources			
Measured	0.2	263.9	0.60
Indicated	396.1	52.9	209.50
Inferred	1,308.6	6.1	80.38
Sub-total	**1,704.9**	**17.0**	**290.48**

Finsch

	Gross		
Category	Tonnes millions	Grade cpht	Contained diamonds Mcts
Reserves			
Proved	—	—	—
Probable	41.1	57.7	23.74
Sub-total	**41.1**	**57.7**	**23.74**
Resources			
Measured	—	—	—
Indicated	34.3	69.2	23.75
Inferred	36.0	53.4	19.19
Sub-total	**70.3**	**61.1**	**42.94**

1. Resource bottom cut-off: 1.0mm.
2. Reserve bottom cut-off: 1.0mm.
3. Block 4 Remnants recalibrated to June 2018 pit scans.
4. Block 5 Resource stated as in situ.
5. Block 5 Reserves are based on PCSLC and PCBC simulations, depleted for SLC development tonnes.
6. US$/ct values of 105–110 for ROM, based on FY 2018 sales values and production size frequency distributions.

FY 2018 Resource Statement continued

Cullinan

	Gross		
Category	Tonnes millions	Grade cpht	Contained diamonds Mcts
Reserves			
Proved	—	—	—
Probable	46.8	39.9	18.67
Sub-total	**46.8**	**39.9**	**18.67**
Resources			
Measured	—	—	—
Indicated	246.0	70.3	173.01
Inferred	170.6	10.1	17.26
Sub-total	**416.5**	**45.7**	**190.28**

1. Resource bottom cut-off: 1.0mm.
2. Reserve bottom cut-off: 1.0mm.
3. B-Cut resource tonnes and grade are based on block cave depletion modelling and include external waste.
4. C-Cut Resource stated as in situ.
5. Reserves based on PCBC simulations on C-Cut phase 1, BB1E, AUC and Mine2-4D schedules for CC1E and other remaining pillar retreats.
6. Factorised grades and carats are derived from a calculated Plant Recovery Factor ("PRF") for the new plant. These factors account for the efficiency of sieving (bottom cut-off), diamond liberation and recovery in the ore treatment process.
7. The PRF has been revised since plant commissioning in FY 2018, based on the actual operating parameters and recovered grades of the new plant.
8. A new Resource estimate is currently in progress for Cullinan.
9. US$/ct values of 115–125 for ROM, excluding exceptional stones, and 60–65 for tailings, based on FY 2018 sales values and production size frequency distributions.

Koffiefontein

	Gross		
Category	Tonnes millions	Grade cpht	Contained diamonds Mcts
Reserves			
Proved	—	—	—
Probable	6.0	8.4	0.51
Sub-total	**6.0**	**8.4**	**0.51**
Resources			
Measured	—	—	—
Indicated	27.5	5.4	1.48
Inferred	126.7	3.3	4.22
Sub-total	**154.2**	**3.7**	**5.69**

1. Resource bottom cut-off (Koffiefontein underground and Ebenhaezer): 1.15mm.
2. Resource bottom cut-off (Eskom tailings): 1.0mm.
3. Reserve bottom cut-off: 1.15mm.
4. Koffiefontein 56L–60L SLC Reserves are based on Min 2-4D schedules.
5. US$/ct values of 525–550 for ROM, based on FY 2018 sales values and production size frequency distributions.

Williamson

Category	Gross		
	Tonnes millions	Grade cpht	Contained diamonds Mcts
Reserves			
Proved	—	—	—
Probable	—	—	—
Sub-total	**—**	**—**	**—**
Resources			
Measured	—	—	—
Indicated	69.9	5.2	3.62
Inferred	967.9	3.6	35.13
Sub-total	**1,037.7**	**3.7**	**38.74**

1. Resource bottom cut-off: 1.15mm.
2. Changes to Resource figures due to mining depletions only.
3. US$/ct values of 240–270 for ROM, based on FY 2018 sales values and production size frequency distributions.

Helam

Category	Gross		
	Tonnes millions	Grade cpht	Contained diamonds Mcts
Reserves			
Proved	—	—	—
Probable	—	—	—
Sub-total	**—**	**—**	**—**
Resources			
Measured	0.2	263.9	0.60
Indicated	0.5	266.4	1.32
Inferred	0.8	268.8	2.17
Sub-total	**1.5**	**267.3**	**4.09**

1. Resource bottom cut-off: 1.0mm.
2. Measured Resources are classified as one level below current workings, or where a block is bounded above and below by current workings.
3. Indicated Resources are classified as two levels below Measured Resources.
4. Inferred Resources are classified as three levels below Indicated Resources or inaccessible mined out areas, or as extensions along strike from existing Resource blocks where exploration information allows.
5. The Helam mine is currently on care and maintenance; no Resource changes are noted above and no Reserves are declared as there are no plans to restart production in the short term.
6. US$/ct values of 115–120 for ROM, based on sales values and production size frequency distributions for FY 2014 adjusted to current pricing.

FY 2018 Resource Statement continued

KX36

Category	Gross Tonnes millions	Gross Grade cpht	Gross Contained diamonds Mcts
Reserves			
Proved	—	—	—
Probable	—	—	—
Sub-total	**—**	**—**	**—**
Resources			
Measured	—	—	—
Indicated	17.9	35.3	6.32
Inferred	6.8	35.7	2.41
Sub-total	**24.7**	**35.4**	**8.73**

1. Resource bottom cut-off: 1.15mm.
2. Resource estimation based on >10,000m of core drilling and >5,000m of large diameter reverse circulation sample drilling. Resource estimate used a dataset of 1,046 carats recovered from 235 samples. Modelled diamond value of US$65/ct, based on size frequency distribution of large diameter drill sampling.

General notes on reporting criteria

1. Resources are reported inclusive of Reserves.
2. Tonnes are reported as millions; contained diamonds are reported per million carats ("Mcts").
3. Tonnes are metric tonnes, and are rounded to the nearest 100,000 tonnes; carats are rounded to the nearest 10,000 carats; rounding off of numbers may result in minor computational discrepancies.
4. Resource tonnages and grades are reported exclusive of external 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. Reserves and Resources have been reported in accordance with the South African code for the reporting of mineral reserves and mineral resources (SAMREC 2016).
7. The Petra 2018 annual Resource Statement as shown above is based on information compiled internally within the Petra Group. All Reserves and Resources have been independently reviewed and verified by John Kilham, Pr. Sci. Nat. (reg. No. 400018/07), a competent person with 38 years' relevant experience in the diamond mining industry, who was appointed as an independent consultant by the Company for this purpose.

Shareholder and Corporate Information

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Shareholder and Corporate Information continued

Financial calendar

Accounting period end	30 June
Annual Report published	October
Annual General Meeting	November
Interim accounting period end	31 December
Interim results announced	February

Stock exchange listing

The Company's shares are admitted to the premium segment of the Official List and are traded on the Main Market of the London Stock Exchange. The Ordinary Shares (as defined below) themselves are not admitted to CREST, but dematerialised depositary interests representing the underlying Ordinary Shares issued by Capita IRG Trustees Limited can be held and transferred through the CREST system. The rights attached to the Ordinary Shares are governed by the Companies Act 1981 (Bermuda) (as amended) ("the Act") and the Company's Bye-Laws as adopted 28 November 2011 ("the Bye-Laws").

The Company is a constituent of the FTSE4Good Index.

Dividend

Distribution covenants were not met for the measurement period to 30 June 2018 and the Company will therefore not declare a dividend for FY 2018.

Substantial shareholdings

The interests as indicated in the table below in the Ordinary Shares of the Company represented more than 3% of the issued share capital as at 4 October 2018.

	Number of voting rights[1]	Percentage of issued share capital
BlackRock, Inc.	109,927,600	12.7%
Standard Life Aberdeen plc[2]	96,189,904	11.1%
Prudential plc (incorporating M&G Group Limited)	28,175,972	5.3%
T. Rowe Price	43,435,454	5.0%
Cobas Asset Management, SSIIC, S.A.	43,360,171	5.0%
VanEcK Associates Corporation	35,761,959	4.1%
Directors	33,202,027	3.8%

1 Attached to shares and through financial instruments.

2 Aggregate holding.

Company Bye-Laws

The Company is incorporated in Bermuda and the City Code therefore does not apply to the Company; however, the Company's Bye-Laws incorporate material City Code protections appropriate for a company to which the City Code does not apply.

The Bye-Laws also require that all Directors stand for re-election annually at the Company's Annual General Meeting.

The Bye-Laws of the Company may only be amended by a resolution of the Board and by a resolution of the shareholders. The Bye-Laws of the Company can be accessed here: www.petradiamonds.com/about-us/corporate-governance.

Share capital

The Company has one class of shares of 10 pence each ("the Ordinary Shares"). Details of the Company's authorised and issued Ordinary Share capital together with any changes to the share capital during the Year are set out in note 20 to the Financial Statements.

Power to issue shares

At the AGM held on 24 November 2017 ("the 2017 AGM"), authority was given to the Directors to allot:

i) Relevant Securities (as defined in the Bye-Laws) up to a maximum aggregate nominal amount of £17,735,734.70 (being 177,357,347 Ordinary Shares which represents approximately one-third of the Company's issued share capital as at 13 October 2018; and

ii) equity securities (as defined in the Bye-Laws) for cash on (a) a non-pre-emptive basis pursuant to a rights issue or other offer to shareholders and (b) in any case up to an aggregate maximum nominal amount of £2,660,360.20, representing approximately 5% of the issued share capital of the Company as at 12 October 2018.

Share rights
Shareholders have the right to receive notice of and attend any general meeting of the Company. Each shareholder who is present in person (or, being a corporation, by representative) or by proxy at a general meeting on a show of hands has one vote and, on a poll, every such holder present in person (or, being a corporation, by representative) or by proxy shall have one vote in respect of every Ordinary Share held by them.

There are no shareholders who carry any special rights with regards to the control of the Company.

Shareholder voting
In advance of the AGM in November 2018, Petra would like to inform shareholders that the Company has decided to move to a more digital approach to voting and therefore requests that all shareholders vote electronically. Shareholders can vote either via the shareholder portal (www.signalshares.com) or, for CREST holders, via the CREST Network. Voting in this way is cost effective, efficient and mitigates the risk of lost items via postal systems thus ensuring your vote is received and recorded. If you do not have a hard copy proxy card and require one please contact Link Asset Services to obtain this. Hard copy proxy cards should be returned in accordance with instructions printed thereon and returned to Link Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.

Restriction on transfer of shares
The Board may at its absolute discretion refuse to register any transfer of Ordinary Shares over which the Company has a lien or which are not fully paid up provided it does not prevent dealings in the Ordinary Shares on an open and proper basis. During the Year, the Board did not place a lien on any shares nor did it refuse to transfer any Ordinary Shares.

The Board shall refuse to register a transfer if it is not satisfied that all the applicable consents, authorisations and permissions of any governmental body or agency in Bermuda have been obtained.

The Board may also refuse to register a transfer if:

- certain restrictions on transfer from time to time are imposed by laws and regulations;
- pursuant to the Company's share dealing code whereby the Directors and employees of the Company require approval to deal in the Company's Ordinary Shares; and
- where a person who holds default shares (as defined in the Bye-Laws) which represent at least 0.25% of the issued shares of the Company has been served with a disclosure notice and has failed to provide the Company with the requested information in connection with the shares.

Repurchase of shares
The Company may purchase its own shares for cancellation or to acquire them as Treasury Shares (as defined in the Bye-Laws) in accordance with the Act on such terms as the Board shall think fit. The Board may exercise all the powers of the Company to purchase or acquire all or any part of its own shares in accordance with the Act, provided, however, that such purchase may not be made if the Board determines in its sole discretion that it may result in a non de minimis adverse tax, legal or regulatory consequence to the Company, any of its subsidiaries or any direct or indirect holder of shares or its affiliates.

Appointment of Directors to fill a vacancy
The Directors shall have power at any time to appoint any person as a director to fill a vacancy on the Board occurring as a result of the death, disability, removal, disqualification or resignation of any Director or to fill any deemed vacancy arising as a result of the number of Directors on the Board being less than the minimum number of Directors that may be appointed to the Board from time to time.

Removal of Directors
The Company may by resolution at any special general meeting remove any Director before the expiry of his or her term of office. Notice of such meeting convened for the purpose of removing a Director shall contain a statement of the intention to do so and be served on such Director not less than 14 clear days before the meeting and at such meeting the Director shall be entitled to be heard on the motion for such Director's removal.

A Director may be removed (with or without cause) by notice in writing by all of their co-directors, provided such notice is delivered to the Secretary and such Director.

Financial instruments
The Group makes use of financial instruments in its operations as described in note 33 of the financial statements.

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.

Website publication
The Directors are responsible for ensuring the Annual Report and the Financial Statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions.

The Company operates a website which can be found at www.petradiamonds.com. This site is regularly updated to provide relevant information about the Group. In particular all of the Company's regulatory announcements and public presentations are made available and there is a dedicated Investors section at www.petradiamonds.com/investors.

The maintenance and integrity of the Company's website (as well as the integrity of the financial statements contained therein) is the responsibility of the Directors.

Shareholder enquiries
Any enquiries concerning your shareholding should be addressed to the Company's registrar. The registrar should be notified promptly of any change in a shareholder's address or other details.

The Company also has a frequently asked questions section available on its website at: www.petradiamonds.com/investors/shareholders/faqs.

Shareholder Portal
The Company has set up an online Shareholder Portal, www.signalshares.com, which offers a host of shareholder services online.

Shareholder and Corporate Information continued

Investor relations

Requests for further copies of the Annual Report and Accounts, or other investor relations enquiries, should be addressed to the investor relations team in the London office on +44 20 7494 8203 or InvestorRelations@petradiamonds.com.

eCommunications

Shareholders have the flexibility to receive communications from Petra electronically, should they so choose, and can update their preferences at any time either by contacting Link Asset Services or by logging in to the Shareholder Portal.

Shares in issue

There was a total of 865,336,485 ordinary shares in issue at 30 June 2018, representing a significant increase on the previous year as a result of the Rights Issue which closed at the end of June 2018.

Share price information

The latest information on the ordinary share price is available in the Investors section of the corporate website at www.petradiamonds.com/investors/share-price. Closing share prices for the previous business day are quoted in most daily newspapers and, throughout the working day, time delayed share prices are broadcast on the text pages of the principal UK television channels.

Share dealing services

The sale or purchase of shares must be done through a stockbroker or share dealing service provider. The London Stock Exchange provides a "Locate a broker" facility on its website which gives details of a number of companies offering share dealing services. For more information, please visit the Private investors section at www.londonstockexchange.com. Please note that the Directors of the Company are not seeking to encourage shareholders to either buy or sell shares. Shareholders in any doubt about what action to take are recommended to seek financial advice from an independent financial adviser authorised pursuant to the Financial Services and Markets Act 2000.

Shareholder security

Shareholders are advised to be wary of any unsolicited advice, offers to buy shares at a discount, or offers of free reports about the Company. Details of any share dealing facilities that the Company endorses will be included in Company mailings or on our website. More detailed information can be found at www.fca.org.uk/consumers/scams/investment-scams.

Glossary

"AGM"	Annual General Meeting
"AG mill"	autogenous mill, so called due to the self-grinding of the ore
"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
"BBBEE"	broad based black economic empowerment, a policy of the South African Government to redress past economic imbalances
"BEE"	black economic empowerment, a policy of the South African Government to redress past economic imbalances
"Beneficiation"	the refining of a commodity; in the case of diamonds, refers to the cutting and polishing of a rough stone
"block caving"	a method of mining in which large blocks of ore are undercut so that the ore breaks and caves under its own weight. The undercut zone is initially drilled and blasted and some broken ore is drawn down to create a void into which initial caving of the overlying ore can take place. As more broken ore is drawn progressively following cave initiation, the cave propagates upwards through the orebody or block until the overlying rock also caves and surface subsidence occurs. The broken ore is removed through the production or extraction level developed below the undercut level. Once the caves have been propagated, it is a low-cost mining method which is capable of automation to produce an underground 'rock factory'
"BSI"	British Standards Institute
"bulk sample"	a large sample for the purpose of estimating the grade of a diamond deposit and to produce a large enough quantity of diamonds to enable an evaluation of diamond quality
"C-Cut"	the 'Centenary Cut' a major resource of 133 million carats located beneath the B block of the Cullinan orebody
"CAGR"	compound average growth rate
"Capex"	capital expenditure
"carat" or "ct"	a measure of weight used for diamonds, equivalent to 0.2 grams
"CDP"	Carbon Disclosure Project, a global disclosure system that enables companies, cities, states and regions to measure and manage their environmental impacts
"CEO"	Chief Executive Officer
"Cpht"	carats per hundred tonnes
"CTP"	Central Treatment Plant
"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
"DMR"	the South African Department of Minerals Resources
"DPA"	Diamond Producers Association
"drawpoint"	an opening through which ore from a higher level can fall and subsequently be loaded
"EBITDA"	earnings before interest, tax, depreciation and amortisation
"ED"	Enterprise development
"EMS"	Environmental management system
"EPS"	earnings per share
"ESG"	environmental, social and governance
"Exceptional Diamonds"	Petra classifies 'exceptional' diamonds as stones that sell for US$5 million or more each
"FIFR"	Fatal injury frequency rate: the number of fatal injuries per 200,000 hours worked
"FRC"	the UK's Financial Reporting Council
"FY"	Petra's financial year (1 July to 30 June)
"GHG"	greenhouse gases
"GM"	General Manager (i.e. the Mine Manager)
"GoT"	Government of the United Republic of Tanzania

Glossary continued

"grade"	the content of diamonds, measured in carats, within a volume or mass of rock
"GRI"	Global Reporting Initiative
"H1" or "H2"	first half, or second half, of the financial year
"ha"	hectares
"HDSA"	historically disadvantaged South African
"HSE"	health, safety, environment
"HSEQ"	health, safety, environmental and quality
"HSSE"	health, safety, social and environment
"iNED"	independent Non-Executive Director
"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)
"IPDET"	Itumeleng Petra Diamonds Employee Trust
"ISO 14001"	an international standard on environmental management; it specifies a framework of control for an Environmental Management System against which an organisation can be certified by a third party
"ISO 31000"	an international standard on risk management
"KEM JV"	Kimberley Ekapa Mining Joint Venture
"kimberlite"	a brecciated ultrabasic igneous rock containing phlogopite mica, bronzite pyroxene and ilmenite; kimberlites may or may not contain diamonds
"Kt"	thousand tonnes
"LED"	local economic development
"LOM"	life of mine
"LSE"	London Stock Exchange
"LTI"	lost time injury; a work-related injury resulting in the employee/contractor being unable to attend work on the day following the injury
"LTIFR"	lost time injury frequency rate; the number of LTIs multiplied by 200,000 and divided by the number of hours worked
"macrodiamond"	diamonds too large to pass through a 0.5mm screen
"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
"MHSA"	Mine Health and Safety Act
"microdiamond"	diamonds small enough to pass through a 0.5mm screen
"mL"	metre level

"MSCI"	MSCI is an independent provider of research-driven insights and tools for institutional investors
"Mt"	million tonnes
"Mtpa"	million tonnes per annum
"NED"	Non-Executive Director
"NGOs"	non-governmental organisations
"NPAT"	net profit after tax
"NUM"	National Union of Mine Workers in South Africa
"open pit"	mining in which ore that occurs close to the Earth's surface is extracted from a pit or quarry
"Opex"	operating costs
"orebody"	a continuous well-defined mass of material of sufficient ore content to make extraction feasible
"pa"	per annum
"PAT"	profit after tax
"PCBC"	GEOVIA PCBC™ is a highly sophisticated software package designed specifically for the planning and scheduling of block cave mines.
"Probable Reserves"	the economically mineable material derived from a Measured and/or Indicated 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 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
"re-crush system"	processes oversized material from the primary crushers, further reducing it in size
"rehabilitation"	the process of restoring mined land to a condition approximating to a greater or lesser degree its original state
"ROM"	run-of-mine, i.e. relating to production from the primary orebody
"SAMREC"	South African Code for Reporting of Exploration Results, Mineral Resources and Mineral Reserves
"SARS"	The South African Revenue Service
"SD"	Supplier development
"Severity Rate"	Severity Rate indicates the severity of work-related injuries (number of days lost due to injuries) where individuals were booked off from work impacting on workforce effectiveness. The rate calculus is as follows: number of days off from work due to injury x 200 000 ÷ total man-hours worked
"SEM"	Stakeholder Engagement Module
"shaft"	a vertical or inclined excavation in rock for the purpose of providing access to an orebody. Usually equipped with a hoist at the top, which lowers and raises a conveyance for handling workers and materials
"SHE"	safety, health and environment
"SLC"	sub level cave
"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
"SMMEs"	small, medium and micro enterprises
"stockpile"	a store of unprocessed ore

Glossary continued

"sub level caving"	follows the same basic principles as the block caving mining method; however, work is carried out on intermediate levels and the caves are smaller in size and not as long lasting. This method of mining is quicker to bring into production than block caving, as the related infrastructure does not require the level of permanence needed for a long-term block cave. This method is used to supplement block caving in order to provide production flexibility
"tailings"	material of –6mm in size that has already been processed through a plant, otherwise known as coarse residue deposit; this material can be reprocessed again in order to extract any remaining diamonds that were missed the first time around; however the diamonds remaining tend to be significantly smaller and of lower quality than those found in the original ROM ore
"tailings dump"	dumps created of waste material from processed ore after the economically recoverable metal or mineral has been extracted
"Tier 1 diamond resource"	a diamond resource estimated to host a contained value of US$20 billion+
"tonnage"	quantities where the tonne is an appropriate unit of measure; typically used to measure reserves of target commodity bearing material or quantities of ore and waste material mined, transported or milled
"tpa"	tonnes per annum
"tpm"	tonnes per month
"TSR"	total shareholder return
"U/G"	underground
"Undiluted ore"	the purpose of Petra's capital expansion projects over the past number of years has been to create access to 'undiluted ore' by opening up new areas where mining has not taken place before. This means that there remains solid blocks of ore available to be extracted, unlike the old areas of Petra's mines where the majority of the ore has already been removed and which have since become heavily diluted with waste rock. Accessing 'undiluted ore' will see Petra's ROM grades go up, as the Company will be able to extract more diamonds per hundred tonnes due to mining ore which is undiluted with waste rock
"WIM"	Women in mining

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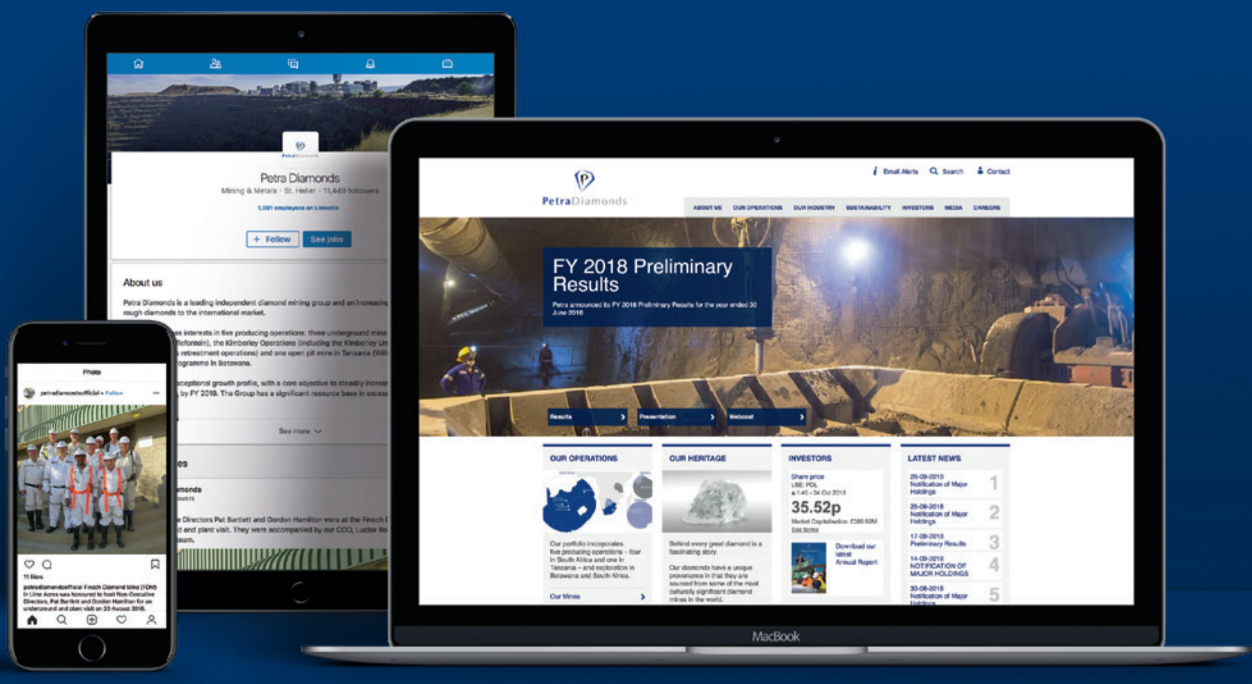

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