



PetraDiamonds

# Foundations for the future

Petra Diamonds Limited  
Annual Report and Accounts 2019

# 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.

## Highlights<sup>1</sup>

**ROM TONNES**  
Mt

**13.3** +10%

**ROM CARATS**  
Mcts

**3.8** +3%

**REVENUE**  
US\$ million

**463.6** -6%

**PROFIT FROM MINING  
ACTIVITIES** US\$ million

**161.1** -21%

**NET LOSS AFTER TAX<sup>2</sup>**  
US\$ million

**258.1** -27%

**NET DEBT**  
US\$ million

**564.8** +8%

**ORE PROCESSED**  
Mt

**14.9** +9%

**ROUGH DIAMOND  
PRODUCTION** Mcts

**3.9** +1%

**OPERATIONAL FREE CASHFLOW**  
US\$ million

**70.5**

**ADJUSTED EBITDA**  
US\$ million

**153.0** -22%

**ADJUSTED LOSS PER SHARE<sup>3</sup>**  
US\$ cents per share

**2.63**

**NET DEBT TO EBITDA**  
Ratio

**3.9**

1. Certain alternative performance measures ("APMs") have been used in this report. See page 156 for an explanation of relevance as well as their definition.

2. Including non-cash impairment charge of US\$246.6 million.

3. From continuing operations.





## Strategic Report

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Petra recovered a 20.08 carat Type IIb blue diamond at the Cullinan mine on 23 September 2019, demonstrating that the mine remains a significant source of rare blue diamonds.

🔗 [petradiamonds.com](https://petradiamonds.com)

🔗 **Sustainability Report**  
[petradiamonds.com/sustainability](https://petradiamonds.com/sustainability)

## At a Glance

Our purpose is to unearth the world's most beautiful product as responsibly and efficiently as possible, to generate long-term value for each of our stakeholders

### One of the world's largest diamond resources

<b>GROUP RESOURCES</b> Mcts	<b>GROUP RESERVES</b> Mcts
<b>248</b>	<b>43</b>

The careful management of these resources will ensure sustainable mining operations for the Group.

🔗 [FY 2019 Resource Statement Pages 165 to 167](#)

### Prioritising safe and sustainable business practices

<b>GROUP LTIFR</b>	<b>MAJOR ENVIRONMENTAL INCIDENTS</b>
<b>0.21</b>	<b>0</b>

Our people are integral to our success and ensuring a safe workplace is our first priority. Our goal is to put in place the right actions today which will benefit the future of a project and encourage its long-term sustainability in order to benefit all our stakeholders.

🔗 [Sustainability Pages 38 to 47](#)

### Concentrating on efficiencies

<b>PROFIT FROM MINING ACTIVITIES</b> US\$ million	<b>ADJUSTED EBITDA</b> US\$ million
<b>161.1</b>	<b>153.0</b>
<b>OPERATIONAL FREE CASHFLOW</b> US\$ million	<b>CORPORATE OVERHEAD</b> US\$ million
<b>70.5</b>	<b>7.7</b>

Identifying and delivering operational efficiencies across all aspects of the business are central to the Group's focus on generating free cashflow. This is achieved by maximising throughput, improving organisational structures and sharing services across mines, maintaining disciplined on-site and corporate cost control and ensuring ore-handling and processing efficiencies.

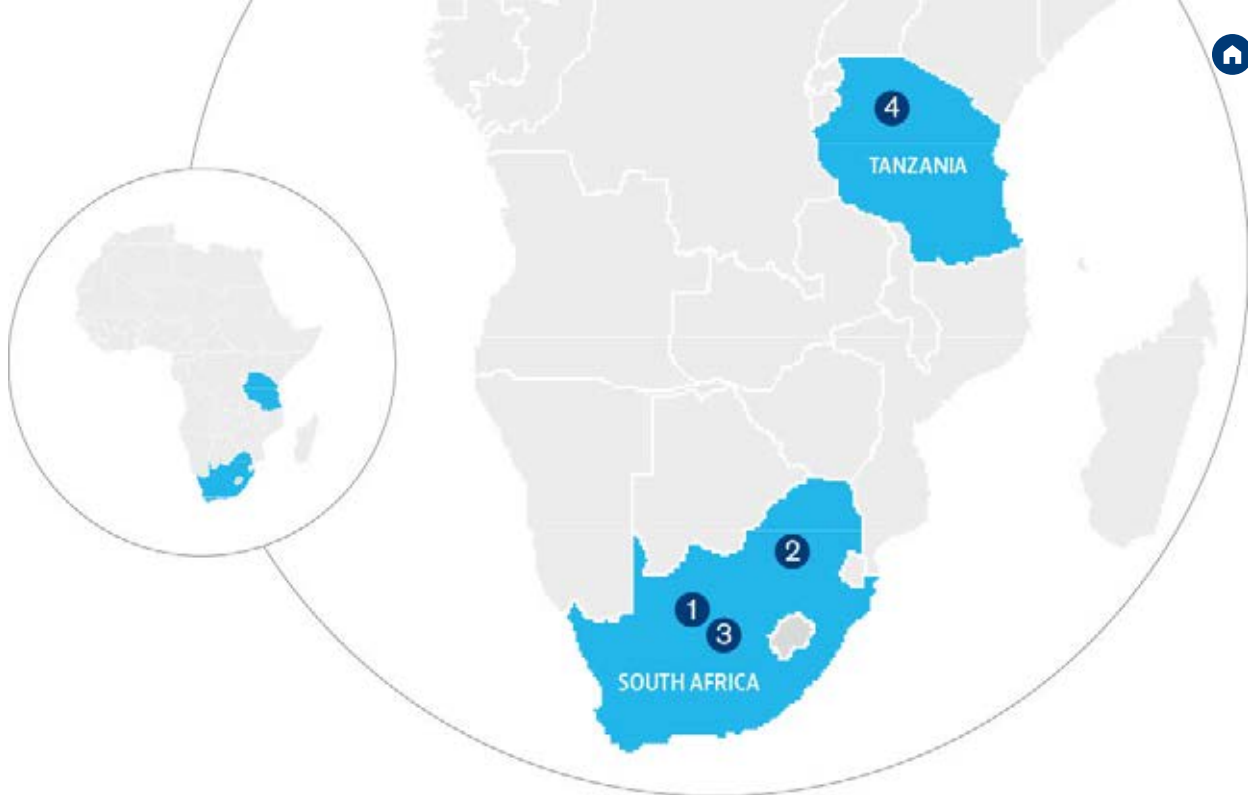
🔗 [Our Strategy Pages 20 and 21](#)

### The right team, skills, experience and culture

<b>EMPLOYEES WORLDWIDE</b>	<b>CONTRACTORS WORLDWIDE</b>
<b>3,833</b>	<b>2,955</b>
<b>BOARD GENDER DIVERSITY</b> %	<b>TRAINING AND DEVELOPMENT SPEND</b> US\$ million
<b>22</b>	<b>6.6</b>

The Group has built 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. 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 Company has further strengthened its Board and Management in FY 2019.

🔗 [Our People Page 43](#)



## Focused on Africa

Petra has a diversified portfolio incorporating interests in three underground producing mines in South Africa and one open pit producing mine in Tanzania.

**1**  
**Finsch**  
A major producer with top-quality infrastructure

PRODUCTION Mcts  
**1.8**

REVENUE US\$ million  
**170.2**

**3**  
**Koffiefontein**  
One of the world's top kimberlite mines by average value per carat

PRODUCTION Mcts  
**0.06**

REVENUE US\$ million  
**28.9**

**2**  
**Cullinan**  
One of the world's most celebrated diamond mines

PRODUCTION Mcts  
**1.7**

REVENUE US\$ million  
**171.4**

**4**  
**Williamson**  
Tanzania's only significant diamond producer

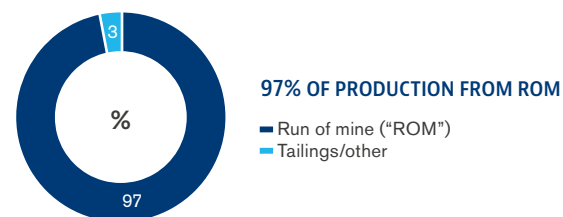
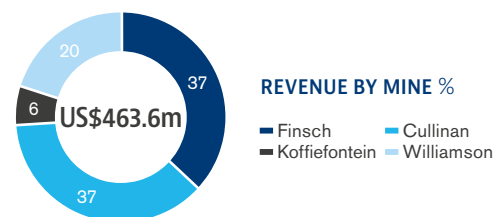
PRODUCTION Mcts  
**0.4**

REVENUE US\$ million  
**93.0**

Operational Review [Pages 28 to 35](#)

## Delivering from a diversified portfolio

Petra has a broad production profile, with its mines providing the full spectrum of diamonds, including rare and highly prized coloured diamonds. With increasing access across the full footprint of the sub-level and block caves, six consecutive quarters of consistent production have been achieved as Petra transitions from a period of high capital investment to a steady operational phase.



Our Market [Pages 15 to 19](#)

## Chairman's Statement

# Solid foundations



As one of the world's top five independent diamond producers for the last decade we have travelled a long, exciting and, at times, difficult road with both achievements and challenges along the way. We are cognisant of some mistakes made but, having reached the final stages of our development programmes, we aim to heed lessons learnt and adapt where necessary to ensure Petra's successful future.

I will soon be stepping down as Chairman of Petra and therefore would like to reflect on the Company's remarkable journey from a junior explorer to a leading independent diamond miner, with production of 3.9 Mcts. On 30 April 1997, Petra was the first diamond company, and one of the few natural resources stocks, to list on London's junior AIM market. Following its merger with Crown Diamonds in 2005, the Company then went on to acquire a number of the world's significant diamond mines, achieve a premium listing on the Main Market and embark on an ambitious development programme, committing ca. US\$1.7 billion in investment to effectively create new mines with sustainable mine plans.

## Stakeholder engagement

Central to the running of a sustainable, long-term business is effective stakeholder engagement and this is something we value highly at Petra. Against the backdrop of continued operating and regulatory challenges in FY 2019, we continue to co-operate closely with stakeholders to help us navigate the best ways forward. In Tanzania, we remain in discussions in relation to overdue VAT receivables and the blocked parcel of diamonds. We also continue to seek and take on board feedback from shareholders and are very seriously committed to regaining trust.

Reflecting on the strengthening focus on Board/workforce engagement in the UK governance environment, Petra aims to introduce clear and formal systems to facilitate this. That said, I am pleased to emphasise that, on an individual level, the Directors already set aside significant time to visit operations, meet employees and listen to their views and opinions.

## Our team

I would like to thank Johan Dippenaar for his enormous contribution to the development of Petra in his role as CEO and for the endless dedication and commitment he showed towards the Company. We are deeply grateful for all the work he has done over the past 14 years.

FY 2019 has been a year of bedding down the development of our assets and further setting them up for ongoing sustainable and steady production. In order to reflect and reinforce this shift in focus from heavy capital expenditure and development towards consistent production into the future, we have implemented changes in our Board and management team. We were delighted to welcome our new CEO, Richard Duffy, to the Board in April. With his impressive depth of global mining experience, both in open pit and underground mining, his unwavering focus on safety, delivery, productivity and community relations, as well as his financial background, not to mention his passion for Africa, I am confident that he is the right leader to take Petra forward.

We strongly believe that all forms of diversity are essential in building effective teams. Further refining the Board's blend of expertise, skills and diversity therefore forms an important part of our succession planning and I am pleased that we took strong steps during the Year towards these goals with the appointment of Varda Shine and Bernard Pryor as independent Non-Executive Directors. Further detail on the experience of our Directors can be found on pages 52 and 53. The delivery of our succession plans is still ongoing. We recognise that the diversity of our entire team still needs widening to enable Petra to benefit from the breadth of thought, opinion, perspective and experience this offers. We are in the process of reviewing relevant policies to ensure we have an appropriate diversity policy in place as part of our overall sustainability framework.

## Purpose, values and culture

At the heart of our business is our purpose to unearth the world's most beautiful product as responsibly and efficiently as possible. In doing so, we aim to contribute to the sustainability of our industry and deliver long-term value to each of our stakeholders. This purpose is underpinned by our culture, which bases itself on the five core values opposite. Leading from the top, the Board and management team do their best to ensure that we are living these values.

At the core of our culture is our focus on safety and this is the most critical behavioural value we drive on a daily basis. Demonstrating our commitment to achieving zero harm, the Board signed an official health and safety pledge during the Year; see case study on page 6. We aim to be an open, transparent and collaborative organisation, in which innovative ideas and solutions are encouraged. We try to afford everyone the opportunity to acknowledge and learn from their mistakes, thereby enabling the team to rectify errors and implement solutions.

We invest in our operations and our people and always strive to look for 'a better way to do things'. We cultivate a spirit of creativity as well as innovative and lateral thinking. It is our firm belief that it is our willingness to be different that enables Petra to achieve results. I hope this approach continues for the years to come – in fact, it is vital that it does if Petra is to negotiate the fast-changing demands of a different, changing and technology-driven world.



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This purpose is underpinned by our culture, which bases itself on our five core values.

**Adonis Pouroulis**  
Non-Executive Chairman

### Diamonds do good – driving change

A fundamental goal of our business as we move forward is working towards a positive net impact. This will entail innovation and optimisation at all levels of our operations as we aim to produce in the most sustainable way. Our aim is to add, rather than purely extract, value in all spheres and we are continuously looking at ways to improve our environmental and societal impact. I cover this in more detail in our Sustainability Report.

Supporting the sustainability of our industry, enhancing its positive perception and promoting demand are priorities for Petra. This is a cyclical industry and, whilst we are currently seeing very challenging trading/conditions, the overarching medium- to long-term supply demand dynamics remain intact, with notable supply constraints on the horizon as a result of the closure of various mines. The diamond industry has previously weathered storms and continued its overall upward trajectory with far less volatility than that witnessed in other materials. However, we are not complacent and take our obligations as a diamond producer seriously. One of the ways we look to do this is via our membership with the Diamond Producers Association (“DPA”). We are also working on some interesting collaborations to further enhance the awareness of our operations and provenance of our diamonds. We have a partnership with Boodles for which it is branding jewellery with a letter ‘C’ to mark the unique heritage of the contained diamonds, signifying they come from our Cullinan mine. We are also working with Harvard University on a study that aims to trace the origins of Type II diamonds and their kimberlite host rock at Cullinan.

An important part of our contribution to the industry is our continued emphasis on strong governance, and I discuss this, along with our consideration of the new UK Corporate Governance Code, on pages 50 and 51.

The role of synthetic diamonds in our industry is a much debated topic at present and therefore I feel it important to underline our determination to address any challenges in this sphere head on. We believe that, with the correct identification and classification, synthetic diamonds and natural diamonds can coexist, with the former establishing a smaller, secondary market. Through its ASSURE programme, the DPA is working to independently and objectively test the performance of diamond verification instruments, which we believe is an important step in ensuring the accuracy of identification. That said, we have confidence in consumers’ affinity for natural diamonds – one of nature’s most beautiful and enduring creations, formed over millions of years and given to celebrate some of life’s most special moments. Fundamental to their value is their scarcity, character and provenance and we therefore expect them to continue to command a significant premium to the synthetic diamonds segment.

## Our values in action

Petra’s core values underpin everything we do and we have used these throughout our reporting to demonstrate how we are living 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.

## Chairman's Statement continued

### Summary

I would like to end by stressing that it has been a true honour to serve on Petra's Board for the past 23 years. I move on leaving the Company in capable hands, knowing that the team can further deliver on the goals we set out to achieve. I see a bright future for the business, which can now focus on maximising the potential of its well-diversified and high-quality asset base. With the heavy capital investment phase largely behind us, I believe that Petra is well positioned, with the right collaborative, experienced and capable team, to further optimise production from our diversified portfolio of mines, thereby driving cashflow and reducing leverage.

I would like to thank each and every one of our Petra family for their exceptional contribution to what is truly a unique story. I know I speak on behalf of all the Board in also showing our sincere gratitude for the support of our customers, investors, communities, governments and suppliers – it has been a privilege to share this journey with you. The search for Petra's next Chairman is well underway and I intend to step down by the end of Q3 FY 2020.



**Adonis Pouroulis**  
Non-Executive Chairman  
14 October 2019

## Putting safety first

### STRATEGY IN ACTION



WORK RESPONSIBLY

### VALUES IN ACTION



LET'S DO NO HARM

To demonstrate our unwavering commitment to safety at work and as part of our work to further embed a strong safety culture throughout the organisation, the Board signed a health and safety pledge. The pledge was officially launched throughout the Group in Q2 FY 2019 and is an important step in leading from the top in order to drive our target of achieving a zero harm working environment.



**HEALTH & SAFETY PLEDGE**

EACH FINGER SYMBOLISES THE PLEDGE YOU ARE MAKING TOWARDS YOUR COMMITMENT TO THE TARGET OF **ZERO HARM!**

- LEADERSHIP**  
I will put health and safety **FIRST, ALWAYS AND EVERY DAY**
- INDIVIDUALITY**  
I will look after my own health and safety and return from work **UNHARMED, EVERY DAY**
- AFFECTION**  
I will look after the health and safety of my fellow workers and **NOT LOOK THE OTHER WAY**
- WILLPOWER**  
I will live Petra's Core Value of **LET'S DO NO HARM**
- UNITY**  
I will treat everyone with **CARE, DIGNITY & RESPECT**

HEALTH & SAFETY PLEDGE

PLEASE COMMIT WITH YOUR SIGNATURE:



## Celebrating our diamonds

### STRATEGY IN ACTION



WORK RESPONSIBLY

### VALUES IN ACTION



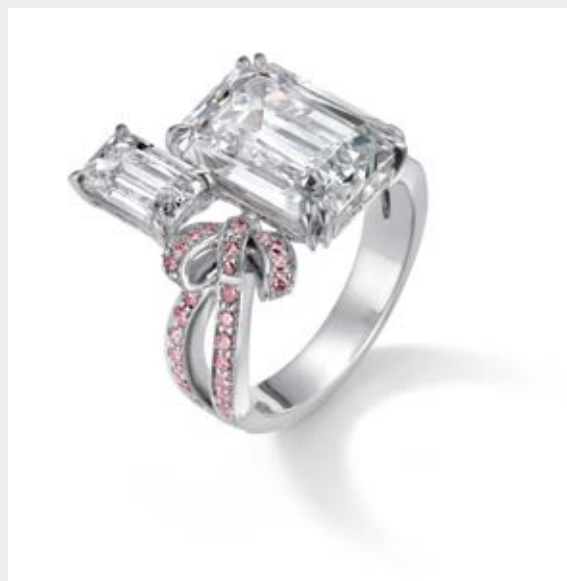
LET'S DO IT RIGHT

Cullinan holds a special place in the history of diamonds as it is the source of some of the most spectacular gems the world has ever seen, including the 3,106 carat Cullinan diamond, which went on to form the two largest cut stones in the British Crown Jewels.

Sixth generation British jeweller Boodles has entered into a partnership with Petra to offer its customers beautiful diamonds from the Cullinan mine, each with their own unique heritage and a guarantee of their ethical provenance.

Marking the start of this exciting new partnership is the Gemini Bow Ring, featuring two important Victorian emerald cut diamonds from the legendary Cullinan mine.

- Find out more at [boodles.com/boodles-and-the-cullinan-mine](https://www.boodles.com/boodles-and-the-cullinan-mine)







## Chief Executive's Statement

# Well positioned to deliver



Petra reached an important milestone during the Year, with the generation of US\$70.5 million of operational free cashflow.

**Richard Duffy**  
Chief Executive

### Solid operational performance, a focus on safety and strong foundations

Whilst FY 2019 saw some challenges in terms of a relatively volatile market, as well as the Company's transition from capital expansion to steady-state production, we delivered a largely solid operational performance. As operations continue to stabilise, the Company is well positioned for the next chapter of delivery.

Petra's overriding concern is the health and safety of both its employees and contractors and the Company is committed to achieving a zero harm work environment. We aim to have a deeply ingrained safety culture, backed up by effective systems and processes, with managers through all levels of the business leading by example. Our focus on this most important area delivered a continued improvement in our lost time injury frequency rate ("LTIFR") to 0.21 for the Year, as opposed to 0.23 in FY 2018.

Production of 3.9 Mcts was in line with guidance. Diamonds produced at Cullinan and Williamson exceeded guidance, offset by lower than expected production at Finsch and Koffiefontein. Run of mine ("ROM") production increased to 3.8 Mcts – representing ca. 97% of the Group's overall production profile.

Based on production recorded in the first two months of FY 2020 at ca. 705 Kcts, the Group is on track to achieve its FY 2020 target of ca. 3.8 Mcts.

🔗 **Operational Review Pages 28 to 35**

### Financial position

Revenue decreased by 6% to US\$463.6 million due to Petra's realised diamond prices being down ca. 5% on a like-for-like basis, in line with the wider market. This pressure on pricing resulted in our adjusted EBITDA being down 22% to \$153.0 million, with an adjusted EBITDA margin of 33%, compared to 39% last year.

One of our key focus areas continues to be the identification and realisation of opportunities to improve cost efficiencies across the portfolio. Petra has now effectively completed its significant capital expenditure programme and recorded lower operational Capex of US\$81.4 million during the Year, excluding capitalised borrowing costs (down from US\$129.6 million in FY 2018 and below the Company's FY 2019 guidance of ca. US\$93 million).

We were able to mitigate the difficult pricing environment to a certain extent by keeping a tight grip on those factors within our control, being production, costs and capital expenditure. This led to Petra reaching an important milestone in FY 2019, with the generation of US\$70.5 million of operational free cashflow. This is a notable turning point for Petra and reflects both the positive benefits of our capital investment and the transition to steady-state operational performance across our portfolio.

Updated cashflow projections, reflecting the weaker pricing observed in recent months, indicate sufficient headroom from available cash balances and existing banking facilities. The continued market weakness and its expected impact on the Company has been discussed with the South African Lender Group<sup>1</sup> which has confirmed its ongoing support. Both the ZAR1 billion (ca. US\$70 million) revolving credit facility and the ZAR500 million (ca. US\$35 million) working capital facility are currently undrawn and remain available.

Following our recent review of our life of mine ("LOM") plans, FY 2020 Capex guidance is maintained at ca. US\$43 million, while Capex for FY 2021 and FY 2022 is guided at ca. US\$45–55 million and ca. US\$60–70 million respectively. Of this, ca. US\$30 million per annum relates to sustaining Capex and the balance to underground development at Cullinan and Finsch. A significant portion of the FY 2021 and FY 2022 expansionary Capex is discretionary and can be rescheduled or curtailed should current market conditions worsen.

Further to the LOM review, the Company also completed impairment reviews on all assets in its portfolio. The changes to the underlying operational plans, costs and capital expenditure assumptions did not materially change compared to earlier reviews of this nature and thus did not indicate any impairment on a standalone basis. However, the revised starting price assumptions, given recent weakness in the diamond market and a decision to use a lower real price escalator compared to earlier assumptions, resulted in each of the four operational assets' carrying values being partially impaired to reflect the latest assessment of the recoverable value. An asset-level non-cash impairment charge of US\$223.7 million has therefore been recognised in the financial results with further detail provided in the Financial Review section on pages 24 to 27.

### Compelling opportunities – Project 2022

My first priority at Petra has been to assess the business' capacity to deliver free cashflow and, as a result of this exercise, we have launched Project 2022 to identify opportunities across the business, drive efficiencies and facilitate continuous improvement. Project 2022 targets delivery of US\$150–200 million of free cashflow by the end of FY 2022, with delivery weighted towards FY 2021 and FY 2022 and dependent on diamond pricing.

## Chief Executive's Statement continued

### Compelling opportunities – Project 2022 continued

Juan Kemp (previously General Manager at Cullinan) has been appointed Projects Executive and will work closely with the Company's Executive Committee to drive the delivery of Project 2022 across the Group. A Central Project Team has been established, together with Project Teams at each of the Company's operations, to ensure that opportunities are captured and delivered to the business. The Company has appointed Partners in Performance, a global management consulting firm, to support Juan and the Project Team.

Project 2022 is a bottom-up assessment of the business and the areas in focus include throughput at all operations (ca. 75% of the target), cost efficiencies (ca. 10% of the target), strategic sourcing (ca. 5% of the target) and other initiatives (ca. 10% of the target), such as the sale of equipment and the resolution of the blocked parcel and VAT receivables in Tanzania. The diagnostic phase has now been completed at both Finsch and Cullinan and has identified a number of throughput enhancement opportunities, scheduled to be implemented from Q2 FY 2020. In addition, further diagnostics are being conducted to identify opportunities at Koffiefontein and Williamson, together with on and off-mine expenditure.

In addition to the implementation of Project 2022, Petra's Board and management have conducted a strategic review of the business. In the short term, we remain firmly focused on the rigorous execution of Project 2022, which is expected to reduce the Company's elevated net debt levels against the backdrop of a challenging diamond market. Addressing this leverage will enable us to capture future organic growth opportunities and reposition Petra as the leading mid-tier diamond producer.

### Our Strategy Pages 20 and 21

#### Market overview

The diamond market environment was challenging in FY 2019, driven by a weakening in global markets, trade tensions between the US and China, higher than normal polished inventories and the sustained tightening of liquidity in the midstream. More recent unrest in Hong Kong, escalating trade tensions between the US and China and concerns regarding growth in some of the world's leading economies are further headwinds facing the diamond market in the short term.

The major producers of rough diamonds have responded to these difficult market conditions by restricting supply to the market (both via production cuts and the deferral of rough purchases). This action, combined with the forthcoming seasonally stronger jewellery retail season, should provide some stability in the market.

In terms of supply and demand, the outlook is more positive in the medium to longer term, which is expected to be supportive of rough diamond prices. Global supply fell 2%<sup>2</sup> in 2018 to 148.4 Mcts valued at US\$14.5 billion (2017: 150.9 Mcts valued at US\$14.1 billion). A further tightening of supply is expected over time due to the closure of older mines and fewer new mines coming on stream.

Demand remained relatively stable in 2018, with global diamond jewellery sales growing ca. 4% to US\$85.9 billion according to industry reports. In the medium to long term, marketing spending of the DPA, which has committed an investment of over US\$70 million for generic marketing in 2019, and others in the sector is expected to stimulate purchases of diamond jewellery in the leading markets of the US, China and India.

Our first sales of FY 2020 have delivered revenue of US\$61.6 million, with prices down ca. 4% on a like-for-like basis compared with Q4 FY 2019. While demand remained solid across all assortments, it was weaker for larger white stones. In this weaker market environment, it is important to recognise the flexibility offered by Petra's diversified production portfolio, which delivers the full range of diamonds across the demand spectrum.

### Our Market Pages 15 to 19

#### Commitment to our people

We acknowledge that our people are integral to our success and we continued to commit significant resources to staff training and development (with spend of US\$6.6 million in FY 2019), as well as focusing on succession planning. Initiatives such as our Leadership Development Programme and Women in Leadership Programme are developing the next generation of leaders.

Stakeholder engagement is vital to the long-term success of the business and we place great emphasis on consistent and meaningful engagement with all our stakeholders, both internal and external. We are therefore pleased to report stable labour relations for the Year, as well as continued improvement in our community engagement practices.

#### Contributing to our host countries

Our economic contribution to the countries and communities in which we operate remains an important focus for the Group. Through local employment, the payment of taxes and royalties, procurement from local suppliers and corporate social investment, we positively contribute to these stakeholders. Maintaining supportive relationships and playing a positive role in our local communities are vital to the sustainable success of our operations.

### Sustainability Pages 38 to 47

#### Outlook

Finally, I would like to thank my predecessor, Johan Dippenaar, who led Petra through an impressive period of growth in carrying out substantial and at times challenging capital programmes. Following this significant investment, the Group is now well positioned to deliver consistent, solid and sustainable production from its diversified portfolio of mines. With a total resource of nearly 250 million carats, Petra has organic growth opportunities well beyond 2030, underpinned by a strong and committed team that understands the business, both in terms of its challenges and opportunities.

Petra has delivered solid results in both a difficult market and during its continued transition from a capital expansionary to a steady-state operational phase. The focus in the short term continues to be on driving efficiencies across the business through Project 2022 to provide a stable, consistent operating platform. This will be supported by an appropriate organisational structure and cost base to further enhance our cashflow generation and significantly reduce our net debt, providing for successful and sustainable operations over the long term.

I look forward to continuing to build relationships both internally and externally, with all our stakeholders, and to leading Petra on this next stage of its journey.



**Richard Duffy**  
Chief Executive  
14 October 2019

1. The South African Lender Group comprises 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 ("the Lender Group").

2. According to the Kimberley Process Statistics.



# Q&A

with Richard Duffy,  
Chief Executive



## Q Tell us a little more about your background.

I have been in mining for most of my working life, initially at Anglo American and then AngloGold Ashanti. I ran AngloGold's African operations for five years before assuming the role of CFO in 2013, where I was tasked with addressing a significant balance sheet liquidity concern. In 2015, after 27 years in corporate mining, I went to work with a small group of colleagues as co-founder and shareholder of a renewable energy business, Africa Energy Management Platform ("AEMP"). AEMP, in partnership with global player Total Eren, constructed a 15MW solar PV project for IAMGOLD's Essakane mine in Burkina Faso and is working on a number of other projects in Africa.

## Q What opportunities did you see at Petra?

One of the main attractions I saw was the quality of the Group's asset base. Petra operates four mines with a well-diversified production profile and a number of organic growth opportunities, providing a significant competitive advantage. I also consider this to be an exciting stage of the organisation's development; following the substantial capital investment in Petra's mines and plants, we can now work on delivering reliable, cost competitive diamond production over the longer term.

Aside from these points, my passion for South Africa and the African continent drives my focus on delivering a sustainable future for this business.

## Q Can you give an idea of your first impressions of Petra?

I have been very impressed by the capable and experienced teams in place across our operations and broader business. The Company is well positioned to

deliver on this recapitalisation programme, having now established a solid foundation from which to move forward. I have been impressed with the elements of Petra's culture I have seen so far, which align well with the five values underpinning our actions. The Petra team displays a 'can do' attitude, enabling us to punch above our weight in finding solutions to challenges and identifying opportunities.

## Q Were you surprised by anything when you joined the Company?

I hadn't fully appreciated the breadth of the capital investment programme across multiple sites simultaneously or the global legacy of the mines we have in our portfolio of assets.

## Q What are your immediate priorities?

Our most immediate and pressing challenge is to reduce our net debt and restore confidence in our business. There is, however, no simple, short-term fix for this and it will require the combined effort of all team members to work towards delivering steady and predictable operating performance. Project 2022 is central to driving efficiencies in improving and optimising the business to significantly enhance our free cashflow generation.

## Q What cultural elements do you value most highly?

I value open, honest and transparent communication and believe that effective teams, where roles and responsibilities are well defined and understood, and where we all assume accountability for our deliverables, produce better outcomes than individuals on their own. I strongly believe in 'bad news early', to provide time for resources to be diverted to mitigate or resolve the underlying issues.

## Our Business Model

# Delivering long-term value to our stakeholders

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

### 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

- ▶ Significant resources
- ▶ Long mine lives
- ▶ Diverse product range

#### Financial capital

- ▶ Responsible capital allocation
- ▶ Access to diversified sources of capital

#### Relationships

- ▶ Mutually beneficial partnerships
- ▶ Effective internal and external stakeholder engagement
- ▶ 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.



#### Mining and development

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



#### Processing

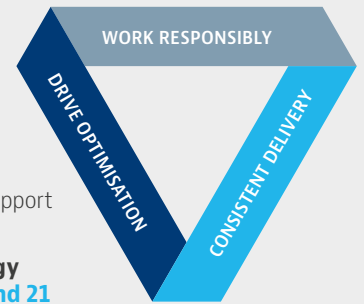
Ore is passed through the processing plant to extract the diamonds from the rock.



#### Sorting and sales

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





Our strategic objectives to support our business.

• **Our Strategy**  
Pages 20 and 21

**HOW WE DIFFERENTIATE**



- ▶ Petra's technical team has decades of specialist experience in the appraisal and valuation of diamond orebodies.
- ▶ The Company is able to produce the full range of diamonds from its diversified portfolio.
- ▶ 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.



- ▶ 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.
- ▶ Strong operations team, with significant experience in the management, mining and development of diamond orebodies.



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



- ▶ Petra runs its own diamond sales in a cost effective manner, 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 providing a competitive pricing environment.
- ▶ Petra's sales 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 safety
- ▶ Sustainable employment
- ▶ Culture of empowerment
- ▶ Skills development
- ▶ Itumeleng Petra Diamonds Employee Trust ("IPDET")
- ▶ Employee health and wellbeing initiatives

• **Pages 42 and 43**

**Customers**

- ▶ Quality and consistent product offering
- ▶ Confirmed provenance and heritage

• **Page 12**

**Shareholders/bondholders**

- ▶ Free cashflow generation
- ▶ Future returns to investors

• **Page 13**

**Local communities**

- ▶ Job opportunities and socio-economic upliftment
- ▶ Efficient and responsible use of natural resources
- ▶ Promoting environmental awareness
- ▶ Community health initiatives

• **Pages 46 and 47**

**Host Governments/regulators**

- ▶ Taxes and royalty payments
- ▶ Positive impact on our countries of operation

• **Page 14**

**Suppliers**

- ▶ Benefits to local businesses and suppliers
- ▶ Policy of sustainable local procurement and supplier development

• **Pages 14 and 46**

## Stakeholder Engagement

We aim to communicate effectively with all our stakeholders, thereby building strong relationships which assist us in maintaining trust in our business, upholding our social licence to operate and creating shared value.

### Employees, contractors and trade unions



#### WHY THEY ARE IMPORTANT

- ▶ Our people are at the centre of our business and are integral to its success.
- ▶ 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, publications, notice boards and electronic channels
- ▶ Whistleblowing hotline
- ▶ Engagement with mine forums and trade union representation
- ▶ Employee engagement with the Board, including annual CEO operations tour and Director sessions with employees

#### HOW WE DELIVER VALUE

- ▶ Salaries, wages and other benefits

**US\$143.2 million**

- ▶ Employee training and development

**US\$6.6 million**

- ▶ Graduates of Leadership Development Programme<sup>1</sup>

**138**

#### HOW WE HAVE CONSIDERED OUR IMPACT ON STAKEHOLDERS AND ACTIONS TAKEN

- ▶ We launched our Women in Leadership Programme to reflect the growing number of females in managerial positions and support their ongoing development.
- ▶ Progressive approach to internal communications. Regular surveys to encourage strong employee engagement and measure success.
- ▶ We continuously look to embed culture and reinforce our core values – an ethics roadshow was held to re-emphasise ethical awareness and behaviour.
- ▶ Continued provision of an independent whistleblowing channel to enable employees, contractors and members of the public to raise concerns. Issues are reported to the Audit & Risk Committee.

### 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 ensure 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 DPA

#### HOW WE DELIVER VALUE

- ▶ Conflict-free production

**100%**

- ▶ Mcts sold

**3.7 Mcts**

- ▶ DPA investment in consumer marketing for 2019

**US\$70 million**

#### HOW WE HAVE CONSIDERED OUR IMPACT ON STAKEHOLDERS AND ACTIONS TAKEN

- ▶ We continue to encourage transparency in terms of diamond provenance by collaborating with the Gemological Institute of America ("GIA") on its Diamond Origin<sup>2</sup> programme.
- ▶ The DPA commits significant funding to generic advertising in order to stimulate consumer demand in the important markets of the US, China and India.
- ▶ Collaboration with British jeweller Boodles post-Year end to celebrate the heritage of our Cullinan mine and the provenance of our diamonds. A research project has also been initiated with Harvard to better understand the source of Cullinan's Type II diamonds.

1. Since inception in 2008.

2. Previously called Mine2Market.



## Shareholders and bondholders



### WHY THEY ARE IMPORTANT

- ▶ Petra has raised financing over a number of years to enable its development, thanks to support from the equity and fixed income markets.
- ▶ Clear, transparent and balanced communications are important to enable a good understanding of our strategy, business model and performance.

### 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 2019  
**29.4 Mcts**
- ▶ Total revenue from FY 2006–FY 2019  
**US\$4.0 billion**
- ▶ Operating cashflow (before Capex) from FY 2006–FY 2019  
**US\$1.2 billion**

### HOW WE HAVE CONSIDERED OUR IMPACT ON STAKEHOLDERS AND ACTIONS TAKEN

- ▶ Continued focused investor relations programme to ensure sufficient engagement and provide feedback mechanisms.
- ▶ Shareholder and bondholder feedback was communicated to the Board and taken into account in strategic discussions.
- ▶ Three-year Succession Plan included appointment of new CEO and Non-Executive Directors; appointment of new Chairman search announced.

## 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
- ▶ Establishing positive relationships through ongoing engagement with community structures

### HOW WE DELIVER VALUE

- ▶ Social and community training spend  
**US\$1.8 million**
- ▶ Local South African community procurement spend  
**US\$16.0 million**
- ▶ Internal and external stakeholder engagements held  
**93**

### HOW WE HAVE CONSIDERED OUR IMPACT ON STAKEHOLDERS AND ACTIONS TAKEN

- ▶ Decision taken to donate part of the tailings mineral resources at Koffiefontein for artisanal mining and support in establishing a mining and marketing process.
- ▶ Full review of existing community feedback systems and changes made to further integrate processes and ensure all feedback is properly captured and addressed.
- ▶ Continued community support provided in the form of bursaries, scholarships, portable skills training and school assistance.

## Stakeholder Engagement continued

### Host Governments, regulators and NGOs



#### 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 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 of South Africa
- ▶ Regulatory site visits and audits
- ▶ Active involvement as members of Government-initiated forums and other consultative structures

#### HOW WE DELIVER VALUE

- ▶ Taxes and royalties  
**US\$49.9 million**
- ▶ DPA members net benefit creation<sup>1</sup>  
**US\$16 billion**
- ▶ Estimated number of dependants on our direct employees<sup>2</sup>  
**ca. 40,000**

#### HOW WE HAVE CONSIDERED OUR IMPACT ON STAKEHOLDERS AND ACTIONS TAKEN

- ▶ The Company closely monitors developments around the Broad-Based Socio-Economic Empowerment Charter for the mining industry.
- ▶ Petra contributed to the DPA Trucost report, which provides information on the socio-economic and environmental impact of large-scale diamond mining.
- ▶ Continued discussions in relation to overdue VAT receivables and the blocked parcel in Tanzania.

### 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
- ▶ Engagement on Company policy and required standards of practice

#### HOW WE DELIVER VALUE

- ▶ South Africa procurement expenditure  
**US\$199.4 million**
- ▶ Suppliers registered on eProcure Portal  
**ca. 2,000**
- ▶ Tanzania procurement expenditure  
**US\$62.9 million**

#### HOW WE HAVE CONSIDERED OUR IMPACT ON STAKEHOLDERS AND ACTIONS TAKEN

- ▶ Continued prioritisation of local procurement to encourage economic development and community empowerment.
- ▶ Supplier practices were covered in the Group-wide ethics roadshow held in FY 2019.
- ▶ Petra obtains warranties from its suppliers confirming that they are not involved in unethical business practices, and that they have internal measures in place to avoid bribery, modern slavery, tax evasion, money laundering and human rights abuses.

1. In 2016. Source: The Socio-economic and Environmental Impact of Large-Scale Diamond Mining, a report by Trucost for the Diamond Producers Association – May 2019.

2. Using the accepted x10 multiplier effect for South Africa and Tanzania.





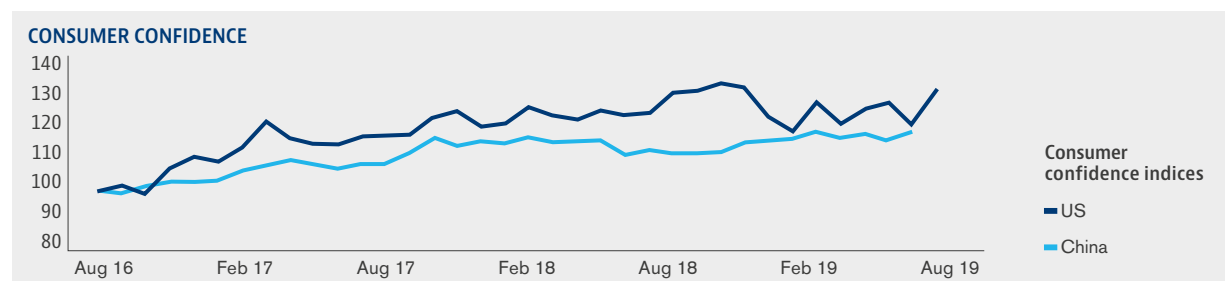
## Our Market

# Uncertain global economic backdrop

- ▶ Following strong growth in 2017, global GDP slowed slightly to 3.6% in 2018 (most notably in H2), with global stock markets recording a fall of 7.1%, according to the MSCI World Index.
- ▶ Global growth is projected to slow further to 3.2% in 2019, before improving to 3.5% in 2020.
- ▶ Growth of 2.6% is expected in the United States ("US"), thanks to robust exports and inventory accumulation, albeit with softer domestic demand reflecting the effect of tariffs.
- ▶ China saw a decline in growth to 6.6% in 2018, following the implementation of regulatory measures as well as mounting trade tensions. The IMF anticipates growth of 6.2% in 2019. Consumer demand has been negatively influenced by the slowing economy and the depreciation of the Chinese Yuan. Sustained unrest in Hong Kong has further destabilised this market.
- ▶ Having marginally dipped in 2018, growth in India is projected to increase to 7.0% in 2019 and 7.2% in 2020.
- ▶ The luxury market grew 5% in 2018 to ca. EUR1.2 trillion.
- ▶ Given the current level of global uncertainty brought about by trade escalation risks and the potential for weakening investment, there is a risk of forecast global growth being negatively impacted.

Sources: IMF (July 2019 outlook), Conference Board, Bain.

## Consumer confidence remains buoyant despite uncertain global backdrop



Based on Conference Board data for US and National Bureau of Statistics for China. Indices base: 1 August 2016.

## Why is this relevant?

Global diamond demand growth is generally highly correlated to global GDP growth and consumer confidence in the long term. In spite of shorter-term global uncertainties and some risks to the outlook, consumer sentiment remains buoyant, specifically

in the key diamond markets. However, the slowing near-term global GDP growth outlook and growing uncertainty have the potential to negatively impact diamond markets.

## Recent industry developments

### Midstream

There has been increased pressure on the midstream, with a tightening of cutting-centre bank credit, leading to a lack of liquidity, as well as high levels of inventory. This has been further exacerbated by the devaluation of the Indian Rupee.

**Petra's response:** Petra sells its diamonds on an open tender basis, with participants viewing the assortments and placing confidential electronic bids on the parcel of their choice. At the end of the tender, the highest bidder wins the parcel. This system suggests that bidders will only pay an amount on which they expect to achieve a margin when reselling the diamonds.

### Provenance

The diamond industry is proactively addressing the issue of provenance and has taken various steps to assist consumers in confidently identifying the origin of their diamonds. Digital technologies (such as Blockchain) are contributing to increased transparency throughout the value chain and other initiatives are also in place to further increase confidence.

**Petra's response:** We see this as a strong opportunity to highlight the responsibility and transparency within the industry, thereby promoting sustainable long-term demand

and protecting the value of diamonds. We are partnering with Harvard on a study to better understand the origin of Type II diamonds and have a collaboration with Boodles which highlights the heritage of Cullinan and the provenance of its diamonds. We also continue to work with GIA on its Origin programme.

### Synthetic diamonds

Whilst there has been increasing commentary on synthetic diamonds, global production is only estimated at 2 Mcts, despite having been in existence for 60 years. According to Bain, the retail price of gem-quality lab-grown diamonds has nearly halved in the past two years, and wholesale prices have dropped to one third.

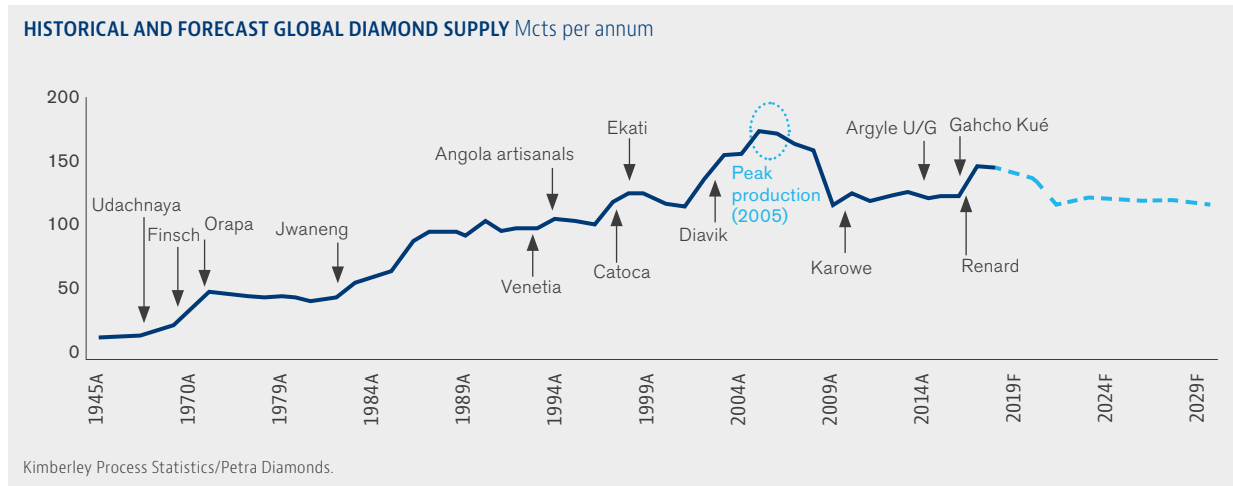
Through its ASSURE programme, the DPA is working to independently and objectively test the performance of diamond verification instruments – read more on page 18.

**Petra's response:** We believe that, with the correct identification and classification, synthetic diamonds and natural diamonds can coexist, with the former establishing a smaller, secondary market. That said, we have confidence in consumers' affinity for natural diamonds. Fundamental to their value is their scarcity, character and provenance and we therefore expect them to continue to command a significant premium to the synthetic diamonds segment.

Our Market continued

# Supply

Supply is forecast to decline in the coming years as a result of the depletion of resources



## Supply in 2018

- ▶ According to Kimberley Process Statistics, whilst diamond supply by value in 2018 increased by 2% to US\$14.5 billion (2017: US\$14.1 billion), production by volume decreased by 2% to 148.4 Mcts (2017: 150.9 Mcts).
- ▶ Supply remains significantly below the highest year of diamond production in 2005, where 177 Mcts was considered to have represented 'peak' supply.
- ▶ The decrease in production was largely due to mine closures and lower output towards the end of mine lives. 2017 production was also respectively high as a result of a number of projects which came on stream in late 2016.

Source: Kimberley Process Statistics.

## Impacts on supply outlook

- ▶ Argyle is set to close towards the end of 2020, removing ca. 14 Mcts of annual production; it is currently the producer of ca. 90% of the world's pink diamonds.
- ▶ Voorspoed in South Africa ceased operations in December 2018.
- ▶ The Victor mine in Canada reached the end of its life during Q2 2019.
- ▶ Whilst there is some new supply coming on stream from existing operations, it is not expected to redress the balance of the significant supply decreases, particularly over the longer term.
- ▶ The success rate in diamond exploration is estimated to be <1% with a notable lack of commercial discoveries evident.

## Outlook

- ▶ Global rough diamond production is now widely expected to be on a declining trend over the longer term as a result of the depletion of existing mines.
- ▶ Supply is forecast to steadily decrease to around 120 Mcts in 2030.

Source: Panmure Gordon.



### Petra's strategy

Petra aims to deliver sustainable production from its diversified portfolio; the Group's orebodies are of significant size and collectively contain the third largest resources in the world, suggesting relatively long lives of our mining operations. Petra is focused on optimising its business and operations to maximise its profitability. As a result of poor success rates in global diamond exploration, the Company does not commit material resources to this.



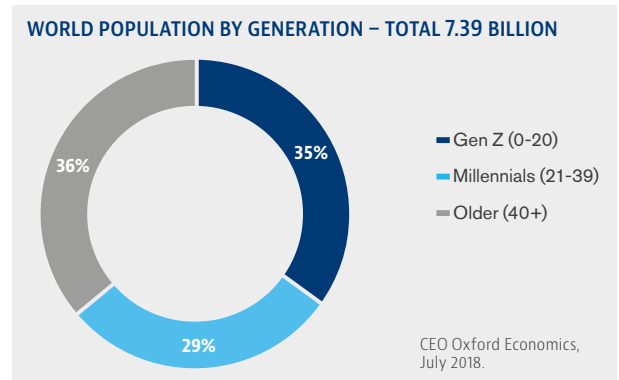
# Demand

Global demographic shifts increasing purchasing power are expected to support diamond demand over the long term

## Demand remained relatively stable

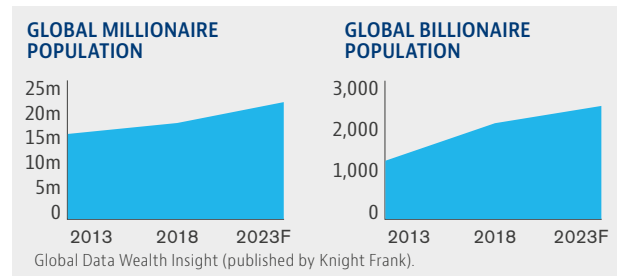
- ▶ The global consumer market for diamond jewellery increased 4% in 2018 to US\$85.9 billion.
- ▶ The major US market, which accounts for over 50% of demand, grew 4%.
- ▶ Diamond jewellery sales in China, India and Southeast Asia, accounting for ca. 30% of demand, grew by 5%.

Source: ALROSA.



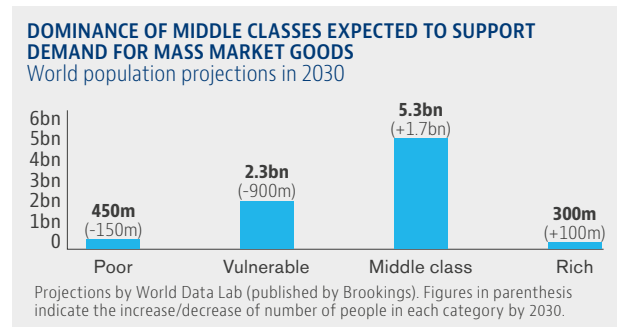
## Trends influencing demand

- ▶ Increasing levels of global wealth are expected to underpin demand for later-cycle products such as diamonds.
- ▶ Continuing strong underlying fundamentals in the major US market and growth in middle classes in China and India, albeit with some downside risk on account of GDP growth rates.
- ▶ Sustained upsurge in 'self-purchasing'.
- ▶ Growing demand from online channels.
- ▶ Continued generic marketing.
- ▶ Potentially more spending power amongst Millennials and Gen Z supporting diamond demand, albeit with different consumer preferences to previous generations.



## Demand backdrop

- ▶ The global ultra high net worth individual population is forecast to rise by 22% over the next five years.
- ▶ Boosted by Asia's strong economic performance, the number of US\$ millionaires is forecast to exceed 20 million for the first time in 2019.
- ▶ According to Brookings, global middle classes reached a tipping point in 2018, increasing to ca. 3.8 billion people worldwide, just over half of the world's population, and are expected to grow by 1.7 billion by 2030.



## Outlook

- ▶ Demand is expected to continue to rise, with Bain forecasting an average annual growth rate between 0–2% in real value terms through to 2030.

Sources: Bain, Knight Frank, Brookings.



### Petra's strategy

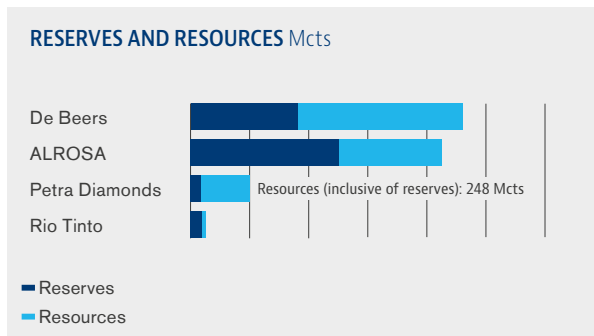
As a founder member of the DPA, Petra commits annual funding towards generic diamond marketing to support demand. Given the highly diversified nature of Petra's portfolio, it is capable of producing the full spectrum of diamond sizes and categories, from mass market goods to highly sought after special stones.

Our Market continued

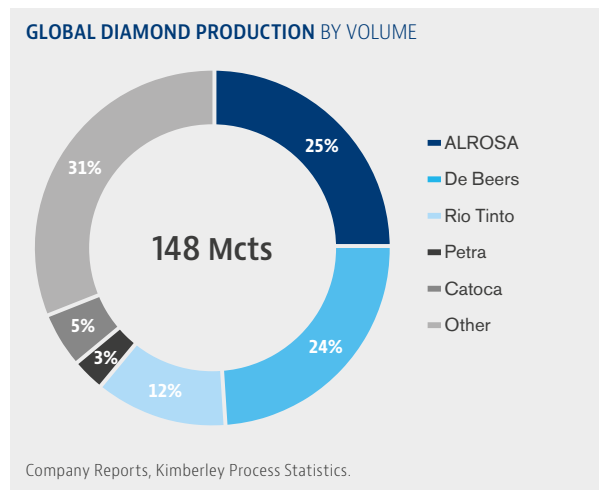
# Our place in the market

## One of the world's largest diamond resources

Petra has the third largest resources of global, listed diamond producers which, combined with the significant size of our orebodies, suggests relatively long lives of our mining operations, with organic growth opportunities well beyond 2030.



## Petra accounts for 3% of supply by value and volume



## Petra operates in the highest margin segment of the value chain



## Maintaining pipeline integrity via the ASSURE programme



The DPA has developed a universal standard to test the performance of diamond verification instruments, which are used to separate and/or identify diamonds from synthetic diamonds.

Commenting on the ASSURE programme, Jean-Marc Lieberherr, CEO of the DPA, said: "Through the ASSURE programme, we will support the diamond trade, from independent jewellery retailers to large diamond manufacturers, to make informed decisions on how to ensure that undisclosed laboratory-grown diamonds do not enter its natural diamond supply chain."



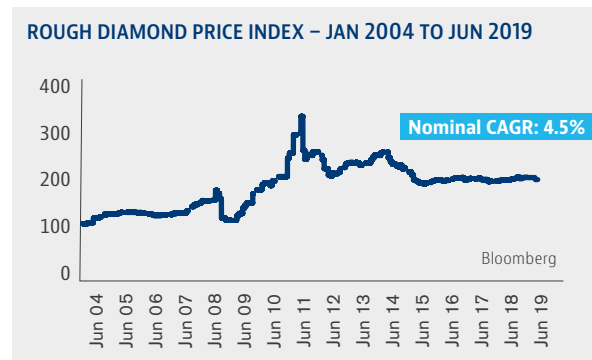
# Market performance in FY 2019

The diamond market environment was challenging in FY 2019, driven by a weakening in global markets, trade tensions between the US and China, higher than normal polished inventories and the sustained tightening of liquidity in the midstream. More recent unrest in Hong Kong, escalating trade tensions between the US and China, and concerns regarding growth in some of the world's leading economies are further headwinds facing the diamond market in the short term. The major producers of rough diamonds have responded to these difficult market conditions by restricting supply to the market (both via production cuts and the deferral of rough purchases). This action, combined with the forthcoming seasonally stronger jewellery retail season, which includes Thanksgiving in the US, Christmas, Chinese New Year and Valentine's Day, may assist in terms of stabilising the market.

## Petra's strategy

Petra's diversified production portfolio, which delivers the full range of diamonds across the demand spectrum, offers a certain amount of flexibility in volatile markets. As Petra sells all rough diamonds on tender (other than selected large special stones), it receives market price in its seven tenders per year. While Petra can choose to withhold diamond lots for sale should they not reach their reserve price, generally the Company opts to sell all available goods and bank cashflow, without trying to second guess future price movements.

## Historical rough diamond prices



According to the Bloomberg rough diamond price index, prices decreased a further 10% from Year end to 1 October.

## Petra sales and prices

- ▶ Carats sold by Petra in FY 2019 were 2% lower at 3,736,847 carats (FY 2018: 3,793,799 carats), with revenue 6% lower at US\$463.6 million (FY 2018: US\$495.3 million), reflecting the weaker diamond market. Petra's average realised diamond prices were ca. 5% lower, and a softening in demand was noted across the size ranges but particularly in the lower value, smaller stones.
- ▶ Rough diamonds smaller than nine sieve size (smaller than 0.2 carats) account for ca. 44% of our production, however, they account for less than 8% of our sales value.
- ▶ Special stones continued to be recovered at Cullinan during the Year, with the mine's average price for FY 2019 positively influenced by the sale of a 425 carat Type II gem quality diamond for US\$15 million and a 9.4 carat Type II blue diamond which sold for US\$5.4 million.

The first tender of FY 2020 achieved sales of US\$61.6 million, with prices down ca. 4% on a like-for-like basis compared with Q4 FY 2019, reflecting weaker market conditions. Demand remained solid across all assortments although weaker for larger white stones.

### DIAMOND PRICES ACHIEVED PER OPERATION

Mine	FY 2019 US\$/ct	H2 FY 2019 US\$/ct	H1 FY 2019 US\$/ct	FY 2018 US\$/ct
Finsch	99	94	105	108
Cullinan	110	120	96	125
Koffiefontein	480	501	447	525
Williamson	231	239	223	270

## Outlook

- ▶ We expect the diamond market to remain challenging in the near term. The start of the FY 2020 sales season saw continued uncertainty in cutting centres given ongoing unrest in Hong Kong and escalating trade tensions between the US and China.

## Legacy of the Cullinan diamond mine



The 425 carat D-colour Type II diamond, recovered in March 2019.

## 20.08 carat Type II blue diamond



Petra recovered this 20.08 carat Type II blue diamond at the Cullinan mine on 23 September 2019.

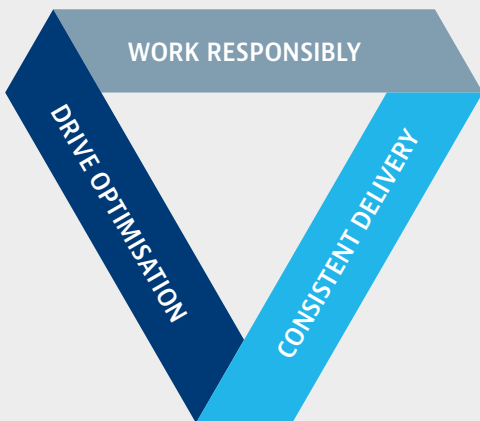
## Our Strategy

# Stabilising and optimising our portfolio

We are driving the optimisation of our diversified asset base to deliver consistent production, enabling sustainable revenue and free cashflow to establish Petra as the leading mid-tier diamond producer.

Our strategy is firmly underpinned by our focus on safety and sustainability, thereby ensuring value for all stakeholders.

The way we deliver our strategy is guided by our five values, as detailed on page 5.



◆ **Key Performance Indicators**  
Pages 22 and 23

◆ **Risk Management**  
Pages 72 to 75

◆ **Directors' Remuneration Report**  
Pages 84 to 93

## Work responsibly

Committed to responsible development to create value for all stakeholders

### STRATEGY IN ACTION

Continued emphasis on further embedding safe working practices, facilitating effective stakeholder engagement, minimising our environmental impact and maximising our societal benefits in order to ensure sustainable operations.

#### SAFETY LTIFR

**0.21**

(FY 2018: 0.23)

#### PERCENTAGE OF RECYCLED WATER USED ON MINE %

**72**

(FY 2018: 59%)

### PERFORMANCE AGAINST FY 2019 OBJECTIVES

- ▶ Safety remained our top priority and we again achieved an improvement in LTIFR without any employee or contractor fatalities  
●●○ Met expectations
- ▶ A safety campaign was implemented in accordance with the Minerals Council of South Africa  
●●○ Met expectations
- ▶ The Company's sustainability strategy was considered, with a full review expected in FY 2020. An SED Committee was formed during the Year and will oversee this review  
●●○ Met expectations

### COMMITMENTS AND OBJECTIVES FOR FY 2020

- ▶ Continued commitment to safety and achieving our goal of a zero harm workplace
- ▶ Review the Company's sustainability strategy, incorporating an assessment of material risks and issues, overseen by the SED and HSE Committees
- ▶ Continue to engage effectively with our stakeholders

### HOW WE ACHIEVE THIS

- ▶ Strive for a zero harm workplace
- ▶ Foster a dynamic Company culture, underpinned by our purpose and values, in which employees are encouraged to fulfil their true potential
- ▶ Leverage 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

### KPIs

- ▶ Safety, staff turnover, social and training spend, water usage, carbon emissions

### RISKS

- ▶ Country and political, licence to operate, labour relations

### REMUNERATION

- ▶ HSE performance measures, SED performance measures



## Consistent delivery

Focus on delivering steady-state operations that generate sustainable free cashflow

### STRATEGY IN ACTION

Achieving increased levels of production from undiluted ore from the new mining areas with a continued focus on value over volume.

#### TOTAL PRODUCTION

Mcts

**3.9**

(FY 2018: 3.8)

#### ROM PRODUCTION

As a % of overall production

**97**

(FY 2018: 95)

### PERFORMANCE AGAINST FY 2019 OBJECTIVES

- ▶ Production guidance and free cashflow generation were achieved, but revenue was below expectations largely due to weak diamond prices achieved  
●○○ Below expectations
- ▶ The Board and Management teams were further augmented to ensure the optimal balance of skills and experience for the Company's next stage of development  
●●○ Met expectations
- ▶ The Company continued to focus on training and development, investing US\$6.6 million  
●●○ Met expectations

### COMMITMENTS AND OBJECTIVES FOR FY 2020

- ▶ Focus on achieving steady-state production, with guidance of ca. 3.8 Mcts
- ▶ Continued evolution of our Board to drive the next phase of the business
- ▶ Continued employee training and development

### HOW WE ACHIEVE THIS

- ▶ Effective implementation of Project 2022 to deliver US\$150-200 million over three-year period in net free cashflow over the next three years
- ▶ Prioritise 'value' over 'volume' production and achieve annual production targets
- ▶ Ensure we have the right people and skills in place, including appropriate Board and management structures
- ▶ Training and development of employees; empower operational management and employees
- ▶ Commit the necessary long-term investment in order to sustain and extend the lives of our assets
- ▶ Use new technology where appropriate to drive improvements

### KPIs

- ▶ Free cashflow generation, production, revenue, staff turnover, training spend, TSR

### RISKS

- ▶ Diamond price, currency, country and political, mining and production, ROM grade and product mix volatility, labour relations, financing, licence to operate

### REMUNERATION

- ▶ Safety, free cashflow generation, production performance measures, TSR performance measures

## Drive optimisation

Driving efficiencies and improvements across the business to enhance cashflow generation and significantly reduce net debt, supported by an appropriate organisational structure and cost base

### STRATEGY IN ACTION

Consolidating the business via the sale of KEM JV and ensuring the Group has the optimal management and organisational structures to drive the next phase of its development.

#### OPERATIONAL CAPEX

US\$ million

**81.4**

(-37%)

#### CARBON INTENSITY

tCO<sub>2</sub>-e per carat

**0.12**

(-8%)

### PERFORMANCE AGAINST FY 2019 OBJECTIVES

- ▶ Operational Capex reduced significantly in line with budget and the reducing capital expenditure profile. Operational free cashflow of US\$70.5 million  
●●○ Met expectations
- ▶ Mine operating system upgrades at Finsch were delayed and the shaft plant interface project at Cullinan was deferred  
●○○ Below expectations
- ▶ The sale of KEM JV was finalised but with losses recorded  
●○○ Below expectations
- ▶ Continued focus on improving our energy and water usage per tonne  
●●○ Met/●○○ Below expectations, respectively

### COMMITMENTS AND OBJECTIVES FOR FY 2020

- ▶ Targeting Group Capex of ca. US\$43 million
- ▶ Deliver operational efficiencies and improvements across the business according to the Project 2022 objectives to improve free cashflow generation and reduce net debt
- ▶ Continued focus on electricity and water efficiency as well as carbon intensity

### HOW WE ACHIEVE THIS

- ▶ Effective implementation of Project 2022 to drive efficiencies and improvements
- ▶ Maximise throughput and maintain disciplined on-mine cost control and efficient overhead structure
- ▶ Focus on capital efficiency and continue optimisation of portfolio and operating systems
- ▶ Use new technology where appropriate to drive efficiencies

### KPIs

- ▶ Safety, free cashflow generation, profitability, capital efficiency, TSR, carbon emissions and water usage

### RISKS

- ▶ Mining and production, ROM grade and product mix volatility, labour relations, financing, licence to operate

### REMUNERATION

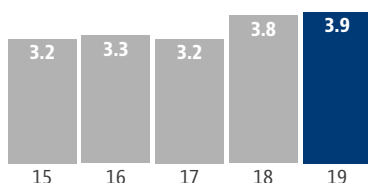
- ▶ Safety, free cashflow generation, profit and costs performance measures, capital efficiency, TSR performance measures

## 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. All Alternative Performance Measures ("APMs") used are explained and defined on page 156. 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<sup>1</sup> Mcts

3.9 +1%



#### PERFORMANCE AND TARGETS

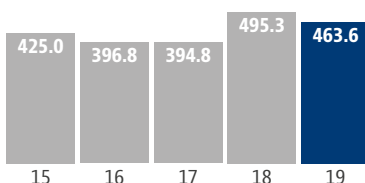
Production increased 1% to 3.9 Mcts, in line with guidance. FY 2020 guidance is ca. 3.8 Mcts, with ROM production expected to remain largely flat at 3.75 Mcts. Petra continues to focus on value over volume and the majority of ROM production in FY 2020 is anticipated to come from the newly established underground block and sub-level caves ("SLCs"), as well as surface production at Williamson.

#### RISK MANAGEMENT

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

### REVENUE<sup>1</sup> US\$ million

463.6 -6%



#### PERFORMANCE AND TARGETS

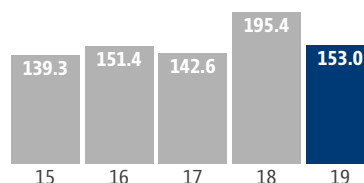
Revenue decreased by 6% during the Year due to the number of carats sold for the Year decreasing 2% to 3.7 Mcts, as well as the impact of a weaker diamond market and product mix. Petra's realised diamond prices reduced by ca. 5% in line with market movement during the period.

#### RISK MANAGEMENT

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

### ADJUSTED EBITDA<sup>1</sup> US\$ million

153.0 -22%



#### PERFORMANCE AND TARGETS

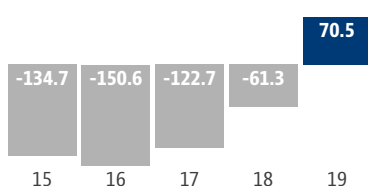
Adjusted EBITDA decreased by 22%, driven by lower diamond prices, and represented an adjusted EBITDA margin of 33% (FY 2018: 39%).

#### RISK MANAGEMENT

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

### OPERATIONAL FREE CASHFLOW US\$ million

70.5



#### PERFORMANCE AND TARGETS

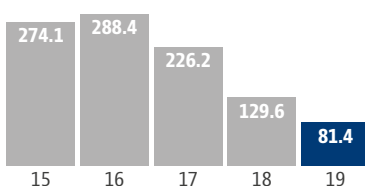
Petra reached an important milestone during the Year, recording positive operational free cashflow of US\$70.5 million (FY 2018: US\$61.3 million outflow), reflecting the benefits of our capital investment and the stabilisation of production across the operations.

#### RISK MANAGEMENT

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

### OPERATIONAL CAPEX<sup>1,2</sup> US\$ million

81.4 -37%



#### PERFORMANCE AND TARGETS

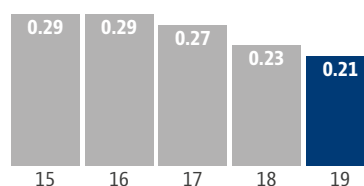
Operational Capex (excluding capitalised borrowing costs) reduced by 37% and was below the Company's FY 2019 guidance of ca. US\$93 million. This significant reduction was in line with the effective completion of Petra's significant capital expenditure programme. FY 2020 Capex is guided at ca. US\$43 million.

#### 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<sup>3</sup> Group LTIFR

0.21 -9%



#### PERFORMANCE AND TARGETS

Group LTIFR for the Year improved further to 0.21, which is a strong achievement and broadly in line with our ongoing target to achieve a minimum 10% improvement in LTIFR annually. This is a clear indication of the effectiveness of the implemented management system. We continue to target a zero harm working environment.

#### 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.

1. FY 2016–FY 2019 excludes KEM JV.

2. Excluding capitalised borrowing costs.

3. FY 2018 and before includes KEM JV; FY 2019 excludes.

4. Updated emissions reporting methodology implemented during FY 2017 means that historical figures are not directly comparable.





STRATEGIC OBJECTIVES



WORK RESPONSIBLY



CONSISTENT DELIVERY

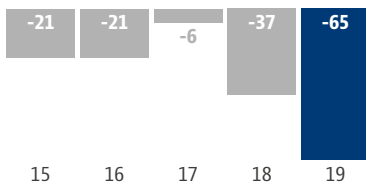


DRIVE OPTIMISATION

**TOTAL SHAREHOLDER RETURN**

Percentage change

**-65**



**PERFORMANCE AND TARGETS**

Total shareholder return decreased by 65%, due to the depreciation of the share price during the Year. Factors affecting the share price included macro concerns about the headwinds facing the diamond sector, as well as Company-specific concerns related to the Group's level of leverage.

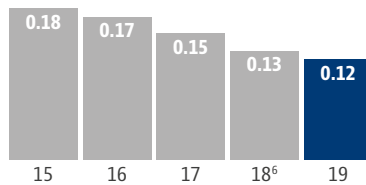
**RISK MANAGEMENT**

Petra has taken action to address market concerns. The Company has made changes to its Board and Senior Management to shape the next phase of the business, with the priority being the generation of significant free cashflow, via Project 2022, in order to reduce net debt levels, against the backdrop of a challenging diamond market.

**CARBON EMISSIONS<sup>3,4</sup>**

Thousand tCO<sub>2</sub>-e/ct

**0.12 -8%**



**PERFORMANCE AND TARGETS**

Carbon emitted per carat continued its decreasing trend, down 8%, due to the higher number of carats produced for the Year, as well as the Company's focus on driving energy efficiency. This exceeded the Company's target to achieve a 1% reduction in tCO<sub>2</sub>-e/ct per annum.

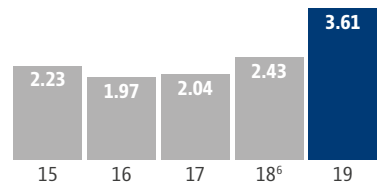
**RISK MANAGEMENT**

The Group endeavours to minimise its overall energy usage wherever possible and improve energy efficiencies.

**WATER USAGE<sup>3,5</sup>**

m<sup>3</sup>/t

**3.61 +49%**



**PERFORMANCE AND TARGETS**

Petra's total water usage per production tonne increased by 49% to 3.61 m<sup>3</sup>/t, due to an increase in the water usage per production tonne at Cullinan, as well as the sale of KEM JV which contributed to a low water usage per production tonne previously.

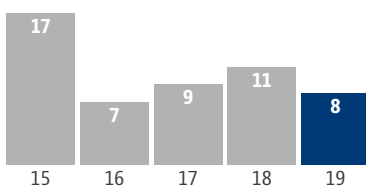
**RISK MANAGEMENT**

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

**STAFF TURNOVER<sup>3</sup>**

%

**8 -27%**



**PERFORMANCE AND TARGETS**

The staff turnover rate of 8% is considered to be comparatively low and in line with the broader mining sector. 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.

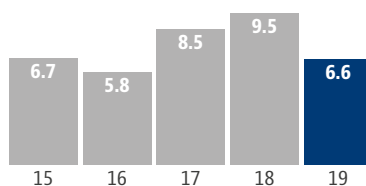
**RISK MANAGEMENT**

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<sup>3</sup>**

US\$ million

**6.6 -31%**



**PERFORMANCE AND TARGETS**

Our investment in employee training and development remained constant in FY 2019 but the reason for the reduction seen above is due to the inclusion of KEM JV in FY 2018 figures. Excluding KEM JV, FY 2018 spend was ca. US\$6.7 million. Actual spend in ZAR terms increased by 5% year on year; however, due to the ZAR weakening against the US Dollar, the US Dollar was marginally lower. Due to the fluctuation of the ZAR/US Dollar exchange rate, Petra will continue to strive to achieve a target of 5% of annual payroll in ZAR terms, which is a more realistic target based on current economic factors.

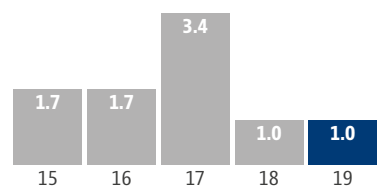
**RISK MANAGEMENT**

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

**SOCIAL SPEND<sup>3</sup>**

US\$ million

**1.0 +0%**



**PERFORMANCE AND TARGETS**

Social spend remained in line with last year's spend at US\$1.0 million. Whilst Petra continues to actively engage with local communities, social spend levels specifically in South Africa have been depressed for the last two years on account of stakeholders being unable to agree on suitable local economic development projects, which was also exacerbated by the political climate prior to the 2019 elections. Petra targets base case spend of 1% of net profit after tax ("NPAT"); however, this calculation was not possible for FY 2019, 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.

5. 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.

6. Adjusted from previously published figure based on environmental audit results.

See how performance indicators are linked to remuneration in the Directors' Remuneration Report [Pages 84 to 93](#)

## Financial Review

# Achieving positive operational free cashflow



We reached an important turning point during the Year with the generation of US\$70.5 million of operational free cashflow, reflecting the positive benefits of our capital investment and the stabilisation of production across the operations.

**Jacques Breytenbach**  
Finance Director

## Revenue

FY 2019 revenue decreased 6% to US\$463.6 million (FY 2018: US\$495.3 million) due to the number of carats sold for the Year decreasing 2% to 3,736,847 carats (FY 2018: 3,793,799 carats), as well as the impact of a weaker diamond market and product mix. Petra's realised diamond prices reduced by ca. 5% in line with the market movement in this period.

## Profit from mining activities

Profit from mining activities decreased 21% to US\$161.1 million (FY 2018: US\$205.1 million), due to lower revenue and increases in mining and processing costs.

## Corporate overhead – general and administration

Corporate overhead (before depreciation and share-based payments) decreased 15% to US\$7.7 million for the Year (FY 2018: US\$9.1 million).

## Adjusted EBITDA

Adjusted EBITDA, being profit from mining activities less exploration and corporate overhead, decreased by 22% to US\$153.0 million (FY 2018: US\$195.4 million), representing an adjusted EBITDA margin of 33% (FY 2018: 39%), driven by lower diamond prices.

## Depreciation

Depreciation for the Year decreased to US\$106.7 million (FY 2018: US\$128.0 million), mainly due to prior year depreciation reflecting accelerated depreciation associated with the old Cullinan plant and older mining areas at Finsch and Cullinan and the weakening of the Rand against the US Dollar during the Year.

## Impairment charge

As a result of the impairment review carried out at Cullinan, Finsch, Koffiefontein and Williamson and the Group's other receivables during the Year, the Board recognised an overall impairment charge of US\$246.6 million (FY 2018: US\$66.0 million relating to Koffiefontein). Further details are provided in note 8 of the Financial Statements.

Asset level impairments across the mining operations amount to US\$223.7 million (representing some 18% of carrying value of property, plant and equipment of US\$1,187.5 million pre-impairment), largely driven by reduced starting price assumptions for rough diamonds, given current rough diamond market conditions, and a reduction in the forward-looking pricing escalator from 3% real per annum, in our previous assumptions, to flat prices in real terms for FY 2021, followed by 2.8% per annum real growth from FY 2022 to FY 2030, resulting in an effective 2.5% annual real increase for the ensuing ten-year period from FY 2021 to FY 2030. The underlying operational assumptions did not materially change.

## Loss on discontinued operations – KEM JV and Helam

The loss on discontinued operations of US\$49.9 million (FY 2018: US\$104.3 million loss on the reclassification of KEM JV as a discontinued operation) relates to the Group's disposal during the Year of its interests in the KEM JV and Helam operations and is made up of:

- ▶ a US\$3.6 million disposal consideration for KEM JV; and
- ▶ the recycling of the foreign currency translation reserve of US\$2.1 million,

offset by:

- ▶ net loss of US\$1.5 million attributable to KEM JV and a net loss of US\$0.8 million at Helam for the period 1 July 2018 to disposal date;
- ▶ net asset disposal of US\$8.8 million (US\$8.2 million KEM JV and US\$0.6 million Helam);
- ▶ US\$35.2 million recycling of non-controlling interest (US\$26.1 million KEM JV and US\$9.1 million Helam);
- ▶ US\$2.0 million transfer of cash from the rehabilitation guarantee cell captive; and
- ▶ US\$7.3 million impairment of the KEM JV purchase consideration and current trade and other receivables.

Refer to note 34 of the Financial Statements for the detailed breakdown.



## Mining and processing costs

The mining and processing costs for the Year comprise 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 <sup>1</sup> US\$m	Diamond royalties US\$m	Diamond inventory and stockpile movement US\$m	Group technical, support and marketing costs <sup>2</sup> US\$m	Adjusted mining and processing costs US\$m	Depreciation <sup>3</sup> US\$m	Total mining and processing costs (IFRS) US\$m
<b>FY 2019</b>	<b>266.9</b>	<b>13.2</b>	<b>(2.9)</b>	<b>24.5</b>	<b>301.7</b>	<b>105.9</b>	<b>407.6</b>
FY 2018	261.4	14.2	(9.5)	25.3	291.4	127.2	418.6

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.

Absolute on-mine cash costs in FY 2019 rose 2% (in line with expectations), despite ongoing inflationary pressures, due to:

- ▶ an increase in production/volumes treated (2.0% increase); and
- ▶ inflationary increases, including the impact of electricity and labour costs (7.5% increase),

offset by:

- ▶ the effect of translating ZAR denominated costs at the South African operations at a weaker ZAR/USD exchange rate (7.5% decrease).

## Net financial expense

Net financial expense of US\$53.5 million (FY 2018: US\$85.8 million) comprises:

- ▶ net unrealised foreign exchange gains of US\$4.0 million (FY 2018: US\$26.2 million loss) 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 6 of the Financial Statements for further detail);
- ▶ interest received on bank deposits of US\$1.1 million (FY 2018: US\$3.5 million); and
- ▶ net realised foreign exchange gains on settlement of forward exchange contracts of US\$1.0 million (FY 2018: US\$0.9 million),

offset by:

- ▶ interest on the Group's debt and working capital facilities of US\$47.0 million (FY 2018: US\$47.5 million) stated after the capitalisation of interest of US\$4.5 million (FY 2018: US\$15.2 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 partner loans of US\$8.6 million (FY 2018: US\$12.4 million); and
- ▶ a charge for the unwinding of the present value adjustment for Group rehabilitation costs of US\$4.0 million (FY 2018: US\$4.1 million).

## Tax credit/charge

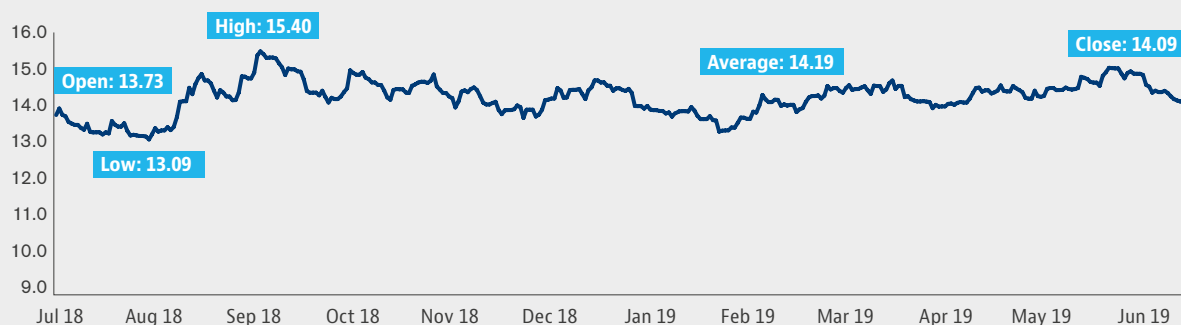
The tax credit of US\$45.8 million (FY 2018: US\$13.8 million charge), comprised deferred tax credits of US\$53.9 million (FY 2018: US\$3.3 million charge), offset by an income tax charge of US\$8.1 million (FY 2018: US\$10.5 million charge, which included the one-off settlement with the South African Revenue Service ("SARS") on the right to claim a deduction on unutilised capital allowances (US\$8.2 million)). The income tax charge is mainly attributable to taxable profits generated at Finsch.

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

- ▶ deferred tax credit specific to the Cullinan, Finsch and Williamson 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, increases the Group's overall net loss resulting in a decreased effective tax rate).

The tax credit for FY 2019 arises due to deferred tax (net of charges and credits), reflecting principally the utilisation of certain capital allowances and impact of the deferred taxation on the impairment charge, predominantly at Cullinan and Finsch during the Year, and South African current taxation payable at Finsch. The cash taxes paid during the Year amounted to US\$13.0 million (FY 2018: US\$7.5 million) mainly attributable to Finsch.

## FY 2019 USD:ZAR EXCHANGE RATE – 1 JULY 2018 TO 30 JUNE 2019



## Financial Review continued

### Group loss/profit

The Group's net loss after tax is US\$258.1 million (FY 2018 net loss: US\$203.1 million).

### Earnings per share

Basic loss per share from continuing operations of 20.18 US\$ cents was recorded (FY 2018: 15.85 US\$ cents).

Adjusted loss per share from continuing operations (adjusted for impairment charges, taxation credit on impairment charge, taxation charge on unutilised Capex benefits, net unrealised foreign exchange gains and losses, and loss on discontinued operations) of 2.63 US\$ cents was recorded (FY 2018: 0.50 US\$ cents profit).

### Operational free cashflow

During the Year, generation of operational free cashflow of US\$70.5 million (FY 2018: US\$61.3 million outflow) reflects the positive benefits of our capital investment and the stabilisation of production across the operations. This positive cashflow was offset by:

- ▶ US\$43.1 million (FY 2018: US\$34.8 million) cash finance expenses net of finance income and realised foreign exchange gains;
- ▶ US\$46.7 million (FY 2018: US\$31.0 million) advances to BEE partners, largely related to servicing of BEE bank debt in line with the Group's stated intent of reducing consolidated net debt for covenant measurement purposes (which includes BEE banking facilities), with the advances recoverable against future BEE partner distributions; and
- ▶ US\$5.5 million (FY 2018: US\$nil) net advances and payments to KEM JV further to the disposal.

### Cash and diamond debtors

As at 30 June 2019, Petra had cash at bank of US\$85.2 million (30 June 2018: US\$236.0 million). Of these cash balances, US\$71.7 million was held as unrestricted cash (30 June 2018: US\$221.6 million), US\$12.6 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 2018: US\$13.6 million) and US\$0.9 million was held by Petra's bankers as security for other environmental rehabilitation bonds lodged with the Department of Mineral Resources ("DMR") in South Africa (30 June 2018: US\$0.8 million).

Diamond debtors at 30 June 2019 were US\$23.8 million (30 June 2018: US\$75.0 million).

### Diamond inventory

Diamond inventory at 30 June 2019 increased to 666,201 carats/US\$57.5 million (FY 2018: 529,054 carats/US\$54.0 million), largely due to the South African June 2019 tender closing eight business days earlier than in the comparative period.

### Loans and borrowings

The Group had loans and borrowings (measured under IFRS) at Year end of US\$650.6 million (30 June 2018: US\$754.8 million), comprising the loan notes plus accrued interest of US\$650.6 million (30 June 2018: US\$648.1 million) and bank loans and borrowings of US\$nil (30 June 2018: US\$106.7 million). During the Year, the Company settled (without cancelling) its bank loans and borrowings (capital plus interest) of US\$106.7 million with its lending group. Bank debt facilities undrawn and available to the Group at 30 June 2019 were US\$106.6 million (30 June 2018: US\$2.6 million).

Net debt<sup>2</sup> at 30 June 2019 was US\$564.8 million (30 June 2018: US\$520.7 million).

### Covenant measurements attached to banking facilities

The Company's EBITDA-related covenants associated with its banking facilities are as outlined below.

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 and banking facilities to meet its working capital and capital development requirements under its forecasts including sensitivities.

The impact of the recent weakness in the diamond market on the Group's operating results and cashflow position has been discussed with the Lender Group<sup>1</sup>, including possible breaches in its EBITDA-related covenants for the December 2019 and June 2020 reporting periods. The Lender Group has reaffirmed its ongoing support of the Group. The Company and the Lender Group will further these discussions once the September tender results have been finalised and processed, and the Company has had the opportunity to further assess the impact on forward-looking cashflow projections. This may include covenant resets and/or waivers for the measurement period under review in the Board's assessment of the business as a going concern, being a period of at least 18 months from Year end. See the 'Basis of preparation including going concern' section on page 109 of the Financial Statements for further information.

### EBITDA-related covenants

	12 months to 30 Jun 2019	12 months to 31 Dec 2019	12 months to 30 Jun 2020	12 months to 31 Dec 2020	12 months to 30 Jun 2021
<b>Consolidated net debt to consolidated EBITDA:</b>					
- Current covenant ratio:	≤ 4.5x	≤ 4.25x	≤ 3.5x	≤ 3.25x	≤ 3.0x
- Previous covenant ratio:	≤ 2.5x	≤ 2.5x	≤ 2.5x	≤ 2.5x	≤ 2.5x
<b>Consolidated EBITDA to consolidated net finance charges:</b>					
- Current covenant ratio:	≥ 2.5x	≥ 2.5x	≥ 2.75x	≥ 3.0x	≥ 3.25x
- Previous covenant ratio:	≥ 4.0x	≥ 4.0x	≥ 4.0x	≥ 4.0x	≥ 4.0x
<b>Consolidated net senior debt to book equity:</b>					
- Current covenant ratio	≤ 0.4x	≤ 0.4x	≤ 0.4x	≤ 0.4x	≤ 0.4x

1. The South African Lender Group comprises 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 Trust ("the Lender Group").

2. See APMs on page 156 for definition.



## BEE loans receivable and payable

BEE loans receivable of US\$109.6 million (FY 2018: US\$64.7 million) relate to the Group's BEE partners' financing of their interests in the Koffiefontein mine, advances provided to the BEE partners to enable the BEE partners to discharge interest and capital commitments under the BEE Lender facilities (refer to note 15 of the Financial Statements regarding the guarantee provided by the Company) and other advances to the BEE partners which have enabled the Itumeleng Petra Diamonds Employee Trust ("IPDET") to make distributions to their beneficiaries (Petra Directors and Senior Managers do not qualify as beneficiaries under the IPDET Trust Deed). During the Year, Petra advanced US\$42.2 million (FY 2018: US\$24.3 million) to facilitate the servicing of capital and interest payments on behalf of the BEE Partners and US\$4.5 million (FY 2018: US\$6.7 million) for distributions to the beneficiaries of the IPDET and shareholders of Kago.

The BEE loans payable of US\$120.5 million (FY 2018: US\$110.5 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.

The South African Lenders to the Company's BEE partners, Absa Bank, Rand Merchant Bank and Investec, agreed post Year end to an amended repayment profile of the ca. US\$54.2 million BEE banking debt. The balance, which was to be settled in two instalments, November 2019 and May 2020, will now be spread over the period to November 2021, with ca. US\$5.0 million payable in November 2019, followed by four equal biannual instalments of US\$12.3 million each from May 2020.

Refer to note 15 in the Financial Statements for further detail on BEE loans receivable and payable.



Our strong operating performance was offset by weaker diamond pricing, which impacted on the Group's net debt position.

**Jacques Breytenbach**  
Finance Director

## Other liabilities

Other than trade and other payables of US\$53.4 million (comprising US\$20.9 million trade creditors, US\$2.7 million employee-related accruals and US\$29.8 million other payables) (FY 2018: US\$130.8 million), the remaining liabilities on the balance sheet mainly comprise provisions for rehabilitation liabilities, post-retirement employee-related provisions and deferred tax.

## Capex

Total Group Capex for the Year reduced to US\$86.9 million (FY 2018: US\$145.5 million), comprising:

- ▶ US\$56.0 million expansion Capex (FY 2018: US\$110.7 million);
- ▶ US\$25.4 million sustaining Capex (FY 2018: US\$18.9 million);
- ▶ US\$3.7 million capitalised borrowing costs with regards to the expansion Capex (FY 2018: US\$15.2 million); and
- ▶ corporate/exploration Capex of US\$1.8 million (FY 2018: US\$0.7 million).

Capex	Unit	FY 2019	FY 2018
Finsch	US\$m	24.1	54.0
Cullinan	US\$m	46.3	73.9
Koffiefontein	US\$m	6.1	12.3
Williamson	US\$m	8.6	4.6
<b>Sub-total – Capex incurred by operations</b>	US\$m	<b>85.1</b>	144.8
Corporate/exploration	US\$m	1.8	0.7
<b>Total Group Capex<sup>1</sup></b>	US\$m	<b>86.9</b>	145.5

1. Capex for the Year includes US\$3.7 million (FY 2018: US\$15.2 million) capitalised borrowing costs, which is also included in the applicable mine-by-mine tables to follow.

**Jacques Breytenbach**  
Finance Director  
14 October 2019

## Project 2022: Driving the optimisation of our asset base

### STRATEGY IN ACTION



DRIVE OPTIMISATION

### VALUES IN ACTION



LET'S TAKE CONTROL



LET'S DO IT BETTER

Aim to identify and drive efficiencies and improvements across all aspects of the business to generate US\$150–200 million in free cashflow over a three-year period, areas in focus include:

**Throughput at all operations**

(ca. 75%)



**Cost efficiencies**

(ca. 10%)



**Strategic sourcing**

(ca. 5%)



**Other**

(ca. 10%)

## Operational Review

# Introduction to Operational Review



As always, our primary operational focus is to drive improvements in the safety and occupational health of our employees whilst caring for our environment. With this approach underpinning our daily work, improving productivity and maintaining strict capital discipline were central to our activity in FY 2019. As a result, 14.9 Mt of ore was processed, recovering ca. 3.9 Mcts, in line with expectations. In FY 2020 we will look to further build on this performance, focusing on continuous improvement in line with the goals set by Project 2022.

## Driving safety and occupational health

The health and safety of all employees and other stakeholders is our single most important value. It was therefore encouraging to see a further improvement in the LTIFR to 0.21 (FY 2018: 0.23), with no fatalities recorded, as well as a strong performance in occupational health, hygiene and environmental indicators.

In collaboration with the Minerals Council of South Africa, regulatory bodies and trade unions, we started FY 2019 with an intensive safety campaign aiming to raise safety awareness and enforce compliance to regulation, policies and procedures. All levels of our organisation, including the Board, signed a pledge committing to the following:

1. display the willpower and model the behaviour to 'do no harm';
2. lead by example to put safety 'first, always and every day';
3. as an individual, look after your own safety to return from work 'unharmled, every day';
4. show concern in looking after the safety of your fellow workers and 'not look the other way'; and
5. operate in unity by treating one another with 'care, dignity and respect'.

## Improving productivity

ROM tonnes treated increased 10% to 13.3 Mt (FY 2018: 12.1 Mt) driven by an 11% increase in underground ROM tonnes mined from the South African operations of 7.6 Mt (FY 2018: 6.9 Mt) and a 9% increase in tonnages mined from the Williamson open pit of 5.1 Mt (FY 2018: 4.7 Mt) whilst the contribution from surface overburden ROM material at Finsch remained flat at 0.6 Mt. The ramp-up of underground tonnages involved gaining access across a larger footprint of the orebody at both the Cullinan

C-Cut block cave and the Finsch Block 5 SLC. The extraction per ring blasted at Finsch improved between 20% and 125% for different levels (see case study on page 29) whilst at Cullinan 91 out of a total of 107 draw bells in the C-Cut block cave had been completed as at 30 June 2019. The remaining 16 draw bells will be completed during H1 FY 2020 and will take around 12 months to reach maturity (i.e. the fragmentation of the ore loaded from the drawpoint improves resulting in higher productivity).

## Maintaining strict capital discipline

At both Finsch and Cullinan, the planned rate of development and completion of the expansion projects in FY 2019 was exceeded, resulting in lower capital spend requirements for FY 2020. In addition to this, certain capital items have been deferred following a strict, but responsible, capital re-prioritisation process, resulting in lower overall capital spend across operations and also following into FY 2020. Importantly, however, this Capex deferral has been considered in the context of the long-term viability of the operations and will not affect the ongoing sustainability of the business.

## Resources

Petra manages one of the world's largest diamond resources of almost 250 million carats 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 higher production rates.

As at 30 June 2019, the Group's gross diamond resources (inclusive of reserves) decreased 15% to 248.15 Mcts (30 June 2018: 290.48 Mcts), predominantly due to a new resource estimate for Cullinan, but also for Finsch and Williamson as well as depletion by mining activity at all operations and the disposal of Petra's interest in Helam. An interim resource estimate for Cullinan has been completed and will be updated once the C-Cut sampling programme is completed in December 2019. The Group's gross diamond reserves decreased 0.1% to 42.85 Mcts (30 June 2018: 42.92 Mcts) due to depletion, changes to block cave and SLC designs at Finsch, and a reserve of 4.64 Mcts (66.0 Mt) being declared at Williamson.

A LOM review was conducted shortly after Year end, which led to a decision being taken that no further expansionary Capex would be allocated in Koffiefontein's base LOM plan subject to future market conditions and the Group's capital allocation strategy.

## Focus for FY 2020 and Project 2022

The focus for FY 2020 will be on further improvements to operational performance considering the appropriate balance between cash returns and value accretive growth options from within our current portfolio of assets. Through the implementation of Project 2022, we believe that we will be able to implement sustainable improvement initiatives faster, thus driving free cashflow generation across operations.

**Luctor Roode**  
Chief Operating Officer  
14 October 2019



## Production, sales and capex summary<sup>1</sup>

	Unit	FY 2019	FY 2018	Variance
<b>Sales</b>				
Diamonds sold	Carats	3,736,847	3,793,799	-2%
<b>Revenue</b>	US\$m	463.6	495.3	-6%
<b>Production</b>				
ROM diamonds	Carats	3,763,622	3,649,704	3%
Tailings and other <sup>1</sup> diamonds	Carats	111,324	186,132	-40%
<b>Total diamonds</b>	Carats	3,874,946	3,835,836	1%
<b>Tonnages</b>				
ROM tonnes	Mt	13.3	12.1	10%
Tailings and other <sup>1</sup> tonnes	Mt	1.6	1.6	0%
<b>Total tonnes</b>	Mt	14.9	13.7	9%
<b>Capex</b>				
Expansion	US\$m	56.0	110.7	-49%
Sustaining	US\$m	25.4	18.9	34%
Borrowing costs capitalised	US\$m	3.7	15.2	-76%
<b>Total</b>	US\$m	85.1	144.8	-41%

1. 'Other' represents alluvial diamond mining at Williamson.

## Optimising extraction per ring from the Finsch SLC

### STRATEGY IN ACTION



### VALUES IN ACTION



LET'S TAKE CONTROL



LET'S DO IT BETTER

Actual drilled rings' interaction between levels.



Mining of an SLC requires multiple activities to be executed at a very high standard whilst seamlessly interacting with one another. The cycles in the SLC mining process include accurate ring drilling, charging the drilled ring holes with explosives according to specific charging instructions, blasting a good quality ring, loading a specific amount of tonnes from a blasted ring, secondary drilling and blasting to contend with large, oversize material and finally preparing the tunnel for the next cycle. Each level in the SLC requires a certain extraction rate per ring blasted in order to maximise column extraction.

As a result of improved drilling accuracy and the secondary drilling and blasting process, we saw a significant improvement in ring tonnage performance in FY 2019, with the highest increase being 125%.

### Accurate ring drilling

The drilling cycle, with a focus on accuracy both in terms of correct length and location of the ring of the SLC, is critically important. The illustration to the left shows the drilled rings' interaction between tunnels and levels. If either the length of the drill hole is incorrect or if it deviates from the planned location, it can cause pillars to remain, resulting in unplanned stresses in tunnels and ultimately sub-optimal extraction of ore.

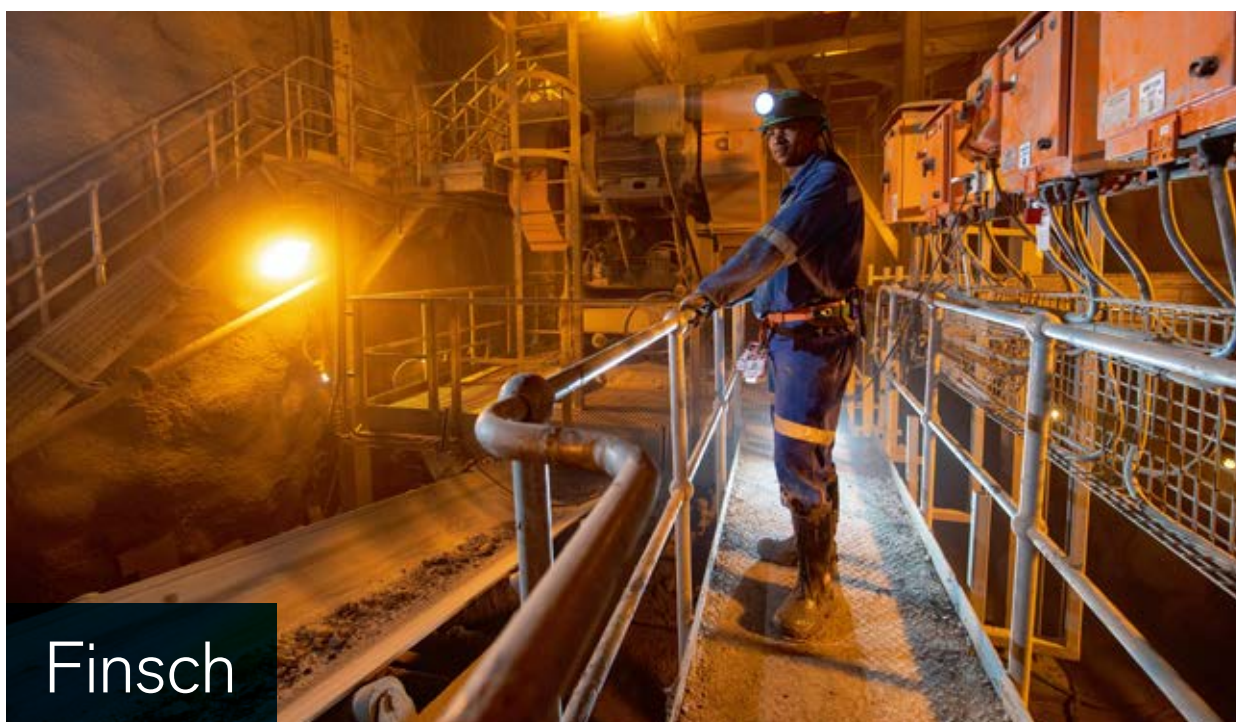
This initially posed a challenge and we have therefore worked to align the approach and competency of the specialists to ensure that navigation is carried out correctly. A measure of drilling accuracy is the amount of blasted tonnes extracted from a blasted ring as well as the subsequent extraction of column tonnes at the lower levels.

### Secondary drilling and blasting

In terms of secondary drilling and blasting, the behaviour of the cave poses a challenge after the ring tonnage has been extracted. As a result of larger oversize material, effective and efficient secondary drilling and blasting becomes vital. Improvements in the rate of extraction have been influenced by:

- ▶ improving the reaction time to deal with oversize ore in the drawpoints when they occur;
- ▶ introducing a secondary blasting explosive that can be inserted into a hang-up by the drill rig, thereby removing the need for human intervention at the face;
- ▶ assigning priorities to certain tunnels, with a maximum of three issued per level; and
- ▶ ensuring supervisory and management staff are aligned as to the required draw control needed per tunnel for the shift.

## Operational Review continued



# Finsch

**REVENUE CONTRIBUTION**
**37%** (47%)

**CARAT CONTRIBUTION**
**45%** (54%)

**REVENUE**  
US\$ million

**170.2** -27%

**PRODUCTION**  
Mcts

**1.8** -15%

**AVERAGE PRICE**  
PER CARAT US\$

**99** -8%

Figures in parenthesis relate to FY 2018.

Underground production from the newly established Block 5 SLC ramped up from 1.6 Mt in FY 2018 to 2.5 Mt in FY 2019.


**WORK RESPONSIBLY**

Finsch carries out portable skills training with its employees prior to retirement and also trains members of the community. Training in FY 2019 included computer, driving and agricultural skills.


**CONSISTENT DELIVERY**

Finsch maintained a flat profile of ROM tonnes treated at 3 Mt, with increased contribution from the Block 5 SLC.


**DRIVE OPTIMISATION**

The Block 5 SLC remains in a production build up phase, with some production volatility. However, nameplate capacity of the underground system was achieved and exceeded at more regular intervals during H2 FY 2019.

**FY 2019 performance**

Overall production decreased 15% to 1,755,768 carats (FY 2018: 2,073,477 carats) with ROM carat production decreasing 10% to 1,724,265 carats (FY 2018: 1,926,467 carats) and tailings production decreasing to 31,503 carats (FY 2018: 147,010 carats).

The contribution from underground ROM production remained mostly flat at 1,504,722 carats (FY 2018: 1,507,561 carats) with ore from the newly established Block 5 SLC replacing ore mined from Block 4 which was depleted during FY 2018. The decrease in overall ROM production is mainly due to the depletion of surface overburden ROM stockpiles, decreasing to 219,544 carats (FY 2018: 418,905 carats) in line with the mine plan.

Overall, Finsch managed to maintain a flat profile of ROM tonnes treated at 3,073,479 tonnes (FY 2018: 3,084,395 tonnes). The tonnage contribution from the Block 5 SLC ramped up to 2.5 Mt (FY 2018: 1.6 Mt) with the remaining ROM ore supplemented from surface overburden ROM stockpiles which came at a much reduced grade as the stockpiles were depleted over the Year. The Block 5 SLC production ramp up delivered 2.5 Mt, compared to the plan of 2.7 Mt for the Year, impacted by delays during the planned schedule for the winder upgrade project in December, a 600m belt tear on one of the main underground conveyor belts in January and low availabilities of the crusher and ground handling system in May. The Block 5 SLC remains in a production build up phase and barring the months mentioned above, it is





## Virtual reality

### STRATEGY IN ACTION



WORK RESPONSIBLY  
CONSISTENT DELIVERY  
DRIVE OPTIMISATION

### VALUES IN ACTION



LET'S TAKE CONTROL



LET'S DO IT BETTER

VR console and the concept of 'slot cutting' demonstrated.



As part of the digital transformation process taking place at Finsch, the significant possibilities of virtual reality ("VR") tours and training have been introduced at the mine.

VR is a computer-generated simulation that provides a representation of a real-life situation or environment. Users are immersed in the virtual world and equipment is used to enable them to carry out training on mining methods from the comfort and safety of their office chair.

The advantages of VR include:

- ▶ appealing and suitable to a variety of learning styles;
- ▶ elimination of risks and safety concerns;
- ▶ reduction in training budgets and scalability;
- ▶ the provision of realistic scenarios;
- ▶ training can be carried out remotely or in any given area or location;
- ▶ improved retention and recall; and
- ▶ simplification of complex problems or situations.

VR technologies have the potential to improve mine safety and productivity, reduce equipment maintenance costs and protect personnel. In the mining sector, VR can be especially valuable on remote or complex sites. As a training tool it is already well established, particularly in the field of surgery as well as flight simulators for pilots.

Petra has developed the following training material in the form of VR simulations:

- ▶ slotting concept;
- ▶ ring retreat methodology;
- ▶ good blast versus bad blast;
- ▶ hazard identification;
- ▶ mudrush (Kimberley Bultfontein);
- ▶ introduction to Cullinan 839L Block Caving method; and
- ▶ introduction to Finsch SLC method.

A safer and more productive working environment can be created through the use of VR training techniques.

encouraging to see the nameplate capacity of the underground system being achieved and exceeded at more regular intervals during H2 FY 2019. The focus is on maintaining these production rates at a steady and consistent rate.

The ROM grade of 56.1 cpht (FY 2018: 62.5 cpht) compared to guidance of 56–59 cpht was at the lower end mainly due to lower grades of the ROM surface stockpiles (overburden dumps), which are nearing depletion.

Revenue decreased by 27% to US\$170.2 million (FY 2018: US\$231.9 million) mainly due to the shortfall in production and the lower average value per carat, which was negatively impacted by weaker prices in the market for smaller goods as well as a product mix containing a lower than expected incidence of gem-quality coarse diamonds. The variation should reduce with the SLC progressing across the orebody on the various levels, with more broken ore reporting to the lower levels.

### Costs

The on-mine cash unit cost increased 18% to ZAR388/t (FY 2018: ZAR329/t), mainly due to a decrease in tonnes treated. The total on-mine cash cost for FY 2020 is guided at ca. ZAR1,268 million. 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 remain a priority focus in FY 2020.

### Capex

FY 2019 expansion Capex of US\$13.6 million was mainly spent on underground development and infrastructure relating to the Block 5 SLC.

### Outlook

FY 2020 ROM throughput is planned at 2.9–3.0 Mt with tonnage from the Block 5 SLC planned at ca. 2.8 Mt (FY 2019: 2.5 Mt) and 0.1–0.2 Mt to be sourced from the remaining economically viable ROM surface overburden stockpiles. This is lower than previous guidance of 3.2 Mt due to a slower than planned ramp-up of the SLC as well as the depletion of the surface ROM stockpiles. The Company will continue to assess options to accelerate the ramp-up of production from the SLC to the nameplate capacity of 3.2 Mtpa.

Finsch's underground ROM grade is expected to remain within guidance of 56–59 cpht. If the lower grade surface overburden ROM stockpiles are included, the overall ROM grade will reduce to 54–57 cpht. Negligible tailings production is planned for FY 2020, with the Pre 79 Tailings resource coming to an end. Whilst tailings production post FY 2020 does not form part of the current mine plan, lower grade Post 79 Tailings material remains available to supplement the underground operations in the future.

► **Finsch mine and orebody schematic**  
[petradiamonds.com/investors/analysts/analyst-guidance](https://petradiamonds.com/investors/analysts/analyst-guidance)

► **More detail online**  
[petradiamonds.com/operations/operating-mines/finsch](https://petradiamonds.com/operations/operating-mines/finsch)

## Operational Review continued



## REVENUE CONTRIBUTION

37% (34%)

## CARAT CONTRIBUTION

43% (36%)

## REVENUE US\$ million

171.4 +3%

## PRODUCTION Mcts

1.7 +21%

## AVERAGE PRICE PER CARAT US\$

110 -12%

Figures in parenthesis relate to FY 2018.

FY 2019 saw the recovery of four +100 carat gem quality stones during the Year, including the 425.1 carat D colour Type II gem quality diamond that was sold for US\$15 million.

#### WORK RESPONSIBLY

Recent upgrades to the processing plant reduced the impact of transporting ore by curtailing the length of conveyors used from 15km to 3km and reducing the number of motors required for ore transport from 589 to 84.

#### CONSISTENT DELIVERY

Production was 21% higher and underground throughput increased from 3.7 Mt in FY 2018 to 4.1 in FY 2019.

#### DRIVE OPTIMISATION

Capital expenditure was focused on the C-Cut Phase 1, the new plant and CC1 East projects. The current shaft place system proved to be reliable and will continue to be used in the short term, following the deferral of the shaft plant interface project.

• **Cullinan mine and orebody schematic**  
[petradiamonds.com/investors/analysts/analyst-guidance](https://petradiamonds.com/investors/analysts/analyst-guidance)

• **More detail online**  
[petradiamonds.com/operations/operating-mines/cullinan](https://petradiamonds.com/operations/operating-mines/cullinan)

#### FY 2019 performance

Production increased 21% to 1,655,929 carats (FY 2018: 1,368,720 carats) mainly due to underground throughput increasing from 3.7 Mt in FY 2018 to 4.1 Mt in FY 2019 and further supplemented by an increase in ROM grades from 35.9 cpht in FY 2018 to 38.6 cpht in FY 2019.

FY 2019 production from the newly established C-Cut and CC1 East mining areas increased to ca. 3.6 Mt in FY 2019 (FY 2018: ca. 2.46 Mt) with the remaining tonnage being supplemented from older B-Block mining areas.

A total of 0.9 Mt of tailings were treated with an average grade of 6.9 cpht.

Revenue increased by 3% to US\$171.4 million in FY 2019 (FY 2018: US\$167.0 million), due to higher production offset by the weaker average value per carat, largely driven by a low incidence of larger, high value goods, specifically in H1 FY 2019, when an average price of US\$96 per carat was realised. This improved during H2 FY 2019 as the C-Cut Phase 1 block cave extended across a larger part of the footprint, yielding an average sales price of US\$120 per carat in H2 (positively impacted by the sale of a 425 carat Type II gem quality diamond for US\$15 million and a 9.4 carat Type II blue diamond for US\$5.4 million), resulting in a full year average price of US\$110 per carat.

Four +100 carat gem quality stones were recovered during the Year and, post Year end, a 132 carat D colour Type II gem quality diamond and a 20.08 carat blue Type IIb stone were recovered, reflecting the regular occurrence of such stones within the Cullinan orebody and the ability of the plant to recover them.



**Costs**

The on-mine unit cash cost per total tonne treated decreased to ZAR234/t (FY 2018: ZAR239/t), mainly due to an increase in tonnes treated. The total on-mine cash cost for FY 2020 is guided at ca. ZAR1,269 million.

**Capex**

FY 2019 expansion Capex of US\$37.2 million was mainly spent on the C-Cut Phase 1, plant-related expenditure and CC1 East projects. Based on the re-prioritisation of capital spend, the construction of the shaft plant interface project has been deferred. The current system has proven to be reliable and will be utilised in the interim.

**Outlook**

The Company is guiding 4.0–4.2 Mt of ROM material to be treated during FY 2020, higher than previous guidance of 4.0 Mtpa due to the additional contribution of production from B-Block areas which remain available to be mined and treated.

The C-Cut Phase 1 project is planned to contribute ca. 3.5 Mt and 0.5–0.7 Mt will be sourced predominantly from the CC1 East and remnant B-Block areas. The ROM grade is guided at 38–42 cpht for FY 2020.

Tailings production has been curtailed for FY 2020 by ca. 0.1 Mcts due to price pressure on smaller, lower quality diamonds. ROM production will be prioritised, supplemented by low volumes of higher-grade recovery tailings. The economic evaluation of Cullinan’s substantial tailings resource will be monitored continuously and could be included in future mine plans should the market conditions and pricing of smaller diamonds improve.

Cullinan contains a major diamond resource of 154.88 Mcts (including 17.2 Mcts in tailings) and the Company will on an ongoing basis review the mining plan to ensure that the full extent of the large Cullinan orebody (ca. 16 ha at current production depths) is utilised.

**Innovative techniques in the C-Cut Phase 1 undercut pillar**

STRATEGY IN ACTION



VALUES IN ACTION



Geotechnical modelling is conducted prior to the implementation of any block cave or SLC in order to confirm the geotechnical stability of the infrastructure, test the validity of the design parameters and predict the behaviour of the cave over its life.

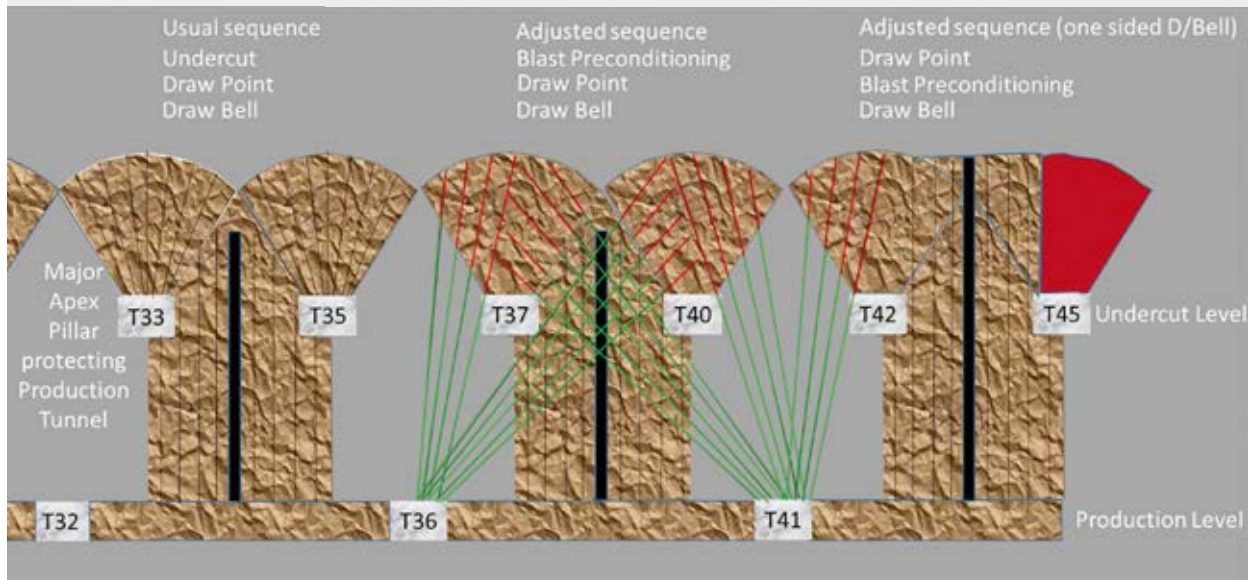
At Cullinan, the C-Cut geotechnical studies indicated a potential for the undercut to experience high stresses in the final third of the undercut, with the possibility of tunnel closure. During Q2 FY 2019, some of the undercut tunnels located in the final third of the footprint did close as predicted; however, through innovative planning and quick reaction, the impact on the production and extraction level was minimised.

The first step was to accelerate the undercut to move as quickly as possible across the footprint. This required mass blasting of several rings as well as adapting the ring design to accelerate the cycle of ring blasting.

Further to this, innovative blasting techniques were required to break the undercut from the extraction level. Blast preconditioning of those pillars or stubs that could not be blasted on the undercut level was identified as the most suitable means to further protect the extraction level. The blast holes required to be drilled from the extraction level were 25 to 40m long compared to the ±10m long blast holes previously drilled on the undercut level. The drilling of these long holes required a lengthier process to ensure the essential drilling accuracy.

The ultimate success of the blast preconditioning of the undercut pillar will be confirmed once the five to six draw bells below this area are constructed and successfully brought into production. Advanced geotechnical modelling enabled the Group to proactively manage the situation and limit convergence to a small section within the affected area.

Section view showing the conventional undercut rings on the left and the adjusted rings in the centre. Charged portion is in red and grouted portions are in green.



## Operational Review continued



# Koffiefontein

**REVENUE CONTRIBUTION**
**6% (5%)**
**CARAT CONTRIBUTION**
**2% (1%)**
**REVENUE US\$ million**
**28.9 +6%**
**PRODUCTION Mcts**
**0.06 +21%**
**AVERAGE PRICE PER CARAT US\$**
**480 -9%**

Figures in parenthesis relate to FY 2018.

Koffiefontein reached the planned tonnages from the SLC despite the operational challenges relating to plant availability as well as community unrest.

### WORK RESPONSIBLY

Koffiefontein is planning to make certain tailings mineral resources available for small scale artisanal mining (see case study on page 47).

### CONSISTENT DELIVERY

ROM production increased 21%, in spite of lower production during Q2 as a result of community unrest relating to municipal service delivery and operational challenges experienced relating to plant availability.

### DRIVE OPTIMISATION

High tonnages extracted per ring blasted on the first two levels of the SLC were achieved.

### FY 2019 performance

ROM production increased 21% to 63,635 carats (FY 2018: 52,537 carats) further to the ramping up of the SLC to a planned 1.0 Mt, notwithstanding lower production during Q2 as a result of community unrest relating to municipal service delivery and operational challenges experienced relating to plant availability.

A ROM grade of 6.4 cpht was achieved during the Year, lower than expected due to the delayed ramp-up of the higher grade ore facies on 60 Level (the third level of the SLC) which is mainly due to better than expected tonnages extracted per ring blasted on the first two levels.

Revenue increased by 6% to US\$28.9 million (FY 2018: US\$27.2 million) for the Year due to increased volumes offset by lower prices achieved.

### Costs

The on-mine cash unit cost decreased 24% to ZAR450/t (FY 2018: ZAR 596/t), mainly due to increased throughput. The total on-mine cash cost for FY 2020 is guided at ca. ZAR433 million.

### Capex

Capex of US\$6.1 million mainly related to the SLC project.

### Outlook

The SLC is expected to deliver ROM throughput of ca. 1 Mtpa at an average grade of 8.0–8.5 cpht for FY 2020.

🔗 **Koffiefontein mine and orebody schematic**  
[petradiamonds.com/investors/analysts/analyst-guidance](https://petradiamonds.com/investors/analysts/analyst-guidance)

🔗 **More detail online**  
[petradiamonds.com/operations/operating-mines/Koffiefontein](https://petradiamonds.com/operations/operating-mines/Koffiefontein)

**REVENUE CONTRIBUTION****20%** (14%)**CARAT CONTRIBUTION****10%** (9%)**REVENUE**  
US\$ million**93.0** +36%**PRODUCTION**  
Mcts**0.4** +17%**AVERAGE PRICE PER CARAT** US\$**231** -14%

Figures in parenthesis relate to FY 2018.

Strong operational performance at Williamson led to the highest level of production achieved at the mine in over 40 years.

**WORK RESPONSIBLY**

Corporate social investment contributions in the Kishapu district.

**CONSISTENT DELIVERY**

Production exceeded guidance and increased by 17%, in spite of operations being impacted by liquidity constraints.

**DRIVE OPTIMISATION**

Williamson saw a 9% increase in tonnages mined from the open pit to 5.1 Mt.

**FY 2019 performance**

The mine performed well operationally with production up 17% to 399,615 carats (FY 2018: 341,102 carats), the highest level of production achieved by the mine in over 40 years. This is despite operations being impacted by liquidity constraints due to the parcel of 71,654 carats that remains blocked for export and the overdue VAT receivables of US\$32.9 million (FY 2018: US\$24.2 million).

Revenue increased by 36% to US\$93.0 million in FY 2019 (FY 2018: US\$68.5 million) due to increased production and resultant higher sales volumes, offset by lower prices per carat achieved.

**Costs**

On-mine cash costs increased 4% to US\$11.1/t (FY 2018: US\$10.7/t). The positive impact on the unit cost of increased volumes treated was offset by the normalisation of costs, following the severe cost cutting measures implemented in FY 2018 required due to the mine's liquidity constraints. The total on-mine cash cost for FY 2020 is guided at ca. US\$62 million.

**Capex**

FY 2019 Capex of US\$8.6 million mainly related to in-pit waste stripping activities.

**Outlook**

ROM throughput is planned at ca. 5.0 Mt at a grade of ca. 6.5–7.0 cpht for FY 2020, supplemented by alluvial production of ca. 0.3 Mt at a grade of ca. 2.5 cpht.

▶ **Williamson mine and orebody schematic**  
[petradiamonds.com/investors/analysts/analyst-guidance](https://petradiamonds.com/investors/analysts/analyst-guidance)

▶ **More detail online**  
[petradiamonds.com/operations/operating-mines/Williamson](https://petradiamonds.com/operations/operating-mines/Williamson)

## 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 viability. 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 right 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 and Tanzania and the regulatory environments of all of the countries in which Petra operates or has a corporate presence.

The Board oversees overall risk management, with Board Committees providing an additional level of oversight. The Executive Committee ("Exco") is responsible for risk management processes and systems and drives a culture of individual employee accountability in implementing these.

### Risk review process

Petra's management and Internal Audit teams reviewed and updated the Group's principal risks with reference to the Group's internal risk registers in FY 2019. The Board and Exco conducted an in-depth analysis and appraisal of the Group's risk profile shortly after Year end, which has led to the consolidation and re-prioritisation of our risks, as outlined below.

### Changes to categorisation of principal risks in FY 2019

Further to the risk review process, certain individual risks are now either partially consolidated within a broader risk category or have been removed from principal risks on the basis that they are not considered to be sufficiently material to the accomplishment of Petra's strategy. These risks continue to be considered and managed at an operational level.

Safety continues to be Petra's number one priority but is now considered as part of the Company's licence to operate, which also includes Petra's impacts on its environment as well as its approach to employee retention and social factors such as community relations.

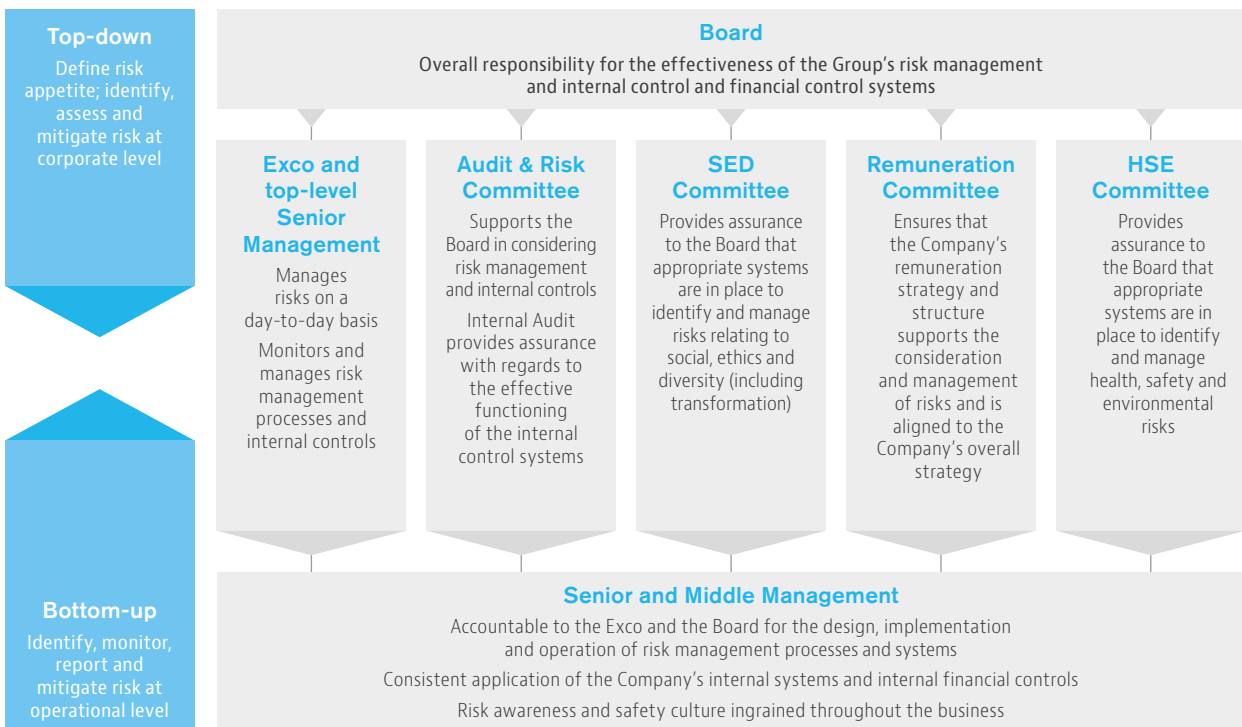
Since Petra is now in the final stages of its major capital programmes, expansion and project delivery and capital discipline are no longer considered to be 'principal'. Cost control clearly remains a key focus of the Group, specifically in the context of Project 2022, but is not included in the key risks.

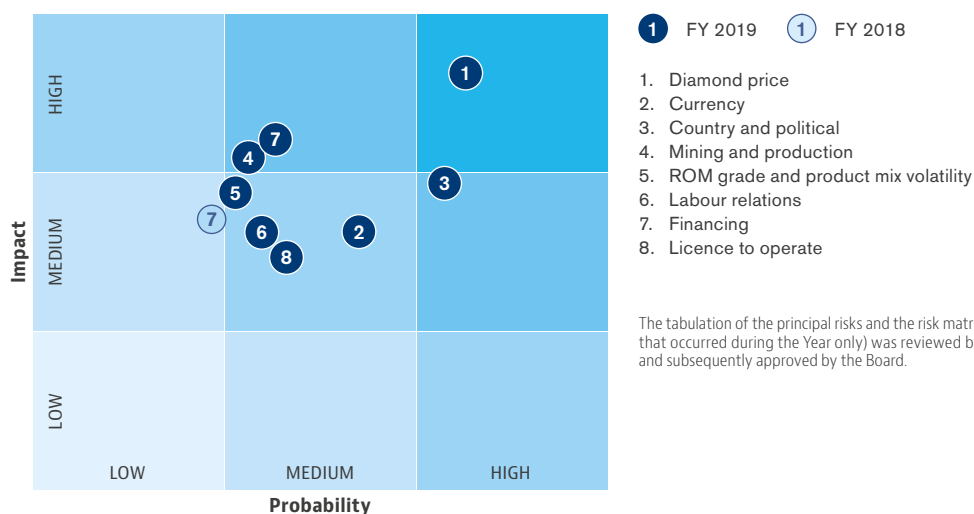
Petra no longer considers synthetic diamonds as a separate, principal risk, mainly due to the relatively small size of the market. It is, however, considered within the diamond price risk, should a significant threat from synthetic diamonds arise in future.

### Risk appetite

Risk appetite reflects the nature and extent of risk that is acceptable to Petra in order to achieve its objectives. This is considered based on the consequences of such risks materialising and also takes into account any relevant internal or external factors, as well as the mitigating actions available. Petra will consider strategic actions in the event that a risk exceeds its appetite.

## Risk management framework





① FY 2019    ① FY 2018

1. Diamond price
2. Currency
3. Country and political
4. Mining and production
5. ROM grade and product mix volatility
6. Labour relations
7. Financing
8. Licence to operate

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.

## Principal risks

A summary of the risks identified as the Group's principal external, operating and strategic risks (in no order of priority) is listed below.

➔ [Full risk management commentary Pages 72 to 75](#)

Risk	Risk appetite	Risk rating	Nature of risk	Change in FY 2019
<b>External risks</b>				
① Diamond price	High	High	Long term	Diamond prices fell ca. 5% over the Year, driven by a weakening in global markets, US/China trade tensions, higher than normal polished inventories and the sustained tightening of liquidity in the midstream.
② Currency	High	Medium	Long term	The ZAR/USD exchange rate continues to be volatile. The short-term weakness in the Rand has the capacity to offset some of the diamond price weakness.
③ Country and political	High	High	Long term	Regulatory uncertainty in South Africa has eased somewhat with the completion of the 2019 elections and the publication of the new mining charter. However, the risk of political instability remains, and certain components of the charter remain under review. Petra is in ongoing dialogue with the Government of Tanzania and local advisers in relation to legislative developments, overdue VAT receivables and the blocked parcel of diamonds from Williamson.
<b>Operating risks</b>				
④ Mining and production	Medium	Medium	Long term	Operations were largely stable in FY 2019 and production of 3.9 Mcts was in line with guidance.
⑤ ROM grade and product mix volatility	Medium	Medium	Short term	ROM grades at Finsch, Cullinan, Koffiefontein and Williamson were in line with expectations in terms of resource performance but a higher level of waste dilution at Cullinan and Koffiefontein had a negative impact. Williamson has a higher potential for volatility due to the size and variability of the orebody. Some product mix volatility was encountered across the operations.
⑥ Labour relations	Medium	Medium	Short to medium term	The Company's three-year wage agreement relating to its South African operations remains in force for FY 2020 and stable labour relations were experienced throughout the Year. As we move into the negotiation phase of the next agreement, which is expected to commence in Q3 FY 2020, there is potential for some volatility.
<b>Strategic risks</b>				
⑦ Financing	Medium	High	Short to medium term	The Group's reliance on its banking facilities has the potential to be increased by weakness in the diamond market, therefore heightening financing risk as a result of possible breaches in covenants. However, on the basis of existing cash resources and the continuing availability of current facilities, further supported by positive engagements with the Lender Group <sup>1</sup> , the Board assessed the liquidity headroom to be adequate.
⑧ Licence to operate	Medium	Medium	Long term	Continued compliance in all material aspects with relevant laws and regulations. Incorporated in Petra's licence to operate is its continued focus on safety, as well as its impacts on the environment and its approach to community relations.

1. See page 26 for a definition of Lender Group.

## Sustainability

# Driving sustainable operations and stakeholder value

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

Our responsible, long-term approach is followed across all aspects of the business, from our operational planning to the way we structure our environmental and social management, in alignment with the mine plan and potential mine life of each asset.

HSE management is reinforced by the Group HSE 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 has 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.

In an effort to support the UN Sustainable Development Goals ("SDGs"), we have linked each of our material topics with the relevant goals to demonstrate the part we are playing in the agenda to transform our world.

Our Board-level Committees were further enhanced during the Year by the establishment of an SED Committee, which sits alongside the HSE Committee. A robust system of reporting on sustainability-related indicators is in place, with information flowing from mine-level committees to the Group Operational Steering Committee, Exco and then to the Board, via the HSE and SED Committees.

The focus of our activities in FY 2019 continued to be on those matters considered to be most material to Petra's business and which have the most significant impact on the delivery of our strategy and future performance, and/or those which could have a material impact on individuals, groups or communities that are impacted by Petra's operations. An overview of activities is provided in this section of the Annual Report, with a more complete update provided in the Company's FY 2019 Sustainability Report.

🔗 **FY 2019 Sustainability Report**  
[petradiamonds.com/investors/results-reports](https://petradiamonds.com/investors/results-reports)

🔗 **Read more at**  
[petradiamonds.com/sustainability](https://petradiamonds.com/sustainability)





## Sustainability performance in FY 2019

The Company has numerous sustainability objectives in place to drive and measure performance; some examples of key objectives and related outcomes in FY 2019 are detailed below.

Material topic	Objectives	Outcomes in FY 2019
<b>Responsible business</b>		
<b>Corporate governance</b>	<ul style="list-style-type: none"> <li>Review of Code of Ethical Conduct</li> </ul>	<ul style="list-style-type: none"> <li>Reviewed and updated; ethics roadshow was carried out at all operations</li> </ul>
<b>Consumer demand</b>	<ul style="list-style-type: none"> <li>Continue working with the DPA to assist it in its goals to sustain consumer demand for diamonds</li> </ul>	<ul style="list-style-type: none"> <li>Continued engagement with DPA and contribution to the Trucost report</li> </ul>
<b>Legal compliance</b>	<ul style="list-style-type: none"> <li>Continued dialogue with the Government of Tanzania and local practitioners in relation to recent legislative developments</li> </ul>	<ul style="list-style-type: none"> <li>Dialogue is ongoing and Petra is hopeful of a holistic solution for all stakeholders</li> </ul>
<b>Safety and occupational health</b>		
<b>Safety</b>	<ul style="list-style-type: none"> <li>Zero fatalities and 10% reduction in LTIs</li> </ul>	<ul style="list-style-type: none"> <li>0 fatalities and 36% reduction in LTIs</li> </ul>
<b>Occupational health</b>	<ul style="list-style-type: none"> <li>Zero compensated occupational diseases and 100% investigation of occupational hygiene incidents</li> </ul>	<ul style="list-style-type: none"> <li>0 compensated and 100% incidents investigated</li> </ul>
<b>People</b>		
<b>Employee retention and development</b>	<ul style="list-style-type: none"> <li>Ensure employee development needs are met</li> </ul>	<ul style="list-style-type: none"> <li>US\$6.6 million invested in training and development</li> </ul>
<b>Diversity</b>	<ul style="list-style-type: none"> <li>Launch Women in Leadership Programme</li> </ul>	<ul style="list-style-type: none"> <li>13 women participated in inaugural programme</li> </ul>
<b>Labour relations</b>	<ul style="list-style-type: none"> <li>Stable labour relations</li> </ul>	<ul style="list-style-type: none"> <li>No industrial action took place</li> </ul>
<b>Environment</b>		
<b>Environmental management</b>	<ul style="list-style-type: none"> <li>Waste management strategies</li> </ul>	<ul style="list-style-type: none"> <li>Successful implementation of waste optimisation and single-use plastics reduction strategies</li> </ul>
<b>Climate change and energy usage</b>	<ul style="list-style-type: none"> <li>1% annual reduction in carbon emissions<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>8% reduction in carbon emissions per carat to 0.12 tCO<sub>2</sub>-e/ct</li> </ul>
<b>Water management</b>	<ul style="list-style-type: none"> <li>Implementation of an integrated water management strategy</li> </ul>	<ul style="list-style-type: none"> <li>Strategy implemented with three distinct ambitions</li> </ul>
<b>Positive impacts</b>		
<b>Generating economic benefit</b>	<ul style="list-style-type: none"> <li>Further formalise supplier compliance</li> </ul>	<ul style="list-style-type: none"> <li>Supplier Compliance Committee established, aimed at improving governance with regards to suppliers</li> </ul>
<b>Community development</b>	<ul style="list-style-type: none"> <li>Increased community engagement</li> </ul>	<ul style="list-style-type: none"> <li>Improved awareness of and response to community issues via integration of feedback into a social management software system</li> </ul>

1. Measured over a five-year period (FY 2015 to FY 2020), from the base year of FY 2016.

Sustainability continued

**Responsible business**



**100%**  
of production certified as 'conflict free'



**Corporate governance**

**FTSE4Good Index** PETRA CONFIRMED AGAIN AS CONSTITUENT  
**SED Committee** ESTABLISHED IN FY 2019

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 54 to 64.

The Company established an SED Committee in FY 2019 to reinforce the focus on these important topics throughout the business by splitting the HSSE Committee into two separate Board-appointed Committees. The HSE Committee's responsibilities are now more focused.

**Ensuring ethical behaviour**

We are committed to upholding the levels of corporate governance we have maintained to date, but also to further developing and implementing best practice right down through the organisation.

Petra's commitment to ethical behaviour is clearly set out in the Group's Code of Ethical Conduct and we expect all employees, contractors, Directors 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 strictly prohibited by Petra. We have 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 about the policy as part of the Company's induction procedure.

During FY 2019 an ethics roadshow was held across the Company to re-emphasise awareness around bribery and other governance matters. The Audit & Risk Committee receives a security intelligence report at each meeting, detailing the implementation of the Anti-Bribery Policy and any investigations.


**Whistleblowing procedure**

Petra has a whistleblowing procedure in place that provides all Petra employees, contractors and suppliers, as well as any member of the public, with the opportunity to independently and anonymously report conduct that is in contravention of the Code of Ethical Conduct or the Anti-Bribery Policy. In order to uphold its independence, this service is outsourced. It is also provided in all local languages in the countries in which Petra operates as well as a number of international languages. All 'tip-offs' are directed to the service provider's central facility, then sent to the Group's internal investigation teams for further investigation and feedback, where required; outcomes are presented to the Audit & Risk Committee.

**Whistleblowing**

<b>STRATEGY IN ACTION</b>	<b>VALUES IN ACTION</b>
 <b>WORK RESPONSIBLY</b>	 <b>LET'S DO IT RIGHT</b>

In FY 2019, Petra received 27 reports involving alleged irregularities considered necessary to investigate. Of these reports, 20 were resolved and closed and seven remain under investigation.



**Let's do it right**

It is unethical, and may be illegal, to divulge Company information to a third party, which might include the public, suppliers, colleagues or representatives of any other stakeholder, without proper authorisation. It is unethical to use company-related information for your own benefit or the benefit of other entities in which you have interest. It is also unethical to use information about a third party that was gained in confidence to the benefit of the Company.

**Petra Diamonds**

Talk to us. Call the Tip-Offs Anonymous hotline with information you may have regarding fraud, corruption or other workplace crime.

**Human rights**

Petra is fully committed to upholding the human rights 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 are 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 it is 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 information to its members.



Petra has aligned its principles with the International Labour Organization 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 form unions. There is no risk of child 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 within our employment and supply chain management.

## Consumer demand

Founder **MEMBER OF THE DIAMOND PRODUCERS ASSOCIATION ("DPA")**

**US\$85.9 billion** GLOBAL DIAMOND JEWELLERY MARKET IN 2018<sup>1</sup>

While diamonds occupy a unique cultural position, in that they are used to celebrate life's most special moments, their continued acceptance is reliant on ensuring continued consumer desirability.

The provenance of Petra's diamonds is unique in that they are sourced from some of the most renowned diamond mines in the world.

We are committed to upholding the high value placed on natural diamonds and seek to actively influence sustainable consumer demand via the DPA. 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.

As a member of the DPA, we are committed to high standards of integrity and responsibility in all aspects of our business and all activities of the diamond value chain from mine to consumer.

### Diamonds do good

One of the key activities of the DPA in FY 2019 was the publication of the Trucost 'Total Clarity' report, which examines and quantifies the collective socio-economic and environmental impact of DPA members' diamond mining activities. Read more below.

### Maintaining pipeline integrity

A fundamental imperative for the industry exists in adequately and correctly disclosing product details. Natural diamonds

should always be distinguished from synthetic diamonds and the DPA has launched the ASSURE programme in order to support the diamond trade, from independent jewellery retailers to large diamond manufacturers, in making informed decisions on how to ensure that undisclosed laboratory-grown diamonds do not enter its natural diamond supply chain.

## Legal compliance

0 FINES PAID FOR REGULATORY NON-COMPLIANCE

All PETRA'S OPERATIONS HAVE ACCESS TO A LIVE 'LEGAL LIBRARY'

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. Regulations applicable to mining companies are subject to continual change and Petra therefore has the necessary management structures across the Group to maintain its adherence to all local legislation as well as access to a live legal library covering the core areas applicable to our operations, which contains all relevant international and national standards, national legislation and regulations as well as local bye-laws where applicable.

The Company closely monitors developments around the Broad-Based Socio-Economic Empowerment Charter for the Mining Industry published in September 2018 ("the Charter"). It is important to note that the ownership requirements for existing mining rights (such as those held by the Company in respect of Finsch, Cullinan and Koffiefontein) remain the same under the new Charter. The Minerals Council of South Africa has launched a judicial review in respect of certain components of the Charter and the Company, as a member of the Minerals Council, follows the judicial proceedings.

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.

### DPA member commitments

[petradiamonds.com/our-industry/industry-overview/the-diamond-producers-association](https://petradiamonds.com/our-industry/industry-overview/the-diamond-producers-association)

## The total benefits and impacts of diamond mining

In 2017, the DPA began a thorough analysis of the total value contribution of its members, which mine 75% of the world's annual diamond production. The purpose of the study was to determine the socio-economic and environmental benefits and impacts, as well as the economic benefits of diamond mining. ALROSA, De Beers Group, Petra Diamonds and Rio Tinto participated in the data collection, which reviewed and analysed data from the 2016 calendar year. In studying all the benefits and impacts, the DPA and its members could "identify opportunities to minimise the impacts of the industry whilst maximising the positive value created". Key findings from report<sup>2</sup> include:

- ▶ net benefits of US\$16 billion, with socio-economic and environmental benefits outweighing environmental and socio-economic impacts;
- ▶ the most important benefits were related to local procurement of goods and services (valued at US\$6.8 billion) and the payment of wages and benefits (valued at US\$3.9 billion); and
- ▶ the estimated carbon emissions associated with energy use in laboratory-grown diamond production is nearly three times greater than diamonds produced by DPA members in 2016.

▶ DPA's Trucost report [total-clarity.com](https://total-clarity.com)

1. According to industry reports.

2. Total Value: The Socio-economic and Environmental Impact of Large-Scale Diamond Mining.



Sustainability continued

Safety and occupational health



0.21  
LTIFR



Safety

0 FATALITIES

100% OF STAFF TRAINED IN HEALTH AND SAFETY STANDARDS

36% REDUCTION IN LOST TIME INJURIES

Ensuring our people return home safely on a daily basis from work is Petra's number one priority and is ingrained into everything we do. The safety of all employees and other stakeholders is therefore our single most important value. We are committed to preventing and mitigating any negative safety event or impact and also to identifying and capturing opportunities to deliver positive impacts.

We provide safe working conditions and aim to prevent work-related injuries, through the effective management of strategic risks, safety and other risks and opportunities.

As an employer, we adopt a holistic approach to health and safety management. While legal compliance is the first step in managing this, we also continuously communicate and engage with employees on health and safety-related issues in order to obtain their input and co-operation with regard to future planning and developments. Leading from the front and setting the example (by proactively intervening, coaching, guiding and correcting conditions and behaviour) in the workplace is of paramount importance to ultimately achieving the objective of zero harm.

Any significant risks that remain after control at source are mitigated through codes of practice, policies, procedures, working practices and management instructions.

Health and safety material hazards and associated risks are identified when developing work programmes. The outcomes of continuous risk assessment, management walkabouts, internal audits, and internal and regulatory inspections are analysed, prioritised and formally actioned by means of remedial action plans with assigned responsibilities and target dates.

Petra's HSE Operational Risk Management Process consists of mine-specific operational processes, with a three-tiered analysis system to identify and treat all significant hazards and associated risks.

LTIFR is the key performance measure we use for general safety performance. Petra's safety performance improvements, which resulted in a lost time injury reduction of 36% and an LTIFR of 0.21 in FY 2019, can be attributed to the safety strategy focusing on culture and leadership, systems and tools, hazard identification and risk assessment, visibility and communication, review and consequence management. The strategy was supported by a 'back to basics' drive focused on management walkabouts, serving leadership, coaching, proactive intervention, enforcement of standards and practices in the workplace and consequence management each day during every shift.

Occupational health

100% OF EMPLOYEES UNDERWENT MEDICAL SCREENING

100% OF OUR EMPLOYEES WERE OFFERED VOLUNTARY TESTING FOR HIV/AIDS

9,557 MEDICAL EXAMINATIONS CONDUCTED

In addition to keeping our employees safe, we also want to encourage a workforce that is healthy in both body and mind, taking into account prevalent local health issues, both physical and mental. Our occupational health programme's primary focus is to eliminate exposure to harm and prevent occupational diseases in the workplace. Where a condition cannot be prevented, we ensure that all our employees are provided with appropriate personal protective equipment. The other elements of our health strategy include implementing employee health and wellbeing programmes, access to appropriate medical care and building partnerships with external health service providers to strengthen health systems.

The key occupational health issues that can affect our workforce relate to noise induced hearing loss and respiratory illnesses.

Outside the workplace, the main community health issues are HIV/AIDS, tuberculosis ("TB") and malaria (in Tanzania only) as well as lifestyle diseases such as hypertension and diabetes. Petra's South African operations adopted the UNAIDS Programme targets for HIV treatment in FY 2019. The Group signed a Memorandum of Understanding with the Department of Health in each of its three local provinces in South Africa during the Year to focus on HIV/AIDS, TB and non-communicable disease management. In January 2019 we started implementing Isoniazid Preventive Therapy to all HIV/AIDS infected employees to prevent TB infections as per South African national guidelines.



## People



# 6,788

employees and contractors



### Employee retention and development

**8%** STAFF TURNOVER RATE

**US\$6.6 million** INVESTED IN STAFF TRAINING AND DEVELOPMENT

**138** EMPLOYEES HAVE GRADUATED FROM LDP SINCE INCEPTION<sup>1</sup>

Petra recognises that the retention and development of our people is one of the key drivers of our future success and long-term sustainability as a company. Our people are integral to our success and we place great importance on the empowerment of our employees and on encouraging them to fulfil their true potential, with the provision of training and attractive career development opportunities. We believe this will enable them to contribute better to the Company's success and also to have greater career satisfaction, thereby improving morale, productivity and workforce retention.

Petra's Leadership Development Programme ("LDP") remains an important strategic tool to assist in the identification and development of employees who display the potential to fulfil leadership positions in the future. Improvement of employees' educational levels (where required) is addressed through adult education and training and the amended senior certificate programme.

Our focus is not merely on Petra's current employees, but also the next wave of employees in our local communities. Therefore, we have programmes in place to prepare and equip them with the skills they require. These initiatives include providing support to selected schools in our communities to improve performance in mathematics and science, thereby feeding the education pipeline.

Petra places a high premium on continuously improving all types of communication and engagement with its employees and frequently reviews its Communication Management Policy and Procedure Framework. The Company has various systems and channels in place to facilitate the execution of its internal communications strategy, including written and electronic media, social media and a programme of face-to-face meetings.

### Diversity

**19%** OF OUR WORKFORCE ARE WOMEN

**34%** OF PETRA'S INTERNS ARE WOMEN

**33%** OF LDP CANDIDATES ARE WOMEN

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

Petra is committed to encouraging women in mining at all levels of the business and therefore actively pursues their appointment, as well as their development 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 and Women in Leadership Programme, which was launched in FY 2019 to support and advance female Middle and Senior Management; 13 candidates participated in the programme. We are focused on affording women an equal role as part of the next generation of Petra employees and as a result 34% of our interns, 28% of our engineering learnerships, 39% of our mining learnerships, 48% of our bursars supported during the financial Year and 38% of employees attending the various Management Development Programmes in FY 2019 were women.

Petra has a Women in Mining Committee, which enables women at Petra's South African operations to share experiences, identify challenges and promote development opportunities.

### Labour relations

**0** INSTANCES OF INDUSTRIAL ACTION

**Principles** ALIGNED WITH THE INTERNATIONAL LABOUR ORGANIZATION DECLARATION ON FUNDAMENTAL PRINCIPLES AND RIGHTS AT WORK

**3-year** WAGE AGREEMENT IN PLACE SINCE SEPTEMBER 2017

We remain highly focused on managing labour relations, which are essential to our productivity and strategy delivery, and on maintaining effective communication channels with our employees and the appropriate union representatives.

Petra did not experience any industrial action during the Year and has seen largely stable labour relations over the last four years.

We respect our workforce's right to exercise freedom of association and collective bargaining, regulated by our Collective/Recognition Agreements. Any union with sufficient representation in the workplace may request recognition.

The Company's IPDET plays an important role in our labour relations strategy as annual distributions to employees are considered to be a compelling motivator to drive enhanced employee productivity and accountability.


1. In 2008.

Sustainability continued

**Environment**



**0**  
major environmental incidents reported for nine consecutive years



**Environmental management**

**56%** OF WASTE RECYCLED

**100%** OF SOUTH AFRICAN OPERATIONS ARE CERTIFIED TO ISO 14001:2015

**100%** 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 the running of our business. The principles of pollution prevention, compliance with legal and adopted obligations and continual improvement, due to the achievement of objectives and KPIs, are integrated into our planning, management systems and daily activities.

An Environmental Management System is in place for each mining licence, which 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 South African operations are certified to the international environmental standard ISO 14001:2015 through the British Standards Institution ("BSI"). Williamson is not yet certified but operates under the same principles.

Our approach to risk management is based on a process of continual improvement in hazard identification, risk assessment, instilling awareness into the organisational culture and enforcing adherence to control mechanisms. Updates to the environmental baseline risk are implemented every five years, or when processes change, after significant incidents or disasters or by instruction from regulatory bodies.

The Company is consistently implementing processes to improve waste management according to the internationally recognised hierarchy of waste management and disposal and sets annual objectives and KPIs to drive continual progress. Overall volumes of combined waste generated in FY 2019 decreased by 66% to 6,777t, with a 31% decrease in hazardous waste recorded.

We have implemented measures to integrate biodiversity in the management of our operations as we recognise that our activities have the potential to significantly affect this. Protected areas equate to 57% of the total area owned and managed by Petra.

Petra has a standardised Group-wide approach to concurrent rehabilitation, with the objective of generating a non-detrimental, sustainable solution for the environment and socio-economic state of our communities that are left after mine closure. Third party independent specialists assess the progress on rehabilitation schedules on an annual basis. The environmental impact from Petra's mining activities is not expected to last long after the cessation of operations, due to our strategic approach and commitment to our values at each step of the mining value chain.

**Climate change and energy usage**

**5<sup>th</sup>** CONSECUTIVE YEAR OF ACHIEVING REDUCTION IN CARBON FOOTPRINT

**33.6 kWh/t** ELECTRICITY EFFICIENCY PER TONNE

**0.03 tCO<sub>2</sub>-e/t** CARBON EFFICIENCY PER TONNE

We recognise the growing importance of climate change, both to the Company and to our stakeholders. By better evaluating and understanding the risks and uncertainties that climate change represents to our business, we will be able to manage our assets in the most economically and environmentally sustainable manner possible.

Driven by the unprecedented Paris Agreement and the global call to action from the SDG on climate change, we support 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. We believe that amidst present policy uncertainty and future carbon constraints, the continuing development and implementation of a comprehensive climate change framework is not only crucial to our Company's competitive position but is also an essential component of our commitment to be a leader in the diamond mining industry.



## Climate change adaptation strategy

### STRATEGY IN ACTION



WORK RESPONSIBLY

### VALUES IN ACTION



LET'S MAKE  
A DIFFERENCE

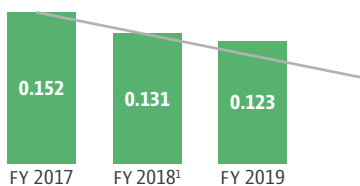
In recognition of the adverse circumstances that could occur as a result of climate change, Petra has put in place a climate change adaptation strategy, with the aim of preparing itself for scenarios that include restrictions on the availability of water from surface resources and intense rainfall events. Higher rainfall intensity would require improved freeboard at all pollution prevention facilities and dirty water impoundments. There would be more competition for resources that may lead to reputational risk. Our adaptation goals are as follows:

- ▶ Goal 1: Develop a corporate adaptation plan and initiate implementation on operational level in the short to medium term (2020–2025).
- ▶ Goal 2: Climate considerations must be included in project planning on a corporate level.
- ▶ Goal 3: Develop an early warning system/network as well as a climatic monitoring system to reduce vulnerability in co-operation with Governments and other mining companies.
- ▶ Goal 4: Develop a vulnerability assessment methodology to identify climate change needs.

We are targeting a 1% reduction per annum in our total carbon emissions per carat as measured over a five-year period (2015–2020). Our carbon emitted per carat has seen a continuous improvement from 0.23 tCO<sub>2</sub>-e/ct in FY 2013 to 0.12 tCO<sub>2</sub>-e/ct in FY 2019.

### CARBON INTENSITY

tCO<sub>2</sub>-e/ct



Petra continues to report to CDP and improved its score for carbon disclosure to 'B' in FY 2019; we aim to progress to an 'A' score in the next two years. The Company received independent verification of GHG emissions reporting according to ISO 16064-3 during the Year.

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. Diamond mining is less energy intensive than other types of mining, as evidenced by the fact that energy consumption (specifically electricity) only represented 15% of total cash on-mine costs in FY 2019 (FY 2018: 14%). However, it is recognised that non-renewable energy sources are finite and therefore likely to become increasingly scarce over time. Our short to long-term strategy is therefore to reduce our reliance on fossil fuel energy resources and minimise overall energy usage wherever possible.

Petra's total energy consumption for FY 2019 decreased by 24% to 2.3 million gigajoules (FY 2018: 3.0 million gigajoules), due to the disposal of KEM JV.

### Water management

72% OF WATER USED ON MINE IS RECYCLED

12,712,800m<sup>3</sup> TOTAL CLEAN WATER USED BY THE GROUP

0.86m<sup>3</sup>/t CLEAN WATER INTAKE FOR PRODUCTION

Petra has identified water demand and water conservation management as its most significant environmental risk to operations. This is mainly due to water scarcity in the areas where we operate and the fact that our operations are water intensive. Two of our operations are located in areas that receive less than 600mm rainfall per annum.

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 resources that sustain the communities around our operations. This is expected to specifically impact Cullinan, which is situated in Gauteng (the biggest area of commerce and employment in South Africa).

In FY 2019, Petra implemented an integrated water management strategy to: determine current and future operational water needs by managing demand, quality and infrastructure; ensure a resource capable of not only supporting production but also improving the lives of those around us; and operate within the regulatory framework provided by international, national and local legislation.

In terms of efficiency, our total water usage per production tonne increased by 49% to 3.61 m<sup>3</sup>/t (FY 2018: 2.43 m<sup>3</sup>/t), due to an increase in the water usage per production tonne at Cullinan, as well as the disposal of KEM JV that contributed to a low water usage per production tonne previously.

Petra prides itself on the level of water recycling achieved to date and we now recycle 72% of all water used on mine. The total volume of recycled water used during FY 2019 was 38,391,412m<sup>3</sup>, a significant increase of 38% compared to FY 2018.

1. FY 2018 was restated following environmental auditing process.

Sustainability continued

**Positive impacts**



**US\$16 billion**  
net positive socio-economic and environmental benefits of DPA members<sup>1</sup>

**Generated economic benefit**

**US\$49.9 million** PAID IN TAXES AND ROYALTIES

**US\$143.2 million** SPENT ON SALARIES

**US\$262.3 million** TOTAL PROCUREMENT SPEND

In addition to creating shareholder value, our economic contribution to the countries and communities in which we operate is an important focus for the Group. Through the employment of local people, the payment of taxes and royalties, procurement from suppliers and corporate social investment, we are able to make a positive contribution to our stakeholders. By ensuring a high level of transparency with regard to our economic outputs, we can maintain confidence in Petra's contributions to society.

Petra publishes an annual Report on Payments to Governments, which is available on our website.

**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.

We expect all suppliers and contractors to act with integrity and respect for human rights. Therefore, compliance with our Code of Ethical Conduct is explicitly required as part of the general terms and conditions of contract with Petra. We have vetting processes in place to ensure that we deal with reputable businesses, but we will continue to strengthen these processes as part of the ongoing formalisation of our supply chain practices.

We aim to obtain assurances from our suppliers that they are engaged in ethical business practices, particularly in relation to having internal measures in place to avoid bribery, modern slavery, tax evasion and money laundering. The Company similarly obtains warranties and representations from its suppliers that they are not involved in any human rights abuses. We retain the right to disassociate ourselves from any entities that are in violation of these important principles.

Petra sources the majority of the goods and services for its South African and Tanzania operations from those countries.

In excess of 2,000 suppliers have registered on the eProcure Portal, which consists of both current and new suppliers. The system has already impacted on some Group tenders, where the number of potential suppliers has increased significantly compared to past tenders.

**Community development and engagement**

**US\$1.0 million** SOCIAL INVESTMENT

**US\$2.1 million** LOANS DISBURSED THROUGH ED COMMUNITY FUND<sup>2</sup>

**93** INTERNAL AND EXTERNAL STAKEHOLDER ENGAGEMENTS HELD

Maintaining supportive relationships and playing a positive role in our local communities are vital to the sustainable success of our operations. 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 to the meaningful and long-term development of our host communities via sustainable job creation, skills transfer (education and training), enterprise development and infrastructure development.

In order to address the scarcity of skills in our local communities, our mines' involvement starts at a 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 supported 25 full-time bursars and awarded scholarships to 46 learners in FY 2019.

Local businesses face a number of challenges, which include access to funding, availability of skills (both management and technical) and access to established supply chains. At Petra, we strive to address these challenges through our Preferential Procurement, Enterprise Development ("ED") and Supplier Development programmes, aimed at increasing localisation and participation of local SMMEs in our supply chain.

1. Measured in 2016. Source: The Socio-economic and Environmental Impact of Large-Scale Diamond Mining, a report by Trucost for the Diamond Producers Association – May 2019.

2. Since inception in 2015.





**Community stakeholder engagement**

A proactive approach to stakeholder engagement is critical in building relationships and upholding our social licence to operate. Continuous progress is being made with the implementation of a consistent and effective stakeholder engagement approach across the Group. In addition to this Petra has reviewed its community feedback systems and effected the necessary changes to properly capture and address issues raised.

In recent years, there has been a considerable shift in the influence that stakeholders, especially local communities, have on the operations of all companies – and in particular mining companies – that operate in or close to them. This is witnessed by the number of service delivery protests in South Africa, many of which have called on mines to play a bigger part in local development, and the increase in illegal mining. As an example of this, Koffiefontein was impacted by lower production during Q2 as a result of community unrest. This has encouraged Petra to review its engagement approach, leading to a more

integrated approach that is better suited to the current situation being adopted. It has also led to the formation of a SED Board Committee.

**Artisanal and small-scale mining (“ASM”)**

Whilst there is no risk of artisanal mining taking place at Petra’s underground operations, there is an ongoing risk of illegal artisanal mining at Williamson and there is also a risk of illegal artisanal mining taking place upon the tailings dumps at Petra’s South African operations, due to the nature of these deposits being at surface, meaning they can be more easily targeted.

The scale of illegal mining at Petra’s operations is not expected to have a material impact upon Petra’s production in the short to medium term. However, there are risks in terms of illegal miners operating on Petra operations contravening a number of regulations for which the Company is held responsible, in particular in the areas of health and safety and environmental management.

**Facilitating artisanal small-scale mining**

STRATEGY IN ACTION



VALUES IN ACTION



In FY 2019, a decision was taken to donate part of the tailings mineral resources at Koffiefontein for ASM, following a comprehensive business case and risk assessment. All relevant stakeholders have been involved in setting up the formal processes, structures and agreement.

This has involved engagement with the artisanal miners, the DMR (including the South African Diamond and Precious Metals Regulator) and the local authorities to reach an optimal agreement.

Petra believes that legalised and regulated artisanal mining has the capacity for positive social contributions through job creation and stimulation of the local economy.



# 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, which sits alongside the amended Health, Safety and Environmental Committee.

## **Corporate Governance**

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## Chairman's Introduction to Governance



The long-term success and sustainability of the Company is underpinned by our focus on effective corporate governance. By ensuring high governance standards, Petra aims to contribute to the sustainability of our industry and to deliver value to each of our stakeholders.

### Adonis Pouroulis

Non-Executive Chairman

### Dear shareholder,

Strong and effective corporate governance sits at the heart of Petra's practices, which are always underpinned by our five core values (as noted on page 5). Our Board looks to embed these values and encourage the open, transparent and proactive culture that will enable Petra to meet its strategic goals and achieve its long-term purpose. I would like to take this opportunity to focus on how our governance framework is implemented and the way it operates in practice.

FY 2019 governance highlights are as follows:

#### Board strategy, structure and performance

As set out on pages 60 and 61, the Board made good progress with its objectives in FY 2019 and has reassessed these objectives throughout the Year, further streamlining them and ensuring they are adequately measurable. Based on the outcomes of the FY 2018 Board evaluation, various actions were taken during the Year to address any shortcomings (this is covered in detail on page 59) and a subsequent internal evaluation was again held for FY 2019, concluding that the Board remains effective.

Highlighting the focus placed by the Board on health, safety, environmental, social, ethical and diversity matters, the Committee structure was altered in FY 2019. An HSE and SED Committee have evolved from the HSSE Committee, with each being chaired by iNEDs. This is expected to encourage and

facilitate Board oversight and guidance of these important issues. It will also allow the two Committees to focus on specific areas of the business.

A process of reviewing the terms of reference of all Committees commenced during the Year in order to standardise and ensure effective delineation of responsibility.

#### Succession planning

Significant focus has been placed on succession planning and Board membership during the Year. We have not only taken good steps in ensuring the Board, Board Committees and Senior Management are appropriate for Petra's shift in focus to steady-state operations, but I am delighted to note that we have also achieved improved levels of diversity at higher levels of the business. Various Board appointments were made in line with our three-year Succession Plan and these are covered in the Nomination Committee Report on pages 76 and 77.

A search process has commenced for a suitable successor for the position of Chairman of the Board and an update will be provided when appropriate. See page 58 for further detail.

We will continue to review the skills, expertise, composition and balance of the Board on an ongoing basis as part of our succession planning.

#### Diversity

The importance of diversity both from an ethical as well as a business perspective cannot be overplayed and we remain committed to improving diversity levels throughout the workforce, management team and Board (read more about diversity on page 43).

The SED Committee will play an important role in achieving progress in this key area of the business, with diversity being a central reporting parameter for the Committee.

The Company is also currently in the process of reviewing relevant policies and ensuring it has an appropriate Diversity Policy as part of its overall Sustainability Framework. See the SED Committee Report on pages 80 and 81 for further detail.

#### Governance updates

The Board is in the process of reviewing the provisions of the 2018 UK Corporate Governance Code ("the new Code") and I am pleased to say that we already comply with a significant number of these. We will be formally reporting on this in FY 2020.

The Board has also reviewed the Company's Anti-Bribery Policy and Code of Ethical Conduct and subsequently updated the Code of Ethical Conduct to incorporate references to the relevant provisions of the Criminal Finances Act, 2017 as part of the Company's commitment to preventing the facilitation of tax evasion.

#### Stakeholder engagement and feedback

An important aspect of the new Code centres around Board engagement with stakeholders. As a Board, we already have significant interaction with certain of Petra's stakeholders (which are laid out in their entirety on pages 12 to 14). This includes a formalised investor engagement agenda (with detail available on page 63), enabling us to communicate with our top shareholders and bondholders to seek their feedback on Petra's strategy and performance. These sessions allow for frank discussions around the strengths and weaknesses of the business.



The Board has several opportunities throughout the year for employee engagement, with Director site visits as well as informal meetings, in which we welcome feedback and open communication. In addition to this, we are committed to further developing our workforce engagement and aim to introduce clear and formal systems to facilitate this going forward.

As always, should any stakeholder like to speak to me or the Senior Independent Director about any aspects of this Annual Report or the Company's performance, please do not hesitate to get in contact via our Corporate Communications team based in London (see page 168 for contact details).

**Adonis Pouroulis**  
 Non-executive Chairman  
 14 October 2019

		Petra governance framework	
		Chair	Other members
Petra governance framework	<b>Audit &amp; Risk Committee</b> Overseeing the Group's financial reporting, internal and external audit, internal control and risk management systems, and compliance, whistleblowing and fraud policies	<b>Gordon Hamilton</b>	Dr Pat Bartlett Tony Lowrie Octavia Matloa Bernard Pryor
	<b>Remuneration Committee</b> Advising the Board on the remuneration of Executive Directors and setting an overall policy for remunerating the Group's employees	<b>Gordon Hamilton</b>	Dr Pat Bartlett Tony Lowrie Varda Shine
	<b>Nomination Committee</b> Leading the process for Board appointments and re-election and succession of the Directors and the Chairman of the Board	<b>Adonis Pouroulis</b>	Dr Pat Bartlett Gordon Hamilton Tony Lowrie
	<b>HSE Committee</b> Overseeing the Group's health, safety and environmental systems and policies, and monitoring of compliance	<b>Bernard Pryor</b>	Dr Pat Bartlett Richard Duffy Luctor Roode
	<b>SED Committee</b> Overseeing the Group's social, ethics and diversity systems and policies, and monitoring of compliance	<b>Octavia Matloa</b>	Jacques Breytenbach Richard Duffy Luctor Roode Varda Shine
	<b>Executive Committee</b> Assisting the CEO in the performance of his duties and in dealing with the day-to-day activities of the Company's business	<b>Richard Duffy</b>	Jacques Breytenbach Luctor Roode Greg Stephenson

## Board of Directors

**1. Adonis Pouroulis (49)**

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 in 1997 and it became the first diamond company to float on AIM. He has since chaired Petra through its development into a mid-tier diamond producer of global significance.**EXTERNAL APPOINTMENTS** Non-Executive Director of Chariot Oil & Gas plc and Director and Chairman of Rainbow Rare Earths Limited.**INTEREST IN THE COMPANY AS AT 30 JUNE 2019**  
12,569,375 shares (30 June 2018: 12,569,375 shares).**2. Richard Duffy (55)**

Chief Executive

H S E

**APPOINTMENT DATE** April 2019**QUALIFICATIONS** B. Com degree – University of Witwatersrand, South Africa, and an MBA from Henley Management College, UK.**SKILLS** In addition to his business, strategic and financial skills, Mr Duffy has extensive experience in both open pit and underground mining and a proven focus on safety, productivity and community relations, having led multiple large-scale mining operations across Africa.**EXPERIENCE** Mr Duffy has 27 years of global mining industry experience, initially with Anglo American plc and then AngloGold Ashanti Limited, where he worked across business development, exploration and corporate finance; Mr Duffy was appointed Executive Vice President: Africa Region in 2008 and became CFO and Executive Director of AngloGold Ashanti in 2013.**EXTERNAL APPOINTMENTS** Director of Africa Energy Management Platform and Aren Energy (Pty) Ltd.**INTEREST IN THE COMPANY AS AT 30 JUNE 2019**  
240,000 shares.**3. Jacques Breytenbach (47)**

Finance Director

E S

**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 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 2019**  
243,750 shares (30 June 2018: 243,750 shares).**4. Tony Lowrie (77)**

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 and J.D. Wetherspoon plc, as well as several other quoted Asian closed end funds.**EXTERNAL APPOINTMENTS** None.**INTEREST IN THE COMPANY AS AT 30 JUNE 2019**  
3,737,500 shares (30 June 2018: 3,737,500 shares).**5. Dr Pat Bartlett (74)**

Independent Non-Executive Director

A N R H

**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 2019**  
Nil shares (30 June 2018: nil shares).**6. Gordon Hamilton (74)**

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.**INTEREST IN THE COMPANY AS AT 30 JUNE 2019**  
247,000 shares (30 June 2018: 247,000 shares).

**7. Octavia Matloa (43)**

Independent Non-Executive Director

**A S****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 MultiChoice South Africa (Pty) Limited and MultiChoice South Africa Holdings (Pty) Limited.**INTEREST IN THE COMPANY AS AT 30 JUNE 2019**

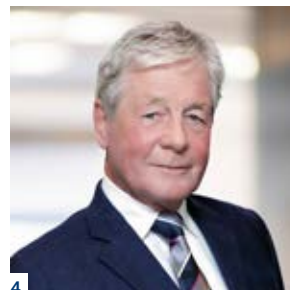
Nil shares (30 June 2018: nil shares).

**8. Bernard Pryor (62)**

Independent Non-Executive Director

**H A****APPOINTMENT DATE** January 2019**QUALIFICATIONS** Metallurgical Engineer, Royal School of Mines, Imperial College London; Chartered Engineer from the Institute of Mines and Metallurgy.**SKILLS** Mr Pryor has a wide skill-set encompassing project acquisition, development and construction and international commercial and general management, and has run large-scale, fully operational mining assets.**EXPERIENCE** Mr Pryor has over 35 years' experience in the international mining industry; prior to his appointment as CEO of Alufer Mining, he was previously CEO of African Minerals Limited and Q Resources plc. Mr Pryor also held senior positions within Anglo American plc and was COO at Adastra Minerals Inc.**EXTERNAL APPOINTMENTS** CEO of Alufer Mining and Non-Executive Chairman of MC Mining Limited.**INTEREST IN THE COMPANY AS AT 30 JUNE 2019**

Nil shares.

**9. Varda Shine (56)**

Independent Non-Executive Director

**R S****APPOINTMENT DATE** January 2019**QUALIFICATIONS** Business and management courses at Technicon (Israel), Templeton College, Oxford, Cranfield and INSEAD.**SKILLS** Ms Shine is a CEO's mentor and a diamond industry expert adviser, with significant experience in working with stakeholders across the supply chain and delivering record sales and profits.**EXPERIENCE** Ms Shine has 30 years of experience in the diamond industry and was most recently CEO of De Beers Trading Company (2006-2014). She is a trustee of the Teenage Cancer Trust.**EXTERNAL APPOINTMENTS** Ms Shine currently sits on the boards of the Mineral Development Company Botswana, Sarine Technologies Limited (Singapore listed) and Niron Plc. She is also a Governing Board member of the Diamond Empowerment Fund ("DEF").**INTEREST IN THE COMPANY AS AT 30 JUNE 2019**

Nil shares.

**Committee key**

- A** Audit & Risk
- N** Nomination
- R** Remuneration
- H** Health, Safety & Environment
- S** Social, Ethics & Diversity
- E** Executive
- Chairman

**Board and Senior Management changes**

As part of the Company's three-year Succession plan, a process to identify a successor for the CEO position was completed. 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 stepped down from the role. Richard Duffy was appointed as his successor with effect from 1 April 2019.

Mr Dippenaar's interest in the Company as at 31 March 2019 was 8,385,830 shares (30 June 2018: 8,385,830).

## Corporate Governance Statement

# UK Corporate Governance Code compliance

Petra aims to maintain high standards of corporate governance throughout the Group. The Company looks to not only comply with all applicable governance regulations in its jurisdictions but also to meet 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 has identified 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 considered 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, Mr Pouroulis demonstrates integrity in judgement, character and action. Furthermore, his contribution, leadership and accumulated experience and track

record of building natural resource companies justified their recommendation that shareholders support his re-election to the Board at the Company's previous Annual General Meeting ("AGM").

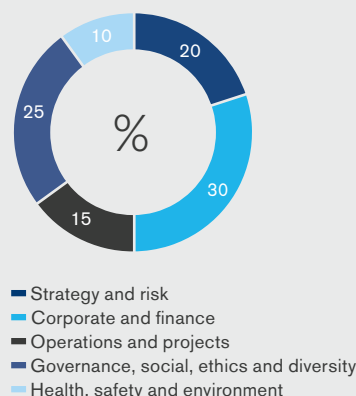
- ▶ Remuneration of Non-Executive Directors ("NEDs") – as noted, Petra's Non-Executive Chairman, Mr Pouroulis, holds share options granted prior to the Company's step-up from AIM to the Main Market of the LSE, representing a form of performance-related benefits. Whilst the Code states that NEDs should 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 84 to 93).

The Board is in the process of reviewing the provisions of the 2018 UK Corporate Governance Code ("the new Code"), which is applicable for accounting periods beginning on or after 1 January 2019. Petra already complies with a number of these and will be formally reporting on this in FY 2020.

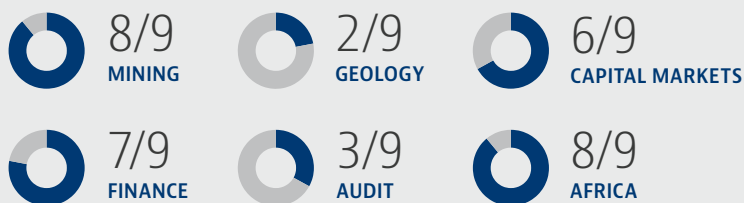
### Matters reserved for the Board

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

### Board time in FY 2019



### Board experience







## 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, 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 Officer

Mr Duffy:

- ▶ 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 Executive Committee and is a member of the HSE and SED Committees, thereby having direct involvement in the strategic management of Petra's HSE and SED 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 ("IR") 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 independent NEDs

Dr Bartlett, Mr Hamilton, Mr Lowrie, Ms Matloa, Mr Pryor and Ms Shine:

- ▶ 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
- ▶ provide independence and a breath of skills and experience to Board Committees.

## Corporate Governance Statement continued

### How our Board operates

#### Board and Committee meetings

The full Board meets formally in person at least four times a year for Board meetings and also speaks at other times 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 and are generally allocated around three days to allow for considerable interaction by the members, both inside and outside of the formal meetings. There is a standing list of agenda items for discussion at every meeting, with extra time factored in for additional items. 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. 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 Chairs, 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 2019 Board calendar

	Board meetings 5 held	Audit & Risk Committee 5 held	Remuneration Committee 5 held	Nomination Committee 5 held	HSE Committee 2 held	SED Committee 2 held	HSSE Committee <sup>1</sup> 1 held	Annual General Meeting 1 held
Adonis Pouroulis <sup>2</sup>	4	n/a	n/a	4	n/a	n/a	n/a	0
Richard Duffy <sup>3</sup>	1	n/a	n/a	n/a	1	1	n/a	n/a
Johan Dippenaar <sup>4</sup>	4	n/a	n/a	n/a	1	1	1	1
Jacques Breytenbach	5	n/a	n/a	n/a	n/a	2	n/a	1
Tony Lowrie	5	5	5	5	n/a	n/a	n/a	1
Dr Pat Bartlett	5	5	5	5	2	n/a	1	1
Gordon Hamilton	5	5	5	5	n/a	n/a	n/a	1
Octavia Matloa <sup>5</sup>	5	5	n/a	n/a	n/a	2	n/a	1
Bernard Pryor <sup>6</sup>	2	1	n/a	n/a	1	n/a	n/a	n/a
Varda Shine <sup>7</sup>	2	n/a	1	n/a	n/a	2	n/a	n/a

1. This Committee was amended during the Year to form the HSE Committee and SED Committee.

2. Due to an unforeseen personal commitment, Mr Pouroulis was unable to attend the AGM as well as one Board and one Nomination Committee meeting. In his absence, these were chaired by Mr Lowrie.

3. Mr Duffy was appointed to the Board and as Chief Executive Officer with effect from 1 April 2019. Mr Duffy became a member of the SED Committee with effect from April 2019 and a member of the HSE Committee with effect from May 2019.

4. Mr Dippenaar resigned as Director during FY 2019, effective 31 March 2019.

5. Ms Matloa was elected as the Chair of the SED Committee with effect from May 2019.

6. Mr Pryor was appointed to the Board on 1 January 2019 and became a member of the Audit & Risk Committee as well as a member and the Chairman of the HSE Committee.

7. Ms Shine was appointed to the Board with effect from 1 January 2019. Ms Shine joined the SED Committee when it was established in February 2019 and became a member of the Remuneration Committee with effect from May 2019.

#### Employee engagement

The Board currently has several opportunities throughout the year for employee engagement, with Director site visits as well as informal meetings, in which the Board welcomes feedback and open communication. A more formal system to enable workforce engagement is currently being investigated and the Board is committed to facilitating effective communication channels going forward.

#### Site visits

Visiting Petra's operations in person and interacting with Senior Management and employees 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.

A full Board site visit was held at Cullinan in May 2019; the trip included a comprehensive overview of the slimes dam and related facilities, involving a review of the management, controls and assurance functions in place. Mine management provided Board members with in-depth presentations and the Board was given the opportunity to interact with staff and ask questions, which allowed for a highly effective and productive site visit.



In addition to the full Board site visit, Executive Directors visited the operations on a regular basis as part of their day-to-day business. Additional site visits were conducted by the iNEDs in FY 2019:

- ▶ August 2018: Dr Pat Bartlett and Gordon Hamilton visited all South African operations.
- ▶ February 2019: Dr Pat Bartlett, Gordon Hamilton and Varda Shine visited Koffiefontein and Cullinan. Tony Lowrie also visited Cullinan.
- ▶ February 2019: Gordon Hamilton and Varda Shine joined the investor and analyst site visit to Finsch.
- ▶ June 2019: Bernard Pryor visited Finsch and Koffiefontein.

## Why our Board is effective

### Director commitment

The Directors' biographies and duties can be found on pages 52 and 53. There have been various changes to the Board as well as Committee membership throughout the Year.

During the Year, there were no significant changes to the Chairman or iNED's external commitments and they are considered to have sufficient time to fulfil their duties, as confirmed by the internal Board evaluation, carried out in August 2019.

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.

### Assessment of Director independence

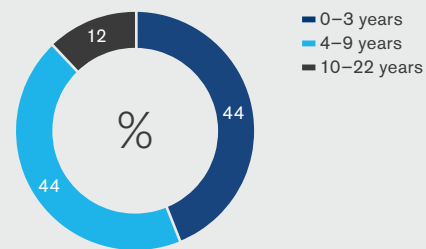
As previously noted, Mr Pouroulis is not considered independent according to corporate governance guidelines; however, the iNEDs continued to be of the opinion that Mr Pouroulis demonstrates integrity and independence in judgement, character and action, thereby justifying their recommendation that shareholders support his re-election at the Company's forthcoming Annual General Meeting ("AGM"), prior to the appointment of a suitable successor.

In accordance with the Code, the Board considers Mr Lowrie, Dr Bartlett, Mr Hamilton, Ms Matloa, Mr Pryor and Ms Shine to be independent and all six 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 2019 other than their contractual iNED fees, as set out on page 89 of the Directors' Remuneration Report.

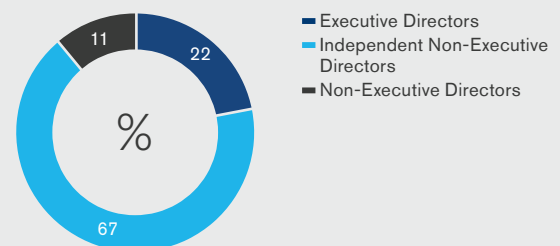
### Conflicts of interest

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.

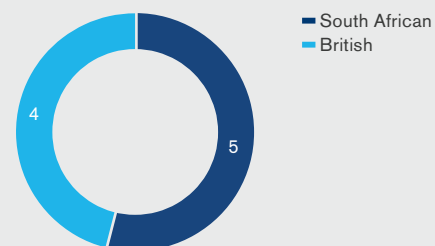
### Tenure of Directors



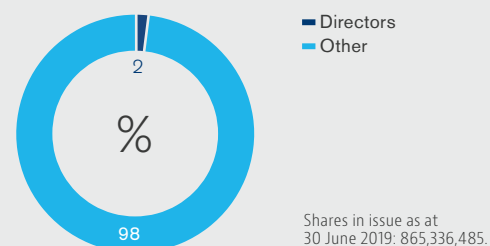
### Board composition



### Directors' nationality



### Percentage of Petra shares held



## The Board site visit to Cullinan in May 2019



## Corporate Governance Statement continued

### Why our Board is effective continued

#### Board committees

An SED Committee has been established to provide the Company with strategic direction into matters related to social, ethics and diversity and to support Petra in proactively engaging with its social environment, mitigating risk associated with social complexity and contributing to operational stability and sustainability. This derived from the HSSE Committee which is now the HSE Committee, focusing on health, safety and environmental matters.

The SED Committee will assist the Board in ensuring that the Board discharges its oversight responsibilities with regard to social, ethics, diversity, social sustainable development matters and stakeholder relationships, to ensure that the Company upholds the principles of good corporate citizenship and conducts its business in an ethical and sustainable manner.

A process of reviewing the terms of reference of all Committees was commenced during FY 2019, and upon completion of the process, each Committee will approve its revised terms of reference during FY 2020.

#### Process used in relation to Board membership, succession planning and appointment process

As part of the three-year Succession Plan, the Nomination Committee commenced a search process for a new CEO and two iNED positions during FY 2018. An independent, external process was used to identify CEO and NED candidates for appointment during FY 2019. An executive search agency was selected on the basis of its global reach, experience and strong understanding of the mining and metals industry. The Nomination Committee provided the agency with a brief which included not only requisite skills and experience, but also a requirement to consider diversity in the selection. Having been shortlisted, the Board was then given the opportunity to interview the candidates prior to their appointment.

As part of our ongoing succession planning, a process has commenced to find a suitable successor for the Chairman position, which is also being externally facilitated. The current Chairman will be standing for re-election, supported by the

Board, at the Company's forthcoming AGM and an announcement regarding the appointment of the successor will be made as soon as a successful candidate has been identified. A handover period will ensure a smooth transition.

The Nomination Committee and the Board itself will continue to review the composition of the Board and its Committees as part of its ongoing succession planning.

#### Director induction, 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. Board training on

## New Director induction

### STRATEGY IN ACTION



WORK RESPONSIBLY

### VALUES IN ACTION



LET'S DO IT RIGHT



LET'S TAKE CONTROL

Petra's induction programme, which is led by the Company Secretary and overseen by the Chairman, aims to ensure that all new Directors are provided with a suitable introduction to the Company, its operations and marketplace as well as our governance standards, values and culture. In FY 2019, several new Directors joined the Board and their induction process included:

- ▶ meetings with Directors and management at different levels of the business;
- ▶ tours of Petra's operations, which included presentations from mine management teams and the opportunity to meet other personnel;
- ▶ conversations with Petra's largest shareholders (see further information on page 63); and

- ▶ a Director induction pack, containing Company policies, reports, Board and Committee minutes, Board objectives and the Petra Group structure as well as relevant information on the UK Corporate Governance Code and other relevant standards.

#### Varda Shine:

"Given my position on the SED Committee, I was specifically interested in understanding more about the Company's talent pool and in being given an overview of Petra's succession plans. This enabled me to get a good sense of how Petra develops its employees and fosters the next generation of leaders. The 'deep dive' into each operation on the site visits I conducted was a fantastic way of quickly getting up to speed with the Company, its operations and its people."



specific topics is requested by the Board members and then provided by a specialist at the Board meeting.

In FY 2019, the Board received formal training by external experts on shareholder activism and the 2018 UK Corporate Governance Code (see further detail on page 64). The Directors also received detailed technical presentations during their mine site visits. Furthermore, briefing sessions were held for the Directors covering topics such as diamond sales and marketing processes, information and communications technology, cyber security, disaster recovery preparedness and an overview of social complexities in operational areas.

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 and 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.

## Evaluation of the Board's performance

Following the internal evaluation process conducted for FY 2018, various areas for improvement were identified as follows. An update on progress made during FY 2019 has been included.

### AREA OF IMPROVEMENT IDENTIFIED IN FY 2018 EVALUATION

### PROGRESS MADE DURING FY 2019

<b>Off-site strategy session to be held on a regular basis.</b>	Strategic issues are addressed during Board meetings and a full day off-site strategy session was held in September 2019, with annual sessions scheduled thereafter.
<b>Increased reporting to the Board on progress with strategic priorities within the business.</b>	Reporting has been formalised during the Year, with the introduction of a formal monthly CEO report to the Board, covering strategic matters.
<b>The annual review of the risk register should become standard practice.</b>	Risk discussions are a standing item at Exco meetings and are covered by the Board as and when required but at least on an annual basis.
<b>Board composition and succession should remain an item for discussion at quarterly meetings.</b>	Succession planning is a standing agenda item on the Nomination Committee agenda, with recommendations, feedback and guidance then being provided to the Board. In line with the Company's Succession Plan, the appointment of two new NEDs took place in FY 2019 and Richard Duffy was appointed as CEO with effect from 1 April 2019. Post Year end, the commencement of a process to appoint a successor for the role of Chairman was announced.
<b>More time will be allocated for Board and Committee meetings, bearing in mind the size of the business and the ever-evolving governance landscape.</b>	More time has been allocated where required to suit agenda requirements.

An internal Board evaluation was carried out again for FY 2019, 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 and analysed and a report was provided to the Board. As a result of the evaluation process, it was concluded that, whilst the Board remains effective for the size of the business, the following areas of improvement have been identified:

- ▶ An annual risk review has become standard practice; however, further consideration of principal risks needs to be incorporated into Board discussion and decisions.

- ▶ Whilst Board reporting has improved, further work will be carried out in order to provide enhanced clarity and ensure that Board papers are concise and consistent, and circulated on a timely basis.
- ▶ Continue to improve the mechanisms by which the Board receives feedback from the Company's broad range of stakeholders. Implementation of clear and formal systems to facilitate Board/workforce engagement.
- ▶ Whilst the Succession Plan has resulted in various changes to the composition of the Board, further consideration of succession is required, and additional changes may be made.
- ▶ The Board is currently provided with training on various relevant topics; however, more regular training sessions, covering a broader range of issues, will be incorporated into the Board schedule in future.

An external assessment is conducted every three years and is next scheduled for FY 2020.

## Corporate Governance Statement continued

### Board strategy and performance

The Company's strategy is to further develop its stature as a leading independent diamond miner with a focus on working responsibly, achieving consistent delivery and driving optimisation. The Board's objectives in order to assist the Company in the furtherance of its strategy are set out below.

OBJECTIVES FOR FY 2019	PROGRESS IN FY 2019	OBJECTIVES FOR FY 2020
<b>Strategy and operations</b>		
1. <b>Safety of all Petra people will continue to be the Company's top priority and will remain closely monitored by the Board and the HSE Committee, as Petra strives to reach its objective of a zero harm workplace.</b>	Safety is the first operational item discussed at every Board meeting and received significant attention throughout the Year. iNED Bernard Pryor was appointed as Chairman of the HSE Committee in order to ensure Board-level oversight of this important area of the business.	Safety of all Petra people will continue to be the Company's top priority and performance in this regard, including the specific KPIs set for FY 2020, remain closely monitored by the Board and the HSE Committee, as Petra strives to reach its objective of a zero harm workplace.
2. <b>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.</b>	The Group's production results and delivery against approved plans was monitored closely throughout the Year. Cullinan tailings production was curtailed based on lower prices for smaller goods.	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. Oversight of implementation of Project 2022 (see further detail on pages 7 and 8).
3. <b>Annual strategy day to become regular fixture in Board calendar.</b>	Strategic discussions form part of each Board meeting. A strategy day took place in September 2019 and another session has been planned for 2020.	Annual strategy day will remain a regular fixture in Board calendar.  The Board will consider an appropriate long-term capital allocation strategy for the Group, while closely monitoring the Company's progress with regards to meeting its medium-term leverage target.  The Board will review the asset portfolio of the business with a view to maximise return on capital and to ensure that all assets are in a position to contribute positive cashflow to the business.
4. <b>Increase reporting to the Board on progress on strategic priorities within the business.</b>	The Board receives information on a monthly basis in the form of flash results and other important information relating to progress on strategic priorities. Following the appointment of the new CEO, reporting to the Board has been critically reviewed and enhanced.	A continued high level of reporting to the Board on progress on strategic priorities within the business.
5. <b>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.</b>	A complete review of all life of mine plans was undertaken post Year end along with an appraisal of the Group's capital allocation strategy.	This objective has been consolidated into objective 3.
6. <b>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.</b>	The Board receives information on the performance of the assets on a continuous basis at Board meetings. The information received forms the basis of strategic discussions around its asset portfolio and the maximising of return on capital.	This objective has been consolidated into objective 3.
7. <b>Continue to improve the mechanisms by which the Board receives feedback from the Company's broad range of stakeholders.</b>	The Board receives relevant reports from management, including feedback on stakeholder engagement, covering topics such as shareholder and bondholder feedback, labour relations, community engagement and social matters.	Continue to improve the mechanisms by which the Board receives feedback from the Company's broad range of stakeholders. Implementation of clear and formal systems to facilitate Board/workforce engagement.
8. <b>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.</b>	When making any decisions, the Company purpose, culture and reputation is always kept in mind by the Board. The Company is also a member of the DPA and is represented by CEO Richard Duffy.	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.



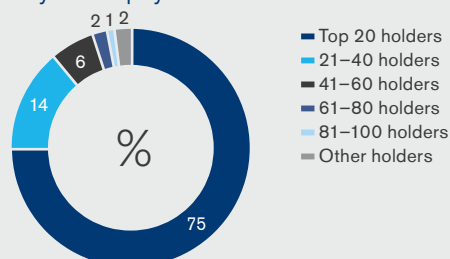
OBJECTIVES FOR FY 2019	PROGRESS IN FY 2019	OBJECTIVES FOR FY 2020
<b>Board composition</b>		
9. The Board and Nomination Committee are looking to make additional changes in FY 2019 in order to ensure Petra has the right mix of expertise and skills within its Board, Committee and Senior Management structures. Improving diversity at the top levels of the business will be an integral part of this.	The Board was further strengthened in FY 2019, with the appointment of the CEO and two iNEDs.	The Board and Nomination Committee will continue to consider the expertise and skills within Petra's Board, Committee and Senior Management structures and may make additional changes as required. Improving diversity at the top levels of the business will be an integral part of this. A policy review is currently underway to ensure the Group has a Diversity Policy as part of its sustainability framework.
10. Further strategic consideration of the Company's three-year Succession Plan.	The Company's Succession Plan was discussed and considered by the Board. Succession planning will be considered on a continuous basis going forward.	Identify and appoint a successor for the role of Chairman.  Further changes may be made to the Board in accordance with ongoing succession planning.
<b>Risk management</b>		
11. 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.	The Internal Audit Plan for FY 2019 considered the key business risks as highlighted in the Company's risk registers. Progress on reviews and updates on risks are continuously monitored.	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.
12. 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.	The Company has established an Operational Risk Committee which reports into its Executive Committee. The Committee reviews and reports on key risks on a quarterly basis to the Executive Committee. The Board conducted a full review of the Group's principal risks shortly after Year end and amendments to the reported risk profile have been made (see pages 36 and 37 for further detail).	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, including an annual review of the Group's risk register.
13. Arrange at least one annual visit for the full Board to the Group's operations.	A full Board visit was conducted at Cullinan in May 2019.	Arrange at least one annual visit for the full Board to the Group's operations.
14. An annual review of the Group's risk register.	An annual risk review of the Group's risk register was performed during July 2019.	This objective has been consolidated into objective 12.
<b>Board process</b>		
15. The Board will continue to hold monthly update meetings in order to regularly monitor delivery against development and production plans.	The monthly update meetings have been replaced by the issuing of monthly update reports during the months in which there are no Board meetings.	The Board will continue to receive monthly update reports to ensure regular monitoring of delivery against development and production plans.
16. More time will be allocated for Board and Committee meetings, bearing in mind the size of the business and the ever-evolving governance landscape.	Three days have been allocated to the scheduled Committee and Board meetings, increasing from two previously.	This item has not been stated as a specific objective for FY 2020 as the Chairman of the Board and each Committee considers the amount of time required for their meetings during the process of finalisation of agendas prior to each meeting. This process ensures that sufficient time is available to cover all key issues adequately.
17. Hold an internal Board evaluation process in FY 2019.	The evaluation process took place shortly after Year end but covers FY 2019.	Hold an external Board evaluation process in FY 2020.
18. 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.	Board training was conducted at two of the Board meetings during FY 2019. Training needs are assessed on a continual basis.	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.
19. Content of Board packs to be reviewed and further improved to ensure optimal communication.	Board packs have been improved to ensure that the key issues receive most attention at the Board meetings.	This item has not been listed as a specific objective for FY 2020 as it has been addressed and will be reviewed if required. Board packs are also reviewed at a pre-Board Exco meeting to ensure that key issues receive most attention at the Board meetings.

## Corporate Governance Statement continued

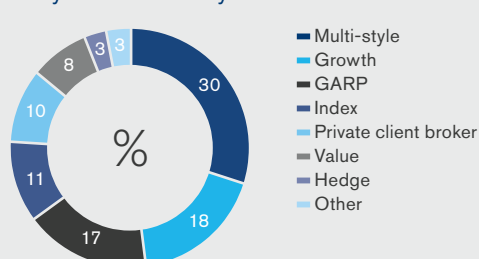
### Shareholder communication

#### Shareholder breakdown as at 30 June 2019

Analysis of equity investor concentration



Analysis of investor style



#### Investor relations (“IR”) calendar for FY 2019

July	FY 2018 Trading Update and FY 2019 Guidance Update	
September	FY 2018 Prelim Results	
	Investor roadshow in UK and North America	
October	Annual and Sustainability Reports published	
	Q1 FY 2019 Trading Update	
November	AGM	
January	H1 FY 2019 Trading Update	
February	Investor and analyst site visit to Finsch	
	H1 FY 2019 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 conference in the UK	
April	Q3 FY 2019 Trading Update	
May	Participation in industry investor conference in Spain	

Investor/analyst presentation and webcast

Investor/analyst conference call

Investor one-on-one meetings

Conferences

Site visit

Report publication

### 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, operational and financial performance 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](http://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 publishes updates on Facebook and Instagram, 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/](http://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, with the next event scheduled in FY 2020.

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 2019 shareholder engagement

During FY 2019, the Company's CEO and IR team held 130 one-on-one and group investor meetings, thereby engaging with over 180 people. The team met with all of the active managers within the Group's top 20 shareholders at least once during the Year. In addition to the meetings detailed above, following his appointment as CEO, in April 2019, Richard Duffy met with the Group's top shareholders. Meetings were also arranged with a number of top shareholders with Bernard Pryor and Varda Shine, following their appointments as Independent Non-Executive Directors.

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

- ▶ Petra's achieved diamond prices, especially at Cullinan following the fall in the average achieved price in H1 FY 2019 and the subsequent recovery of a number of 'special' stones in H2 FY 2019 (read more on page 19);
- ▶ Petra's operational performance as the Company moves from a phase of significant capital expenditure to one of steady-state production (read more on pages 28 to 35);
- ▶ Petra's balance sheet and leverage levels, the Company's ability to generate free cashflow and management's plans to refinance the bond due in May 2022 (read more on page 26);
- ▶ the volatility of the ZAR:USD exchange rate and the impact on Petra's financial position (read more on page 25);
- ▶ the political situation in South Africa around the general election in May 2019 (read more on page 73);
- ▶ the blocked Williamson parcel and VAT receivables in Tanzania and the ongoing discussions with the Government (read more on page 66);
- ▶ the state of the diamond market and expectations with regards to diamond pricing (read more on pages 15 to 19);
- ▶ synthetic diamonds and how these affect the market for natural diamonds (read more on page 15); and
- ▶ Richard Duffy's reasons for joining Petra and his first impressions from his first few weeks as CEO (read more on page 9).

### Reporting

Petra's objective with regards to external reporting (via its Annual Report and Sustainability Report and 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 ten years.

Investor and analyst site visit to Finsch in February 2019, also attended by various Board members



## Corporate Governance Statement continued

## Preparing for the 2018 UK Corporate Governance Code

### STRATEGY IN ACTION



WORK RESPONSIBLY

### VALUES IN ACTION



LET'S DO IT RIGHT



LET'S TAKE CONTROL



LET'S DO IT BETTER

The 2018 UK Corporate Governance Code ("the new Code") will apply to Petra in FY 2020 and therefore the Board started its preparations during the Year, which included a comprehensive overview and training session on both the new Code as well as the FRC's updated Guidance on Board Effectiveness, carried out by an external adviser.

The session covered all key aspects of both documents but focused on the following key areas:

- ▶ 'comply or explain' requirements;
- ▶ increased emphasis on stakeholder engagement;
- ▶ possible methods of ensuring effective workforce engagement;
- ▶ diversity and its implications in succession planning; and
- ▶ boardroom effectiveness.

The Board noted that Petra already complies with a number of the new provisions and it continues to review the new Code ahead of formally reporting in FY 2020.

## 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. Due to an unforeseen personal commitment, Mr Pouroulis was unable to attend the AGM and in his absence it was chaired by Mr Lowrie. The remainder of the Board was present, with

the Committee Chairs (Mr Lowrie standing in as Nomination Committee Chairman on behalf of Mr Pouroulis) 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 2018 AGM

	Total votes for (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	0.15	1,323,572
2 Approve Directors' remuneration	97.34	2.66	1.84	15,898,759
3 Re-appointment of auditors	99.87	0.13	0.00	1,057
4 Approval to fix auditors' remuneration	99.94	0.06	1.84	15,897,275
5 Re-appointment of Chairman	77.88	22.12	2.06	17,813,361
6-11 Re-appointment of Directors	84.64 to 99.97	15.36 to 0.03	0.00	903 to 4,153
12 Authority to allot relevant securities	99.58	0.42	0.00	2,528
13 Disapplication of pre-emption rights	99.58	0.42	0.00	7,328

In the FY 2018 AGM, 22.12% of the total votes cast were against the re-appointment of Mr Pouroulis as Chairman. In response to this, the Company emphasised in its AGM results announcement that it is focused on progressing with its three-year Succession Plan, which is in line with Petra's development from a phase of intensive capital expenditure and expansion to a focus on steady-state operations, that solid progress is being made with the plan and that the Company will continue to engage with its shareholders around the important topic of Board composition and diversity.

Furthermore, the Company issued an update announcement within six months of the AGM on 20 March 2019. This confirmed that the Board had considered the concerns raised by shareholders

and had reaffirmed its assessment that the Chairman continued to demonstrate the independence of thought and challenge required for his role, notwithstanding the years he had served as a Director. The Company also stated that, following the recent appointment of a new CEO and two new independent NEDs, in order to ensure continuity and stability of leadership and management, the appointment of a new Chairman was not considered appropriate at the time.

Post Year end, Petra announced that Mr Pouroulis intends to step down from the Board by the end of Q3 FY 2020, once a successor has been identified and appointed. It is expected that an announcement regarding the appointment of a new Chairman will be made before the end of this calendar Year.



## Report of the Audit & Risk Committee



### Members of the Audit & Risk Committee

Gordon Hamilton (Chairman), iNED

Dr Pat Bartlett, iNED

Tony Lowrie, iNED

Octavia Matloa, iNED

Bernard Pryor, iNED (effective 1 January 2019)

The Audit & Risk Committee (“the Committee”) continued to focus on its key objectives set for FY 2019 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 controls 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 timeous feedback are maintained.



The Committee gave careful consideration to leverage in FY 2019 – whilst all major capital expansion programmes have been delivered and the Company has achieved positive operational free cashflow, the Group’s debt levels continue to remain high.

#### Gordon Hamilton

Chairman of the Audit & Risk Committee

- ▶ **Audit & Risk Committee Terms of Reference**  
[petradiamonds.com/about-us/  
corporate-governance/board-committees](https://petradiamonds.com/about-us/corporate-governance/board-committees)

### Dear shareholder,

The Audit & Risk 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, going concern and Viability Statement

Whilst all major capital expansion programmes have been delivered across the portfolio and the Company has achieved positive operational free cashflow during the Year, the Group’s debt levels continue to remain high. The impact of the current weakness in the diamond market on the Group’s operating results and cashflow position has increased the likelihood of possible breaches in its EBITDA-related covenants for the December 2019 and June 2020 reporting periods and the Group’s temporary utilisation of the South African banking facilities, should the ongoing weakness in the diamond market persist.

The Committee was kept fully apprised of these developments with regards to potential forecast covenant breaches, liquidity and cashflow forecast positions as well as management’s engagements with the Lender Group (which remain ongoing). The Committee regularly discussed these issues and the potential deleveraging mechanisms available to the Group with the full Board, ensuring at all times that appropriate consideration was being given and that external reporting in regulatory announcements was always appropriate, balanced and complete. Consideration was also applied to the BEE guarantees and the bond refinancing in FY 2022 and related disclosures with regards to the Viability Statement.

### Reviewing LOM estimates leading to impairments

IFRS requires that detailed impairment reviews are performed at each reporting period if there are indications of a potential impairment. Given the weakening diamond pricing environment, coupled with the Group’s declining market capitalisation, management identified there to be an indicator of impairment and carried out tests for each mine based on the underlying LOM models.

The review required management to use its judgement and make assumptions with regards to production rates, operating costs, capital expenditure, treatment of VAT at Williamson in the forecast period, Project 2022 and the Group’s reserves and resources coupled with a robust discussion on diamond pricing in light of the current diamond market weakness measured against prices achieved historically and anticipated future pricing. Economic assumptions around inflation, foreign exchange rates and discount rates are further included in the preparation of the models with the resultant net present value per mine then being compared to the carrying value of mining assets, ore stockpiles and diamond inventories.

The Committee assessed all these key assumptions and project initiatives, considered market conditions, and was kept abreast regularly by management of developments at the operations as well as holding frequent discussions with the external auditors so as to ensure appropriate external reporting was provided.

## Report of the Audit & Risk Committee continued

### Tanzanian legislative environment

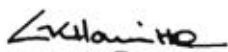
Ongoing legislative challenges in Tanzania impacting the mining industry, coupled with the blocked parcel, continue to constitute a commercial risk for the Group. The Committee considered external legal advice received by management, which highlighted the Company's legal right to receive the parcel as well as Petra's adherence to all requisite procedures. These factors, along with the ongoing engagement with the Government of Tanzania ("GoT") and its decision to release subsequent parcels show that the continued seizure of the parcel is not indicative of a wider dispute, which would increase the risk that the Group's ownership and right to the diamonds is being contested. This provided further additional support to the likelihood of the release of the parcel and therefore, the Committee's consideration of the carrying value of the parcel and its reflection thereof in inventory.

The significant increase in overdue VAT receivables at Williamson continues to be a key concern. The Committee held frequent discussions with management throughout the Year wherein updates concerning feedback on engagement with the Tanzanian Revenue Authorities and other Government officials were provided. Consideration of in-country legal advice as to the amended categorisation of raw minerals (legislated post July 2017) in the context of Williamson's diamond exports, current fiscal constraints in Tanzania and the political environment were further considered by the Committee. Whilst the GoT states that input VAT cannot be claimed post July 2017 on raw mineral exports that have not yet been processed, benefited or value added, management has highlighted the value add to the diamonds in the form of the sorting, acidisation and transport process, which is supported by independent legal advice. In light of the above, the Committee agreed with management's views that the VAT receivable balances are legally valid and remain recoverable. However, given the continued delays in recovery, significant uncertainty exists regarding the timing of receipt. Following discussions with management and a review of management's analysis of the expected timing of receipts and an appropriate risk adjusted discount rate, the Committee agreed with management around the potential timing of the recoverability and agreed with its suggested discounting provision against the receivable based on recovery over an extended time period with an associated discount rate.

### 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.

Whilst the risk review led to the consolidation and re-prioritisation of some of our risks, the outcome did not significantly change the Group's recorded material risks as disclosed on pages 36 and 37.



### Gordon Hamilton

Chairman of the Audit & Risk Committee  
14 October 2019

### 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 the audit committee for several other companies (refer to page 52).

In terms of the Committee members, and in line with updated 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 and audit experience as she is currently a member of the audit committee for other organisations in South Africa. Mr Pryor was appointed as a member of the Committee with effect from May 2019. Mr Pryor is a metallurgical engineer with 35 years of experience in the international mining industry.

When appropriate, 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 58), 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 2019.

### Committee meetings

Five meetings were held in FY 2019 and the Committee invited the Group Chairman, the Executive Directors, members of Senior Management (including the COO) 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 2019 where he was able to meet with the FD 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 maintain a comprehensive understanding of corporate and finance developments and activities and any associated risks, as well as the operational risks and issues and controls in place at Petra. A site visit was undertaken by Mr Hamilton and Dr Bartlett to Finsch, Cullinan and Koffiefontein mines during August 2018 and again in February 2019 to Koffiefontein and Cullinan accompanied by Ms Shine post her appointment to the Board. Mr Hamilton also accompanied the investor/analyst site visit to Finsch in February 2019. In June 2019 Mr Pryor visited the Finsch and Koffiefontein operations.

### Committee role and activities

The principal functions of the Audit & Risk Committee are listed below, along with the corresponding activity and performance in FY 2019.

ROLE	ACTIVITIES IN FY 2019	OUTCOMES
<b>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.</b>	<p>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 includes a detailed appraisal by each member. The Committee then met with the Executive Directors to discuss any questions and comments.</p> <p>In particular, the Committee assessed the balance of information reported against its 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.</p> <p>Outside of formal Committee meetings, accounting matters were also discussed by the Chairman of the Committee and the FD. 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.</p>	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.
<b>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.</b>	<p>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.</p> <p>Details of the significant matters considered by the Committee in respect of the FY 2019 Annual Report are set out on pages 68 and 69.</p>	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.
<b>To ensure that Petra's risk management systems, internal financial controls and other internal controls are effective.</b>	<p>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.</p> <p>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.</p> <p>The Committee meetings during FY 2019 included presentations by BDO LLP regarding the results of the FY 2018 audit, the interim review for H1 FY 2019 and the FY 2019 Audit &amp; Risk Committee Planning Report, with a presentation by BDO LLP of the results of the FY 2019 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.</p>	<p>The Committee considers that Petra's internal controls, including its internal financial controls, continue to be robust and defensible.</p> <p>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.</p>
<b>To ensure the Internal Audit function is adequately resourced and effective and is supported by the Committee in its role.</b>	The Internal Audit Charter was reviewed, updated and approved by the Committee in FY 2019. 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.

## Report of the Audit & Risk Committee continued

### Committee role and activities continued

ROLE	ACTIVITIES IN FY 2019	OUTCOMES
<p>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.</p> <p>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.</p>	<p>In advance of the FY 2019 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.</p> <p>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 agreed upon procedures over the Company's Sustainability Report.</p>	<p>The Committee has taken appropriate steps to assess the independence of its auditors, recognising the importance of audit independence to the audit process.</p> <p>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.</p>
<p>To give due consideration to relevant laws and regulations, the provisions of the Code and the requirements of the UK Listing Rules.</p>	<p>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.</p>	<p>The Committee is satisfied that Petra continues to act in accordance with the Code and all relevant laws, regulations and the UK Listing Rules.</p>
<p>To review the adequacy of the Company's whistleblowing system, its fraud detection procedures and the systems and controls in place for bribery prevention.</p>	<p>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.</p> <p>The Group's whistleblowing procedure was reviewed and updated during the Year, and the independent, external whistleblowing and fraud hotline remains in place and continues to be offered to all employees as well as other stakeholders.</p>	<p>In FY 2019 Petra received 27 reports involving alleged irregularities considered necessary to investigate, relating mostly to fraud involving recruitment scams, procurement irregularities, theft and corruption. Of these reports, 20 were resolved and closed and 7 remain under investigation. Following a lengthy investigation and criminal trial, a non-diamond related theft conviction was handed down in respect of a previous employee at Cullinan. In another incident at the same mine, a senior employee was dismissed for fraud after it was found the employee had colluded with another employee to unlawfully pay a supplier at the mine. The amounts involved in these investigations are not of a material nature. Further to the outcome of these investigations, the Company made changes to its system of internal controls to limit such events taking place in the future.</p>

### Significant issues considered by the Committee in FY 2019

The following are considered by the Committee to be 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. These issues align with those disclosed in the Independent Auditors' Report on pages 97 to 103.

#### SIGNIFICANT MATTERS CONSIDERED

#### OUR RESPONSE TO THESE MATTERS

### Going concern, leverage and debt facility covenants

Going concern, liquidity and covenant compliance coupled with facility availability remained a key risk and area of focus given the impact of a softer diamond market towards the latter half of the Year and since Year end.

Management's cashflow forecast as at the date of this report indicate the likelihood of possible breaches on its two EBITDA covenant tests for the 31 December 2019 and 30 June 2020 measurement periods.

The assumptions in the Group's financial forecasts and the status of forecast future covenant compliance, mitigating actions available to the Group 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 required covenant ratios in relation to the banking facilities, particularly considering exchange rate and production assumptions, coupled with a detailed and robust review on the diamond pricing assumptions in the context of past and present pricing and the current weakness being experienced in the diamond market. The forecasts demonstrated that the Group is likely to require temporary utilisation of the South African banking facilities, should the ongoing weakness in the diamond market persist during the period under review, and possible breaches in its EBITDA-related covenants for the December 2019 and June 2020 measurement periods. Management provided updates of its engagement with the Lender Group and the Lender Group's ongoing support and availability of the facilities that were carefully considered by the Committee. The Committee also considered previous covenant waivers received, the long-standing relationship with the Lender Group and subsequent affirmation from the lenders post Period end that they remained supportive of the Group.

**SIGNIFICANT MATTERS CONSIDERED****OUR RESPONSE TO THESE MATTERS**

Management presented a sensitivity analysis on liquidity and covenant ratios with due consideration given to potential risk areas (diamond pricing, production, product mix volatility, increased operating costs and exchange rates), as well as the Group's capacity to defer capital expenditure and the ability to deliver on Project 2022. The impact of continued advances to BEE partners to enable them to meet their loan obligations to the BEE Lenders, the exclusion of the proceeds from the sale of exceptional stones, the sale of the blocked Williamson parcel and the recovery of historical and current VAT during the forecast period was further considered as part of this review.

Having considered the cashflow forecast, risks and sensitivity analysis and Lender Group support, the Committee was satisfied with management's forecast and judgement that the going concern basis of preparation remained appropriate and that there were no material uncertainties that would cast doubt on the basis of preparation.

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 109 and 110 for further details.

**Carrying value of mining assets**

**The carrying values of the mining assets at all of the operations were key focus areas for the Committee in FY 2019 on the back of the weaker diamond market and variability in product mix.**

**At Cullinan, Finsch, Koffiefontein and Williamson impairment indicators were identified and impairment charges of US\$63.9 million, US\$85.4 million, US\$33.2 million and US\$41.2 million respectively were recognised.**

**The impairment tests include significant estimates and judgements and therefore represented a key focus for the Committee, as covered in note 8 on pages 114 to 116.**

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

In addition, the Committee reviewed, for all the operations, the sensitivity analysis performed by management on key parameters of potential impairments under various scenarios. Robust discussions on diamond pricing, with input from Petra's Head of Marketing, in light of the current diamond market weakness measured against prices achieved historically and anticipated future pricing was critical to the Committee's review of the impairment models.

The changes to the underlying operational plans, costs and capital expenditure assumptions did not materially change the valuation of these assets compared to earlier reviews of this nature and thus did not indicate any impairment on a standalone basis. However, the revised starting price assumptions, given recent weakness in the diamond market and a decision to use a lower real price escalator compared to earlier assumptions, resulted in each of the four operational assets' carrying values being partially impaired to reflect the latest assessment of the recoverable value.

The Committee further reviewed the relevant disclosure in the Financial Statements to ensure compliance with reporting standards.

**Tanzanian legislative environment**

**At Williamson, ongoing risks arising from legislative changes and political uncertainties, alongside the slow recovery of VAT receivables and the continued confinement of the parcel of diamonds due for export in FY 2018, continued to represent a significant area of focus for the Committee in FY 2019.**

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 2019.

The Group's independent Tanzanian legal adviser supported management's assessment that the Group continues to hold legal title to the parcel and the Group would have a valid claim for compensation if the parcel is not released.

The Committee further considered management's assessment that the VAT is legally valid and remains recoverable, further supported by in-country legal advice.

The Committee considered management's discounting provision based on management's analysis of the expected timing of receipts and suggested risk adjusted discount rate.

The Committee reviewed the relevant disclosure in the Financial Statements to ensure compliance with reporting standards.

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 its 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 2019	FY 2018
Audit services <sup>1</sup>	0.9	0.9
Audit-related assurance services <sup>2</sup>	0.1	0.4
<b>Total</b>	<b>1.0</b>	<b>1.3</b>

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 2018: US\$0.1 million plus US\$0.3 million for services in respect of the issuance of comfort letters in respect of the Rights Issue, which were capitalised to share premium), and specific agreed upon procedures in relation to the Sustainability Report, under the International Standard on Related Services 4400 as issued by the International Auditing and Assurance Standards Board, US\$5.0k (FY 2018: US\$5.0k).

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 internal control testing procedures; providing comfort letters

to management and/or underwriters; and performing regulatory audits. BDO LLP provided audit-related services in the Year in relation to the interim review and specific agreed upon procedures on the Company's Sustainability Report as set out to the left.

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 Group Internal Audit Manager reports directly to the Chairman of 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 2020 to FY 2022) was presented to the Committee for approval during September 2019.

#### 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 & Risk Committee reports and face-to-face discussion between the Audit Partner and the Audit & Risk Committee Chairman and Committee members.

For FY 2019, 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

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 2022, 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 carried out annually before the approval of the Annual Financial Statements.

While the Group maintains a full business model based predominantly on the LOM plans for each of its significant operations, the Group's key business and strategic planning period is through to the end of FY 2022 which covers the US\$650 million loan notes which mature in May 2022.

The review of the Group's viability is led by the Chief Executive and involves all relevant functions including operations, sales and marketing, finance, 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, which are currently undrawn and remain available, and associated guarantees provided to its BEE partners as well as the loan notes and their maturity date.

The impact of the recent weakness in the diamond market on the Group's operating results and cashflow position has been discussed with the Lender Group<sup>1</sup>, including possible breaches in its EBITDA-related covenants for the December 2019 and June 2020 reporting periods. The Lender Group has reaffirmed its ongoing support of the Group during engagements in August 2019 and has agreed to further engage during FY 2020. This may include covenant resets and/or waivers for the measurement periods as mentioned.

### 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 Board 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 36 and 37 and 72 to 75 respectively). Through this analysis, the Board 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 plans reflect 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, other key financial and covenant ratios as well as the impact on facility availability over the three-year period and included:

- ▶ a decrease in forecast rough diamond prices, with reference to current weak market conditions;
- ▶ an increase in forecast operating cost;
- ▶ an appreciation of the South African Rand to the US Dollar;
- ▶ a reduction in production due to labour and/or any other operational factors; and
- ▶ a combination of the above.

The results of this stress testing highlighted the ongoing cash-generating nature of the Group's core assets, Finsch and Cullinan. Coupled with the continued availability of the debt facilities, the potential Project 2022 benefits mentioned below, together with other 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 ending June 2022.

The forecasts indicate that the Group will require utilisation of the South African banking facilities, should the ongoing weakness in the diamond market persist during the period under review. Assuming the continuing availability of current facilities, considering the recent positive engagements with the Lender Group, alongside the Group's existing cash resources and mitigating actions reasonably considered to be available to the Company in the event of the stress scenarios, the Board assessed the liquidity headroom to be adequate to meet its liabilities as they fall due under the forecasts and reasonably possible sensitivities. The forecasts (which incorporate current diamond market conditions) assume an average exchange rate of ZAR14.50:US\$1 for the period to June 2020, ZAR14.00:US\$1 for the period to June 2021, ZAR14.55:US\$1 for the period to June 2022, continued advances to BEE partners to enable them to meet their loan obligations to the BEE Lenders, and specifically exclude the proceeds from the sale of exceptional stones at Cullinan, the sale of the blocked Williamson parcel and the recovery of historical and current VAT in Tanzania during the forecast period. Following ongoing discussions with the Lender Group, 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.

### Project 2022 impact and benefits

Project 2022, which was launched in July 2019, aims to identify and drive efficiencies and improvement across all aspects of the business, targeting delivery of US\$150–200 million cumulative free cashflow over a three-year period, with delivery weighted towards FY 2021 and FY 2022 and dependent on diamond pricing. The Company's intends to utilise expected cashflow benefits realised from this Project towards improving its net debt position (refer to page 7 for further information).

### Refinancing of the US\$650 million bond

In FY 2017, 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, with a maturity date of 1 May 2022. The Board has reasonable confidence that the ongoing cash-generating ability of the operations, coupled with the initiatives implemented via Project 2022, will enable the Company to refinance these notes (all or portion thereof) in advance of its contractual maturities. The Board, is however, cognisant of the requirement to conduct any refinancing in a timely manner. Any refinancing options which may be available to the Group have been and will continue to be appropriately assessed by the Board with relevant input from its corporate advisers.

### Conclusion

Based on its assessment of the principal risks, prospects and viability of the Group, the Board confirms that it has a 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 2022.

1. See page 26 for definition.

## Risk Management

### Identifying, managing and mitigating risk

Risk management is the overall responsibility of the Board at Petra, but the Board Committees, Exco and Senior Management also play important roles in terms of the identification, management and ongoing mitigation of risks within their realm of responsibilities. The role of the Audit Committee was extended to that of the Audit & Risk Committee in FY 2019.

#### External risks

#### Rough diamond prices Long term



**RISK CHANGE  
IN FY 2019**



#### KPIs

Revenue; Profitability; Operational free cashflow; TSR

#### RESPONSIBILITY

Exco

#### 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. Growth in the synthetic diamonds market could also impact diamond prices.

Low diamond prices may have a negative impact on cashflow, profitability and the overall performance of the business as well as the viability of capital programmes going forward.

Whilst the 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.

The Company continues to monitor synthetic developments. Disclosure and detection remain key; equipment exists which can detect synthetic diamonds with 100% accuracy. The DPA is tasked with helping consumers to understand the significant value differential between natural and laboratory-grown diamonds.

The diversified nature of the Group's asset portfolio also acts as a mitigant in that we can produce the full spectrum of sizes and qualities, to minimise reliance on the price performance of any one diamond category.

#### FY 2019 RISK DEVELOPMENTS AND MANAGEMENT

The rough market was challenged by excess inventory in both rough and polished diamonds in FY 2019, as well as tightening credit availability in the midstream. Growing US/China trade tensions, and, late in the Year, unrest in Hong Kong, also represented headwinds for the diamond sector.

Whilst Petra continued to see strong attendance at its sales in FY 2019, average realised diamond prices were ca. 5% lower per carat on a like-for-like basis. A softening in demand was noted across the size ranges but particularly in the lower value, smaller stones. Petra's risk rating for diamond prices remains high, as in the previous year, from both a probability and impact perspective.

Petra continues to work with the DPA in its activities to support diamond demand.

The start of the FY 2020 sales season saw continued uncertainty in cutting centres given ongoing unrest in Hong Kong and escalating trade tensions. The leading global producers of rough diamonds have responded to the market challenges by cutting production and allowing clients to defer purchases of rough diamonds.

#### READ MORE

Our Market – pages 15 to 19

#### Currency

Long term



**RISK CHANGE  
IN FY 2019**



#### KPIs

Revenue; Profitability; Operational free cashflow; TSR

#### RESPONSIBILITY

Exco

#### DESCRIPTION AND IMPACT

Currency fluctuations may have a significant impact on the Group's performance.

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.

#### 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 2019 RISK DEVELOPMENTS AND MANAGEMENT

The ZAR/USD exchange rate saw some volatility in FY 2019, ranging between a low of ZAR15.40:US\$1 in September 2018 and a high of ZAR13.29 in February 2019, before closing the financial Year at ZAR14.09:US\$1, amidst weak national economic fundamentals and continued global uncertainties.

To mitigate volatility, the Company continued with its approach to focus on short-dated hedge positions. Management was mandated by the Board to cover up to 50% of expected FY 2020 USD sales proceeds during the Year.

#### READ MORE

Financial Review – pages 24 to 27

Note 9 to the Financial Statements



STRATEGIC OBJECTIVES



WORK RESPONSIBLY



CONSISTENT DELIVERY



DRIVE OPTIMISATION

## Country and political

Long term

**RISK CHANGE  
IN FY 2019**

### KPIs

Profitability; Operational free cashflow; TSR

### RESPONSIBILITY

Exco; HSE Committee; SED Committee

### DESCRIPTION AND IMPACT

Petra's mining operations are based in South Africa and Tanzania. 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, regulatory and legal developments in its countries of operation at both regional and local level.

### FY 2019 RISK DEVELOPMENTS AND MANAGEMENT

Political volatility in South Africa eased somewhat with the completion of the 2019 elections. Regulatory uncertainty has reduced in South Africa due to the publication of the new mining charter; however, certain components remain under review.

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

### READ MORE

Chairman's Statement – page 4

Legal compliance – page 41

## Operational risks

## Mining and production

Long term

**RISK CHANGE  
IN FY 2019**

### KPIs

Production; Revenue; Profitability; Operational free cashflow; TSR

### RESPONSIBILITY

Exco

### 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, access to energy and inclement or hazardous weather conditions.

### MITIGATION

Petra's work to extend the lives of its assets is classed as resource extension and brownfields exploration, meaning that the existing knowledge of the deposits, which have long histories of production, 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 2019 RISK DEVELOPMENTS AND MANAGEMENT

Petra's diversified portfolio of mines ensures that the Company is not reliant on the performance of just one asset.

Operations were largely stable in FY 2019 and production was in line with guidance, delivering 3.87 Mcts, with higher than expected production at Cullinan and Williamson offset by lower than expected production at Finsch.

### READ MORE

Operational Review – pages 28 to 35

## ROM grade and product mix volatility

Short term

**RISK CHANGE  
IN FY 2019**

### KPIs

Production; Revenue; Profitability; Operational free cashflow; TSR

### RESPONSIBILITY

Exco

### DESCRIPTION AND IMPACT

With Petra's underground expansion projects nearing completion, the Company's access to undiluted ore continues to increase. The ramp-up of underground tonnages involves gaining access across a larger footprint of the orebody which will deliver a greater consistency in grade and product mix.

Some level of variability in terms of ROM grade and product mix occurs depending on the mix of ore produced from the current mining areas at each operation and can also be impacted by the inclusion of production from surface resources at some of the mines.

### MITIGATION

Petra's work to extend the lives of its assets is classed as resource extension and brownfields exploration, meaning that the existing knowledge of the deposits, which have long histories of production, allows management to eliminate some of the risk associated with grade and product mix.

## Risk Management continued

### Identifying, managing and mitigating risk continued

#### Operational risks continued

#### ROM grade and product mix volatility continued

##### FY 2019 RISK DEVELOPMENTS AND MANAGEMENT

ROM grades were in line with expectations in terms of resource performance. A higher level of waste dilution at Cullinan and Koffiefontein has suppressed the ROM grade to some degree whilst at Williamson there is a higher potential for volatility due to the size and variability of the orebody.

Product mix at Finsch contained a lower than expected incidence of gem-quality coarse diamonds. The product mix at Cullinan indicated a lower than expected recovery of large, high value Type II white and blue stones in H1 FY 2019 improving to expected levels in H2 FY 2019. The product mix saw a lower than expected incidence of +10.8ct gemstones during H2 FY 2019.

##### READ MORE

Market performance – page 19

Operational Review – pages 28 to 35

#### Labour relations

Short to medium term

##### RISK CHANGE IN FY 2019



##### KPIs

Production; Staff turnover

##### RESPONSIBILITY

Exco

##### 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 trade 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.

##### FY 2019 RISK DEVELOPMENTS AND MANAGEMENT

Stable labour relations were experienced throughout the Year.

The Company's three-year wage agreement relating to semi-skilled employees at its South African operations remains in force for FY 2020.

The relationship with technical skilled employee trade unions has been formalised during the Year and future wage negotiations will include this category of employees at the majority of the operations.

As we move into the negotiation phase of the next agreement, which is expected to commence in Q3 FY 2020, there is potential for some volatility.

##### READ MORE

Stakeholder Engagement – pages 12 to 14

Labour relations – page 43

#### Strategic risks

#### Financing

Short to medium term

##### RISK CHANGE IN FY 2019



##### KPIs

Production; Revenue; Profitability; Operational Capex

##### RESPONSIBILITY

Exco

##### DESCRIPTION AND IMPACT

Following a phase of significant capital investment funded by a combination of equity, operational cashflow and third party debt, coupled with certain operational delays and business challenges in preceding years, Petra's current debt level is higher than originally anticipated. In addition to this, the impact of the recent weakness in the diamond market and product mix on the Group's operating results and cashflow position indicates a possible breach in its EBITDA-related covenants associated with its banking facilities for the December 2019 and June 2020 reporting periods, albeit these banking facilities remain undrawn.

In FY 2017, 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, with a maturity date of 1 May 2022. The Board has reasonable confidence that the Company will be able to refinance these notes (all or portion thereof) in advance of their contractual maturities, with the balance (if any) to be settled on the maturity date. The Board is, however, cognisant of the requirement to conduct any refinancing in a timely manner.

Whilst management prepares detailed projections based on operational plans and sales estimates, actual cashflow results may differ from these projections.

Ongoing access to the working capital and revolving credit facilities are required to ensure adequate liquidity headroom, while cashflow generation is negatively impacted by the current weaker diamond market and product mix.



## STRATEGIC OBJECTIVES



## WORK RESPONSIBLY



## CONSISTENT DELIVERY



## DRIVE OPTIMISATION

**MITIGATION**

The Company closely monitors and manages its liquidity risk, including regularly reviewing its cashflow forecasting to ensure operational plans are adequately financed and regularly monitors its position with regards to its forecast covenant outlook. Regular updates are provided to the Lender Group<sup>1</sup>.

Available levers to manage working capital are considered and employed to manage short-term cashflow requirements. Efficiencies and improvements across all aspects of the business associated with Project 2022, which was launched in July 2019, target the delivery of US\$150–200 million cumulative free cashflow over a three-year period, with delivery weighted towards FY 2021 and FY 2022 and dependent on diamond pricing, thereby aiming to reduce the Company's net debt position.

**FY 2019 RISK DEVELOPMENTS AND MANAGEMENT**

The Company's Lender Group agreed to amend the EBITDA-related maintenance covenant levels for South African banking facilities during the Year.

However, post Year end, the impact of further weakness in the diamond market on the Group's operating results and cashflow position has been discussed with the Lender Group, including possible breaches in its EBITDA-related covenants for the December 2019 and June 2020 reporting periods. The Lender Group has reaffirmed its ongoing support of the Group during engagements in August 2019 and has agreed to further engage during the course of FY 2020. This may include covenant resets and/or waivers for the relevant measurement periods.

**READ MORE**

Financial Review – pages 24 to 27

### Licence to operate

Long term

**RISK CHANGE  
IN FY 2019****KPIs**

Production; Revenue; Profitability; all HSSE indicators

**RESPONSIBILITY**

Exco; Audit & Risk Committee; HSE Committee; SED Committee

**DESCRIPTION AND IMPACT**

In order to maintain mining or exploration licences, Petra must comply with stringent legislation. Failure to comply with relevant legislation in our countries of operation could lead to litigation proceedings, delays or suspension of our mining and exploration activities.

Petra's licence to operate is also dependent on the safety, retention and support of its employees, and its continued acceptance in the communities in which it operates. This encompasses Petra's environmental, social and governance practices.

**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 monitors developments and changes in laws and regulations and has systems to ensure it meets all the requirements of its mining rights and related matters.

Our community relations efforts continue to be focused on effective engagement; sustainable job creation; skills transfer (education and training); enterprise development; and infrastructure development.

Managing and monitoring our environmental impacts remain priorities for Petra and the Company has a tailings management programme in place. See Petra's website for additional detail.

**FY 2019 RISK DEVELOPMENTS AND MANAGEMENT**

Petra continued to comply in all material aspects with relevant laws and regulations in the countries in which it operates.

The Company again recorded a fatality-free year and saw further improvement in its overall safety performance, with the LTIFR decreasing 9% to 0.21.

The community unrest witnessed at Koffiefontein during the Year has reinforced the requirement to focus on our stakeholder engagement practices.

A decision was taken to donate part of the Tailings Mineral Resources at Koffiefontein for artisanal small-scale mining, demonstrating Petra's constructive approach to stakeholder engagement and co-operation.

The Company continues to carefully monitor natural side wall degradation at all open pits. The immediate surrounding areas to the Cullinan open pit may be impacted over the medium- to longer term by this natural degradation and therefore the Company is engaging with all relevant local stakeholders to manage the potential impact.

**READ MORE**

Stakeholder Engagement – pages 12 to 14

Sustainability – pages 38 to 47

1. See page 26 for definition of Lender Group.

## Report of the Nomination Committee



### Members of the Nomination Committee

Adonis Pouroulis, Chairman

Dr Pat Bartlett, iNED

Gordon Hamilton, iNED

Tony Lowrie, iNED



The searches for both a new CEO and additional NEDs have been priorities for the Nomination Committee in FY 2019 in order to further deliver on Petra's three-year Succession Plan. We have continued to consider the balance and diversity of skills, knowledge and experience on the Board and are delighted to have been able to recommend such strong appointments during the Year.

#### **Adonis Pouroulis**

Chairman of the Nomination Committee

• **Nomination Committee Terms of Reference**  
[petradiamonds.com/about-us/corporate-governance/board-committees](https://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 2019.

### **Board composition and diversity**

The Nomination Committee approved certain changes to the Board and Board Committees throughout the Year, as detailed below.

With the introduction of three new Directors to the Board in FY 2019, we believe that the overall breadth of views, skills, experience and background has been widened.

Whilst the Committee assesses the current skills, experience (as set out on pages 52 and 53) 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.

We believe increasing diversity is important in terms of facilitating the Board's ability to function effectively to the benefit of the business as a whole and all of its stakeholders. Whilst steps forward in terms of improving diversity at top levels of the business have been made during the Year, with Board gender diversity improving to 22% and Senior Management diversity improving to 6%, we will continue to focus on this goal going forward. Read more about Petra's approach to diversity on page 43. The Company is currently in the process of formulating its Diversity Policy as part of its Sustainability Framework.

### **Succession planning**

As part of the Nomination Committee's three-year Succession Plan, which ran until the end of FY 2019, Varda Shine and Bernard Pryor were appointed as iNEDs with effect from 1 January 2019 and Richard Duffy was appointed as CEO with effect from 1 April 2019. You can read more about the skills and experience of these Directors on pages 52 and 53 of the report.

A process has commenced to find a suitable successor for the Chairman, which is being externally facilitated (see further detail on the search process on page 58). I will stand for re-election at the November 2019 AGM, but I intend to step down by the end of Q3 FY 2020, once a successor has been identified and appointed. A proper handover period will be ensured to enable continuity and a smooth transition.

The Nomination Committee will continue to consider succession on an ongoing basis.



ROLE	ACTIVITIES IN FY 2019	OUTCOMES
<b>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.</b>	<p>The Committee reviewed the composition of the Board and the Board Committees, including discussions around diversity and the effective functioning of these Committees. This process resulted in the appointment of two additional iNEDs and a new CEO. The structure of the Board Committees was also amended with the formation of separate HSE and SED Committees.</p> <p>A diversity and transformation training session was held in FY 2019.</p>	<p>The Committee will continue to make recommendations regarding the Board, Board Committee and Senior Management composition and structures.</p> <p>A formal search process for a successor to the Chairman has commenced.</p> <p>An ongoing Succession Plan is in place.</p>
<b>To identify, nominate and recommend, for the approval of the Board, appropriate candidates to fill Board and Committee vacancies as and when they arise.</b>	<p>Varda Shine and Bernard Pryor were appointed to the Board during FY 2019. Richard Duffy was appointed as successor to Johan Dippenaar during FY 2019.</p> <p>Various nominations to Board Committees were proposed by the Committee and approved by the Board; see page 51 for Committee memberships.</p>	<p>The Board will make further changes during FY 2020 and will receive recommendations from the Nomination Committee on this.</p>
<b>To satisfy itself, with regards to succession planning, that plans are in place with regards to both Board and Senior Management positions.</b>	<p>The Committee continued to focus on succession planning. The Succession Policy has also been finalised.</p>	<p>An ongoing succession plan is in place.</p> <p>As part of our succession practices, the Nomination Committee continues to review programmes in place to assimilate talent into leadership and specialist positions.</p>
<b>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.</b>	<p>An internal Board evaluation exercise took place during August 2019.</p>	<p>The overall result was positive in terms of the Board's performance, as well as highlighting a number of areas for further improvement. See page 59. Each Director was considered to remain effective and was proposed by the Committee for re-election to the Board at the forthcoming AGM.</p>

**Adonis Pouroulis**  
Chairman of the Nomination Committee  
14 October 2019

## Report of the Health, Safety and Environmental Committee



### Members of the HSE Committee

Bernard Pryor, Chairman, iNED<sup>1</sup>

Dr Pat Bartlett, iNED

Richard Duffy, CEO<sup>2</sup>

Luctor Roode, COO

1. Joined and was appointed Chairman in May 2019.


2. Joined in May 2019.



The safety of Petra's people remains our top priority and the Company is taking measures to continuously improve our performance in this area, working towards our primary goal of zero harm.

#### **Bernard Pryor**

Chairman of the HSE Committee


**HSE Committee Terms of Reference**  
[petradiamonds.com/about-us/corporate-governance/board-committees](https://petradiamonds.com/about-us/corporate-governance/board-committees)

### HSE Committee role and purpose

I am pleased to present Petra's HSE Report for FY 2019, which is my first as Chairman of the Committee, succeeding Johan Dippenaar. I joined the Committee in January 2019 and was appointed Chairman in May 2019. Our membership was further strengthened during the Year by the appointment of CEO Richard Duffy.

The role and purpose of the HSE Committee is to assist the Board in discharging its oversight responsibilities relating to HSE matters and to ensure the Company upholds the principles of good corporate citizenship and conducts its business in an ethical and sustainable manner.

The Committee was amended in FY 2019 from the previously named HSSE Committee, which also had oversight of social matters, in order to divide roles and purposes between two Committees, each with a specific focus. A separate Social, Ethics and Diversity ("SED") Committee Report is included on pages 80 and 81.

### Activities and achievements

In addition to the Committee's principal functions and corresponding activities, the following achievements are noted:

- ▶ continued focus on safety, as well as a specific safety drive, which was held at Petra's operations, led to an improvement in the Company's LTIFR from 0.23 in FY 2018 to 0.21 in FY 2019, and no fatalities recorded;
- ▶ Petra continues to show a continuous improvement in its carbon reporting, with a higher score being achieved with the Carbon Disclosure Project ("CDP") in FY 2019 for the sixth consecutive year;
- ▶ during FY 2019 the Board signed a safety pledge, demonstrating its commitment to achieving a 'zero harm' working environment; and
- ▶ Petra recycled 72% of all water used on mine in FY 2019.

Further information on HSE matters is included in Petra's FY 2019 Sustainability Report.





## HSE Committee role and activities

The principal functions of the HSE Committee are listed below, along with the corresponding activity and performance in FY 2019.

ROLE	ACTIVITIES IN FY 2019	OUTCOMES
<b>To evaluate the effectiveness of the Group's policies, standards and systems for identifying and managing health, safety and environmental risks within the Group's operations.</b>	<p>Review of material risk management process to align with the ISO 45001:2018 requirements. Evaluation of effectiveness and roll-out of the revised 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.</p> <p>Development of Group standards on HSEQ processes.</p>	<p>ISO 45001:2018 aligned operational risk management process implementation with all associated significant controls linked to legal and other requirements, as well as a system effectiveness review at all South African operations. Williamson is not yet certified but operates with the same principles.</p> <p>Total HSE integration within the risk management framework.</p>
<b>To assess compliance obligations with applicable legal and regulatory requirements with respect to health, safety and environmental aspects.</b>	<p>Levels of compliance were monitored across the Group. Third party legal specialists were sourced to conduct legal compliance audits at all operations as part of the Committee's annual assurance verification process.</p> <p>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.</p>	<p>The Board is updated regularly with regards to Petra's levels of compliance.</p> <p>Four internal audits (performed by the Group HSEQ Leads) and six third party audits (BSI) were conducted. Audit reports were issued and concluded.</p> <p>Continual performance evaluation and improvement.</p>
<b>To assess the performance of the Group with regards to the impact of health, safety and environmental decisions and actions upon employees, communities and other stakeholders.</b>	<p>Monitoring of HSE performance throughout the Year and review of annual Group occupational health, safety and environmental objectives and key performance indicators.</p> <p>Consideration of the main causes of accidents, risks and incidents across the HSE spectrum both internally and within the industry more broadly.</p>	<p>The Board was kept informed of the Group's HSE performance.</p> <p>Performance KPIs and objectives aligned with the Mine Health and Safety Council industry milestones and international environmental best practice.</p> <p>Continual real time HSEQ performance trending and intervention from Group HSEQ leads to drive zero harm, a safe workplace and a sustainable environment.</p>
<b>To review management's investigation of any fatalities and/or serious HSE-related accidents or incidents within the Group and the efficacy of the resultant remedial actions implemented.</b>	<p>The Company recorded no fatal accidents during FY 2019 and achieved a rolling improvement in significant injuries (measured by LTIFR) of 69% over the past eight consecutive years.</p>	<p>Petra has proactive measures to mitigate the potential of any fatalities and/or serious HSE-related accidents or incidents, including continual stop and fix interventions, the analysis of and adoption of learnings of any such accidents and incidents both at Petra's operations and within the industry, and the subsequent review of internal risk control effectiveness at all mines.</p>
<b>To evaluate the quality and integrity of reporting to external stakeholders concerning HSE aspects.</b>	<p>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.</p> <p>Ongoing review of international guidelines and best practice in respect of Petra's sustainability reporting.</p> <p>The Committee provided oversight of the preparation of the FY 2019 Sustainability Report, with certain aspects of the report being independently verified or assured.</p>	<p>Petra's FY 2019 Sustainability Report is prepared in accordance with GRI Standards.</p> <p>Continued improvement in reporting to the CDP with a score of 'B' being achieved.</p> <p>Repeated inclusion in the FTSE4Good index.</p>

**Bernard Pryor**  
HSE Committee Chairman  
14 October 2019

# Report of the Social, Ethics & Diversity Committee



## Members of the SED Committee

Octavia Matloa, iNED (Chair)

Jacques Breytenbach, FD

Richard Duffy, CEO

Luctor Roode, COO

Varda Shine, iNED



The establishment of the SED Committee is an important step forward in further formalising and concentrating Petra's approach to social, ethical and diversity issues. I am confident that we now have the correct structure in place to oversee, manage and highlight these essential aspects of the business.

### Octavia Matloa

Chair of the SED Committee

• **SED Committee Terms of Reference**  
[petradiamonds.com/about-us/corporate-governance/board-committees](http://petradiamonds.com/about-us/corporate-governance/board-committees)

## Introduction

I am pleased to present Petra's first SED Committee Report.

In recognition of our intensified focus on social, ethical and diversity issues, the SED Committee was established during Q2 FY 2019 as a separate Board Committee, both to ensure strong governance practices and to satisfy local legislative requirements. Previously SED functions were included in the scope of the Health, Safety, Social and Environment ('HSSE') Committee, and this separation has brought both greater focus to Committees and improved alignment to internal processes and structures.

## SED Committee role and activities

The role and purpose of the SED Committee is to oversee the SED strategy and monitor performance as well as advise on the Company's approach to stakeholder engagement, with regards to social matters, business ethics and diversity (with its different interpretations and connotations in the jurisdictions in which Petra operates).

As an ethical, responsible and diverse organisation that interacts with its external environment in a sustainable and beneficial way, it is important for Petra to have a Board-level committee that can oversee these issues.

Our goal is to engage using a methodology and philosophy suitable for a rapidly transforming social landscape. This approach is aligned with the UN SDGs, which are aimed at real and sustainable benefits accruing to the social environment as a result of a company's operations.

## Committee membership and SED structure

Membership of the SED Committee and all levels within its sub-structures is based on achieving a healthy balance between independent governance and operational accountability, as well as between global perspectives on SED issues and practical experience of the social environment in which the Company operates. A diagram depicting the SED Committee membership and structures is available in the Petra Sustainability Report.

## Stakeholder engagement

Engaging our employees in order to embed the vision and ethos of the SED Committee remains a critical objective. There is currently a high degree of engagement with and involvement by employees in the sub-structures underpinning the SED Committee which, although it should not be regarded as a substitute for direct engagement fulfils the role of having employee- and employment-related issues escalated to the level of the Board Committee for information and guidance.

Continuous progress is being made with the implementation of a consistent and effective stakeholder community engagement approach across the Petra Group.



## Roles of the SED Committee

The SED Steering Committee, which reports to the Exco, carried out a number of activities during FY 2019, which are covered in part in the FY 2019 Sustainability Report.

The principal roles of the SED Committee are listed below. Due to the establishment date of the Committee being in the middle of the financial Year, it has been decided that specific activities should be reported on in the FY 2020 report (and thereafter).

- ▶ to assess Petra's policies and systems for ensuring compliance with material local and international legal and regulatory requirements with respect to SED aspects, including organisational ethics, corporate citizenship, social sustainable development, stakeholder relationships and diversity;
- ▶ to evaluate the effectiveness of Petra's framework, policies and systems for identifying and managing SED risk;
- ▶ to monitor technical developments in the fields of SED management and practice and, where appropriate, to oversee the assessment of their impact on Petra and to provide appropriate strategic guidance;
- ▶ to assess Petra's performance regarding the impact of SED decisions and actions upon employees, communities and other stakeholders. To assess the impact of such decisions and actions on the reputation of the Petra Group as a whole;
- ▶ to monitor and evaluate Petra's organisational culture against the mission and vision of the Company and to advise on issues of general diversity, as well as more specifically gender diversity, as a strategic imperative for Petra;
- ▶ to recommend objectives and KPIs and review performance;
- ▶ to ensure an appropriate Stakeholder Engagement Management system is in place and is maintained;
- ▶ to ensure systems are in place to record and submit statistical data that may be required for legal, regulatory and other external reporting; and
- ▶ to identify and/or ratify those material issues related to SED which could impact the continued sustainability of the Company. Commentary on these issues are included in the FY 2019 Sustainability Report.

Whilst the SED Committee is still engaged with the establishment of its work plan, I am pleased with the progress thus far and with Petra's achievements on some of its key objectives and would like to thank management for its commitment in ensuring that Petra is a responsible corporate citizen.

**Octavia Matloa**  
SED Committee Chair  
14 October 2019

## Directors' Remuneration Report

### Letter from the Chairman



#### Members of the Remuneration Committee

Gordon Hamilton, Chairman

Dr Pat Bartlett, iNED

Tony Lowrie, iNED

Varda Shine, iNED

#### Key highlights

- ▶ At the AGM held on 23 November 2018 97.34% of shareholders voted in favour of our 2018 Directors' Annual Remuneration Report. This voting outcome is 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 2019 out-turns under bonus and share plans reflect the challenges the Company faced during the Year. The Committee has continued to apply appropriate downwards discretion in considering the levels of Executive remuneration.
- ▶ The Committee has determined that, due to the low PDL share price at date of award, FY 2020 awards under the Performance Share plan ("PSP") and the FY 2019 deferred share awards will both be based on the six-month average share price as opposed to the 30-day average price used historically. The normal maximum is 150% of salary. The approach adopted by the Committee to take into account the current share price will result in a PSP award of ca. 50% of salary.
- ▶ The Committee has also introduced additional discretion to make downward adjustments to the PSP in the event that a significant correction in the share price over the period leads to potentially excessive rewards.
- ▶ From FY 2020 onwards, PSP awards will be subject to a two-year holding period post vesting to further align Executive remuneration to shareholder interests.
- ▶ The Committee's membership was further enhanced during the Year with the appointment of Ms Varda Shine with effect from January 2019.

#### Dear shareholder,

I am pleased to present the Petra Diamonds Directors' Remuneration Report for FY 2019 ("the Report").

Petra is a leading independent diamond mining group that aims to offer shareholders an attractive medium to long-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.

#### 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 2019 was another challenging year. Solid operational performance was offset by a challenging diamond market, which resulted in revenue being down 6% on FY 2018. Notwithstanding these challenges, the Company generated operating free cashflow totalling US\$70.5 million signifying the transition from a multi-year capital intensive period towards steady-state production. In determining the levels of variable remuneration, the Committee has been mindful of a backdrop of high debt levels and shortfalls in financial results, but has also recognised the improvements in health and safety (with a 9% improvement in LTIFR to 0.21 for the Year) and ongoing optimisation at the operations.

For annual bonus, the assessment against all targets set resulted in a formulaic outcome of 37% 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 the newly appointed Chief Executive, Mr Duffy, being reduced by 20% to 29.6% of maximum (time apportioned), and an additional 20% downward adjustment to the bonuses of the former Chief Executive, Mr Dippenaar, and the Finance Director, Mr Breytenbach, with a final bonus award of 23.7% of maximum. 50% of the FY 2019 bonus award for the two Executive Directors and Mr Dippenaar have been deferred for two years into shares at 17.6 pence per share. This was the fifth 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 2016, which are relevant only to past Executives as none of the current Executives were appointed in their roles at that time, are due to vest at 16.6% 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. As a result of the current share price, the value of these awards is ca. 1.5% of their original award value.

In the opinion of the Committee, the final annual performance bonus and PSP outcomes appropriately reflect overall performance over the respective periods of measurement.

#### Approach for FY 2020

For FY 2020, the Committee determined that the Finance Director's salary would be increased by 2%; there was no adjustment to the Chief Executive's salary due to his recent appointment, effective 1 April 2019.



The Committee reviewed the targets under the annual bonus to ensure that they continue to be linked to the Company's strategic objectives. For FY 2020, the bonus targets have been amended to reflect an increased strategic focus on free cashflow, revenue and cost control.

In specific recognition of the Company's share price, the Committee has also adjusted the approach to calculating the number of shares awarded under the Performance Share Plan ("PSP"). The normal maximum is 150% of salary. The approach adopted by the Committee, using both a lower award percentage of salary as well as a longer averaging period, will result in an award of ca. 50% of salary.

The Committee has also considered the total shareholder return targets in recognition of the current share price, increasing the growth stretch of the absolute total shareholder return targets in recognition of the current share price.

The Committee has also introduced additional discretion to enable it to make downward adjustments to the PSP in the event that a significant correction in the share price over the period leads to potentially excessive rewards.

### Board changes

After 14 years as Chief Executive Officer at Petra, Johan Dippenaar stepped down from the Board on 31 March 2019. Johan's departure was announced on September 2018 and he continued in the role and worked closely with the Board to ensure an efficient handover. Details of his leaving arrangements are set out on pages 88 and 89.

With effect from 1 April 2019, Richard Duffy assumed the position of Chief Executive and this report reflects his remuneration and awards from the date of his appointment. Mr Duffy was appointed with the same base salary as Mr Dippenaar and, on joining, received a PSP award of ca. 40% of salary, with targets linked to Petra's consolidated net debt to consolidated EBITDA ratio.

### Corporate governance

The Committee is mindful of the corporate governance reforms and the revised UK Corporate Governance Code that applied to Petra from 1 July 2019. The Board reviewed arrangements 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 and has introduced a two-year holding period for shares vested under the PSP. The FY 2020 awards, which will be subject to the three-year measurement period FY 2020 to FY 2022, are the first awards which will be subject to this two-year holding period. Post-leaving shareholding requirements will be considered as part of the review of the Policy during the year.

### 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 2020 follows this letter and the full Policy can be found on our website.

### AGM

Last year the Remuneration Committee was pleased to note that 97.34% of shareholders voted in favour of our Directors' Annual Remuneration 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. This Year, the Committee was particularly mindful of share price deterioration which had to be balanced against solid operational delivery, positive operating free cashflow, improved operational stability and improved safety performance.

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 the resolution at the Company's AGM.

### Gordon Hamilton

Chairman of the Remuneration Committee  
14 October 2019

## Directors' Remuneration Report continued

This report explains how the Group's Remuneration Policy was implemented during FY 2019 and how it will be applied for FY 2020.

### Overview of policy and how it will be applied for FY 2020

#### Salary

Influenced by role, individual performance, experience and market positioning.	<p>The Chief Executive was appointed effective from 1 April 2019 on a salary in line with that of his predecessor. The Finance Director received an increase of 2% from 1 July 2019.</p> <p>With effect from 1 July 2019, Executive Director base annual salaries were as follows:</p> <ul style="list-style-type: none"> <li>Richard Duffy – £370,800 (prior year comparison not applicable); and</li> <li>Jacques Breytenbach – £265,200 (FY 2018: £260,000).</li> </ul>
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#### Benefits

Provision of an appropriate level of benefit for the relevant role and local market.	<p>Executive Directors receive:</p> <ul style="list-style-type: none"> <li>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</li> <li>Group life, disability and critical illness insurance.</li> </ul>
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#### Annual bonus

Linked to key financial, operational, HSE, SED and strategic goals of the Company, which reflect critical factors of success.	<p>Maximum opportunity for FY 2020 of 150% of salary.</p> <p>The Committee has reviewed the annual bonus targets for FY 2020 to ensure that they are aligned to our strategic priorities. The bonus for FY 2020 will be linked to:</p> <ul style="list-style-type: none"> <li>free cashflow generation (net of debt obligations) (40%);</li> <li>revenue (20%);</li> <li>cost and capital management (20%); and</li> <li>HSE and SED objectives (20%).</li> </ul> <p>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.</p>
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#### Performance Share Plan

Aligned with shareholders and motivating the delivery of long-term objectives.	<p>In specific recognition of the Company's share price, the Committee has adjusted the approach to the PSP award for the period FY 2020–FY 2022. The normal maximum is 150% of salary. The approach adopted by the Committee is to make a lower award of 100% of salary and to further reduce this by using the six-month average share price as opposed to the 30-day average price, resulting in an award of ca. 50% of salary.</p> <p>The Committee will also introduce additional discretion to make downward adjustments in the event that a significant correction in the share price over the period leads to potentially excessive rewards.</p> <p>Performance is measured over three years ending in FY 2022:</p> <ul style="list-style-type: none"> <li>TSR relative to FTSE 350 mining companies and listed diamond mining peers (25%);</li> <li>absolute TSR (25%);</li> <li>free cashflow generation (net of debt obligations) (25%); and</li> <li>operational performance (25%).</li> </ul> <p>From FY 2020 onwards, PSP awards will be subject to a two-year holding period post vesting to further align executive remuneration to shareholder interests.</p> <p>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.</p>
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#### Shareholding guidelines

Aligned with shareholders.	Shareholding guidelines of 200% of salary.
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## Single figure of total remuneration

The following table gives a breakdown of the remuneration received by the Executive Directors for FY 2019 and FY 2018 (excluding Jim Davidson who retired at the end of FY 2018). 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.

		Richard Duffy Chief Executive appointed 1 April 2019		Jacques Breytenbach Finance Director		Johan Dippenaar Chief Executive resigned 31 March 2019	
	£	2019 <sup>1</sup>	2018	2019	2018 <sup>6</sup>	2019	2018 <sup>1</sup>
Salary	£	92,700	—	260,000	95,000	278,100	370,800
Benefits <sup>2</sup>	£	11,363	—	21,696	8,013	34,442	45,830
Retirement benefits <sup>2</sup>	£	—	—	9,750	3,319	—	—
Annual bonus – paid in cash <sup>3</sup>	£	20,580	—	46,176	—	65,854	—
Annual bonus – deferred to shares	£	20,579	—	46,176	33,516	65,854	98,114
Long-term incentives – PSP awards <sup>4,5</sup>	£	—	—	—	—	4,922	36,057
Legacy awards (Management LTIP)	£	—	—	5,587	9,986	—	—
<b>Total</b>	£	<b>145,222</b>	<b>—</b>	<b>389,385</b>	<b>149,834</b>	<b>449,172</b>	<b>550,801</b>

1. Mr Duffy joined as Chief Executive effective 1 April 2019 and the above table reflects his remuneration for the three-month period to 30 June 2019. Mr Dippenaar stepped down effective 31 March 2019; see section titled "Departing Director" below for further information.

2. 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.

3. The mechanism for calculating the deferral into shares has been adjusted for FY 2019 to recognise the current share price. The impact of this reduction is a discount of ca. 50% of the value of deferred shares. Further details are set out on page 86.

4. Long-term incentives (PSP awards) in FY 2019 relate to the PSP awards granted on 7 October 2016. The awards are due to vest at 16.6% of the maximum shortly after Year end. The awards have been valued based on the 30-day average share price on 3 October 2019 of 7.9 pence, the closing price prior to vesting. The awards are denominated in shares and therefore have been impacted by the significant fall in the share price. The value of the awards at vesting is equivalent to ca. 1.5% of the face value at the time of grant.

5. Long-term incentives (PSP awards) in FY 2018 relate to the PSP awards granted on 6 October 2015. The awards vested 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.

6. Mr Breytenbach was promoted to the Board effective from 19 February 2018.

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 FY 2019 the outcomes for FY 2019 reflect the 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 the current Year 50% has been deferred into shares for two years at a share price of 17.6 pence with a 50% cash bonus component.
- ▶ The amounts shown under long-term incentives are awards which were granted in prior years and were subject to stretching performance conditions. As the awards are denominated in shares the outcomes also appropriately reflect shareholders' experience.

### Additional notes to the remuneration table

#### Salary

For FY 2020 the Committee has determined that the base salaries (per annum) for Executive Directors should be as set out below:

	Base salary to 1 July 2018 £	Base salary from 1 July 2019 £
Richard Duffy	370,800 <sup>1</sup>	370,800
Jacques Breytenbach	260,000	265,200

1. Effective 1 April 2019.

The base salary for the Finance Director was increased by 2% for FY 2020. No adjustment was made to the Chief Executive's salary as his date of appointment was three months prior to Period end. 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

### 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 2019, 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.

PERFORMANCE METRICS	PERFORMANCE AND TARGETS				WEIGHTING	VESTING OUTCOME	
<b>Production and project delivery (carat production and delivery against project milestones)</b>				FY19 performance	30%	20.1%	
		Threshold	Target	Maximum			
	Production (Mcts)	3,432	3,814	4,004			3,875
Project delivery	6	8	10	7.6			
<b>Profitability (adjusted EBITDA, adjusted net profit, cost management and operational free cashflow ("FCF"))</b>				FY19 performance	50%	5.6%	
		Threshold	Target	Maximum			
	Adjusted EBITDA (\$m)	155	200.6	223.4			153.0
	Costs	6	8	10			7.7
	Adjusted NPAT (\$m)	1.3	34.5	50.9			(13.2)
Operational FCF (\$m)	76.8	112.8	130.8	70.5			
<b>Corporate (including corporate and strategic priorities and health, safety, social and environmental performance)</b>	<ul style="list-style-type: none"> <li>▶ LTIFR of 0.21 (FY 2018: 0.23) – continuing the improving LTIFR trend; zero fatalities recorded during the Year.</li> <li>▶ The Committee carefully considered the performance of the Executive Directors in delivering against corporate and strategic priorities, with key focus on progress towards Tanzanian issues, close-out of the KEM JV and Helam disposals, and Board and Management changes.</li> </ul>				20%	11.4%	
	<b>Total (before application of discretion)</b>				100%	37.0%	

Taking into account overall performance, the Committee determined that the bonus for the newly appointed Chief Executive, Mr Duffy, would be reduced by 20% from the formulaic outcome (equating to 29.6% of maximum), with an additional 20% downward adjustment to the bonus awards of both the former Chief Executive, Mr Dippenaar, and the Finance Director (equating to 23.7% of maximum). This is the fifth consecutive year in which the Committee has made a downwards adjustment to the formulaic outcome for the bonus scorecard.

The Committee has determined that 50% of the bonuses earned by Messrs. Duffy, Breytenbach and Dippenaar will be deferred for two years into shares. In addition, the share price used to calculate the level of deferral has been adjusted. The Committee has determined that the number of shares will be calculated using a six-month average share price of 17.6 pence as opposed to the 30-day average price used to calculate historical awards resulting in a ca. 50% reduction in the number of deferred share awards.

#### Performance measures FY 2020

For FY 2020, the Committee will apply a consistent framework to that of FY 2019. However, the Committee has set performance measures, targets and milestone achievements reflecting the increased focus on free cashflow generation and net debt reduction as follows:

PERFORMANCE MEASURE	WEIGHTING
<b>Operational performance and profitability (including free cashflow generation, revenue, Capex and cost management)</b>	80%
<b>Corporate (including corporate and strategic priorities and health, safety, social and environmental performance)</b>	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 2017 to FY 2019 award

The long-term incentive figures shown in the single figure table relate to the awards granted under the PSP in October 2016 that were subject to performance measures assessed over three years. These awards were linked to total shareholder return (50%) and to operational performance and project 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 <sup>1</sup>	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 <sup>1</sup>	80% of element vests	100% of element vests	Actual performance
Operational performance/ efficiency and project delivery	50%	6/10	8/10	10/10	Overall 6.3/10

1. No portion of an element vests for performance below this threshold level.

Operational performance was measured at each mine considering an assessment of performance against operating cashflow generation, production, costs, profitability and project delivery. Performance was in respect of Finsch, Cullinan and Koffiefontein/Williamson together combined (weighted 20%, 20% and 10% respectively). 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 28 to 35.

Following the assessment of operational performance and project delivery, 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. The Committee made no further adjustment to the award.

Final vesting of the operational performance and project delivery element was 16.6% (out of 50%).

On the basis of the above performance the total vesting for the PSP awards for Executive Directors, which is relevant only to past Executives as none of the current Executives were appointed in their roles at the time, vested at 16.6% of the maximum. The awards are denominated in shares and therefore have been impacted by the significant fall in the share price. The value of the awards at vesting is equivalent to ca. 1.5% of the face value at the time of grant.

### PSP award to incoming Chief Executive

On appointment, Mr Duffy was granted a PSP award equivalent to ca. 40% of salary. Vesting of this award will be subject to the Company achieving a consolidated net debt:consolidated EBITDA ratio of not more than 2.5 times.

### FY 2020 awards

For FY 2020, in specific recognition of the Company's share price, the Committee has adjusted the approach to calculating the number of shares awarded under the Performance Share Plan ("PSP"). The normal maximum award is 150% of salary. The Committee has determined that awards will be calculated as 100% of salary but adjusted downwards further by using a longer six-month average share price as opposed to the 30-day average price used to calculate historical awards. This will result in an award of ca. 50% of salary. The Committee will also introduce additional discretion to make downward adjustments in the event that a significant correction in the share price over the period leads to potentially excessive rewards.

The Committee has also considered the total shareholder return targets in recognition of the current share price. Relative TSR will be based on a longer than usual averaging period of six months. The absolute TSR targets have been increased and converted to share price targets. The Committee is comfortable that these are stretching targets that require a significant increase in the Company's share price.

The long-term incentive performance measurement framework for share awards in FY 2020 is summarised below. This is similar to the performance framework that applied to FY 2019.

## Directors' Remuneration Report continued

### FY 2020 awards continued

From FY 2020 onwards, PSP awards will be subject to a two-year holding period post vesting to further align Executive remuneration to shareholder interests.

### Summary of performance targets

PERFORMANCE MEASURES					
Ranked TSR vs FTSE 350 mining companies plus diamond mining peers				25% of element vests <sup>1</sup>	100% of element vests
Absolute TSR growth					
			Weighting		
Ranked TSR vs mining companies			25%	Median	Upper quartile
1. No portion of an element vests for performance below this threshold level.					
				25% of element vests	100% of element vests
	Weighting	0% of element vests <sup>1</sup>	25% of element vests	75% of element vests	100% of element vests
Absolute TSR growth	25%	16 pence share price	25 pence share price	35 pence share price	50 pence share price
1. No portion of an element vests for performance below this threshold level.					
Operational performance				25% of element vests <sup>1</sup>	80% of element vests
					100% of element vests
					Stretch above Project 2022
Free cashflow generation	50%	US\$150m	US\$200m	US\$250m	
Operational performance	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.					

### Departing Director

Johan Dippenaar stepped down as Chief Executive on 31 March 2019.

The Remuneration Committee carefully considered Mr Dippenaar's departure in the context of his contract of employment and his contribution to the business as it developed from a small producer to one of the world's largest independently listed diamond producers, as well as the share price deterioration effecting all shareholders, including Mr Dippenaar's own substantial shareholding, and agreed that:

- Mr Dippenaar's settlement agreement included an undertaking that he would continue to serve as Chief Executive until a successor was appointed based on an open-ended departure date with a target of 30 June 2019. Further to Mr Duffy's appointment effective 1 April 2019, Mr Dippenaar agreed to step down on 31 March 2019 following a successful handover in the period leading up to Mr Duffy's engagement. Mr Dippenaar remained eligible for a bonus in respect of FY 2019 for the period to 30 June 2019 based on his undertaking to remain in service up to that date and in recognition of his efforts in ensuring a fast and effective handover to the incoming Chief Executive. A combined 36% downward discretionary adjustment to Mr Dippenaar's annual performance bonus award by the Committee resulted in a final FY 2019 bonus award of 23.7% of maximum, amounting to £131,708 (FY 2018: £98,114). 50% of Mr Dippenaar's FY 2019 performance bonus will be deferred into shares until 30 June 2021. The deferral will be at a six-month average share price of 17.6 pence, thereby effectively reducing this element by a further 50%.
- Mr Dippenaar's deferred bonus shares that were earned in respect of FY 2017 (92,680 shares) and FY 2018 (272,347 shares) will vest at the normal time period (June 2019 and June 2020 respectively).



- ▶ In respect of the PSP award made on 7 October 2016, Mr Dippenaar was Chief Executive for over 90% of the 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 86 and 87 of this report. The final value of the vested award was £5,296.
- ▶ In respect of the PSP awards made on 6 October 2017 and 16 October 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 are 361,324 (2017 award) and 206,000 (2018 award). These awards will continue to be subject to performance conditions.
- ▶ Mr Dippenaar will not participate in any annual incentive or PSP award for the year commencing FY 2020.
- ▶ On departure, Mr Dippenaar received his contractual payment in lieu of his 12-month notice period of £407,880.

Mr Dippenaar was a significant shareholder in Petra throughout his tenure (holding over 8 million shares at the time of his departure), which means he has been strongly aligned with shareholders via his personal shareholding.

### 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, Remuneration Committee, HSE Committee and SED Committee are £15,450, £12,875, £11,330 and £11,330 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 2020, the Non-Executive Director fees will not be increased.

Independent Non-Executive Directors do not participate in the Company's bonus arrangements, share schemes or pension plans, and for FY 2019 (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 2019 and FY 2018. 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 Chairman	<b>2019</b>	<b>159,650</b>	<b>3,466</b>	<b>163,116</b>
	2018	159,650	3,681	163,331
Dr Pat Bartlett	<b>2019</b>	<b>56,650</b>	—	<b>56,650</b>
	2018	56,650	—	56,650
Gordon Hamilton	<b>2019</b>	<b>84,975</b>	—	<b>84,975</b>
	2018	84,975	—	84,975
Tony Lowrie	<b>2019</b>	<b>79,825</b>	—	<b>79,825</b>
	2018	79,825	—	79,825
Octavia Matloa	<b>2019</b>	<b>62,315<sup>2</sup></b>	—	<b>62,315</b>
	2018	56,650	—	56,650
Bernard Pryor	<b>2019</b>	<b>33,990<sup>1,2</sup></b>	—	<b>33,990</b>
	2018	—	—	—
Varda Shine	<b>2019</b>	<b>28,325<sup>1</sup></b>	—	<b>28,325</b>
	2018	—	—	—

1. Pro-rated from appointment date 1 January 2019 to 30 June 2019.

2. Includes pro-rated HSE and SED Committee Chair fees for the period 1 January 2019–30 June 2019.

## Directors' Remuneration Report continued

## 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 years' 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 2019 are detailed below. Mr Breytenbach and Mr Duffy were appointed to the Board effective 19 February 2018 and 1 April 2019 respectively and are expected to build their shareholding over the next five years in line with our policy on shareholding guidelines.

		Shareholding as at 30 June 2019	Shareholding as at 30 June 2018	Shareholding guideline <sup>1</sup>
Adonis Pouroulis	Chairman	12,569,375	12,569,375	n/a
Richard Duffy <sup>2</sup>	Chief Executive	240,000	—	3,603,499
Jacques Breytenbach <sup>3</sup>	Finance Director	243,750	243,750	2,526,725
Tony Lowrie	Senior iNED	3,737,500	3,737,500	n/a
Dr Pat Bartlett	iNED	—	—	n/a
Gordon Hamilton	iNED	247,000	247,000	n/a
Octavia Matloa	iNED	—	—	n/a
Varda Shine	iNED	—	—	n/a
Bernard Pryor	iNED	—	—	n/a

1. Shareholding guideline of 200% of salary based on three-month average share price to 30 June 2019 of 20.58 pence.

2. Mr Duffy was appointed to the Board effective 1 April 2019.

3. Mr Breytenbach was appointed to the Board effective 19 February 2018.

As at 30 June 2019, the Directors' interests in share plans of the Company were as follows:

Breakdown of adjusted share plan interests as at 30 June 2019	Shares		Options	
	Unvested and subject to performance	Unvested and not subject to performance	Vested but not exercised	Lapsed in the Year
<b>Executive Directors</b>				
Richard Duffy	797,860 <sup>1</sup>	—	—	—
Jacques Breytenbach	433,333 <sup>2</sup>	93,034 <sup>3</sup>	263,174	(141,709)
Johan Dippenaar (resigned 31 March 2019)	942,650 <sup>4</sup>	365,027 <sup>3</sup>	850,252	(910,985)
<b>Non-Executive Directors</b>				
Adonis Pouroulis <sup>5</sup>	—	—	242,929	—

1. Mr Duffy was appointed 1 April 2019 and received a PSP award equivalent to ca. 40% of salary on appointment. Further details are set out on page 87.

2. This comprises awards made in FY 2019 under the Company's PSP.

3. This comprises outstanding deferred share awards in respect of FY 2017 and FY 2018. During FY 2018, the following awards were granted: Mr Breytenbach – 93,034 and Mr Dippenaar – 272,347 shares respectively. These awards represent 100% of the total bonus in respect of FY 2018. Post Year end, the FY 2017 deferred share awards vested: Mr Dippenaar – 92,680 shares.

4. Further to Mr Dippenaar's departure on 31 March 2019, the original PSP awards for FY2018-FY2020 and FY2019-FY2021 were pro-rated for time.

5. 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 2019, Executive Directors held the following interests in the 2012 PSP:

	Date of award	Outstanding at 1 July 2018	Awarded during the Year	Vested during the Year	Lapsed during the Year	Outstanding at 30 June 2019	Performance period <sup>7</sup>
Johan Dippenaar	06/10/2015 <sup>1</sup>	601,752	—	105,307	496,445	—	FY 2016–FY 2018
	07/10/2016 <sup>2</sup>	375,326	—	—	—	375,326	FY 2017–FY 2019
	06/10/2017 <sup>3</sup>	541,986	—	—	180,662	361,324	FY 2018–FY 2020
	04/10/2018 <sup>4</sup>	—	618,000	—	412,000	206,000	FY 2019–FY 2021
<b>Total</b>		<b>1,519,064</b>	<b>618,000</b>	<b>105,307</b>	<b>1,089,107</b>	<b>942,650</b>	
Richard Duffy	01/04/2019 <sup>5</sup>	—	797,860	—	—	797,860	FY2020–FY2022
<b>Total</b>		<b>—</b>	<b>797,860</b>	<b>—</b>	<b>—</b>	<b>797,860</b>	
Jacques Breytenbach	06/10/2018 <sup>6</sup>	—	433,333	—	—	433,333	FY 2019–FY 2021
<b>Total</b>		<b>—</b>	<b>433,333</b>	<b>—</b>	<b>—</b>	<b>433,333</b>	



- 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 2015 was 93.25 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 109.0 pence. This award vested at 17.5% and the balance of this award lapsed.
- 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%) (50%). The share price on 5 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. As noted above, following the Year end this award vested at 16.6% and the balance of this award lapsed.
- 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%) (50%). The share price on 5 October 2017 was 71.0 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 83.1 pence. Further to Mr Dippenaar's departure on 31 March 2019, the original awards were pro-rated for time and will continue until the normal vesting dates. Following the pro-rating reduction and subsequent lapsing of 180,662 awards, the maximum number of shares under PSP awards were reduced from 541,986 to 361,324. These awards will continue to be subject to performance conditions.
- 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%) (50%). The share price on 4 October 2018 was 36.0 pence; the 30-day trading average price to the date preceding the date of the award was 36.1 pence; the Committee determined it was more appropriate to apply a price that more closely approximated the TERP of 60.92 pence following the rights issue. A price of 60.0 pence was applied in this regard. Further to Mr Dippenaar's departure on 31 March 2019, the original awards were pro-rated for time and will continue until the normal vesting dates. Following the pro-rating reduction and subsequent lapsing of 412,000 awards, the maximum number of shares under PSP awards were reduced from 618,000 to 206,000. These awards will continue to be subject to performance conditions.
- On appointment, Mr Duffy was granted a PSP award equivalent to ca. 40% of salary. Vesting of this award will be subject to the Company achieving a consolidated net debt: consolidated EBITDA ratio of not more than 2.5 times as at April 2022, or at the earliest measurement date thereafter, but not later than 30 June 2022.
- 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%) (50%). The share price on 4 October 2018 was 36.0 pence; the 30-day trading average price to the date preceding the date of the award was 36.1 pence; the Committee determined it was more appropriate to apply a price that more closely approximated the TERP of 60.92 pence following the rights issue. A price of 60.0 pence was applied in this regard.
- 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.

During the Year no awards were granted under the 2005 ESOS and 1,963,679 lapsed (of which 1,821,970 related to former Executive Directors, Messrs. Dippenaar and Davidson). As at 30 June 2019, 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 2018	Exercised during the Year	Lapsed during the Year	Outstanding as at 30 June 2019	Exercise price (p)	Expiry date
Adonis Pouroulis	30/09/2009	30/09/2012	45.5	121,465	—	—	121,465	37.5	30/09/2019
	17/03/2010	17/03/2013	60.5	121,464	—	—	121,464	49.8	17/03/2020
<b>Total</b>				<b>242,929</b>	<b>—</b>	<b>—</b>	<b>242,929</b>		
Johan Dippenaar (departed 31 March 2019)	12/03/2009	12/03/2012	27.5	910,985	—	910,985	—	22.6	12/03/2019
	30/09/2009	30/09/2012	45.5	425,126	—	—	425,126	37.5	30/09/2019
	17/03/2010	17/03/2013	60.5	425,126	—	—	425,126	49.8	17/03/2020
<b>Total</b>				<b>1,761,237</b>	<b>—</b>	<b>910,985</b>	<b>850,252</b>		
Jacques Breytenbach	12/03/2009	12/03/2012	27.5	141,709	—	141,709	—	22.6	12/03/2019
	30/09/2009	30/09/2012	45.5	80,977	—	—	80,977	37.5	30/09/2019
	17/03/2010	17/03/2013	60.5	182,197	—	—	182,197	49.8	17/03/2020
<b>Total</b>				<b>404,883</b>	<b>—</b>	<b>141,709</b>	<b>263,174</b>		

### External non-executive directorships

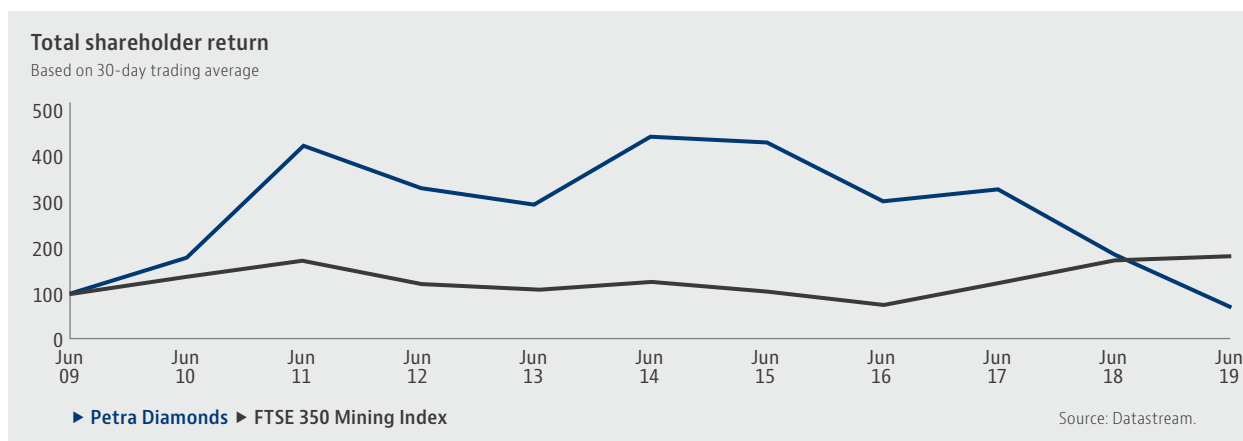
None of the Company's Executive Directors hold a directorship at another listed company.

## Directors' Remuneration Report continued

## Other disclosures

## Performance graph

The graph below shows a comparison between the TSR for Petra shares for the ten-year period to 30 June 2019 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.



## 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 2019 <sup>3</sup>	FY 2019 <sup>3</sup>
	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	<b>449,172</b>	<b>145,222</b>
Annual bonuses as a % of maximum <sup>1</sup>	—	—	68%	72.5%	85.5%	40.0%	55.0%	11.4%	17.6%	<b>23.7%</b>	<b>29.6%</b>
Long-term incentives (PSP awards) as a % of maximum <sup>2</sup>	—	—	—	—	62.2%	57.0%	55.0%	24.9%	17.5%	<b>16.6%</b>	<b>n/a</b>
Long-term incentives (LTSP awards) as a % of maximum	—	—	—	—	n/a	42.5%	42.3%	n/a	n/a	<b>n/a</b>	<b>n/a</b>

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.

3. Mr Dippenaar departed effective 31 March 2019 and the table reflects his remuneration (excluding payment in lieu of notice) for the nine-month period to date of his departure. Mr Duffy joined as Chief Executive effective 1 April 2019 and the above table reflects his remuneration for the three-month period to 30 June 2019.

## Percentage change in remuneration of the Chief Executive

In FY 2019, 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 annual increase in salaries across Petra of ca. 6% (measured in local currencies). The Chief Executives' aggregated performance-related pay (annual bonus and long-term incentives) of £177,789 is 32.5% up on the prior year's £134,171, 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 2019 US\$m	FY 2018 US\$m	Change %
Payments to shareholders	<b>nil</b>	nil	0%
Group employment costs	<b>143.2</b>	139.1	3%



## Service contracts

Director	Role	Date of contract	Contract end date	Notice period by Company or Director
<b>Executive Directors</b>				
Mr Duffy	Chief Executive	1 April 2019	n/a	12 months
Mr Breytenbach	Finance Director	19 February 2018	n/a	12 months
<b>Non-Executive Directors</b>				
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 2020	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
Ms Shine	Independent Non-Executive Director	22 October 2018	31 December 2021	1 month
Mr Pryor	Independent Non-Executive Director	22 October 2018	31 December 2021	1 month

## Membership of the Committee

The Committee members for FY 2019 were Gordon Hamilton (Chairman), Dr Pat Bartlett, Tony Lowrie and Varda Shine (effective May 2019).

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](http://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 2019 for the Remuneration Committee totalled £17,600 (FY 2018: £14,250) 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 2018 Directors' Remuneration Report and 2017 Directors' Remuneration Policy Report were as follows:

	For	% for	Against	% against	Total votes cast	Withheld
2018 Directors' Remuneration Report	572,130,274	97.34%	15,632,119	2.66%	587,762,393	15,898,759
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

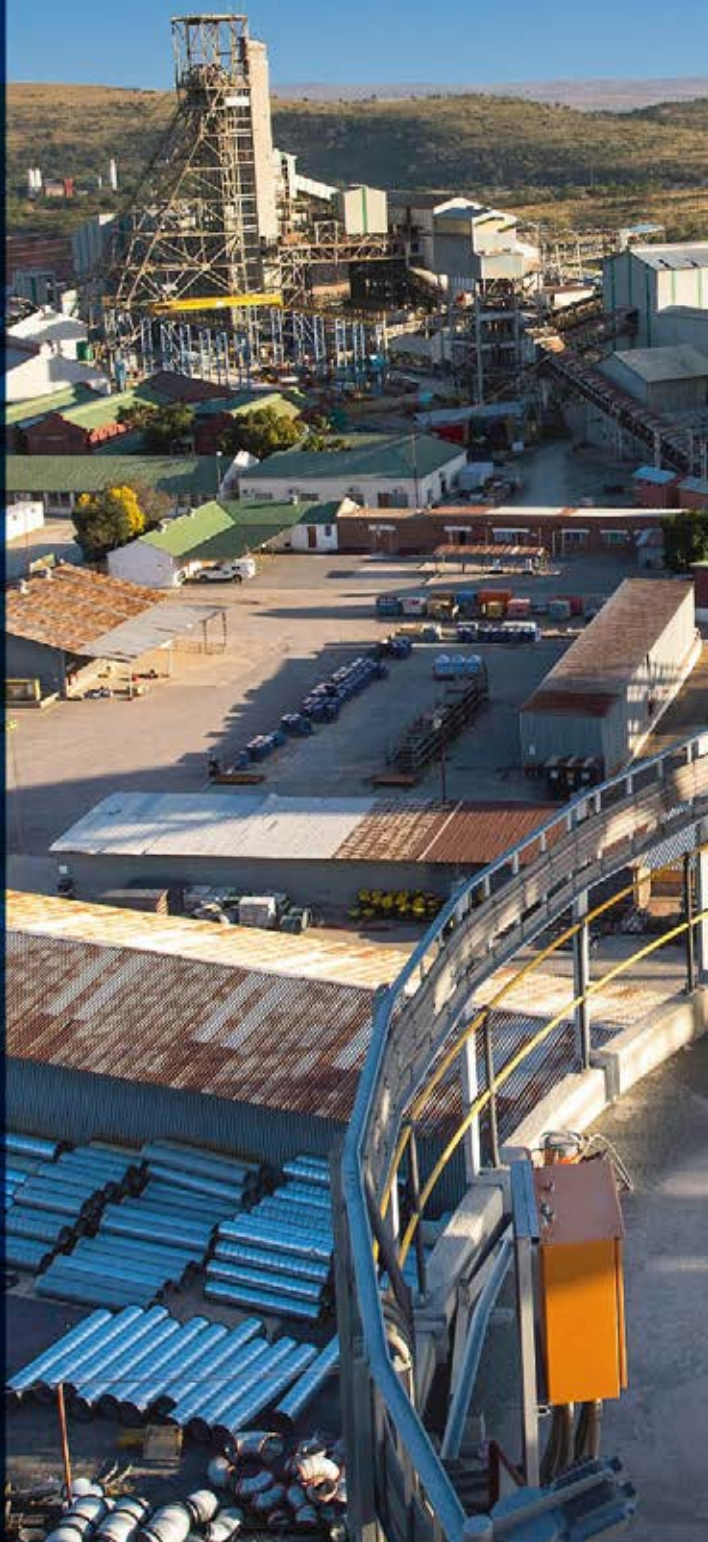
14 October 2019

# Driving cashflow

Petra reached an important milestone in FY 2019, with the generation of US\$70.5 million of operational free cashflow. This is a notable turning point for Petra and reflects both the positive benefits of our capital investment and the transition to steady-state operational performance across our portfolio.

## Financial Statements

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## 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 and 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 2019 AGM to be held on 29 November 2019.

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 14 October 2019 and are signed on its behalf by:



**Richard Duffy**  
Chief Executive  
14 October 2019



# 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 2019 which comprise the Consolidated Income Statement, the Consolidated Statement of Other Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Cashflows, the Consolidated Statement of Changes in Equity and the notes to the annual 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 2019 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 2019	FY 2018	Change
Materiality for the Financial Statements as a whole	US\$6.5 million	US\$9.5 million	▼
Materiality levels used for the audits of the significant components of the audit	US\$1.1 million to US\$3.8 million	US\$2.6 million to US\$4.7 million	▼
<b>Audit scope coverage</b>	97% of total assets, 100% of revenue and 98% of loss before tax		

#### Key audit matters

What we considered to be a key audit matter	The risk that judgements and estimates in the impairments of the mining assets were inappropriate.	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 is inappropriate or that material uncertainties are not disclosed appropriately.
<b>Why it represented a key audit matter</b>	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.		
<b>Relevant information in Financial Statements and Report of the Audit &amp; Risk Committee</b>	Note 8. Report of the Audit & Risk Committee, pages 65 to 70.	Notes 17 and 18. Report of the Audit & Risk Committee, pages 65 to 70.	Note 11. Report of the Audit & Risk Committee, pages 65 to 70.

### 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

	How we addressed the matter	Observations
<b>1. The risk that the judgements and estimates in the impairments on the mining assets are inappropriate</b>		
<p>As detailed in note 8, the assessment of potential impairments to the carrying value of mining assets required significant judgement and estimate by management. Given the Group's market capitalisation at 30 June 2019 was significantly below its net assets, together with the recent downturn in the global rough diamond market and variability in the Group's product mix, both of which have significantly impacted realised rough diamond prices, management performed an impairment test on all of the Group's mining operations.</p>	<ul style="list-style-type: none"> <li>▶ 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 each of the mining operations.</li> <li>▶ In respect of short-term pricing assumptions, our testing included evaluation of management's diamond price forecasts against prices achieved in the Year and post Year end and challenging management on their assumptions regarding the impact that the current market downturn will have on pricing using public source information including market analyst and other diamond producer commentary on the short-term outlook, together with the effect of product mix on pricing.</li> <li>▶ In respect of long-term pricing, we considered the appropriateness of the long-term diamond price escalator of 2.8% above a long-term US inflation rate of 2.5% per annum from FY 2022 to FY 2030. In evaluating whether management's estimate was within an acceptable range we compared the price escalator to market guidance and historical market pricing trends over various time horizons. In addition, we searched for alternative views on the long-term outlook and challenged management's forecast using a variety of information sources, including market analyst commentary, other diamond producer pricing outlooks and demand and supply side factors that would be expected to impact market pricing.</li> <li>▶ We assessed the appropriateness of the forecast cost savings associated with Project 2022 included in the forecasts, particularly given the early stage of the project roll-out. In doing so, we considered the consistency of the forecast with the Group's strategic business plan, reviewed internal documents in respect of the project and met with operational management responsible for Project 2022 to evaluate the basis for management's assumption.</li> <li>▶ In terms of the recovery of historical VAT at Williamson (see below), we confirmed that given the risks and uncertainty over the timing of recovery, any cashflows associated with the recovery of historical VAT were excluded from the impairment model and the VAT receivable excluded from the cash-generating unit asset base and tested separately for impairment, as detailed below. With regards to future VAT recovery, we assessed the appropriateness of including future recovery in the forecasts, especially given the significant delays in historical recovery. In doing so, we considered correspondence with the tax authorities, made inquiries of management regarding the nature of its ongoing discussions with the GoT and reviewed legal advice obtained by management.</li> <li>▶ On the other key assumptions, our testing included comparison of foreign exchange rates to market spot and forward rates; recalculation of discount rates; and critical review of the forecast cost, Capex and production profiles against approved mine plans, resources and reserves reports and empirical performance.</li> <li>▶ 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.</li> <li>▶ We held discussions with the Audit &amp; Risk Committee to consider the recoverable amount under the forecasts, including downside risks and sensitivity around pricing, production and foreign exchange rates.</li> <li>▶ We evaluated the disclosures given in note 8 and found them to be relevant and informative.</li> </ul>	<p>In respect of the recoverable amount of the mining assets, we found the Group's conclusion to be appropriate and found that the Board's assessment of the recoverable amount at 30 June 2019 considered both the Group's plans, recent performance and continued risks and uncertainties. We found the disclosures in note 8 to be appropriate.</p>
<p>As detailed in note 8, as at 30 June 2019, the Group recognised a US\$223.7 million impairment charge across its operations to write the mining assets down to their recoverable amount at 30 June 2019. The appropriateness of judgements and estimates applied in determination of the recoverable amounts represented a significant risk for our audit, particularly given the sensitivity of the recoverable amount to assumptions including short-term and future diamond prices, foreign exchange rates, the extent to which cost savings associated with Project 2022 can be realised and the recoverability of future VAT at Williamson (see page 115).</p>		



#### 4. Key audit matters continued

	How we addressed the matter	Observations
<b>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</b>		
<p>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:</p> <p><b>Inventory</b></p> <p>As detailed in note 18, Parcel 1 from FY 2018 of 71,654 cts held at US\$12.4 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 confinement of the parcel, determination that the inventory remained recoverable required the Board to consider whether it continued to retain legal title to the parcel, 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.</p> <p><b>VAT</b></p> <p>As detailed in note 17, the gross value of Williamson's VAT receivable has increased to US\$32.9 million at 30 June 2019.</p> <p>US\$13.8 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.</p> <p>A further US\$19.1 million of VAT relates to VAT arising 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 eligible VAT.</p>	<p><b>Inventory</b></p> <ul style="list-style-type: none"> <li>▶ During the prior year audit, we reviewed the shipping documentation and export approvals for the parcel together with documents demonstrating that relevant GoT authorities seized the parcel. We obtained confirmation from the GoT that the parcel was held by the GoT and remained unsold. We performed procedures to assess the steps undertaken in the export process to assess management's conclusion that legislative requirements were appropriately followed. In the current Year, we have reviewed correspondence with the GoT authorities which did not indicate any change to the status of the parcel. We also confirmed with management and the Board that there have been no indications that the parcel is no longer held by the GoT during its engagement with the GoT.</li> <li>▶ We reviewed all correspondence with the GoT and the legal appeal filed by the Group, in conjunction with its legal adviser, in relation to the blocked parcel which sets out the Group's legal entitlement to return of the parcel.</li> <li>▶ 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 adviser. We have obtained written confirmation from the Group's Tanzania legal adviser which supports 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 the Group 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.</li> <li>▶ We challenged management regarding the method, likelihood and timing of recovery and discussed the judgement with the Audit &amp; Risk Committee. In doing so, we considered representations regarding the status of discussions with GoT representatives. We obtained written representations from the Board in respect of the judgement.</li> </ul> <p><b>VAT</b></p> <ul style="list-style-type: none"> <li>▶ We examined the Group's correspondence with the tax authorities in respect of the US\$13.8 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.</li> <li>▶ In respect of the US\$19.1 million VAT arising under the current legislation, we reviewed the definition of 'raw minerals' under the new legislation and, in conjunction with our tax specialists, evaluated management's judgement that rough diamond production is outside of the scope of the legislation. We inspected correspondence from the tax authorities rejecting the Group's assessment. We reviewed correspondence with the tax authorities and made inquiries of management regarding the nature of its ongoing discussions with the GoT.</li> </ul>	<p>In relation to the Parcel 1, we found the Group's conclusion that it is entitled to the 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.</p> <p>In relation to the US\$13.8 million VAT under the historical legislation, we found no evidence of disputes in respect of VAT receivables claimed.</p> <p>We found management's assessment that the US\$19.1 million VAT under the new legislation is valid to be an area of significant judgement given the lack of clarity in the tax legislation and dispute ongoing with the GoT. However, based on external legal advice, 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.</p> <p>We found the disclosures included in the Financial Statements in note 17 and 18 to be appropriate.</p>

# Independent Auditors' Report

To the members of Petra Diamonds Limited continued

## 4. Key audit matters continued

	How we addressed the matter	Observations
<b>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 continued</b>		
<p>Given these circumstances, the carrying value and presentation of VAT was considered to represent a key risk for our audit.</p>	<p>We discussed and critically assessed management's own assessment that the Group can legally recover the VAT with the Group's independent external Tanzanian legal adviser. We have obtained written confirmation from the Group's Tanzanian legal adviser which supports the Board's assessment that the VAT is legally valid and remains recoverable. In addition, we 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. In relying upon the assessments made by such expert, we evaluated the competence and objectivity of the professional adviser relied upon by management.</p> <ul style="list-style-type: none"> <li>▶ We considered and challenged management's assessment of the provision for discounting including the estimates regarding the timing of recovery and risk adjusted discount rate applied in the calculation and performed sensitivity analysis to consider alternative scenarios. 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.</li> <li>▶ We reviewed the disclosures in the Financial Statements to satisfy ourselves that the judgements and estimates have been appropriately disclosed.</li> </ul>	
<b>3. The risk that the going concern assumption is inappropriate or that material uncertainties are not disclosed appropriately</b>		
<p>The Group held US\$650 million of secured senior second lien loan notes and had US\$107 million of undrawn, but available secured senior lender facilities as at 30 June 2019, the latter being subject to covenant measurements. The Group's results had been adversely impacted by the weakening of the rough diamond market as set out in note 1.1 to the Financial Statements such that the Group is forecasting a potential breach of its EBITDA-related covenants for December 2019 and June 2020.</p> <p>As detailed in note 1.1, the Group's base case cashflow forecast indicates that it will require the temporary utilisation of its banking facilities, to meet its liabilities as they fall due under the base case forecast. As detailed in note 1.1 to the Financial Statements, based on ongoing discussions with the Lender Group, the Board has concluded that if a forecast breach occurs it remains confident that the existing facilities will remain available to the Group.</p> <p>The Group's assessment that the going concern basis of preparation remains appropriate and that the circumstances detailed in note 1.1 to the Financial Statements do not represent a material uncertainty that may cast doubt on the Group's use of that basis for a period of at least 12 months from the date of approval of the Financial Statements represented a significant risk for our audit.</p>	<ul style="list-style-type: none"> <li>▶ 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 2020 and external market data. We specifically confirmed that the forecast period excluded receipts associated with Parcel 1 and VAT receivables at Williamson.</li> <li>▶ We agreed 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.</li> <li>▶ We assessed management's sensitivity analysis performed in respect of key assumptions underpinning the forecasts and assessed the level of facility utilisation under such sensitivities. We performed our own sensitivities in respect of diamond pricing, production and foreign exchange rates.</li> <li>▶ 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.</li> <li>▶ Given the forecasts indicate a likely breach of covenants we critically assessed the Board's judgement that, should a breach occur, the banking facilities would remain available to the Group. We reviewed and considered management reports reviewed by the Board in respect of going concern and associated disclosures. We made specific inquiries of management and the Board regarding the nature of discussions held with the Lender Group and how those discussions had been considered in the Board's conclusion.</li> </ul>	<p>We found management's forecasts indicated that the Group would likely breach its banking covenant ratios as at 31 December 2019 and 30 June 2020. We found the key underlying assumptions to be within an acceptable range.</p> <p>We found the Board's judgement that, in the event of a breach under the Group's forecasts, the Group would expect to be able to retain access to its banking facilities to be acceptable.</p> <p>We found the disclosures included in the Financial Statements in respect of going concern to be appropriate. We found the Board's judgement that the disclosed circumstances did not constitute a material uncertainty in respect of going concern to be acceptable.</p>



#### 4. Key audit matters continued

	How we addressed the matter	Observations
<b>3. The risk that the going concern assumption is inappropriate or that material uncertainties are not disclosed appropriately continued</b>	<p>We held independent discussions with representatives of the Lender Group regarding the nature of the Lender Group's discussions with management and received written confirmation from the Lender Group which, whilst non-binding, was consistent with the Board's conclusion. In addition, we considered the Board's assessment of factors such as the historical covenant resets, the extent of the forecast facility requirement and the underlying operating cash profile which formed part of the Board's conclusion.</p> <ul style="list-style-type: none"> <li>▶ We reviewed the disclosures in note 1.1 to the Financial Statements in respect of going concern.</li> </ul>	

#### 5. Our application of materiality

The materiality we applied equates to 0.5% (FY 2018: 0.5%) of the total assets of the Group and represents 2.0% (FY 2018: 1.6%) of total equity and 4.2% (FY 2018: 4.9%) 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\$6.5 million (FY 2018: US\$9.5 million), each significant component of the Group was audited to a lower materiality as detailed in the overview section.

Performance materiality is the application of materiality at the individual account or balance level and is set at an amount which reduces to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the Financial Statements as a whole. Performance materiality was set at 75% (2018: 75%) of the above materiality levels.

We agreed with the Audit & Risk Committee that we would report to them all individual audit differences identified during the course of our audit in excess of US\$0.2 million (FY 2018: US\$0.25 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 four significant components being the Finsch, Cullinan, and Koffiefontein operations in South Africa and the Williamson mine in Tanzania.



Full scope audits for Group reporting purposes were performed on the three 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
	97%	100%	98%

The remaining non-significant holding companies were principally subject to analytical review procedures.

## Independent Auditors' Report

To the members of Petra Diamonds Limited continued

### 6. An overview of the scope of our audit continued

#### 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 all 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.

### 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 109 and 110 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 72 to 75 that describe the principal risks and explain how they are being managed or mitigated;
- ▶ the Directors' confirmation set out on page 71 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 109 and 110 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 71 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 93 and 156 to 176

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the Financial Statements and our Auditor's Report thereon. 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.





## 8. Other information in the Annual Report set out on pages 1 to 93 and 156 to 176 continued

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 67** – 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 & Risk Committee reporting set out on pages 65 to 70** – the section describing the work of the Audit & Risk Committee does not appropriately address matters communicated by us to the Audit & Risk Committee; or
- ▶ **Directors' statement of compliance with the UK Corporate Governance Code set out on page 54** – 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 96, 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 auditor's 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our Auditor's Report.

## 11. Other matters

Following the recommendation of the Audit & Risk Committee, we were appointed to audit the Financial Statements for the year ending 30 June 2006 and subsequent financial periods. We were re-appointed by the Directors following a competitive tender to audit the Financial Statements for the period ended 30 June 2018. In respect of the period ended 30 June 2019 we were re-appointed as auditors by the members of the Company at the Annual General Meeting of the Company held on 23 November 2018. The period of total uninterrupted engagement is 14 years, covering the years ending 30 June 2006 to 30 June 2019.

The non-audit services that would be prohibited by the FRC's Ethical Standard were the Company considered to be a public interest entity were not provided to the Group and we remain independent of the Group in conducting our audit.

Our audit opinion is consistent with the additional report we have submitted to the Audit & Risk Committee.

## 12. Use of our report

This report is made solely to the parent company's members. 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 Auditor)

For and on behalf of BDO LLP, Statutory Auditors  
London  
14 October 2019

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 2019

US\$ million	Notes	2019	2018
Revenue	2	<b>463.6</b>	495.3
Mining and processing costs	3	<b>(407.6)</b>	(418.6)
Other (expense)/direct income	4	<b>(0.8)</b>	1.2
Exploration expenditure	5	<b>(0.5)</b>	(0.7)
Corporate expenditure	6	<b>(8.6)</b>	(10.4)
Impairment	8	<b>(246.6)</b>	(66.0)
<b>Total operating costs</b>		<b>(664.1)</b>	(494.5)
Financial income	9	<b>12.1</b>	8.5
Financial expense	9	<b>(65.6)</b>	(94.3)
<b>Loss before tax</b>		<b>(254.0)</b>	(85.0)
Income tax credit/(charge)	10	<b>45.8</b>	(13.8)
<b>Loss for the Year from continuing operations</b>		<b>(208.2)</b>	(98.8)
Loss on discontinued operations including associated impairment charges (net of tax)	34	<b>(49.9)</b>	(104.3)
<b>Loss for the Year</b>		<b>(258.1)</b>	(203.1)
Loss for the Year attributable to:			
Equity holders of the parent company		<b>(226.8)</b>	(166.9)
Non-controlling interest		<b>(31.3)</b>	(36.2)
		<b>(258.1)</b>	(203.1)
<b>Loss per share attributable to the equity holders of the parent during the Year</b>			
From continuing operations:			
Basic loss per share – US\$ cents	12	<b>(20.18)</b>	(15.85)
Diluted loss per share – US\$ cents	12	<b>(20.18)</b>	(15.85)
From continuing and discontinued operations:			
Basic loss – US\$ cents	12	<b>(26.19)</b>	(31.29)
Diluted loss – US\$ cents	12	<b>(26.19)</b>	(31.29)

The notes on pages 109 to 155 form part of these Financial Statements.



## Consolidated Statement of Other Comprehensive Income

For the Year ended 30 June 2019

US\$ million	2019	2018
Loss for the Year	<b>(258.1)</b>	(203.1)
Exchange differences on translation of the share-based payment reserve	<b>(0.1)</b>	1.3
Exchange differences on translation of foreign operations <sup>1</sup>	<b>(14.9)</b>	(41.3)
Exchange differences on non-controlling interest <sup>1</sup>	<b>(0.7)</b>	(5.3)
<b>Total comprehensive expense for the Year</b>	<b>(273.8)</b>	(248.4)
<b>Total comprehensive expense for the Year attributable to:</b>		
Equity holders of the parent company	<b>(241.8)</b>	(206.9)
Non-controlling interest	<b>(32.0)</b>	(41.5)
	<b>(273.8)</b>	(248.4)

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.

The notes on pages 109 to 155 form part of these Financial Statements.

## Consolidated Statement of Financial Position

At 30 June 2019

US\$ million	Notes	2019	2018
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	14	967.8	1,244.2
BEE loans receivable	15	109.6	64.7
Other receivables	17	10.1	20.3
<b>Total non-current assets</b>		<b>1,087.5</b>	1,329.2
<b>Current assets</b>			
Trade and other receivables	17	35.9	99.4
Inventories	18	85.6	78.1
Cash and cash equivalents (including restricted amounts)	19	85.2	236.0
<b>Total current assets</b>		<b>206.7</b>	413.5
Non-current assets classified as held for sale	34,35	0.6	46.5
<b>Total assets</b>		<b>1,294.8</b>	1,789.2
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	20	133.4	133.4
Share premium account	20	790.2	790.2
Foreign currency translation reserve	20	(361.7)	(344.7)
Share-based payment reserve	20	6.2	7.7
Other reserves	20	(0.8)	(0.8)
Accumulated losses	20	(255.6)	(30.4)
<b>Attributable to equity holders of the parent company</b>		<b>311.7</b>	555.4
Non-controlling interests	16	14.4	11.2
<b>Total equity</b>		<b>326.1</b>	566.6
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Loans and borrowings	21	603.5	601.2
BEE loans payable	15	120.5	110.5
Provisions	23	61.3	59.5
Deferred tax liabilities	24	81.4	139.2
<b>Total non-current liabilities</b>		<b>866.7</b>	910.4
<b>Current liabilities</b>			
Loans and borrowings	21	47.1	153.6
Trade and other payables	22	54.9	130.8
<b>Total current liabilities</b>		<b>102.0</b>	284.4
Liabilities directly associated with non-current assets classified as held for sale	34,35	—	27.8
<b>Total liabilities</b>		<b>968.7</b>	1,222.6
<b>Total equity and liabilities</b>		<b>1,294.8</b>	1,789.2

The notes on pages 109 to 155 form part of these Financial Statements.

The Financial Statements were approved and authorised for issue by the Directors on 14 October 2019.



## Consolidated Statement of Cashflows

For the Year ended 30 June 2019

US\$ million	Notes	2019	2018
<b>Loss before taxation for the Year from continuing and discontinued operations</b>		<b>(303.9)</b>	(183.2)
Depreciation of property, plant and equipment		106.7	135.7
Impairment charge	8	246.6	66.0
Loss and impairment charge in relation to discontinued operation	34	49.9	92.7
Movement in provisions		0.7	(3.0)
Financial income	9	(12.1)	(8.9)
Financial expense	9	65.6	95.6
Profit on sale of property, plant and equipment		1.3	—
Share-based payment provision		0.2	0.6
<b>Operating profit before working capital changes</b>		<b>155.0</b>	195.5
Decrease/(increase) in trade and other receivables		61.0	(76.8)
(Decrease)/increase in trade and other payables		(53.2)	14.2
Increase in inventories		(6.4)	(18.8)
<b>Cash generated from operations</b>		<b>156.4</b>	114.1
Net realised gains on foreign exchange contracts		1.0	0.2
Finance expense		(45.4)	(38.9)
Income tax paid		(13.0)	(7.5)
<b>Net cash generated from operating activities</b>		<b>99.0</b>	67.9
<b>Cashflows from investing activities</b>			
Acquisition of property, plant and equipment (including capitalised cash interest paid of US\$3.7 million (30 June 2018: US\$13.3 million))		(85.9)	(175.4)
Proceeds from sale of property, plant and equipment		0.4	0.6
Loans advanced to BEE Partners		(46.7)	(31.0)
Loans advanced to KEM JV post disposal		(9.4)	—
Repayment of loans from KEM JV		3.9	—
Disposal of interest in KEM JV and Helam (net of cash disposed of)		(1.5)	—
Finance income		1.3	3.9
<b>Net cash utilised in investing activities</b>		<b>(137.9)</b>	(201.9)
<b>Cashflows from financing activities</b>			
Proceeds from the issuance of share capital (net of cash issue costs paid 30 June 2018: US\$6.5 million)		—	166.9
Increase in borrowings		5.8	35.6
Repayment of borrowings		(108.5)	(32.8)
<b>Net cash (utilised in)/generated by financing activities</b>		<b>(102.7)</b>	169.7
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(141.6)</b>	35.7
Cash and cash equivalents at the beginning of the Year		223.0	190.2
Effect of exchange rate fluctuations on cash held		(9.7)	(2.9)
<b>Cash and cash equivalents at the end of the Year<sup>1</sup></b>	19	<b>71.7</b>	223.0

1. Cash and cash equivalents in the Consolidated Statement of Financial Position includes restricted cash of US\$13.5 million (30 June 2018: US\$14.4 million) and unrestricted cash of US\$71.7 million (30 June 2018: US\$221.6 million) and excludes unrestricted cash attributable to KEM JV of US\$nil (30 June 2018: US\$1.4 million) (refer to note 34).

The cashflows specific to the discontinued operation (net of tax) are included in the amounts above and are disclosed in note 34.

Notes to the Consolidated Statement of Cashflows are set out in note 28.

The notes on pages 109 to 155 form part of these Financial Statements.

## Consolidated Statement of Changes in Equity

For the Year ended 30 June 2019

US\$ million	Share capital	Share premium account	Foreign currency translation reserve	Share-based payment reserve	Other reserves	Accumulated losses	Attributable to the parent	Non-controlling interest	Total equity
At 1 July 2018	133.4	790.2	(344.7)	7.7	(0.8)	(30.4)	555.4	11.2	566.6
Loss for the Year	—	—	—	—	—	(226.8)	(226.8)	(31.3)	(258.1)
Other comprehensive expense	—	—	(14.9)	(0.1)	—	—	(15.0)	(0.7)	(15.7)
Recycling of foreign currency translation reserve on disposal of KEM JV and Helam <sup>1</sup>	—	—	(2.1)	—	—	—	(2.1)	—	(2.1)
Transfer between reserves for lapsed employee options	—	—	—	(1.6)	—	1.6	—	—	—
Non-controlling interest disposed	—	—	—	—	—	—	—	35.2	35.2
Equity-settled share-based payments	—	—	—	0.2	—	—	0.2	—	0.2
<b>At 30 June 2019</b>	<b>133.4</b>	<b>790.2</b>	<b>(361.7)</b>	<b>6.2</b>	<b>(0.8)</b>	<b>(255.6)</b>	<b>311.7</b>	<b>14.4</b>	<b>326.1</b>

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

1. During the Year, the Company disposed of the KEM JV and Helam operations and recognised a foreign currency translation gain of US\$2.1 million which has been recycled through the Consolidated Income Statement as part of loss on discontinued operations (refer to note 34).

The notes on pages 109 to 155 form part of these Financial Statements.



# Notes to the Annual Financial Statements

For the Year ended 30 June 2019

## 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 policies relevant to IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers (refer to note 1.4).

### 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 Group started the Year with cash and cash equivalents of US\$236 million, following the US\$170 million Rights Issue in June 2018. This was used shortly thereafter to settle ca. US\$103 million drawn under the ZAR1 billion (ca. US\$70 million) revolving credit and ZAR500 million (ca. US\$35 million) working capital facilities ("RCF" and "WCF", respectively) from Petra's Lender Group; both these facilities remain available to the Group.

Production for the Year was largely delivered in accordance with management expectations. However, rough diamond market conditions and product mix negatively impacted rough diamond pricing and, as a result, revenue and cashflow results. Product mix results are discussed in more detail in the mine-by-mine commentary in the Operational Review section, while the rough diamond market is discussed in Our Market.

During April 2019, Petra and its Lender Group reached an agreement to reset the forward-looking EBITDA-related maintenance covenants associated with its banking facilities to more appropriate levels; the Company announced the following amendments to the market at the end of April 2019:

	12 months to 30 Jun 2019	12 months to 31 Dec 2019	12 months to 30 Jun 2020	12 months to 31 Dec 2020	12 months to 30 Jun 2021
<b>Consolidated net debt to consolidated EBITDA:</b>					
- New covenant ratio:	≤ 4.5x	≤ 4.25x	≤ 3.5x	≤ 3.25x	≤ 3.0x
- Previous covenant ratio:	≤ 2.5x	≤ 2.5x	≤ 2.5x	≤ 2.5x	≤ 2.5x
<b>Consolidated EBITDA to consolidated net finance charges:</b>					
- New covenant ratio:	≥ 2.5x	≥ 2.5x	≥ 2.75x	≥ 3.0x	≥ 3.25x
- Previous covenant ratio:	≥ 4.0x	≥ 4.0x	≥ 4.0x	≥ 4.0x	≥ 4.0x

Further to the appointment of CEO Richard Duffy on 1 April 2019, Project 2022 was initiated and announced to the market in July 2019. This project aims to identify and drive efficiencies and improvements across all aspects of the business with the objective of delivering an initial target of US\$150–200 million free cashflow over a three-year period, with delivery weighted towards FY 2021 and FY 2022 and dependent on diamond pricing. Project 2022's focus is on enhancing cashflow generation and reducing net debt.

#### Forecasts and associated risks

In light of the above, and coupled with continued weakness in the diamond market, the following have been key considerations for the Board in assessing the Group's ability to operate as a going concern at the date of this report:

- ▶ risks of further market weakness reducing diamond prices;
- ▶ the impact on pricing due to product mix volatility;
- ▶ risks of general production disruptions;
- ▶ risks of increased operating costs;
- ▶ volatility in the South African Rand; and
- ▶ the impact of reduced revenue on earnings, cashflow projections and associated covenant measurements.

Base case forecasts (which incorporate current diamond market conditions) assume an average exchange rate of ZAR14.50:US\$1 for the period to June 2020 and ZAR14.00:US\$1 thereafter and continued advances to BEE Partners to enable them to meet their loan obligations to the BEE Lenders, and specifically exclude the proceeds from the sale of exceptional stones, the sale of the blocked Williamson parcel and the recovery of historical and current VAT during the forecast period.

The Board has reviewed the Group's forecasts and sensitivities for a period of at least 18 months from Year end, including both forecast liquidity and covenants. In doing so, careful consideration was given to potential risks to the forecasts as listed above.

Under the base case, and considering the above sensitivities on an individual basis, the Company's forecast liquidity may require temporary utilisation of the South African banking facilities, should the ongoing weakness in the diamond market persist during the Period under review. The impact of the recent weakness in the diamond market on the Group's operating results and cashflow position has been discussed with the Lender Group, including possible breaches in its EBITDA-related covenants for the December 2019 and June 2020 reporting periods. The Lender Group has reaffirmed its ongoing support of the Group and the Company; discussions with the Lender Group will continue once the September tender results have been finalised and processed, and the Company has had the opportunity to further assess the impact on forward-looking cashflow projections. This may include covenant resets and/or waivers for the measurement periods as mentioned.

# Notes to the Annual Financial Statements

For the Year ended 30 June 2019 continued

## 1. Accounting policies continued

### 1.1 Basis of preparation continued

#### Conclusion

The Board is of the view that the longer-term fundamentals of the diamond market remain sound. The forecast benefits of Project 2022 (which include increased production and reduced spend) are expected to materialise in FY 2020 and beyond, and further organic growth opportunities will continue to be provided well beyond 2030, with Petra having the third largest diamond resource globally.

The Board recognises the significant debt levels within the Group and despite the operations now performing in line with guidance, and all major capital expansion programmes having been delivered on, the current weakness in the diamond market has heightened the need to continue to optimise production across all operations and focus on key deliverables as currently envisaged to be addressed via Project 2022.

Ongoing engagement with the Lender Group is key to ensuring facilities remain available to the Group. Cash management and preservation will continue to be of the highest importance and will be facilitated by maintaining very tight control over costs and overheads and by deferring certain elements of capital expenditure.

Considering the recent positive engagements with the Lender Group, as well as the Group's existing cash resources and the continuing availability of current facilities, the Board assessed the liquidity headroom to be adequate under the Group's current base case and reasonable sensitivities.

Accordingly, the Board has concluded that the going concern basis in the preparation of the unaudited 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 ZAR14.07 as at 30 June 2019 (30 June 2018: ZAR13.73) and at an average rate of ZAR14.19 for transactions during the Year ended 30 June 2019 (30 June 2018: ZAR12.86).

#### 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 unrealised foreign exchange gains or losses 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. Accounting policies continued

### 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.

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.

### 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
Recoverability of VAT in Tanzania	17
Inventory stockpile and recoverability of confiscated diamond parcel in Tanzania	18
Provision for rehabilitation estimates	23
Pension scheme estimates	30
Post-retirement medical fund estimates	31
Loss on discontinued operations	34
Non-current assets held for sale	35

# Notes to the Annual Financial Statements

For the Year ended 30 June 2019 continued

## 1. Accounting policies continued

### 1.4 New standards and interpretations applied

The IASB has issued the following new standards, amendments to published standards or interpretations to existing standards with effective dates on or prior to 1 July 2018 which have been adopted by the Group:

#### IFRS 9 "Financial Instruments"

IFRS 9 "Financial Instruments" addresses the classification and measurement of financial assets and financial liabilities and 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. There is now a new expected credit loss model that replaces the incurred loss impairment model used in IAS 39. The adoption of IFRS 9 did not result in any material change to the consolidated results of the Group from the beginning of the earliest period presented. Following an assessment of the consolidated financial assets no changes to classification of those financial assets was required. The Group has applied the expected credit loss impairment model to its financial assets, focused in particular on its KEM JV receivables in respect of the purchase consideration, working capital and equipment facility advances and non-current BEE receivables. The expected credit loss for KEM JV was US\$7.3 million. No material credit losses are considered to apply to the non-current BEE receivables. As per note 15, 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. The adoption of IFRS 9 has not had any material impact on the accounting treatment of the BEE guarantee. The Group's VAT receivables are excluded from the scope of IFRS 9.

#### IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 introduced a single framework for revenue recognition and to clarify principles of revenue recognition. This standard modifies the determination of when to recognise revenue and how much revenue to recognise. The core principle is that an entity recognises revenue to depict the transfer of promised goods and services to the customer of an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The adoption of IFRS 15 did not result in any material change to the Group's revenue recognition. The Group recognises 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. Diamond sales are made through a competitive tender process.

The Group's performance obligations are considered to be satisfied and control of the rough diamonds transferred at the point the tender is awarded.

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).

#### 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 2019 or in later periods, which the Group has decided not to adopt early.

		Effective period commencing on or after
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
Amendments IAS 19	Plan Amendment, Curtailment or Settlement	1 January 2019
IFRS 16	"Leases"	1 January 2019
Definition of Material	Amendments to IAS 1 and IAS 8	1 January 2020

The only standard which is anticipated to be significant or relevant to the Group is:

#### 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 will impact the Group. The Company will apply the modified retrospective approach where the cumulative effect of initially applying IFRS 16 is recognised at the date of initial application in FY 2020. Below is a summary of the impact upon adoption of IFRS 16 "Leases".

	US\$ million
Right-of-use asset – 1 July 2019	9.5
Lease liability – 1 July 2019	(9.5)
Effect on retained earnings – 1 July 2019	—
<b>30 June 2020:</b>	
Variable non-discounted lease payments	5.8
Amortisation of right-of-use asset	4.7
Finance charges on lease liability	0.8



## 2. Revenue

### Significant accounting policies relevant to revenue

Revenue comprises net invoiced diamond sales to customers excluding VAT. Revenue is split between rough diamond sales and revenue from interest in polished diamonds. Diamond sales are made through a competitive tender process and recognised when point of control passes to the buyer, costs can be measured reliably and receipt of future economic benefits is probable. The performance obligation is met at 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	2019 <sup>1</sup>	2018
Revenue from diamond sales	<b>463.6</b>	495.3

1. The disaggregation of revenue is disclosed per segment as per note 33.

## 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	2019	2018
Raw materials and consumables used	<b>151.3</b>	152.2
Employee expenses (including share-based payments)	<b>140.2</b>	134.5
Depreciation of mining assets	<b>105.9</b>	127.2
Diamond royalty	<b>13.2</b>	14.2
Changes in inventory of finished goods and stockpiles	<b>(3.0)</b>	(9.5)
	<b>407.6</b>	418.6

## 4. Other direct expense/(income)

US\$ million	2019	2018
Loss on disposal of fixed assets	<b>1.1</b>	—
Other income	<b>(0.3)</b>	(1.2)
	<b>0.8</b>	(1.2)

## 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	2019	2018
Direct exploration costs	<b>0.2</b>	0.2
Employee expenses	<b>0.2</b>	0.4
Depreciation of exploration assets	<b>0.1</b>	0.1
	<b>0.5</b>	0.7

## 6. Corporate expenditure

Corporate expenditure includes:

US\$ million	2019	2018
Depreciation of property, plant and equipment	<b>0.7</b>	0.7
London Stock Exchange and other regulatory expenses	<b>1.3</b>	1.4
Share-based expense – Directors	<b>0.2</b>	0.6
Salaries and other staff costs	<b>2.6</b>	3.6
Total staff costs	<b>2.8</b>	4.2

## Notes to the Annual Financial Statements

For the Year ended 30 June 2019 continued

**7. Auditors' remuneration**

US\$ million	2019	2018
Audit services <sup>1</sup>	0.9	0.9
Audit-related assurance services <sup>2</sup>	0.1	0.4
<b>Total</b>	<b>1.0</b>	<b>1.3</b>

1. Audit services are in respect of audit fees for the Group.

2. Audit-related services are in respect of the interim review of US\$0.1 million (FY 2018: US\$0.1 million plus US\$0.3 million for services in respect of the issuance of comfort letters in respect of the Rights Issue, which were capitalised to share premium) and specific agreed upon procedures in relation to the Sustainability Report, under the International Standard on Related Services 4400 as issued by the International Auditing and Assurance Standards Board, of US\$5.0k (FY 2018: US\$5.0k).

**8. Impairment of operational assets and other assets****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 determined on the fair value less cost to develop basis.

In assessing the recoverable amount, which is determined on a fair value less costs to develop basis, the expected future post-tax cashflows from the asset are discounted to their present value using a post-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 of non-financial assets****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 the fair value less cost to develop basis, 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 115 and 116.

**30 June 2019**

The recent downturn in the global rough diamond market and variability in product mix have severely impacted rough diamond prices achieved by Petra, resulting in management taking a critical review of the Group's business models and operational assets. 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 determined on a fair value less cost to develop basis.

During the Year, the Group reviewed the carrying value of its investments and operational assets for indicators of impairment. Following the assessment, impairment of property, plant and equipment were considered appropriate for Cullinan, Finsch, Koffiefontein and Williamson. 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\$223.7 million, being management's estimate of value of the Cullinan, Finsch, Koffiefontein and Williamson assets. Details of the impairment test assessments for the operations are shown in note 8.1.



## 8. Impairment of operational assets and other assets continued

30 June 2019 continued

For impairment considerations at KEM JV and Helam refer to note 34.

### 30 June 2018

During the year ended 30 June 2018, the Group impaired the Koffiefontein operational assets by an amount of US\$66.0 million.

#### 8.1 Impairment testing assumptions

##### (a) Impaired continuing operations

The key assumptions used in determining the recoverable value calculations, determined on a fair value less cost to develop basis, are listed in the table below:

Key assumptions	Explanation
LOM and recoverable value of reserves and resources	<p>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.</p> <p>The LOM for the operations are as follows:</p> <p>Finsch: FY 2030</p> <p>Cullinan: FY 2029</p> <p>Koffiefontein: FY 2024 (FY 2018: FY 2032)</p> <p>Williamson: FY 2032</p> <p>Resources remaining after the current LOM plans have not been included in impairment testing for the operations.</p>
LOM – reserves and resources	<p>Finsch: LOM plan over the next 11 years; total resource processed 35.8 Mt.</p> <p>Cullinan: LOM plan over the next 10 years; total resource processed 40.5 Mt.</p> <p>Koffiefontein: 5-year LOM plan; total resource processed 4.8 Mt.</p> <p>Williamson: 13-year LOM plan; total resource processed 64.1 Mt.</p>
LOM – capital expenditure	<p>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.</p>
Diamond prices	<p>The diamond prices used in the impairment test have been set with reference to recently achieved pricing and market trends, and long-term diamond price escalators are informed by industry views of long-term market supply/demand fundamentals.</p> <p>30 June 2019 impairment testing models incorporated diamond price escalation of 2.8% above a long-term US inflation rate of 2.5% per annum from FY 2022 to FY 2030. This equates to a 2.5% real CAGR for the ten-year period from the start of FY 2021 to the end of FY 2030. Estimates for the contribution of Exceptional Diamonds sold for more than US\$5.0 million each are determined with reference to historical trends.</p> <p>30 June 2018 impairment testing models incorporated diamond price escalation of 3.0% above a long-term US inflation rate of 2.5% per annum. Estimates for the contribution of Exceptional Diamonds sold for more than US\$5.0 million each are determined with reference to historical trends.</p>
Discount rate	<p>A discount rate of 8.5% (30 June 2018: 8.5%) was used for the South African operations and 9.0% (30 June 2018: 9.0%) for Williamson. Discount rates were 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.</p>
Cost inflation rate	<p>Long-term inflation rates of 3.5%–7.5% (30 June 2018: 3.5%–7.5%) above the long-term US\$ inflation rate were used for Opex and Capex escalators. Opex savings of 5% per annum have been applied from FY 2020 onwards in line with the Project 2022 strategy implemented by the Group.</p>
Exchange rates	<p>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 ZAR14.00 (30 June 2018: ZAR12.75), further devaluing at 3.9% (30 June 2018: 3.9%) per annum over a period of three years, reverting to 3.4% per annum thereafter.</p>
Valuation basis	<p>Discounted present value of future cashflows.</p>
Williamson	<p>At Williamson, a further 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 future VAT to be fully recoverable. However, if the VAT were not to be recoverable, the impact would be to increase the impairment by an additional US\$80.9 million.</p>

## Notes to the Annual Financial Statements

For the Year ended 30 June 2019 continued

**8. Impairment of operational assets and other assets** continued**8.1 Impairment testing assumptions** continued**(a) Impaired continuing operations** continued

Detail of the impairment assessment is shown below.

Impairment (US\$ million)	Asset class	Carrying value pre-impairment	Impairment	Carrying value post-impairment
Impairment – operations:				
Finsch	Property, plant and equipment	374.0	(85.4)	288.6
Cullinan	Property, plant and equipment	637.2	(63.9)	573.3
Koffiefontein	Property, plant and equipment	46.5	(33.2)	13.3
Williamson	Property, plant and equipment	129.8	(41.2)	88.6
<b>Sub-total</b>		<b>1,187.5</b>	<b>(223.7)</b>	<b>963.8</b>
Impairment – other receivables:				
Other – current	Other receivables (refer to note 17)	4.0	(4.0)	—
Other – non-current	Tanzania VAT receivable (refer to note 17)	29.0	(18.9)	10.1
<b>Sub-total</b>		<b>33.0</b>	<b>(22.9)</b>	<b>10.1</b>
<b>Total</b>		<b>1,220.5</b>	<b>(246.6)</b>	<b>973.9</b>

**30 June 2018**

Impairment (US\$ million)	Asset class	Carrying value pre-impairment	Impairment	Carrying value post-impairment
Koffiefontein	Property, plant and equipment	118.2	(66.0)	52.2

**Sensitivity analysis**

The impairment impact of applying sensitivities on the key inputs is noted below:

(US\$ million)	Additional impairment charge			
	Williamson	Koffiefontein	Finsch	Cullinan
Increase in discount rate by 2%	12.3	0.4	33.9	47.4
Reduction in pricing by 5% over LOM	28.5	8.8	48.4	57.6
Reduction in short-term production by 10%	11.4	7.3	17.5	41.7
Increase in Opex by 5%	46.8	7.2	23.9	26.8
Strengthening of the ZAR from US\$/ZAR14.00 to US\$/ZAR13.00	n/a	12.6	71.6	85.1

**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. The borrowing costs capitalised by the Group during the year reduced to US\$3.7 million (30 June 2018: US\$15.2 million) as a result of the expansion projects undertaken by the Group being commissioned during the Year. Borrowing costs will in future be expensed directly to the Consolidated Income Statement.

Other borrowing costs are recognised as an expense in the period in which the borrowing cost is incurred.

Refer to notes 11, 14, 23 and 32 for the Group's policy on foreign exchange, borrowing cost capitalisation, unwinding of rehabilitation provisions and derivative instruments together with key estimates and judgements.



## 9. Net financing expense continued

US\$ million	2019	2018
Net unrealised foreign exchange gains <sup>1</sup>	4.0	—
Interest received on BEE loans and other receivables	5.8	4.1
Interest received on bank deposits	1.1	3.5
Realised foreign exchange gains on the settlement of foreign loans and forward exchange contracts	1.2	0.9
Financial income	12.1	8.5
Gross interest on bank loans and overdrafts	(50.7)	(62.7)
Interest on bank loans and overdrafts capitalised	3.7	15.2
Net interest expense on bank loans and overdrafts	(47.0)	(47.5)
Other debt finance costs, including BEE loan interest and facility fees	(14.4)	(16.5)
Unwinding of present value adjustment for rehabilitation costs	(4.0)	(4.1)
Net unrealised foreign exchange losses <sup>1</sup>	—	(26.2)
Realised foreign exchange losses on the settlement of foreign loans and forward exchange contracts	(0.2)	—
Financial expense	(65.6)	(94.3)
Net financial expense	(53.5)	(85.8)

1. 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 FY 2018, the Group entered into short-dated hedges to facilitate the conversion between functional currencies across the Group for the settlement of the South African lender facilities out of the Pound Sterling Rights Issue proceeds in July 2018. 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 gain of US\$4.0 million (30 June 2018: US\$26.2 million loss) in respect of foreign exchange contracts held at Year end was mainly attributable to hedging the proceeds of future diamond tenders and a net realised foreign exchange gain of US\$1.0 million (30 June 2018: US\$0.9 million gain) in respect of foreign exchange contracts closed during the Year is included in the net finance 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.

US\$ million	2019	2018
Current taxation:		
– Current tax charge	8.1	10.5
Deferred taxation:		
– Current period (origination and reversal of temporary differences)	(53.9)	3.3
	(45.8)	13.8
Reconciliation of tax rate:		
– Loss before taxation (including loss and discontinued operation)	(303.8)	(85.0)
Tax at South African corporate rate of 28%	(85.1)	(23.8)
Effects of:		
– Tax charge at rates in foreign jurisdictions	(0.4)	3.1
– Non-deductible expenses	24.9	46.3
– Non-taxable income	(6.6)	(45.3)
– Tax losses not recognised	21.1	25.4
– Prior year under provision of deferred tax	0.3	8.1
Total tax (credit)/charge	(45.8)	13.8

# Notes to the Annual Financial Statements

For the Year ended 30 June 2019 continued

## 10. Taxation continued

### Significant accounting policies relevant to taxation continued

In the current Year there are unrecognised tax losses which increase the current taxation payable totalling US\$21.1 million (30 June 2018: US\$25.4 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 2019 amount to US\$109.7 million (30 June 2018: US\$146.6 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 2019 amount to US\$168.9 million (30 June 2018: US\$18.6 million) and arise in South Africa. The temporary differences of US\$168.9 million relate to the current year impairments of property, plant and equipment (US\$149.4 million) and other reversing taxable temporary differences (US\$19.5 million). 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	2019	2018
Wages and salaries – mining	140.2	134.5
Wages and salaries – exploration	0.2	0.4
Wages and salaries – administration	2.8	4.2
	143.2	139.1
	Number	Number
Number of employees (excluding the Non-Executive Directors and contractors)	3,826	5,497

### Key management personnel

Key management is considered to be the Executive Directors, the Chief Operating Officer and Group Head of Sales and Marketing (30 June 2018: key management comprised the Executive Directors and the Chief Operating Officer). Remuneration for the Year for key management is disclosed in the table below:

US\$ million	2019	2018
Salary	2.0	1.5
Benefits	0.1	0.1
Annual bonus – paid in cash	0.4	0.1
Annual bonus – deferred to shares	0.4	0.4
Share-based payment charge	0.2	0.6
	3.1	2.7

The above remuneration for key management personnel includes termination remuneration for Johan Dippenaar (former CEO) of US\$0.7 million.





## 12. Earnings/(loss) per share

### Significant accounting policies relevant to earnings per share

Basic earnings/(loss) per share amounts are calculated by dividing net loss 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/(loss) per share amounts are calculated by dividing the net loss 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.

	Continuing operations 30 June 2019 US\$	Discontinued operations 30 June 2019 US\$	Total 30 June 2019 US\$	Continuing operations 30 June 2018 US\$	Discontinued operations 30 June 2018 US\$	Total 30 June 2018 US\$
Numerator						
Loss for the Year attributable to parent	<b>(174,622,904)</b>	<b>(52,015,046)</b>	<b>(226,637,950)</b>	(84,562,428)	(82,312,465)	(166,874,893)
Denominator	Shares	Shares	Shares	Shares	Shares	Shares
Weighted average number of Ordinary Shares used in basic EPS:						
As at 1 July	<b>865,336,485</b>	<b>865,336,485</b>	<b>865,336,485</b>	531,986,218	531,986,218	531,986,218
Effect of shares issued during the prior year	—	—	—	1,248,794	1,248,794	1,248,794
As at 30 June	<b>865,336,485</b>	<b>865,336,485</b>	<b>865,336,485</b>	533,235,012	533,235,012	533,235,012
	Shares	Shares	Shares	Shares	Shares	Shares
Dilutive effect of potential Ordinary Shares	—	—	—	2,011,279	—	2,011,279
Weighted average number of Ordinary Shares in issue used in diluted EPS	<b>865,336,485</b>	<b>865,336,485</b>	<b>865,336,485</b>	535,246,291	533,235,012	535,246,291
	US\$ cents	US\$ cents	US\$ cents	US\$ cents	US\$ cents	US\$ cents
Basic loss per share	<b>(20.18)</b>	<b>(6.01)</b>	<b>(26.19)</b>	(15.85)	(15.44)	(31.29)
Diluted loss per share	<b>(20.18)</b>	<b>(6.01)</b>	<b>(26.19)</b>	(15.85)	(15.44)	(31.29)

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 nil (30 June 2018: 2,011,279). 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.

## Notes to the Annual Financial Statements

For the Year ended 30 June 2019 continued

**13. Adjusted earnings/(loss) per share (non-GAAP measure)**

In order to show earnings/(loss) per share from operating activities on a consistent basis, an adjusted earnings/(loss) per share is presented which excludes certain items as set out below. It is emphasised that the adjusted earnings/(loss) per share is a non-GAAP measure. The Petra Board considers the adjusted earnings/(loss) per share to better reflect the underlying performance of the Group. The Company's definition of adjusted earnings/(loss) per share may not be comparable to other similarly titled measures reported by other companies.

	Continuing operations 30 June 2019 US\$	Discontinued operations 30 June 2019 US\$	Total 30 June 2019 US\$	Continuing operations 30 June 2018 US\$	Discontinued operations 30 June 2018 US\$	Total 30 June 2018 US\$
Loss for the Year attributable to parent	<b>(174,622,904)</b>	<b>(52,015,046)</b>	<b>(226,637,950)</b>	(84,562,428)	(82,312,465)	(166,874,893)
Adjustments:						
Net unrealised foreign exchange (gains)/losses	<b>(4,022,483)</b>	—	<b>(4,022,483)</b>	26,233,603	—	26,233,603
Present value discount – Williamson VAT receivable <sup>1,2</sup>	<b>14,212,444</b>	—	<b>14,212,444</b>	1,805,365	—	1,805,365
Impairment charge – operations <sup>1</sup>	<b>174,009,126</b>	—	<b>174,009,126</b>	54,232,200	67,306,108	121,538,308
Impairment charge – loan receivables	<b>3,941,305</b>	—	<b>3,941,305</b>	—	—	—
Taxation credit on impairment charge <sup>1</sup>	<b>(36,279,098)</b>	—	<b>(36,279,098)</b>	—	—	—
Taxation charge on reduction of unutilised Capex benefits <sup>1</sup>	—	—	—	6,736,719	—	6,736,719
Adjusted loss for the Year attributable to parent	<b>(22,761,610)</b>	<b>(52,015,046)</b>	<b>(74,776,656)</b>	4,445,459	(15,006,357)	(10,560,898)

1. Portion attributable to equity shareholders of the Company.

2. 30 June 2018 adjusted to include present value discount adjustment of the Williamson VAT receivable.



### 13. Adjusted earnings/(loss) per share (non-GAAP measure) continued

	Continuing operations 30 June 2019 Shares	Discontinued operations 30 June 2019 Shares	Total 30 June 2019 Shares	Continuing operations 30 June 2018 Shares	Discontinued operations 30 June 2018 Shares	Total 30 June 2018 Shares
Weighted average number of Ordinary Shares used in basic EPS:						
As at 1 July	865,336,485	865,336,485	865,336,485	531,986,218	531,986,218	531,986,218
Effect of shares issued during the prior year	—	—	—	1,248,794	1,248,794	1,248,794
As at 30 June	865,336,485	865,336,485	865,336,485	533,235,012	533,235,012	533,235,012
	Shares	Shares	Shares	Shares	Shares	Shares
Dilutive effect of potential Ordinary Shares	—	—	—	2,011,279	—	2,011,279
Weighted average number of Ordinary Shares in issue used in diluted EPS	865,336,485	865,336,485	865,336,485	535,246,291	533,235,012	535,246,291
	US\$ cents	US\$ cents	US\$ cents	US\$ cents	US\$ cents	US\$ cents
Adjusted basic (loss)/profit per share	(2.63)	(6.01)	(8.64)	0.83 <sup>2</sup>	(2.81)	(1.98)
Adjusted diluted (loss)/profit per share	(2.63)	(6.01)	(8.64)	0.83 <sup>2</sup>	(2.81)	(1.98)

### 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.

# Notes to the Annual Financial Statements

For the Year ended 30 June 2019 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
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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

US\$ million	Plant and machinery	Mineral properties	Assets under construction <sup>1</sup>	Total
<b>Cost</b>				
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 <sup>2</sup>	(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
Balance at 1 July 2018	1,576.9	68.3	92.7	1,737.9
Exchange differences	(37.9)	(1.7)	(3.6)	(43.2)
Additions	1.8	—	85.1	86.9
Transfer of assets under construction	154.2	—	(154.2)	—
Change in rehabilitation asset	—	—	—	—
Disposal – Helam	(1.5)	—	—	(1.5)
Disposals	(77.0)	—	—	(77.0)
<b>Balance at 30 June 2019</b>	<b>1,616.5</b>	<b>66.6</b>	<b>20.0</b>	<b>1,703.1</b>
<b>Depreciation and impairment</b>				
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 <sup>3</sup>	134.3	8.7	—	143.0
Provided in the Year	129.4	5.9	0.4	135.7
Balance at 30 June 2017	462.3	28.5	2.9	493.7
Balance at 1 July 2018	462.3	28.5	2.9	493.7
Exchange differences	(13.9)	(0.8)	(0.1)	(14.8)
Disposals	(74.0)	—	—	(74.0)
Transfer of assets under construction	2.9	—	(2.9)	—
Non-current assets held for sale	—	—	—	—
Impairments <sup>3</sup>	218.2	5.5	—	223.7
Provided in the Year	99.0	7.6	0.1	106.7
<b>Balance at 30 June 2019</b>	<b>694.5</b>	<b>40.8</b>	<b>—</b>	<b>735.3</b>
<b>Net book value</b>				
At 30 June 2018	1,114.6	39.8	89.8	1,244.2
<b>At 30 June 2019</b>	<b>922.0</b>	<b>25.8</b>	<b>20.0</b>	<b>967.8</b>

1. During the Year, assets under construction comprising stay-in-business and expansion capital expenditure of US\$154.2 million (30 June 2018: US\$468.4 million) were commissioned and transferred to plant and machinery. Included within assets under construction are amounts mainly for expansion projects at the Finsch and Cullinan mines. Borrowing costs of US\$3.7 million (30 June 2018: US\$15.2 million) have been capitalised to assets under construction.

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 notes 34 and 35).

3. Refer to note 8 for additional detail on the Cullinan, Finsch, Koffiefontein and Williamson impairments of US\$223.7 million (30 June 2018: US\$66.0 million for Koffiefontein and KEM JV of US\$77.0 million).

### Capital commitments

The Group's total commitments of US\$6.6 million (30 June 2018: US\$24.4 million), mainly comprise Cullinan US\$3.1 million (30 June 2018: US\$16.9 million), Finsch US\$1.9 million (30 June 2018: US\$6.3 million), Koffiefontein US\$0.5 million (30 June 2018: US\$1.2 million), KEM JV US\$nil (30 June 2018: US\$nil) and Williamson US\$1.1 million (30 June 2018: US\$nil).

## Notes to the Annual Financial Statements

For the Year ended 30 June 2019 continued

**15. BEE loans receivable and payable****Significant accounting policies relevant to BEE loans receivable and payable**

Refer to note 32 for the Group's policy in respect of financial instruments, which include BEE receivables and payables.

US\$ million	2019	2018
<b>Non-current assets</b>		
BEE loans receivable <sup>1</sup>	<b>109.6</b>	64.7
<b>Non-current liabilities</b>		
BEE loans payable <sup>2</sup>	<b>120.5</b>	110.5

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 and the IPDET) in respect of financing their interest in the Koffiefontein mine, 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 prior period 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.

The Group has applied the expected credit loss impairment model to its financial assets and the BEE loans receivable. In determining the extent to which expected credit losses may apply, the Group assessed the future free cashflows to be generated by the mining operations, based on the current LOM plans. Based on the assessment the Group's free cashflows generated are deemed sufficient to enable the BEE Partners to repay their loans to the Group. No expected credit losses are considered to apply to the BEE receivables relating to continuing operations.

US\$ million	2019	2018
As at 1 July	<b>64.7</b>	35.0
Foreign exchange movement on opening balances	<b>(1.2)</b>	(3.7)
Discretionary advance – capital and interest commitment (BEE Lender facility)	<b>42.2</b>	24.3
Discretionary advance – distributions to beneficiaries	<b>4.5</b>	6.7
Interest receivable	<b>4.9</b>	2.4
BEE partner receivables written off <sup>1</sup>	<b>(5.5)</b>	—
As at 30 June	<b>109.6</b>	64.7

1. The receivables written off comprise advances to the BEE Partners associated with the KEM JV.

**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	2019	2018
As at 1 July	<b>110.5</b>	99.5
Foreign exchange movement on opening balances	<b>(2.6)</b>	(1.5)
Interest payable	<b>12.6</b>	12.5
As at 30 June	<b>120.5</b>	110.5

The IPDET holds 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 effective interest percentages attributable to the remaining operations for the Group's shareholders are disclosed in the table below:

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



## 15. BEE loans receivable and payable continued

### 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 from the South African operations, 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 2019 the BEE Lender facility for which Petra stands surety was US\$54.2 million (30 June 2018: US\$85.9 million) with interest and capital commitments as detailed below:

US\$ million	Interest repayments	Capital repayments	Balance
BEE Lender facility as at 30 June 2019			54.2
Due and payable within 12 months	(6.0)	(17.0)	(23.0)
Due and payable in 1–2 years			31.2

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 Lenders agreed, post Year end, to amend the BEE Lender facility repayment profile of the outstanding balance of US\$54.2 million. The balance, which was to be settled in two instalments, November 2019 and May 2020, will now have a final repayment date of 20 November 2021. The BEE Lender facility bears interest at SA JIBAR plus 6.5% (the same interest rate ratchet terms as disclosed in note 21 are applicable to the BEE Lender facility), and is repayable with the first instalment of US\$4.8 million due in November 2019 and thereafter bi-annual instalments (capital plus interest) of US\$12.1 million in May and November with a final repayment date in November 2021. The probability of repayment default by the BEE Partners to Absa, Investec and RMB and any subsequent call by the BEE 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 <sup>1</sup>	Helam <sup>1</sup>	Tarorite	Williamson	Total
Effective interest %	21.6	21.6	21.6	—	—	17.8	25.0	
Country	South Africa	South Africa	South Africa	South Africa	South Africa	South Africa	Tanzania	
As at 1 July 2018	11.7	59.2	(21.7)	(28.9)	(9.2)	0.1	—	11.2
(Loss)/profit for the Year	(13.5)	(10.0)	(9.6)	2.0	0.1	—	(0.3)	(31.3)
Disposal	—	—	—	26.1	9.1	—	—	35.2
Foreign currency translation difference	(0.3)	(1.5)	0.3	0.8	—	—	—	(0.7)
<b>At 30 June 2019</b>	<b>(2.1)</b>	<b>47.7</b>	<b>(31.0)</b>	<b>—</b>	<b>—</b>	<b>0.1</b>	<b>(0.3)</b>	<b>14.4</b>

1. The non-controlling interest in respect of KEM JV and Helam was realised upon disposal of the operations during the Year.

During the Year, no dividends were paid to the non-controlling interests (30 June 2018: US\$nil). For additional information on total assets, total liabilities and segment results for each operation in the table above refer to note 33.

## 17. Trade and other receivables

### Significant accounting policies relevant to trade and other receivables

Refer to note 32 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 has gross VAT receivables of US\$32.9 million (30 June 2018: US\$24.2 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\$13.8 million (30 June 2018: US\$15.1 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.

## Notes to the Annual Financial Statements

For the Year ended 30 June 2019 continued

**17. Trade and other receivables** continued**Significant judgements and estimates relevant to VAT receivable at Williamson** continued

A further US\$19.1 million (30 June 2018: US\$9.1 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, a formal rejection letter received from the Tanzania Revenue Authority and the Company's legal objection thereto 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 considering various alternatives in pursuing 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\$22.8 million (30 June 2018: US\$3.9 million) which required estimates as to the timing of future receipts. A discount rate of 14.0% has been applied to the expected cash receipts. A 1% increase in the discount rate would increase the provision by US\$0.8 million and a one-year delay would increase the provision by US\$1.2 million.

US\$ million	2019	2018
<b>Current</b>		
Trade receivables <sup>1,2</sup>	23.8	75.0
Other receivables <sup>1</sup>	20.3	20.8
Less: expected credit loss provision of KEM JV receivables (refer to note 34)	(7.3)	—
Less: expected credit loss provision of other receivables	(4.0)	—
Other receivables – net	9.0	20.8
Income tax receivable	1.5	—
Prepayments <sup>1</sup>	1.6	3.6
	35.9	99.4
<b>Non-current</b>		
Other receivables <sup>3</sup>	32.9	24.2
Less: discounting provision	(22.8)	(3.9)
	10.1	20.3

1. In the prior year, current trade receivables, prepayments and other receivables exclude amounts classified as non-current assets held for sale of US\$12.1 million (refer to note 34).

2. Included in the opening balance of trade receivables are trade receivables in respect of diamond revenue of US\$75.0 million (1 July 2017: US\$32.6 million).

3. Other non-current receivables comprise net VAT receivable at Williamson of US\$10.1 million (30 June 2018: US\$20.3 million).

The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables and the 12-month approach, unless a specific risk exists, for other receivables. To measure expected credit losses on a collective basis, trade receivables and other receivables are grouped based on similar credit risk and ageing.

As at 30 June 2019 trade receivables of US\$23.8 million (30 June 2018: US\$75.0 million) comprised of diamond debtors, all of which had settled post year end and as such have a lifetime expected credit losses of US\$nil.

In assessing the credit risk loss and recoverability of other receivables, management considered the historical trading performance of the third parties, the current downturn in the diamond market and outlook, the current economic climate and outlook, payment history and recent press coverage involving the third parties. Such assessment resulted in impairment provisions totaling US\$11.3 million (30 June 2018: US\$nil).

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.





## 18. Inventories continued

### Significant accounting policies relevant to inventories continued

#### Recoverability of diamond parcel in Tanzania

The Group holds diamond inventory valued at lower of cost and net realisable value of US\$12.4 million (30 June 2018: US\$12.4 million) in the Statement of Financial Position in respect of the Williamson mine's confiscated diamond parcel. During FY 2018, 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 in FY 2018 that it still holds the diamond parcel of 71,654.45 carats, verbal re-confirmation that has been given this Year in the course of the ongoing discussions held with the GoT, 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 external in-country attorneys which supports the Group's position.

During FY 2018, 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	2019	2018 <sup>1</sup>
Diamonds held for sale	57.5	54.0
Work in progress stockpiles	13.3	10.5
Consumables and stores	14.8	13.6
	85.6	78.1

1. In the prior year, inventories exclude amounts classified as non-current assets held for sale of US\$12.6 million (refer to note 34).

## 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	2019	2018 <sup>1</sup>
Cash and cash equivalents – unrestricted	71.7	221.6
Cash – restricted	13.5	14.4
	85.2	236.0

1. In the prior year, cash and cash equivalents exclude amounts classified as non-current assets held for sale of US\$1.4 million (refer to note 34).

The Group's insurance product, which currently includes the Finsch, Cullinan and Koffiefontein mines, has secured cash assets of US\$12.8 million (30 June 2018: US\$13.6 million) held in a cell captive. As part of the disposal of the KEM JV and Helam operations an amount of US\$2.0 million (30 June 2018: US\$nil) was transferred from the cell captive to the new owners. The Group has a commitment to pay insurance premiums over the next year of US\$2.2 million (30 June 2018: US\$2.3 million) to fund the insurance product for the South African operations. The rehabilitation provisions are disclosed in note 23.

## 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	2019	Number of shares	2018
Authorised – Ordinary Shares of 10 pence each				
At 1 July 2018 and 30 June 2019	1,000,000,000	164.3	1,000,000,000	164.3
Issued and fully paid				
At 1 July	865,336,485	133.4	531,986,218	89.6
Allotments during the Year	—	—	333,350,267	43.8
At 30 June	865,336,485	133.4	865,336,485	133.4

There were no share allotments during the current Year.

# Notes to the Annual Financial Statements

For the Year ended 30 June 2019 continued

## 20. Equity and reserves continued

### 30 June 2018

Allotments during the period ending 30 June 2018 were in respect of the issue of 332,821,725 Ordinary Shares to shareholders pursuant to a 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. 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 during July 2018.

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 other listed financial assets of US\$0.8 million (30 June 2018: US\$0.8 million). The Directors do not consider there to be objective evidence that the other listed financial asset is permanently impaired.

#### Accumulated losses

The accumulated losses comprise the Group's cumulative accounting 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 and Williamson mines together with foreign exchange retranslation of the reserve. Included in the non-controlling interest is an amount of US\$35.2 million (30 June 2018: US\$nil) relating to the disposal of the KEM JV and Helam operations. The non-controlling interest share of total comprehensive income includes US\$32.0 million total comprehensive expense (30 June 2018: US\$41.5 million expense) 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	2019	2018
<b>Current</b>		
Loans and borrowings – senior secured lender debt facilities	–	106.7
Loans and borrowings – senior secured second lien notes	47.1	46.9
	<b>47.1</b>	153.6
<b>Non-current</b>		
Loans and borrowings – senior secured second lien notes	603.5	601.2
	<b>650.6</b>	754.8

#### (a) US\$650 million senior secured second lien notes

A wholly owned subsidiary of the Company, Petra Diamonds US\$ Treasury Plc, issued debt securities consisting of US\$650 million five-year senior secured second lien loan notes, with a maturity date of 1 May 2022 ("the Notes"). 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 2019, the Notes had accrued interest of US\$8.3 million (30 June 2018: US\$7.7 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.

#### (b) Senior secured lender debt facilities

The Group's South African Lender Group are Absa Corporate and Investment Banking ("Absa"), FirstRand Bank Limited (acting through its Rand Merchant Bank division) ("RMB") and Nedbank Limited. On 9 and 13 July 2018, the Company settled the RCF loan (capital plus interest) of US\$73.1 million and the WCF loan (capital plus interest) of US\$33.6 million respectively with its Lender Group. The RCF and WCF remain available to the Group and were undrawn at Year end.

## Notes to the Annual Financial Statements

For the Year ended 30 June 2019 continued

**21. Interest-bearing loans and borrowings** continued

The Group's debt and hedging facilities are detailed in the table below:

	Bank loan – secured		Bank loan – secured		Senior second lien notes – secured	
	2019	2018	2019	2018	2019	2018
Institution	Nedbank, Absa		FirstRand, Absa		Bond holders	
Type	Revolving credit facility		Working capital facility		Bond notes	
Total facility (ZAR million)	<b>1,000.0</b>	1,000.0	<b>500.0<sup>1</sup></b>	500.0	—	—
Total facility (US\$ million)	—	—	—	—	<b>650.0</b>	650.0
Draw-down ZAR facility (US\$ million)	—	72.9	—	33.8	—	—
Draw-down (US\$ million)	—	—	—	—	<b>650.0</b>	650.0
Interest rate (ZAR)	<b>SA JIBAR plus 5.0%</b>	SA JIBAR plus 5.0%	<b>SA Prime less 1.0%</b>	SA Prime less 1.0%	—	—
Interest rate (US\$)	—	—	—	—	<b>7.25%</b>	7.25%
Interest rate at Year end (ZAR)	<b>12.7%</b>	13.7%	<b>9.25%</b>	9.0%	—	—
Interest rate at Year end (US\$)	—	—	—	—	<b>7.25%</b>	7.25%
Interest repayment period	<b>Monthly</b>	Monthly	<b>Monthly</b>	Monthly	<b>Bi-annually</b>	Bi-annually
Latest date available for draw-down	<b>20 October 2021</b>	20 October 2021	<b>Annual review</b>	Annual review	<b>Fully drawn down</b>	Fully drawn down
Capital repayment profile	<b>Single payment</b>	Single payment	<b>On demand</b>	On demand	<b>Single payment</b>	Single payment
Final repayment date (US\$ million)	—	—	—	—	<b>1 May 2022</b>	1 May 2022
Final repayment date (ZAR million)	<b>20 October 2021</b>	20 October 2021	<b>On demand</b>	On demand	—	—

1. The facility also comprises a ZAR300 million (30 June 2018: ZAR300 million) foreign exchange settlement line not included above.

The repayment terms remain unchanged; however, due to the covenant amendments (refer below) there was a change in the interest rate and commitment fee ratchet mechanisms to the ZAR RCF contingent on the consolidated net debt:consolidated EBITDA covenant levels at each measurement date. The revised interest rate and commitment fee ratchet mechanisms are as follows:

Consolidated net debt to consolidated EBITDA	Additional interest rate ratchet	Additional commitment fee ratchet
≤ to 2.5:1	0.0%	0.0%
> 2.5:1 but ≤ 3.0:1	+1.0%	0.0%
> 3.0:1 but ≤ 3.5:1	+2.0%	+0.225%
> 3.5:1 but ≤ 4.0:1	+3.0%	+0.450%
> 4.0:1	+4.0%	+0.675%

The revolving credit and working capital facilities are secured on the Group's interests in Finsch, Cullinan, Koffiefontein and Williamson.

**Covenant ratios**

On 26 April 2019, agreement was reached with Petra's Lender Group to amend the EBITDA-related maintenance covenant levels for the respective measurement periods. In addition the impact of the recent weakness in the diamond market on the Group's operating results and cashflow position has been discussed with the Lender Group, including possible breaches in its EBITDA-related covenants for the December 2019 and June 2020 reporting periods. The Lender Group has reaffirmed its ongoing support of the Group and the Company. Further discussions will be held once post-Year-end tender results have been finalised and processed, and the Company has had the opportunity to further assess the impact on forward-looking cashflow projections.



## 21. Interest-bearing loans and borrowings continued

### Covenant ratios continued

The Company's EBITDA-related maintenance covenant levels for the respective measurement periods are outlined below:

	12 months to 30 Jun 2019	12 months to 31 Dec 2019	12 months to 30 Jun 2020	12 months to 31 Dec 2020	12 months to 30 Jun 2021	Distribution covenants (all periods)
<b>Consolidated net debt to consolidated EBITDA<sup>1,2</sup>:</b>						
- New covenant ratio:	≤ 4.5x	≤ 4.25x	≤ 3.5x	≤ 3.25x	≤ 3.0x	≤ 2.0x
- Previous covenant ratio:	≤ 2.5x	≤ 2.5x	≤ 2.5x	≤ 2.5x	≤ 2.5x	≤ 2.0x
<b>Consolidated EBITDA to consolidated net finance charges:</b>						
- New covenant ratio:	≥ 2.5x	≥ 2.5x	≥ 2.75x	≥ 3.0x	≥ 3.25x	≥ 6.0x
- Previous covenant ratio:	≥ 4.0x	≥ 4.0x	≥ 4.0x	≥ 4.0x	≥ 4.0x	≥ 6.0x

1. Fees to the Lender Group relating to the above mentioned changes in covenants and facilities are set out on page 163 in the form of the increased interest rate and commitment fee ratchet mechanism.

2. Consolidated net debt for covenant measurement purposes is bank loans and borrowings plus loan notes, less cash and diamond debtors and includes the BEE guarantees of US\$54.2 million (ZAR762.5 million) (30 June 2018: US\$85.9 million (ZAR1,179 million)) issued by Petra to the lenders as part of the BEE financing concluded in December 2014 and which are included in the Group's Consolidated Statement of Financial Position as BEE loans payable.

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 32 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	2019	2018
<b>Current</b>		
Trade payables <sup>1</sup>	20.9	34.9
Accruals and other payables	34.0	92.4
	54.9	127.3
Income tax payable	—	3.5
	54.9	130.8

1. In the prior year, current trade and other payables exclude amounts classified as non-current assets held for sale of US\$13.6 million (refer to note 34).

Included in trade and other payables are amounts due to related parties (refer to note 27).

## 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 8.8–9.7% (30 June 2018: 7.5–9.7%), estimated rehabilitation timing of 8 to 46 years (30 June 2018: 9 to 47 years) and an inflation rate range of 6.8–7.7% (30 June 2018: 5.5–7.7%). 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.

## Notes to the Annual Financial Statements

For the Year ended 30 June 2019 continued

**23. Provisions** continued**Decommissioning, mine closure and environmental rehabilitation** continued

US\$ million	Pension and post-retirement medical fund	Rehabilitation	Total
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 34)	(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
Balance at 1 July 2018	12.1	47.4	59.5
Disposal – Helam	—	(1.5)	(1.5)
Increase/(decrease) in provisions	(0.3)	0.4	0.1
Unwinding of present value adjustment of rehabilitation provision	—	4.0	4.0
Exchange differences	(0.1)	(0.7)	(0.8)
<b>Balance at 30 June 2019</b>	<b>11.7</b>	<b>49.6</b>	<b>61.3</b>

**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 30 and 31. Additional information on the provision for post-retirement medical and pension funds is also described in notes 30 and 31.

**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		Williamson		KEM JV		Helam	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Decommissioning period (years)			14	15	46	47	8	9	14	15	—	18	—	—
Estimated rehabilitation cost (US\$ million)	49.6	47.4	22.4	21.3	14.3	13.4	6.8	6.4	6.1	4.8	—	—	—	1.5

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, disposal of Helam, change in estimates and unrealised foreign exchange on retranslation from functional to presentational currency.

In FY 2018, the decrease in the provisions was attributable to 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.

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.



## 24. Deferred taxation continued

### Significant accounting policies relevant to deferred taxation continued

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	2019	2018
Balance at the beginning of the Year	139.2	137.2
Income statement (credit)/charge	(53.9)	3.3
Reclassified to assets held for sale and loss on discontinued operations	—	5.9
Foreign currency translation difference	(3.9)	(7.2)
Balance at the end of the Year	81.4	139.2
Comprising:		
Deferred tax asset	—	—
Deferred tax liability	81.4	139.2
	81.4	139.2

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.

Deferred taxation comprises:

US\$ million	Total	2019 Recognised	2019 Unrecognised
<b>Deferred tax liability</b>			
– Property, plant and equipment	157.4	157.4	—
– Prepayment and accruals	0.3	0.3	—
	157.7	157.7	—
<b>Deferred tax asset</b>			
– Capital allowances	(84.2)	(59.9)	(24.3)
– Provisions and accruals	(21.5)	(16.4)	(5.1)
– Tax losses	(30.7)	—	(30.7)
	(136.4)	(76.3)	(60.1)
<b>Net deferred taxation liability/(asset)</b>	<b>21.3</b>	<b>81.4</b>	<b>(60.1)</b>

US\$ million	Total	2018 Recognised	2018 Unrecognised
<b>Deferred tax liability</b>			
– Property, plant and equipment	189.0	189.0	—
– Prepayment and accruals	—	—	—
	189.0	189.0	—
<b>Deferred tax asset</b>			
– 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)
<b>Net deferred taxation liability/(asset)</b>	<b>69.5</b>	<b>139.2</b>	<b>(69.7)</b>

In the current Year and prior year no deferred tax assets have been recognised in respect of tax losses and other temporary differences.

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\$57.2 million (credit) (30 June 2018: US\$0.9 million) in respect of property, plant and equipment and associated capital allowances, with the remaining US\$0.9 million (30 June 2018: US\$4.2 million credit) comprised of provisions and utilisation of tax losses. The US\$57.2 million credit movement arises from temporary differences related to the impairments of property, plant and equipment (US\$42.8 million) and other temporary differences (US\$14.4 million).

# Notes to the Annual Financial Statements

For the Year ended 30 June 2019 continued

## 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 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 yet to be sold but are expected to be sold in the foreseeable future and only then will Petra's share of any 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.

### BEE Lender guarantees

The BEE Partners obtained bank financing from 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 in assessing the risk of the BEE Partners defaulting under their obligations to the BEE Lenders. Management has considered the Group's future cashflows forecasts and its ability to meet, at its discretion, planned forecast BEE Partner distributions. Accordingly management is 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).

#### 2012 Performance Share Plan ("PSP") and 2016 Longer-term Incentive Plan ("LTIP")

Share-based awards granted under the 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 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. In the event that vesting conditions were not met the charge would be reversed.

The LTIP performance conditions are non-market based (i.e. HSE, production, project delivery and adjusted EBITDA) with vesting conditions measured annually.

#### Company schemes

The total share-based payment charge of US\$0.2 million (30 June 2018: US\$0.6 million) for the PSP share plan comprises US\$0.2 million (30 June 2018: US\$0.6 million charge) charged to the Consolidated Income Statement.

The total charge of US\$0.6 million (30 June 2018: US\$0.9 million) for the LTIP share plan was charged to the Consolidated Income Statement.



**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	2019	2018
Fair value (PSP absolute TSR/PSP relative TSR/PSP non-market)	<b>20.3p/25.0p/37.3p</b>	36.4p/46.6p/75.5p
Grant date	<b>15 October 2018</b>	5 October 2017
Share price at grant date	<b>37.3p</b>	75.5p
Expected volatility	<b>55.1%</b>	49.7%
Life of award	<b>3 years</b>	3 years
Expected dividends	—	—
Performance period	<b>3 years</b>	3 years
Correlation	<b>19.8%</b>	23.4%
Risk-free interest rate (based on national Government bonds)	<b>0.9%</b>	0.5%

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, 1,051,333 (30 June 2018: 806,417) PSP shares were awarded at a fair value price of 37.3 pence (30 June 2018: 75.5 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 15 October 2018, the Executive Directors of the Company were granted a total of 585,240 (30 June 2018: 137,898) 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 2018: 100%) of the total bonus in respect of performance for the financial year ended 30 June 2018. 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 84 to 93.

**Senior Management LTIP: 2019**

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	2019	2018
Number of awards	<b>4,635,818</b>	3,152,083
Fair value	<b>48.0p</b>	74.9p
Grant date	<b>22 November 2018</b>	15 November 2017
Share price at grant date	<b>48.0p</b>	74.9p
Life of award	<b>3 years</b>	3 years
Foreign exchange rate (ZAR/US\$)	<b>ZAR14.80</b>	ZAR14.07

During the Year 4,635,818 LTIP shares were awarded, 1,669,097 lapsed and 2,516,721 vested. These awards had no exercise price. The awards vested at 60.1% based on performance conditions measured over the Period ending 30 June 2019.

**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	Post Rights Issue Number	Vesting period	Remaining life of options (months)
<b>Options granted to Directors</b>	30 September 2009	971,717	1/3 per annum from grant date	3
	17 March 2010	971,717	1/3 per annum from grant date	9
<b>Options granted to Senior Management</b>	30 September 2009	402,858	1/3 per annum from grant date	3
	17 March 2010	758,157	1/3 per annum from grant date	9
	25 November 2010	200,417	1/3 per annum from grant date	17

## Notes to the Annual Financial Statements

For the Year ended 30 June 2019 continued

**26. Share-based payments** continued  
**Employee and Director share options** continued

	2019		2018	
	Weighted average exercise price (pence)	Number	Weighted average exercise price (pence)	Number
Outstanding at the beginning of the Year	43.4	5,044,179	43.7	5,255,000
Rights Issue adjustment	35.7	1,058,747	—	—
Lapsed	23.1	(2,798,060)	—	—
Cancelled	—	—	33.5	(75,000)
Exercised during the Year	—	—	60.5	(135,821)
Outstanding at the end of the Year	47.3	3,304,866	43.4	5,044,179
Exercisable at the end of the Year	47.3	3,304,866	43.4	5,044,179

The weighted average market price of the shares in respect of options exercised during the Year was nil pence (30 June 2018: 81.2 pence). The options outstanding at 30 June 2019 have an exercise price in the range of 37.5 pence to 76.4 pence (30 June 2018: 27.5 pence to 92.8 pence) and a weighted average remaining contractual life of one year (30 June 2018: one year).

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 are disclosed in note 29.

**Directors**

Details relating to Directors' emoluments are disclosed in note 11 and in the Directors' Remuneration Report on pages 84 to 93. Details relating to Directors' shareholdings in the Company are disclosed in the Corporate Governance Report on pages 52 and 53. Key management remuneration is disclosed in note 11.

**Helam disposal (refer note 34)**

Jim Davidson, former Technical Director of Petra who retired from the Company on 30 June 2018, was approached by the existing owners of Lindleys Mining to be a co-shareholder in this venture, given his extensive experience with Helam. Jim Davidson agreed to subscribe for 49% of the shares in Lindleys Mining. As such, Jim Davidson is considered to be a related party of the Company under Listing Rule 11.1.4R. Lindleys Mining purchased the Helam mine on 6 December 2018.

As disclosed in the Company's FY 2012 Annual Report, Johan Dippenaar, former Group CEO, and Jim Davidson, former Technical Director, exercised an option to acquire the Helam game farm from the Company for ZAR2.5 million (ca. US\$0.3 million at the prevailing exchange rate) granted in 2004. Although Mr Dippenaar and Mr Davidson duly paid the option price, the transfer of the properties has to date not been effected. In the interest of the Helam disposal (refer note 34), and to ensure the surface rights (including the mining right area and the Helam game farm) are transferred without any encumbrance to the new owners, Helam entered into a cancellation agreement with Mr Dippenaar and Mr Davidson prior to the Helam disposal as disclosed above, to unwind the exercise of the original option through the repayment of the original option price of ZAR2.5 million (US\$0.2 million at current exchange rates), the "Option Cancellation". The Option Cancellation is classified as a small transaction as defined in Listing Rule 11 Annex 1.

**BEE Partners and related party balances**

Details relating to the Group's interests in its BEE Partners are disclosed in note 15.

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 below.

Mine	Partner and respective interest as at 30 June 2019	Partner and respective interest as at 30 June 2018
Finsch	Kago Diamonds (14%)	Kago Diamonds (14%)
Cullinan	Kago Diamonds (14%)	Kago Diamonds (14%)
Koffiefontein	Kago Diamonds (14%)	Kago Diamonds (14%)
KEM JV <sup>1</sup>	Kago Diamonds (0.0%) Ekapa Mining (0.0%)	Kago Diamonds (8.4%) Ekapa Mining (24.1%)
Helam <sup>1</sup>	Sedibeng Mining (0.0%)	Sedibeng Mining (26%)

1. During the Year, the Company and its BEE Partners disposed of their interests in KEM JV and Helam (refer to note 34).



## 27. Related parties continued

### BEE Partners and related party balances continued

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	2019	2018
<b>Non-current receivable</b>		
Sedibeng Mining	—	0.9
Kago Diamonds <sup>1,3</sup>	54.6	26.2
	54.6	27.1
<b>Non-current payable</b>		
Kago Diamonds <sup>1,3</sup>	64.9	59.5
	64.9	59.5
<b>Current trade and other receivables</b>		
KEM JV <sup>2</sup>	8.6	—
Impairment provision <sup>2</sup>	(7.3)	—
	1.3	—
<b>Finance income</b>		
Kago Diamonds <sup>1,3</sup>	3.5	1.8
Ekapa Mining <sup>2</sup>	—	0.2
	3.5	2.0
<b>Finance expense</b>		
Kago Diamonds <sup>1,3</sup>	6.8	6.7
Ekapa Mining <sup>2</sup>	—	0.2
	6.8	6.9

1. Included in non-current receivables and payables are amounts advanced to Kago Diamonds during the Year of US\$26.8 million (30 June 2018: US\$14.3 million). The Group has applied the expected credit loss impairment model to the Kago Diamonds receivables and no credit losses are considered to apply.

2. Included in current trade and other receivables are amounts advanced of US\$9.4 million to the KEM JV in the form of a working capital facility and equipment finance facility (of which the Company has received repayments of US\$3.9 million during the Year) and the balance of the KEM JV purchase consideration of US\$3.1 million. The Group has applied the expected credit loss impairment model to the KEM JV receivables taking into account various factors and the expected credit loss was deemed to be US\$7.3 million.

3. Umnotho weSizwe Group (Pty) Ltd ("Umnotho"), holds a 16.34% interest in Kago Diamonds. Mr Dippenaar (the former Group CEO) is directly or indirectly a beneficiary of a trust that is a shareholder in Umnotho.

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.

Kago Diamonds is one of the BEE Partners which obtained bank financing from the BEE Lenders to acquire its interests in Finsch and Cullinan. The Group has provided a guarantee to the BEE Lenders for repayment of loans advanced to the Group's BEE Partners. Further details on the BEE guarantees are in note 15.

### Rental income receivable

The Group received US\$nil (30 June 2018: US\$nil) of rental income from Pella Resources Ltd and US\$0.1 million (30 June 2018: US\$0.4 million) from Alufer Mining Ltd. The Group has US\$0.3 million (30 June 2018: US\$0.3 million) receivable from Pella Resources Ltd and US\$0.1 million (30 June 2018: US\$0.4 million) receivable from Alufer Mining Ltd, both companies of which Mr Pouroulis is a Director.

### Shareholders

The principal shareholders of the Company are detailed in Supplementary Information on page 169.

## Notes to the Annual Financial Statements

For the Year ended 30 June 2019 continued

**28. Notes to the cashflow statement****Significant non-cash transactions****(a) Operating and investing activities**

US\$ million	2019	2018
<b>Operating activities</b>		
Depreciation of property, plant and equipment	<b>106.7</b>	135.7
Impairment charge	<b>246.6</b>	66.0
Loss and impairment charge on discontinued operations	<b>49.9</b>	92.7
Movement in provisions	<b>0.7</b>	(3.0)
Other finance expense – pension scheme	—	0.2
Other finance expense – unwinding of present value adjustment for rehabilitation costs	<b>4.0</b>	4.0
Other finance expense – post-retirement medical fund	<b>1.2</b>	1.2
Net unrealised foreign exchange (gains)/losses	<b>(4.0)</b>	26.2
Loss on sale of property, plant and equipment	<b>1.3</b>	—
Share-based payment provision	<b>0.2</b>	0.6
	<b>406.6</b>	323.6
<b>Investing activities</b>		
Non-cash capital expenditure (capitalisation of borrowing costs and employee costs)	<b>1.0</b>	13.3
Non-cash rehabilitation asset adjustment – change in estimate	—	2.4
Non-cash interest receivable from BEE loans on investing activity	<b>4.9</b>	2.4
	<b>5.9</b>	18.1
<b>Investing activities</b>		
Non-cash interest payable on BEE loans on investing activity	<b>12.6</b>	12.5
	<b>12.6</b>	12.5

**(b) Financing activities – change in loans and borrowings (per note 21)**

US\$ million	Senior secured second lien notes 2019	Senior secured lender debt facilities 2019	Total 2019	Senior secured second lien notes 2018	Senior secured lender debt facilities 2018	Total 2018
<b>Loans and borrowings</b>						
At 1 July	<b>648.1</b>	<b>106.7</b>	<b>754.8</b>	648.1	109.0	757.1
Cash draw-downs	—	<b>5.8</b>	<b>5.8</b>	—	35.6	35.6
Cash repayments (capital and interest)	<b>(47.1)</b>	<b>(108.5)</b>	<b>(155.6)</b>	(49.6)	(44.6)	(94.2)
<b>Non-cash</b>						
– Interest accruing during Year	<b>49.6</b>	—	<b>49.6</b>	49.6	11.8	61.4
– Effect of foreign exchange	—	<b>(4.0)</b>	<b>(4.0)</b>	—	(5.1)	(5.1)
At 30 June	<b>650.6</b>	—	<b>650.6</b>	648.1	106.7	754.8



## 29. Subsidiaries and jointly controlled interests

### Significant accounting policies relevant to subsidiaries

At 30 June 2019 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 2019	Direct percentage held 30 June 2018	Nature of business
Blue Diamond Mines (Pty) Ltd	South Africa	Ordinary	74%	74%	Mining and exploration
Crown Resources (Pty) Ltd <sup>1</sup>	South Africa	Ordinary	—%	74%	Mining and exploration
Cullinan Diamond Mine (Pty) Ltd	South Africa	Ordinary	74%	74%	Mining and exploration
Cullinan Investment Holdings Ltd	British Virgin Islands	Ordinary	100%	100%	Investment holding
Ealing Management Services (Pty) Ltd	South Africa	Ordinary	100%	100%	Treasury
Ekapa Minerals (Pty) Ltd <sup>1</sup>	South Africa	Ordinary	—%	49.9%	Mining and exploration
Finsch Diamond Mine (Pty) Ltd	South Africa	Ordinary	74%	74%	Mining and exploration
Helam Mining (Pty) Ltd <sup>3</sup>	South Africa	Ordinary	—%	74%	Mining and exploration
Kalahari Diamonds Ltd	United Kingdom	Ordinary	100%	100%	Investment holding
Kimberley Ekapa Mining JV <sup>1</sup>	Unincorporated JV	n/a	—%	55.5%	Mining and exploration
Petra Diamonds Holdings SA (Pty) Ltd	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	South Africa	Ordinary	100%	100%	Treasury
Sekaka Diamonds Exploration (Pty) Ltd <sup>2</sup>	Botswana	Ordinary	100%	100%	Exploration
Tarorite (Pty) Ltd	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. On 5 December 2018, the Company disposed of its interest in Crown Resources (Pty) Ltd, Ekapa Minerals (Pty) Ltd and the Kimberley Ekapa Mining JV; for further detail refer to note 34.

2. During the Year, Petra Diamonds Botswana (Pty) Ltd changed its name to Sekaka Diamonds Exploration (Pty) Ltd.

3. On 6 December 2018, the Company disposed of its interest in Helam Mining (Pty) Ltd; for further detail refer to note 34.

## 30. 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 on an annual basis.

#### 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 2019. 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.

## Notes to the Annual Financial Statements

For the Year ended 30 June 2019 continued

**30. Pension scheme** continued**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 9.99% (30 June 2018: 9.81%), and that salaries will be increased at 7.43% (30 June 2018: 7.61%), based on the current South African consumer price index of 6.43% (30 June 2018: 6.61%). Estimated future benefit payments to members for the 12-month period ending 30 June 2020 are US\$0.9 million.

US\$ million	2019	2018
<b>Defined benefit obligations</b>		
Present value of funded obligations	<b>(10.9)</b>	(11.3)
Fair value of plan assets	<b>10.9</b>	11.0
Recognised deficit for defined benefit obligations	<b>—</b>	(0.3)
<b>Expense recognised in the income statement</b>		
Current service cost	<b>(0.2)</b>	(0.3)
Net interest on deficit	<b>—</b>	0.2
	<b>(0.2)</b>	(0.1)
<b>Change in the fair value of the defined benefit assets</b>		
At 1 July	<b>11.0</b>	13.4
Foreign exchange movement on opening balances	<b>(0.3)</b>	(0.8)
Return on plan assets	<b>1.0</b>	1.1
Benefits paid to members	<b>(0.8)</b>	(2.9)
Contributions by Group – net	<b>—</b>	0.2
At 30 June	<b>10.9</b>	11.0
<b>Change in the present value of the defined benefit obligations</b>		
At 1 July	<b>(11.3)</b>	(14.1)
Foreign exchange movement on opening balance	<b>0.4</b>	0.9
Benefits paid to members	<b>0.8</b>	2.9
Current service cost	<b>(0.2)</b>	(0.3)
Finance expense	<b>(1.1)</b>	(1.2)
Contributions by members	<b>(0.1)</b>	(0.1)
Net transfers in	<b>0.6</b>	0.6
At 30 June	<b>(10.9)</b>	(11.3)
<b>Analysis of plan assets</b>		
Cash	<b>10.4%</b>	9.9%
Equity	<b>30.7%</b>	41.5%
Bonds	<b>24.6%</b>	24.1%
Property	<b>11.8%</b>	7.4%
Other – offshore	<b>22.5%</b>	17.1%
	<b>100.0%</b>	100.0%



### 30. Pension scheme continued

#### Defined benefit scheme continued

US\$ million	2019	2018	2017	2016
Plan assets	10.9	11.0	13.4	11.9
Plan liabilities	(10.9)	(11.3)	(14.1)	(12.9)
Deficit	—	(0.3)	(0.7)	(1.0)

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:

	2019	2018
Male	15.92	15.92
Female	20.02	20.02

Further to the assumption of assets and liabilities associated with the defined benefit fund when the Group acquired its interest in Cullinan and Finsch, 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\$0.6 million (30 June 2018: US\$0.7 million). A two-year change in mortality changes the pension obligation by approximately US\$0.4 million (30 June 2018: US\$0.4 million).

### 31. 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 2019. 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 142.

The post-employment healthcare liability scheme was acquired as part of the acquisitions of the Cullinan and Finsch and is closed to new members. As part of the KEM JV disposal agreement, those members which formed part of the post-employment healthcare scheme (under the Kimberley Mines) were transferred to a post-employment healthcare liability scheme controlled by Ekapa Mining. 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 7.25% (30 June 2018: 7.75%), based on the average yield of relevant South African Government long-dated bonds of 10.0% (30 June 2018: 10.0%), and that salaries will be increased at 5.75% (30 June 2018: 6.25%).

## Notes to the Annual Financial Statements

For the Year ended 30 June 2019 continued

**31. Post-retirement medical fund** continued

US\$ million	2019	2018
<b>Post-retirement medical fund</b>		
Present value of post-employment medical care obligations	11.7	11.8
Unfunded status at 30 June	11.7	11.8
<b>Movements in present value of the post-retirement medical fund obligations recognised in the Consolidated Statement of Financial Position</b>		
Net liability for the post-retirement medical fund obligation as at 1 July	11.8	14.8
Foreign exchange movement on opening balances	(0.6)	(3.9)
Reclassified to assets held for sale	—	(1.2)
Net expense recognised in the income statement	1.5	1.5
Membership changes	(0.5)	0.9
Benefit payments	(0.5)	(0.3)
Net liability for post-employment medical care obligations at 30 June	11.7	11.8
<b>Expense recognised in the income statement</b>		
Current service cost	0.3	0.3
Finance expense	1.2	1.2
	1.5	1.5
<b>The expense is recognised in the following line items in the income statement</b>		
Mining and processing costs	0.3	0.3
Finance expense	1.2	1.2
	1.5	1.5
<b>Reconciliation of fair value of scheme liabilities</b>		
At 1 July	11.8	14.8
Foreign exchange movement on opening balances	(0.6)	(3.9)
Reclassified to assets held for sale	—	(1.2)
Net expense recognised in the income statement	1.5	1.5
Membership changes	(0.5)	0.9
Benefit payments	(0.5)	(0.3)
Liabilities at fair market value at 30 June	11.7	11.8
	2019	2018
<b>Principal actuarial assumptions</b>		
Discount rate	10.0%	10.0%
Healthcare cost inflation	7.75%	7.75%
Future salary increases	5.75%	6.25%
Net replacement ratio	75%	86%
Net discount rate	2.56%	2.09%
Normal retirement age (years)	60.0	60.0
Fully accrued age (years)	60.0	60.0
US\$ million	2019	2018
<b>Determination of estimated post-retirement medical fund expense for the year ended 30 June 2020</b>		
Current service cost	0.8	0.3
Finance expense	0.5	1.0
Benefit payments	(0.5)	(0.5)





### 31. Post-retirement medical fund continued

US\$ million	2019	2018	2017	2016
<b>Actuarial accrued liability</b>				
Funded status	<b>11.7</b>	11.8	14.8	11.2

#### 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 2019	1% increase	1% decrease
Accrued liability	<b>11.7</b>	<b>11.9</b>	<b>11.2</b>
% difference	—	<b>1.7%</b>	<b>(4.3%)</b>

US\$ million	30 June 2018	1% increase	1% decrease
Accrued liability	11.8	12.5	10.1
% difference	—	5.9%	(14.4%)

#### Average retirement age

The table below shows the impact of a one-year change in the expected average retirement age:

US\$ million	30 June 2019	Retirement one year earlier	Retirement one year later
Accrued liability	<b>11.7</b>	<b>11.7</b>	<b>11.7</b>
% difference	—	<b>0.1%</b>	<b>(0.1%)</b>

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%)

### 32. 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:

##### Financial assets

##### *Amortised cost*

These 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 where the objective is to hold these assets in order to collect contractual cashflows and the contractual cashflows are solely payments of principal and interest. 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*

Impairment provisions for current trade receivables are recognised based on the simplified approach within IFRS 9 using a provision matrix in the determination of the lifetime expected credit losses. During this process the probability of the non-payment of the trade receivables is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. For trade receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognised within cost of sales in the Consolidated Statement of Comprehensive Income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Impairment provisions for receivables from related parties and loans to related parties are recognised based on a forward-looking expected credit loss model. The methodology used to determine the amount of the provision is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. For those where the credit risk has not increased significantly since initial recognition of the financial asset, 12-month expected credit losses along with gross interest income are recognised. For those for which credit risk has increased significantly, lifetime expected credit losses along with the gross interest income are recognised. For those that are determined to be credit impaired, lifetime expected credit losses along with interest income on a net basis are recognised.

## Notes to the Annual Financial Statements

For the Year ended 30 June 2019 continued

**32. Financial instruments** continued**Significant accounting policies relevant to financial instruments** continued

## Financial assets continued

## Impairment continued

The Group's financial assets measured at amortised cost comprise non-current receivables, trade and other receivables and cash and cash equivalents in the Consolidated Statement of Financial Position.

The financial assets classified at amortised cost included in receivables are as follows:

US\$ million	Total 2019	Total 2018	Statement of Financial Position 2018	Non-current assets held for sale 2018
Current trade receivables	23.8	84.0	75.0	9.0
Other receivables (excluding taxation, VAT and prepayments)	6.5	21.4	21.4	—
Non-current receivables (excluding VAT)	109.6	64.7	64.7	—
	139.9	170.1	161.1	9.0

The trade receivables are all due within normal trading terms. 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. No trade receivables are considered to be subject to credit loss or impaired.

The carrying values of financial assets held at amortised cost are denominated in the following currencies:

US\$ million	Total 2019	Total 2018	Statement of Financial Position 2018	Non-current assets held for sale 2018
Euro	4.3	17.3	17.3	—
Pound Sterling	16.7	16.7	16.7	—
South African Rand	56.0	96.7	87.7	9.0
US Dollar	62.9	39.4	39.4	—
	139.9	170.1	161.1	9.0

**Financial liabilities**

The Group classifies its financial liabilities (excluding derivatives) into one category: other financial 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 financial 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 other financial liabilities included in trade and other payables (which exclude taxation) are as follows:

US\$ million	Total 2019	Total 2018	Statement of Financial Position 2018	Liabilities directly associated with non-current assets held for sale 2018
Trade payables	20.9	38.2	34.9	3.3
Other payables (excluding taxation, VAT and derivatives)	34.5	85.2	76.1	9.1
Non-current trade payables owing to BEE Partners	120.5	110.5	110.5	—
	175.9	233.9	221.5	12.4

**32. Financial instruments** continued**Other financial liabilities** continued

## Trade payables, other payables and long-term BEE liabilities continued

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

US\$ million	Total 2019	Total 2018	Statement of Financial Position 2018	Liabilities directly associated with non-current assets held for sale 2018
Botswana Pula	—	0.7	—	0.7
Pound Sterling	4.9	12.1	12.1	—
South African Rand	156.8	198.3	186.6	11.7
US Dollar	14.2	22.8	22.8	—
	<b>175.9</b>	233.9	221.5	12.4

**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	Total 2019	Total 2018	Statement of Financial Position 2018	Non-current assets/liabilities held for sale 2018
<b>Financial assets</b>				
Held at amortised cost:				
– Non-current trade and other receivables (excluding VAT)	109.6	64.7	64.7	—
– Trade receivables	23.8	84.0	75.0	9.0
– Other receivables (excluding taxation, prepayments and VAT)	6.5	21.4	21.4	—
– Cash and cash equivalents – restricted	13.5	14.4	14.4	—
– Cash and cash equivalents – unrestricted	71.7	223.0	221.6	1.4
	<b>225.1</b>	407.5	397.1	10.4
<b>Financial liabilities</b>				
Held at amortised cost:				
– Non-current amounts owing to BEE Partners	120.5	110.5	110.5	—
– Non-current loans and borrowings	603.5	601.2	601.2	—
– Current loans and borrowings	47.1	153.6	153.6	—
– Trade and other payables (excluding taxation, VAT and derivatives)	55.4	123.4	111.0	12.4
	<b>826.5</b>	988.7	976.3	12.4

There is no significant difference between the fair value of financial assets and other financial liabilities and the carrying values set out in the table above, noting that non-current loan receivables and payables bear interest.

## Notes to the Annual Financial Statements

For the Year ended 30 June 2019 continued

**32. Financial instruments** continued**Interest-bearing borrowings** continued

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

US\$ million	Total 2019	Total 2018	Statement of Financial Position 2018	Non-current assets/liabilities held for sale 2018
<b>Financial assets</b>				
Botswana Pula	—	—	—	—
Euro	29.4	19.3	19.3	—
Pound Sterling	19.7	183.9	183.9	—
South African Rand	72.6	103.6	93.2	10.4
US Dollar	103.4	100.7	100.7	—
	<b>225.1</b>	407.5	397.1	10.4
<b>Financial liabilities</b>				
Botswana Pula	—	0.7	—	0.7
Euro	—	0.1	0.1	—
Pound Sterling	4.9	12.1	12.1	—
South African Rand	156.7	308.8	297.1	11.7
US Dollar	664.9	667.0	667.0	—
	<b>826.5</b>	988.7	976.3	12.4

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 to be good with no expected losses to be incurred.

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\$106.6 million (30 June 2018: US\$2.6 million).

**Derivatives**

The fair values of derivatives are 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 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 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.



## 32. Financial instruments continued

### Foreign exchange risk continued

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.

The sensitivity analysis to foreign currency rate changes is as follows:

US\$ million	30 June 2019			
	Year-end US\$ rate	Year-end amount	US\$ strengthens 10%	US\$ weakens 10%
<b>Financial assets</b>				
Botswana Pula	0.0936	—	—	—
Euro	0.8796	29.4	26.5	32.4
Pound Sterling	0.7878	19.7	17.8	21.8
South African Rand	0.0711	72.6	65.3	79.8
US Dollar	1.0000	103.4	103.4	103.4
		225.1	213.0	237.4
<b>Financial liabilities</b>				
Botswana Pula	0.0936	—	—	—
Euro	0.8796	—	—	—
Pound Sterling	0.7878	4.9	4.5	5.5
South African Rand	0.0711	156.7	141.1	172.4
US Dollar	1.0000	664.9	664.9	664.9
		826.5	810.9	842.8
US\$ million	30 June 2018			
	Year-end US\$ rate	Year-end amount	US\$ strengthens 10%	US\$ weakens 10%
<b>Financial assets</b>				
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
<b>Financial liabilities</b>				
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

The tables above reflect the impact of a 10% cumulative currency movement over the next 12 months and are shown for illustrative purposes.

## Notes to the Annual Financial Statements

For the Year ended 30 June 2019 continued

**32. Financial instruments** continued**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.

**Maturity analysis**

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

US\$ million	Notes	30 June 2019					
		Interest rate	Total	6 months or less	6–12 months	1–2 years	2–5 years
<b>Cash</b>							
Cash and cash equivalents – unrestricted	19	0.1–6.5%	71.7	71.7	—	—	—
Cash – restricted	19	0.1–6.5%	13.5	—	—	—	13.5
<b>Total cash</b>			<b>85.2</b>	<b>71.7</b>	<b>—</b>	<b>—</b>	<b>13.5</b>
<b>Loans and borrowings</b>							
Bank loan – secured	21	12.7%	—	—	—	—	—
Bank loan – secured	21	9.25%	—	—	—	—	—
Senior secured second lien notes	21	7.25%	791.4	23.7	23.5	47.1	697.1
<b>Cashflow of loans and borrowings</b>			<b>791.4</b>	<b>23.7</b>	<b>23.5</b>	<b>47.1</b>	<b>697.1</b>

US\$ million	Notes	30 June 2018					
		Interest rate	Total	6 months or less	6–12 months	1–2 years	2–5 years
<b>Cash</b>							
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
<b>Total cash</b>			<b>236.0</b>	<b>221.6</b>	<b>—</b>	<b>—</b>	<b>14.4</b>
<b>Loans and borrowings</b>							
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
<b>Cashflow of loans and borrowings</b>			<b>945.3</b>	<b>130.3</b>	<b>23.4</b>	<b>47.3</b>	<b>744.3</b>

**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\$nil (30 June 2018: US\$106.7 million). In the current Year the impact of a 100 basis point increase/decrease would result in a financial loss/gain of US\$nil (30 June 2018: US\$1.1 million).



## 32. Financial instruments continued

### Interest rate risk continued

#### Other market price risk

The Group predominantly generates revenue from the sale of rough and polished diamonds, as well as occasionally from polished stones. 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.

The debt to equity ratios at 30 June 2019 and 30 June 2018 are as follows:

US\$ million	2019	2018
Total debt	650.6	754.8
Cash and cash equivalents	(85.2)	(236.0)
Net debt	565.4	518.8
Total equity attributable to equity holders of the parent company	311.7	555.4
Net debt to equity ratio	1.81:1	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.

## 33. 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\$989.2 million (30 June 2018: US\$1,178.6 million), Tanzania US\$98.7 million (30 June 2018: US\$150.4 million), and United Kingdom US\$0.2 million (30 June 2018: US\$0.2 million).

The Group's property, plant and equipment included in non-current assets are located in South Africa of US\$879.0 million (30 June 2018: US\$1,113.9 million), Tanzania of US\$88.6 million (30 June 2018: US\$130.1 million), and United Kingdom of US\$0.2 million (30 June 2018: US\$0.2 million).

## Notes to the Annual Financial Statements

For the Year ended 30 June 2019 continued

**33. Segment information** continued**Significant accounting policies relevant to segmental reporting** continued

Operating segments US\$ million	South Africa – mining activities			Tanzania – mining activities	Botswana	United Kingdom	South Africa	Inter- segment 2019	Consolidated 2019
	Finsch 2019	Cullinan 2019	Koffiefontein 2019	Williamson 2019	Exploration <sup>4</sup> 2019	Corporate and treasury 2019	Beneficiation <sup>3</sup> 2019		
Revenue	171.4	170.2	28.9	93.0	—	—	0.1	—	463.6
Segment result <sup>1</sup>	26.2	32.2	(9.6)	9.9	(0.5)	(8.6)	(1.2)	(1.5)	46.9
Impairment charge	(63.9)	(85.4)	(33.2)	(41.2)	—	—	—	—	(223.7)
Impairment charge – other receivables	—	—	—	(18.9)	—	(4.0)	—	—	(22.9)
Other direct (expense)/ income	(0.1)	(0.5)	(0.4)	0.2	—	—	—	—	(0.8)
Operating loss <sup>2</sup>	(37.8)	(53.7)	(43.2)	(50.0)	(0.5)	(12.6)	(1.2)	(1.5)	(200.5)
Financial income									12.1
Financial expense									(65.6)
Income tax credit									45.8
Loss on discontinued operation (net of tax) <sup>5</sup>									(49.9)
Non-controlling interest									31.3
Loss attributable to equity holders of the parent company									(226.8)
Segment assets <sup>6</sup>	611.2	396.6	168.7	182.5	—	3,146.8	13.0	(3,224.0)	1,294.8
Segment liabilities <sup>6</sup>	608.5	184.3	303.4	300.6	—	2,306.9	13.8	(2,748.8)	968.7
Capital expenditure	46.3	24.1	6.1	8.6	—	1.8	—	—	86.9

1. Total depreciation of US\$106.7 million included in the segmental result comprises depreciation incurred at Finsch of US\$32.7 million, Cullinan of US\$56.1 million, Koffiefontein of US\$6.9 million, Williamson of US\$10.2 million, Exploration of US\$0.1 million and Corporate administration of US\$0.7 million.

2. Operating loss is equivalent to revenue of US\$463.6 million less total costs of US\$664.1 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. The exploration assets in Botswana of US\$0.6 million and liabilities of US\$nil have been classified as non-current assets held for sale (refer to note 35).

5. The operating results in respect of KEM JV and Helam have been reflected within loss on discontinued operation (refer to note 34).

6. Segment assets and liabilities include inter-company receivables and payables which are eliminated on consolidation.





### 33. Segment information continued

#### Significant accounting policies relevant to segmental reporting continued

Operating segments US\$ million	South Africa – mining activities				Care and maintenance	Tanzania – mining activities	Botswana	United Kingdom	South Africa	Inter-segment 2018	Consolidated 2018
	Finsch 2018	Cullinan 2018	Koffiefontein 2018	KEM JV <sup>45</sup> 2018	Helam 2018	Williamson 2018	Exploration <sup>4</sup> 2018	Corporate and treasury 2018	Beneficiation <sup>3</sup> 2018		
Revenue	231.9	167.0	27.2	—	—	68.5	—	—	25.5	(24.8)	495.3
Segment result <sup>1</sup>	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) <sup>2</sup>	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) <sup>5</sup>											(104.3)
Non-controlling interest											36.2
Loss attributable to equity holders of the parent company											(166.9)
Segment assets <sup>6</sup>	557.4	727.3	135.8	—	7.2	211.3	—	3,323.8	13.0	(3,233.1)	1,742.7
Segment liabilities <sup>6</sup>	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 of US\$41.7 million, Cullinan of US\$66.1 million, Koffiefontein of US\$9.1 million, Williamson of US\$9.5 million, Helam of US\$0.7 million, Exploration of US\$0.1 million and Corporate administration of 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 notes 34 and 35).

5. The operating results in respect of KEM JV have been reflected within loss on discontinued operation (refer to note 34).

6. 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 2019 continued

## 34. Disposal of operations

### 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 probable within 12 months of classifying as held for sale and completion of the disposal is unlikely to significantly change. As at 30 June 2018, the Botswana exploration operations met the criteria mentioned above and as such were classified as held for sale. 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 historical 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)

At 30 June 2018, in line with IFRS 5 and the Group's accounting policy for assets held for sale and discontinued, the assets of KEM JV operation was classified as held for sale. 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 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 completed. The accounting treatment involved consideration of the structure of the arrangement, the legal form and the contractual agreements between the parties. During the year ending 30 June 2019, the Company disposed of the KEM JV operation.

### KEM JV disposal

On 5 December 2018, the Group and its BEE Partners' disposed of their 75.9% interest in the KEM JV operation to the Company's joint venture partner Ekapa Mining for a gross cash consideration of ZAR300 million (US\$18.6 million) ("the Disposal") comprising deferred and contingent elements.

The Disposal was on a going concern basis, 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 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.

The terms of repayment of the ZAR300 million purchase consideration, originally to be payable in 24 monthly instalments starting in January 2019, were amended prior to completion to allow Ekapa Mining to maximise the prospects of the financial viability of the operation. According to the terms, the purchase consideration will be settled as follows:

- ▶ ZAR60 million payable in 24 monthly instalments starting on 1 April 2019;
- ▶ the balance, ZAR240 million, of the purchase consideration will be repayable from a 50% share of future operating cashflows above set benchmark thresholds including proceeds from the sale of assets adjusted for sustaining capital of between R110 million and R130 million per annum, for a period of five years to 30 June 2024; and
- ▶ possible proceeds from a pending insurance claim, that is subject to ongoing discussions, in relation to the mudrush incident at Bultfontein as previously announced.

The Company has fair valued the balance of the purchase consideration and deemed it to be US\$nil having considered the historical trading performance of the asset, the Group's knowledge of the mine and risks and uncertainties.

On initial reclassification of the assets and liabilities of the KEM JV mining operation (being Petra's effective of 75.9% interest) as held for sale in the statement of financial position at 30 June 2018, in accordance with IFRS 5, the Group recognised a US\$92.7 million impairment loss. The financial results of the KEM JV for the periods have been disclosed in the Consolidated Income Statement in 'Loss on discontinued operations'. The KEM JV mining operation was a separate operating segment for the purposes of the Group's segmental reporting.



### 34. Disposal of operations continued

#### Effect of the transaction

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

##### (i) Net assets:

US\$ million	As at 30 November 2018	As at 30 June 2018
Mining property, plant and equipment	19.8	19.8
Trade and other receivables	3.0	12.0
Inventory	10.0	12.6
Cash and cash equivalents	0.7	1.4
<b>Non-current assets held for sale</b>	<b>33.5</b>	<b>45.8</b>
Environmental liabilities and other non-current trade and other payables	(13.8)	(14.2)
Trade and other payables	(11.5)	(13.0)
<b>Non-current liabilities associated with non-current assets held for sale</b>	<b>(25.3)</b>	<b>(27.2)</b>
<b>Net assets</b>	<b>8.2</b>	<b>18.6</b>

##### (ii) Result of KEM JV:

US\$ million	Period ended 30 November 2018	1 July 2017– 30 June 2018
Revenue	31.3	81.6
Cost of sales	(32.2)	(86.1)
Gross loss	(0.9)	(4.5)
Financial income	0.1	0.4
Financial expense	(0.7)	(1.3)
<b>Loss before tax</b>	<b>(1.5)</b>	<b>(5.4)</b>
Income tax charge	—	(6.2)
<b>Loss after tax before impairment charge</b>	<b>(1.5)</b>	<b>(11.6)</b>
Impairment charge	—	(92.7) <sup>1</sup>
<b>Net loss for the Year</b>	<b>(1.5)</b>	<b>(104.3)</b>

Attributable to:

– Equity holders of the parent	(3.5)	(85.6)
– Non-controlling interest	2.0	(18.7)
	(1.5)	(104.3)
Basic loss per share (US cents)	(0.17)	(15.44)
Dilutive loss per share (US cents)	(0.17)	(15.44)

1. 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 respect the carrying value of the assets and US\$4.2 million impairment of assets damaged in the mudrush. 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.

## Notes to the Annual Financial Statements

For the Year ended 30 June 2019 continued

**34. Disposal of operations** continued**Effect of the transaction** continued

## (iii) Post-tax loss on disposal of KEM JV:

US\$ million	Period ended 30 November 2018
Fair value consideration receivable on disposal	3.6
Less: net assets disposed of	(8.2)
Less: cash transferred from rehabilitation guarantee cell captive	(2.0)
Less: foreign currency translation recycled on disposal	(1.3)
Less: non-controlling interest	(26.1)
Loss on disposal of discontinued operation	(34.0)
Add: net loss for the Period (refer to (ii) above)	(1.5)
Loss on discontinued operation	(35.5)
Add: impairment of purchase consideration	(3.1)
Add: impairment of Group other receivables	(4.2)
	(42.8)

During the Year, the Company advanced US\$9.4 million funding to the KEM JV; of this amount, US\$3.9 million has been recovered. Management has assessed the recoverability of the remaining US\$5.5 million and as a result of the assessment an impairment charge of US\$4.21 million was recognised in the Consolidated Income Statement. In assessing the recoverability, management considered the historical trading performance of the KEM JV, the current downturn in the diamond market, the current economic climate, payment history and recent press coverage involving the KEM JV operation. The remaining balance has been included under current trade and other receivables.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables and other receivables. To measure expected credit losses on a collective basis, trade receivables and other receivables are grouped based on similar credit risk and ageing.

As a result of the above assessment by management of the loan receivable, management has also impaired the remaining balance of the purchase consideration reducing it to US\$nil and an impairment charge of US\$3.1 million was recognised in the Consolidated Income Statement.

## (iv) The Consolidated Cashflow Statement includes the following amounts relating to discontinued operations:

US\$ million	Period ended 30 November 2018	1 July 2017– 30 June 2018
Operating activities	3.4	(0.5)
Investing activities	(2.1)	(23.4)
Net cash utilised in discontinued operations	(16.1)	(0.6)

**Helam Mining disposal**

On 6 December 2018 the Company and its BEE Partners disposed of their interest in Helam Mining (Pty) Ltd ("Helam") to Lindleys Mining (Pty) Ltd ("Lindleys Mining") for a nominal consideration of ZAR200 with immediate effect.

The Helam mine was put on care and maintenance by the Company during FY 2015, following previous attempts to source a suitable purchaser, and no mining activities have been conducted by Petra since. The rationale for the disposal is to support the South African Government's intention to prolong the lives of mines facing closure by facilitating opportunities for emerging miners to the benefit of entrepreneurs, host communities and local employment. The disposal is also in line with Petra's strategic priorities, which include that the Board continues on an ongoing basis, to review the asset portfolio of the business with a view to maximising return on capital and to ensure that all assets are in a position to contribute positive cashflow to the business.

The disposal shall have the following benefits:

- ▶ an owner-manager approach will ensure sole focus on the optimisation of the Helam assets;
- ▶ it will reduce Group cash outflow with existing care and maintenance expenditure amounting to ca. US\$2 million per annum; and
- ▶ Lindleys Mining will take on all of the Company's environmental obligations with regards to Helam, currently estimated at ca. ZAR23 million excluding VAT (ca. US\$1.7 million).

As part of the disposal, agreement has been reached for the joint use of the processing plant at Helam, which has historically been utilised to conduct resource and production sampling and analyses for the Petra Group. Lindleys Mining has agreed to continue with such sampling and analyses for a period of up to two years. Petra intends to establish appropriate sampling facilities elsewhere in the Group which, once commissioned, will replace the need to continue with this arrangement.

Helam generated a net loss of US\$0.8 million for the Period which is disclosed in the Consolidated Income Statement in Loss on discontinued operations and the net assets disposed of amounted to US\$0.6 million.

**34. Disposal of operations** continued**Helam Mining disposal** continued

## (i) Post-tax loss on disposal of Helam at:

US\$ million	Period ended 30 November 2018
Fair value consideration receivable on disposal	0.0
Less: net assets disposed of	(0.6)
Add: foreign currency translation recycled on disposal	3.4
Less: non-controlling interest	(9.1)
Loss on disposal of discontinued operation	(6.3)
Less: net loss for the Period	(0.8)
Loss on discontinued operation	(7.1)

**35. Non-current assets held for sale****Botswana (exploration)****Significant judgements and estimates relevant to non-current assets held for sale**

The carrying value of assets of 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.

During the year ended 30 June 2018, 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 continue to be classified as held for sale in the statement of financial position in accordance with IFRS 5.

US\$ million	30 June 2019	30 June 2018
Mining property, plant and equipment	<b>0.6</b>	0.6
Trade and other receivables	—	0.1
<b>Non-current assets held for sale</b>	<b>0.6</b>	0.7
Trade and other payables	—	(0.6)
<b>Non-current liabilities associated with non-current assets held for sale</b>	<b>—</b>	(0.6)
<b>Net assets</b>	<b>0.6</b>	0.1

## Alternative Performance Measures

In addition to GAAP figures reported under International Financial Reporting Standards ("IFRS"), Petra provides certain Alternative Performance Measures ("APMs"). These APMs are used internally in the management, planning, budgeting and forecasting of the business and are also considered to be helpful in terms of the external understanding of the Group's underlying performance. 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.

The use of APMs by listed companies to better explain performance and provide additional transparency and comparability is common. However, APMs should always be considered in conjunction with IFRS reported numbers and not used in isolation. Commentary within the Annual Report, including the Financial Review, as well as the Consolidated Financial Statements and the accompanying notes, should be referred to in order to fully appreciate all the factors that affect our business. We strongly encourage readers not to rely on any single financial measure, but to carefully review our reporting in its entirety.

APM	Method of calculation	Relevance
Adjusted EBITDA	Net profit after tax, stated before depreciation, share-based expense, net finance expense (excluding net unrealised foreign exchange gains and losses), tax expense (excluding taxation credit on impairment charge and taxation charge on unutilised Capex benefits), impairment charges, net unrealised foreign exchange gains and losses and loss/profit on discontinued operations.	Adjusted EBITDA excludes the impact of certain non-cash items and one-off items (i.e. loss/profit on discontinued operations) is used to provide further clarity on the ongoing, underlying financial performance of the Group.
Adjusted EPS from continuing operations	Earnings per share, stated before impairment charges, taxation credit on impairment charge, net unrealised foreign exchange gains and losses, and taxation charge on reduction of unutilised Capex benefits.	This is used to assess the Group's operational performance from continuing operations per Ordinary Share. It removes the effect of items that are not directly related to operational performance.
Adjusted mining and processing costs	Mining and processing costs stated before depreciation and share-based expense.	This removes the impact of non-cash items from the actual operational cost.
Adjusted net profit/loss after tax	Net profit/loss after tax stated before impairment charges, taxation credit on impairment charge, net unrealised foreign exchange gains and losses, taxation charge on reduction of unutilised Capex benefits and loss/profit on discontinued operation.	By removing the impact of items that are not directly related to operational performance, as well as the effect of any discontinued operations, this is one of the indicators used to assess the underlying performance of the business.
Consolidated net debt: EBITDA	Consolidated net debt:EBITDA is consolidated net debt divided by adjusted EBITDA.	This ratio is used by creditors, credit rating agencies and other stakeholders.
Consolidated net debt for covenant measurement purposes	Bank loans and borrowings plus US\$ loan notes, less cash and diamond debtors and including the BEE guarantees issued by Petra to the lenders as part of the BEE financing concluded in December 2014 and those which are disclosed in the Group's BEE loans receivable and payable note, refer to note 15.	This consolidated figure is used by the Lender Group, analysts, rating agencies and other stakeholders.
Operational free cashflow	Cash generated from operations less capital expenditure for the year as per the Consolidated Cashflow Statement.	Free cashflow reflects the cash generated from operations after capital expenditure requirements have been met. This measure reflects the Company's ability to generate cash from profit, reflecting strong working capital management and capital expenditure discipline.
Net debt	The US\$ loan notes (gross) and bank loans and borrowings, net of cash at bank (including restricted cash).	Net debt combines the various funding sources that are included in the Consolidated Statement of Financial Position and the accompanying notes. It provides an overview of the Group's net indebtedness, providing transparency on the overall strength of the balance sheet.
Profit from mining activities	Revenue less adjusted mining and processing costs plus other direct income.	Provided to demonstrate the Group's ability to achieve profit from its core operating activities.



## Five-year Summary of Consolidated Figures

For the Year ended 30 June 2019

US\$ million	2019	2018	2017	2016	2015
<b>Income statement</b>					
Revenue (gross) <sup>1</sup>	<b>463.6</b>	576.4	477.0	430.9	425.0
Adjusted mining and processing costs <sup>2</sup>	<b>(301.7)</b>	(291.4)	(311.3)	(257.7)	(272.7)
Profit from mining activity <sup>3</sup>	<b>161.1</b>	205.1	168.5	176.0	154.5
Adjusted EBITDA <sup>3</sup>	<b>153.0</b>	195.4	157.2	164.3	139.3
Adjusted net (loss)/profit after tax <sup>3</sup>	<b>(13.2)</b>	1.6	29.0	63.6	62.8
Net (loss)/profit after tax – Group	<b>(258.1)</b>	(203.1)	20.7	66.8	59.6
<b>Statement of financial position</b>					
Current assets	<b>206.7</b>	413.5	354.8	222.5	303.2
Non-current assets	<b>1,087.5</b>	1,329.2	1,500.0	1,117.9	1,004.7
Non-current assets held for sale	<b>0.6</b>	46.5	—	18.8	—
Total assets	<b>1,294.8</b>	1,789.2	1,854.8	1,359.2	1,307.9
Borrowings (short and long term)	<b>650.6</b>	754.8	757.1	424.5	327.1
Current liabilities (excluding borrowings)	<b>54.9</b>	130.8	136.7	125.4	79.3
Liabilities directly associated with non-current assets held for sale	<b>—</b>	27.8	—	12.2	—
<b>Total equity</b>	<b>326.1</b>	566.6	646.4	546.8	622.5
<b>Movement in cash</b>					
Net cash generated from operating activities	<b>156.4</b>	67.9	152.5	153.7	132.7
Net cash utilised in investing activities	<b>(137.9)</b>	(201.9)	(292.6)	(324.4)	(174.4)
Net cash (utilised)/generated by financing activities	<b>(102.7)</b>	169.7	291.1	82.6	179.0
Net (decrease)/increase in cash and cash equivalents	<b>(141.6)</b>	35.7	151.0	(98.1)	137.3
<b>Ratios and other key information</b>					
Basic earnings/(loss) per share attributable to the equity holders of the Company – US\$ cents	<b>20.18</b>	(15.85)	3.14	10.38	9.46
Adjusted basic (loss)/earnings per share from continuing operations attributable to the equity holders of the Company – US\$ cents <sup>3</sup>	<b>(2.63)</b>	0.5	5.50	9.76	10.09
Capex	<b>86.9</b>	145.5	300.1	324.1	274.1
Cash at bank (including restricted)	<b>85.2</b>	236.0	203.7	48.7	166.6

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) excludes revenues for the KEM JV for FY 2019 (FY 2018 to FY 2015 includes revenues for KEM JV). Under IFRS, these revenues are classified in the Consolidated Income Statement as part of the loss from discontinued operations.

2. Adjusted mining and processing costs are mining and processing costs (excluding KEM JV for FY 2019 and FY 2018) stated before depreciation and share-based expense.

3. For definitions of these non-GAAP measures refer to page 158.

## FY 2019 Summary of Results and Non-GAAP Disclosures

US\$ million	2019	2018
Revenue	<b>463.6</b>	495.3
Adjusted mining and processing costs <sup>1</sup>	<b>(301.7)</b>	(291.4)
Other direct (expense)/income	<b>(0.8)</b>	1.2
<b>Profit from mining activities<sup>2</sup></b>	<b>161.1</b>	205.1
Exploration expense	<b>(0.4)</b>	(0.6)
Corporate overhead	<b>(7.7)</b>	(9.1)
<b>Adjusted EBITDA<sup>3</sup></b>	<b>153.0</b>	195.4
Depreciation	<b>(106.7)</b>	(128.0)
Share-based expense	<b>(0.2)</b>	(0.6)
Net finance expense	<b>(57.5)</b>	(59.6)
Tax credit/(expense) (excluding taxation credit on impairment charge (FY 2018: tax charge on reduction of unutilised Capex benefits))	<b>3.0</b>	(5.6)
<b>Adjusted net (loss)/profit after tax<sup>4</sup></b>	<b>(8.4)</b>	1.6
Impairment charge <sup>5</sup>	<b>(246.6)</b>	(66.0)
Net unrealised foreign exchange gain/(loss)	<b>4.0</b>	(26.2)
Taxation credit on impairment charge	<b>42.8</b>	—
Taxation charge on reduction of unutilised Capex benefits	<b>—</b>	(8.2)
Loss from continuing operations	<b>(208.2)</b>	(98.8)
Loss on discontinued operations, net of tax <sup>6</sup>	<b>(49.9)</b>	(104.3)
<b>Net loss after tax</b>	<b>(258.1)</b>	(203.1)
<b>Earnings per share attributable to equity holders of the Company – US\$ cents</b>		
Basic loss per share – from continuing operations	<b>(26.19)</b>	(31.29)
Adjusted (loss)/profit per share – from continuing operations <sup>7</sup>	<b>(2.63)</b>	0.50

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.

- Adjusted mining and processing costs are mining and processing costs stated before depreciation and share-based expense.
- Profit from mining activities is revenue less adjusted mining and processing costs plus other direct income.
- Adjusted EBITDA is stated before depreciation, share-based expense, net finance expense (excluding net unrealised foreign exchange gains and losses), tax expense (excluding taxation credit on impairment charge and taxation charge on unutilised Capex benefits), loss/profit on discontinued operations, impairment charges and net unrealised foreign exchange gains and losses.
- Adjusted net (loss)/profit after tax is net loss/profit after tax stated before losses on discontinued operations, impairment charge, taxation credit on impairment charge, net unrealised foreign exchange gains and losses and taxation charge on reduction of unutilised Capex benefits.
- Impairment charge of US\$246.6 million (30 June 2018: US\$66.0 million - Koffiefontein) was due to the Group's impairment review of its operations and other receivables. Refer to note 8 for further details.
- The loss on discontinued operations reflect the results of the KEM JV and Helam operations (net of tax), including impairment of other receivables from the KEM JV; refer to note 34 for further details.
- Adjusted EPS from continuing operations is stated before impairment charge, taxation credit on impairment charge, net unrealised foreign exchange gains and losses and taxation charge on reduction of unutilised Capex benefits.





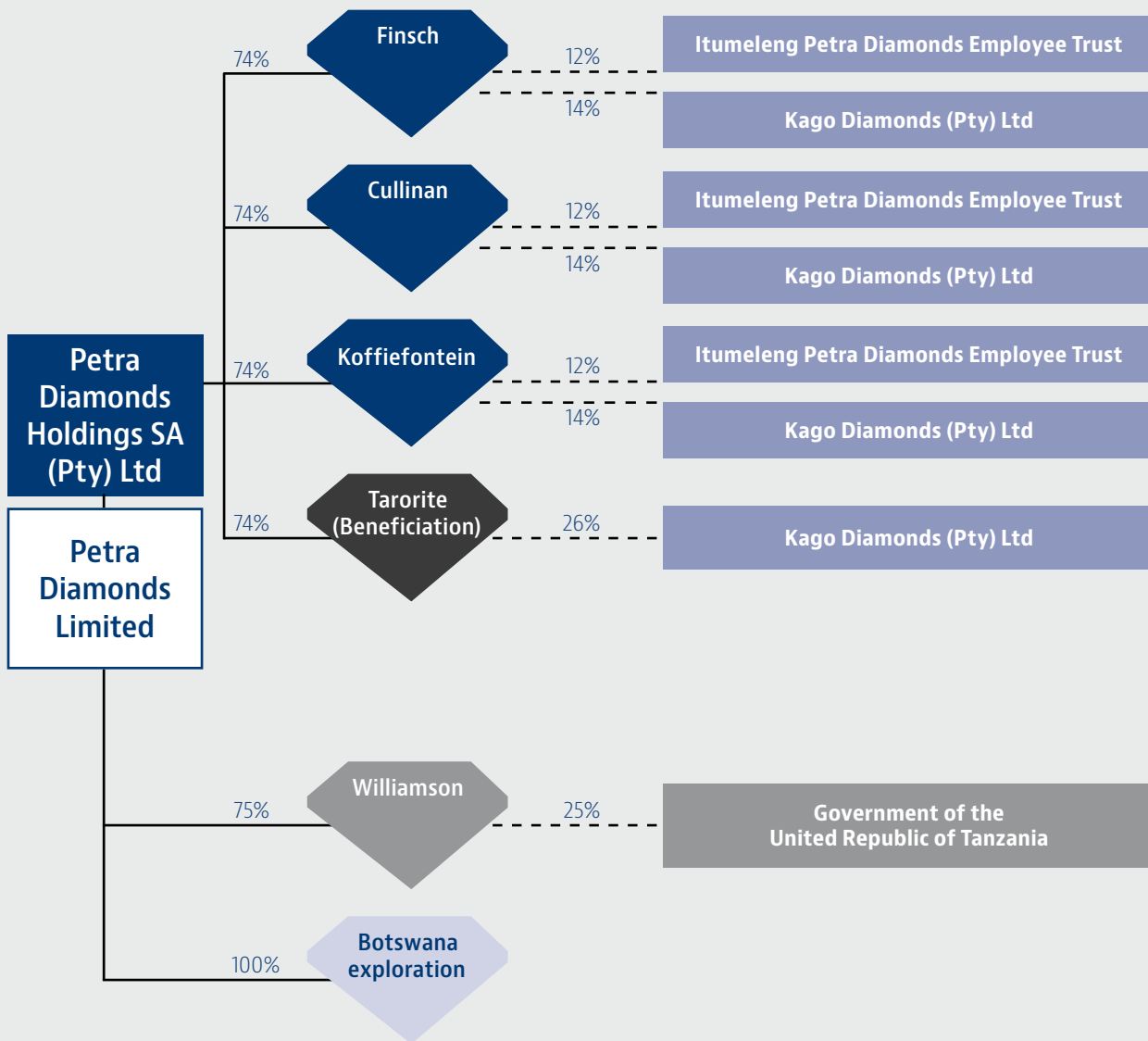
## Petra's Partners

The Company's partnerships are key in terms of stakeholder sustainability and the long-term success of its operations.

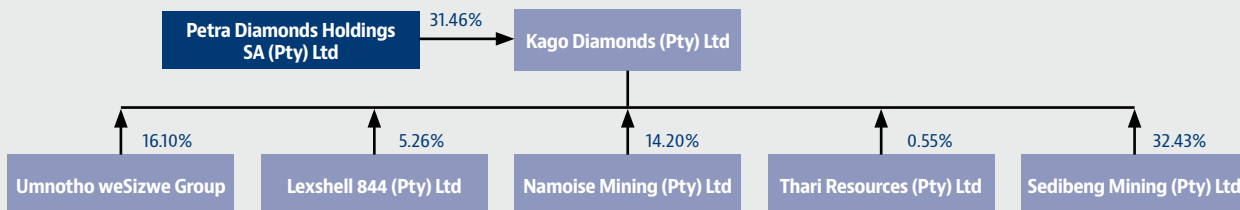
In South Africa, the Company has partner shareholders in its operations who represent the interests of BEE shareholders. These BEE Partners include various commercial BEE entities (including women's groups), as well as, importantly, the Itumeleng Petra Diamonds Employee Trust.

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

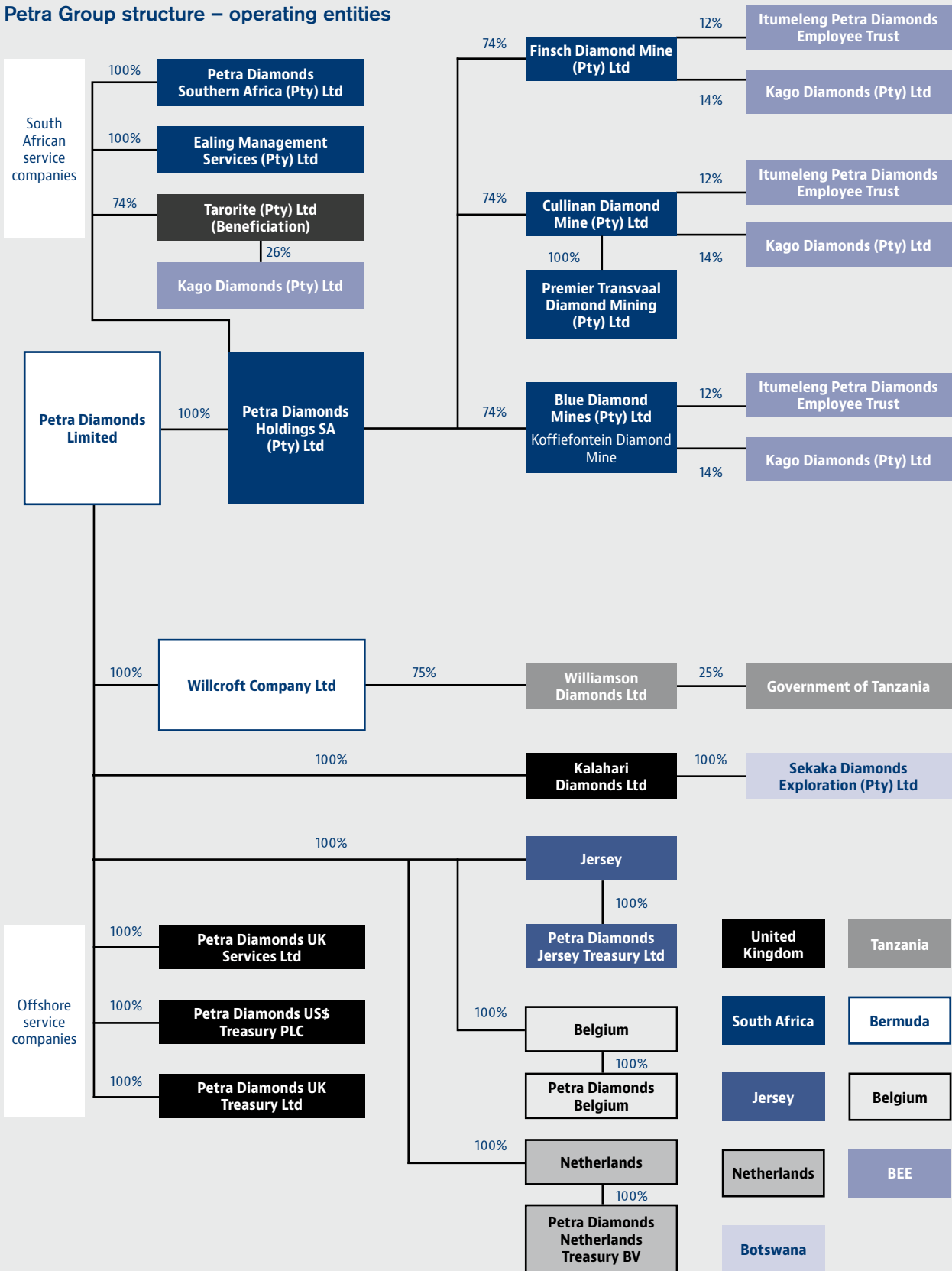


### BEE Partner structures



Petra's Partners continued

Petra Group structure – operating entities





## FY 2019 Operations Results Tables

### Finsch – South Africa

	Unit	FY 2019	FY 2018	Variance
<b>Sales</b>				
Revenue	US\$m	170.2	231.9	-27%
Diamonds sold	Carats	1,711,311	2,152,786	-21%
Average price per carat	US\$	99	108	-8%
<b>ROM production</b>				
Tonnes treated	Tonnes	3,073,479	3,084,395	0%
Diamonds produced	Carats	1,724,265	1,926,467	-10%
Grade <sup>1</sup>	Cpht	56.1	62.5	-10%
<b>Tailings production</b>				
Tonnes treated	Tonnes	223,568	794,973	-72%
Diamonds produced	Carats	31,503	147,010	-79%
Grade <sup>1</sup>	Cpht	14.1	18.5	-24%
<b>Total production</b>				
Tonnes treated	Tonnes	3,297,047	3,879,368	-15%
Diamonds produced	Carats	1,755,768	2,073,477	-15%
<b>Costs</b>				
On-mine cash cost per tonne treated	ZAR	388	329	18%
<b>Capex</b>				
Expansion Capex	US\$m	13.6	42.3	-68%
Sustaining Capex	US\$m	9.1	7.7	18%
Borrowing costs capitalised	US\$m	1.4	4.0	-65%
Total Capex	US\$m	24.1	54.0	-55%

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 2019	FY 2018	Variance
<b>Sales</b>				
Revenue	US\$m	171.4	167.0	3%
Diamonds sold	Carats	1,562,922	1,335,669	17%
Average price per carat	US\$	110	125	-12%
<b>ROM production</b>				
Tonnes treated	Tonnes	4,119,406	3,741,086	10%
Diamonds produced	Carats	1,589,707	1,342,020	18%
Grade <sup>1</sup>	Cpht	38.6	35.9	8%
<b>Tailings production</b>				
Tonnes treated	Tonnes	956,035	412,749	132%
Diamonds produced	Carats	66,222	26,700	148%
Grade <sup>1</sup>	Cpht	6.9	6.5	7%
<b>Total production</b>				
Tonnes treated	Tonnes	5,075,441	4,153,835	22%
Diamonds produced	Carats	1,655,929	1,368,720	21%
<b>Costs</b>				
On-mine cash cost per tonne treated	ZAR	234	239	-2%
<b>Capex</b>				
Expansion Capex	US\$m	37.2	56.2	-34%
Sustaining Capex	US\$m	6.8	6.5	5%
Borrowing costs capitalised	US\$m	2.3	11.2	-79%
Total Capex	US\$m	46.3	73.9	-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.

## FY 2019 Operations Results Tables continued

**Koffiefontein – South Africa**

	Unit	FY 2019	FY 2018	Variance
<b>Sales</b>				
Revenue	US\$m	28.9	27.2	6%
Diamonds sold	Carats	60,291	51,936	16%
Average price per carat	US\$	480	525	-9%
<b>ROM production</b>				
Tonnes treated	Tonnes	1,000,726	649,259	54%
Diamonds produced	Carats	63,635	52,537	21%
Grade	Cpht	6.4	8.1	-21%
<b>Total production</b>				
Tonnes treated	Tonnes	1,000,726	649,259	54%
Diamonds produced	Carats	63,635	52,537	21%
<b>Costs</b>				
On-mine cash cost per tonne treated	ZAR	450	596	-24%
<b>Capex</b>				
Expansion Capex	US\$m	5.2	9.6	-46%
Sustaining Capex	US\$m	0.9	2.7	-67%
Total Capex	US\$m	6.1	12.3	-50%

**Williamson – Tanzania**

	Unit	FY 2019	FY 2018	Variance
<b>Sales</b>				
Revenue	US\$m	93.0	68.5	36%
Diamonds sold	Carats	402,329	253,524 <sup>1</sup>	59%
Average price per carat	US\$	231	270	-14%
<b>ROM production</b>				
Tonnes treated	Tonnes	5,082,319	4,659,563	9%
Diamonds produced	Carats	386,016	328,681	17%
Grade	Cpht	7.6	7.0	9%
<b>Alluvial production</b>				
Tonnes treated	Tonnes	413,151	385,721	7%
Diamonds produced	Carats	13,599	12,421	9%
Grade	Cpht	3.3	3.2	3%
<b>Total production</b>				
Tonnes treated	Tonnes	5,495,470	5,045,284	9%
Diamonds produced	Carats	399,615	341,102	17%
<b>Costs</b>				
On-mine cash cost per tonne treated	US\$	11.1	10.7	4%
<b>Capex</b>				
Expansion Capex	US\$m	—	2.6	-100%
Sustaining Capex	US\$m	8.6	2.0	328%
Total Capex	US\$m	8.6	4.6	86%

1. Negatively impacted by the 71,654 carat parcel blocked for export.



## Debt Facilities Information

### Banking facilities

Bank debt facilities undrawn and available to the Group as at 30 June 2019 of ZAR1.5 billion (US\$106.6 million), in addition to cash at bank of US\$85.2 million.

Lender	Type	Size (ZARm)	Size (US\$m equivalent <sup>1</sup> )	Utilised at June 2019 (US\$m equivalent <sup>1</sup> )	Interest rate	Annual commitment fees on undrawn facilities	Repayment
Absa and Nedbank	ZAR revolving credit facility	1,000	71	0	1M JIBAR plus 5.0% <sup>2</sup>	1.35% <sup>2</sup>	October 2021
Absa and RMB (FNB)	ZAR working capital facility	500	36	0	SA prime lending rate minus 1%	0.85%	Subject to annual renewal

1. Converted to US\$ using exchange rate of ZAR14.07/US\$1 as at 30 June 2019.

2. The ZAR revolving credit facility will be subject to new margin and commitment fee ratchet mechanisms contingent on the consolidated net debt:consolidated EBITDA covenant levels at each measurement date (refer to note 21).

Interest rate and commitment fee ratchet mechanism is as follows:

Consolidated net debt to consolidated EBITDA	Additional interest rate ratchet	Additional commitment fee ratchet
≤ to 2.5:1	0.0%	0.0%
> 2.5:1 but ≤ 3.0:1	+1.0%	0.0%
> 3.0:1 but ≤ 3.5:1	+2.0%	+0.225%
> 3.5:1 but ≤ 4.0:1	+3.0%	+0.450%
> 4.0:1	+4.0%	+0.675%

### Banking covenants

The below covenants relate to Petra's banking facilities. The 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 2019	12 months to 31 December 2019	12 months to 30 June 2020	12 months to 31 December 2020	12 months to 30 June 2021
Consolidated net debt <sup>1</sup> to consolidated EBITDA	≤ 4.5x	≤ 4.25x	≤ 3.5x	≤ 3.25x	≤ 3.0x
Consolidated EBITDA to consolidated net finance charges	≥ 2.5x	≥ 2.5x	≥ 2.75x	≥ 3.0x	≥ 3.25x
Consolidated net senior debt <sup>2</sup> to book equity <sup>3</sup>	≤ 0.4x	≤ 0.4x	≤ 0.4x	≤ 0.4x	≤ 0.4x
Distribution covenants					All periods
Consolidated net debt <sup>1</sup> to consolidated EBITDA					≤ 2.00x
Consolidated EBITDA to consolidated net finance charges					≥ 6.00x
Consolidated net senior debt <sup>2</sup> to book equity <sup>3</sup>					≤ 0.30x

1. Consolidated net debt is loans and borrowings, less cash and diamond debtors and includes the BEE guarantees of ca. ZAR762.5 million (US\$54.2 million) as at 30 June 2019, issued by Petra to the lenders as part of the BEE financing concluded in December 2014.

2. Consolidated net senior debt means at any time the consolidated net debt (excluding any second lien and other subordinated debt).

3. Book equity is equity excluding accounting reserves.

## Debt Facilities Information continued

## Leverage ratios

	30 June 2019	30 June 2018
Net debt <sup>1</sup>	<b>US\$564.8m</b>	US\$520.7m
Consolidated net debt for bank debt covenant measurement	<b>US\$595.2m</b>	US\$531.6m
Gearing <sup>2</sup>	<b>173%</b>	92%
Adjusted EBITDA <sup>3</sup>	<b>US\$153.0m</b>	US\$195.4m
EBITDA margin <sup>4</sup>	<b>33%</b>	39%
Consolidated net debt:EBITDA <sup>5</sup>	<b>3.9x</b>	2.7x
EBITDA net interest cover <sup>6</sup>	<b>2.7x</b>	2.7x

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, stated before depreciation, share-based expense, net finance expense, tax expense, impairment charges, net unrealised foreign exchange gains and losses and loss on discontinued operations and losses and loss on discontinued operations.

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 2019 Resource Statement

Petra Diamonds Limited manages one of the world's largest diamond resources of ca. 250 million carats. 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 higher production rates.

### Gross resources

As at 30 June 2019 the Group's gross diamond resources (inclusive of reserves) decreased 15% to 248.15 Mcts (30 June 2018: 290.48 Mcts), due to depletion by mining activity at all operations, changes to resource estimates for Cullinan, Finsch and Williamson, and the disposal of Petra's interest in Helam. An interim resource estimate for Cullinan has been completed and will be updated once the C-Cut bulk sampling programme is completed in December 2019.

Cullinan's gross resource decreased 19% to 154.9 Mcts (FY 2018: 190.3 Mcts), in line with an interim resource estimate carried out by Z-Star Mineral Resource Consultants (Pty) Ltd on the Cullinan kimberlite pipe. This was based upon a new geological model, incorporating data from C-Cut Phase 1 development tunnels, as well as additional micro-diamond sampling data and new diamond grade information from the C-Cut bulk sampling programme. However, there has been no material impact on the Cullinan reserve for mine planning purposes as the effect of the revised resource estimate was taken into account as part of the plant recovery factors calculated for the new Cullinan plant on the previous resource estimate.

### Gross reserves

The Group's gross diamond reserves decreased 1% to 42.51 Mcts (30 June 2018: 42.92 Mcts) due to depletions, changes to block cave and SLC designs at Finsch, and a reserve of 66.5Mt and 4.30 Mcts being declared at Williamson.

The following table summarises the gross reserves and resources status of the combined Petra Group operations as at 30 June 2019.

Category	Gross		
	Tonnes (millions)	Grade (cph)	Contained diamonds (Mcts)
<b>Reserves</b>			
Proved	—	—	—
Probable	146.6	29.0	42.51
<b>Sub-total</b>	<b>146.6</b>	<b>29.0</b>	<b>42.51</b>
<b>Resources</b>			
Measured	—	—	—
Indicated	376.8	45.1	170.06
Inferred	1,298.4	6.0	78.10
<b>Sub-total</b>	<b>1,675.2</b>	<b>14.8</b>	<b>248.15</b>

### Finsch

Category	Gross		
	Tonnes (millions)	Grade (cph)	Contained diamonds (Mcts)
<b>Reserves</b>			
Proved	—	—	—
Probable	35.7	56.3	20.11
<b>Sub-total</b>	<b>35.7</b>	<b>56.3</b>	<b>20.11</b>
<b>Resources</b>			
Measured	—	—	—
Indicated	31.6	67.6	21.34
Inferred	36.5	53.3	19.44
<b>Sub-total</b>	<b>68.1</b>	<b>59.9</b>	<b>40.79</b>

### Notes

1. Resource bottom cut-off: 1.0mm.
2. Reserve bottom cut-off: 1.0mm.
3. Updated resource estimate completed.
4. Block 4 remnants recalibrated to June 2019 pit scans.
5. Block 5 resource stated as in situ.
6. Block 5 reserves are based on PCSLC and PCBC simulations, depleted for SLC development tonnes.
7. US\$/ct values of 90-95 for ROM and US\$/ct 40-45 for Pre-79 tailings, based on FY 2019 sales values and production size frequency distributions.

## FY 2019 Resource Statement continued

## Cullinan

Category	Gross		
	Tonnes (millions)	Grade (cpht)	Contained diamonds (Mcts)
<b>Reserves</b>			
Proved	—	—	—
Probable	45.0	39.2	17.67
<b>Sub-total</b>	<b>45.0</b>	<b>39.2</b>	<b>17.67</b>
<b>Resources</b>			
Measured	—	—	—
Indicated	233.9	58.9	137.68
Inferred	169.6	10.1	17.20
<b>Sub-total</b>	<b>403.6</b>	<b>38.4</b>	<b>154.88</b>

## Notes

- Resource bottom cut-off: 1.0mm.
- Reserve bottom cut-off: 1.0mm.
- B-Cut resource tonnes and grade are based on block cave depletion modelling and include external waste.
- C-Cut resource stated as in situ.
- Reserves based on PCBC simulations on C-Cut phase 1 and Mine2-4D schedules for CCIE and other remaining pillar retreats.
- Factorised grades and carats are derived from a calculated Plant Recovery Factor ("PRF"). These factors account for the efficiency of sieving (bottom cut-off), diamond liberation and recovery in the ore treatment process.
- The PRF has been revised in line with the new resource model, and plant commissioning in 2018. The PRFs currently applied for the new mill plant per rock type are: Brown kimberlite = 73.8%, Grey kimberlite = 67.9%, Black kimberlite = 70.6% and Coherent kimberlite = 68.0%.
- An interim resource estimate has been completed, and will be updated once the C-Cut bulk sampling programme is completed in December 2019.
- US\$/ct values of 110-120 for ROM, excluding exceptional stones, and 35-45 for tailings, based on FY 2019 sales values and production size frequency distributions.

## Koffiefontein

Category	Gross		
	Tonnes (millions)	Grade (cpht)	Contained diamonds (Mcts)
<b>Reserves</b>			
Proved	—	—	—
Probable	5.3	8.0	0.43
<b>Sub-total</b>	<b>5.3</b>	<b>8.0</b>	<b>0.43</b>
<b>Resources</b>			
Measured	—	—	—
Indicated	27.1	5.3	1.44
Inferred	126.2	3.3	4.19
<b>Sub-total</b>	<b>153.3</b>	<b>3.7</b>	<b>5.63</b>

## Notes

- Resource bottom cut-off (Koffiefontein underground and Ebenhaezer): 1.15mm.
- Resource bottom cut-off (Eskom tailings): 1.0mm.
- Reserve bottom cut-off: 1.15mm.
- Koffiefontein 56L-60L SLC reserves are based on Min 2-4D schedules.
- US\$/ct values of 475-525 for ROM, based on FY 2019 sales values and production size frequency distributions.





## Williamson

Category	Gross		
	Tonnes (millions)	Grade (cphT)	Contained diamonds (Mcts)
<b>Reserves</b>			
Proved	—	—	—
Probable	66.5	7.1	4.64
<b>Sub-total</b>	<b>66.5</b>	<b>7.1</b>	<b>4.64</b>
<b>Resources</b>			
Measured	—	—	—
Indicated	66.2	5.0	3.28
Inferred	959.4	3.6	34.84
<b>Sub-total</b>	<b>1,025.6</b>	<b>3.7</b>	<b>38.12</b>

### Notes

1. Resource bottom cut-off: 1.15mm.
2. Updated resource estimate completed.
3. Reserves based on mine scheduling in XPAC software.
4. US\$/ct values of 200-240 for ROM, based on FY 2019 sales values and production size frequency distributions.

## KX36

Category	Gross		
	Tonnes (millions)	Grade (cphT)	Contained diamonds (Mcts)
<b>Reserves</b>			
Proved	—	—	—
Probable	—	—	—
<b>Sub-total</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Resources</b>			
Measured	—	—	—
Indicated	17.9	35.3	6.32
Inferred	6.8	35.7	2.41
<b>Sub-total</b>	<b>24.7</b>	<b>35.4</b>	<b>8.73</b>

### Notes

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 2019 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 39 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

### Petra Diamonds Limited

#### Registered office

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

#### Group management office

52–53 Conduit Street  
London W1S 2YX  
Tel: +44 20 7494 8203  
info@petradiamonds.com  
www.petradiamonds.com

#### Corporate Communications team

Tel: +44 20 7494 8203  
Email: investorrelations@petradiamonds.com

#### Company registration number

EC 23123

#### Company Secretary

St James's Corporate Services Limited  
Suite 31  
Second Floor  
107 Cheapside  
London EC2V 6DN  
United Kingdom  
Tel: +44 (0)20 7796 8644

### Bankers

#### Barclays Bank plc

1 Churchill Place  
London E14 5HP  
Tel: +44 20 7116 1000  
www.barclays.com

#### Solicitors

##### Bermuda – Conyers Dill & Pearman

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda  
Tel: +1 441 295 1422

##### United Kingdom – Memery Crystal

165 Fleet Street  
London EC4A 2DY  
Tel: +44 20 7242 5905

##### Jersey – Ogier

Ogier House  
The Esplanade  
St. Helier  
Jersey JE4 9WG  
Tel: +44 1534 504 000

### Joint financial advisers and stockbrokers

#### Barclays

10 The North Colonnade  
Canary Wharf  
London E14 4BB  
Tel: +44 20 7623 2323  
www.barclays.com

#### BMO Capital Markets

95 Queen Victoria Street  
London EC4V 4GH  
Tel: +44 20 7236 1010  
www.bmocm.com

#### Peel Hunt

Moor House  
120 London Wall  
London EC2Y 5ET  
Tel: +44 20 7418 8900  
www.peelhunt.com

#### Tamesis Partners LLP

125 Old Broad Street  
London EC2N 1AR  
Tel: +44 20 3882 2868  
www.tamesispartners.com

### PR advisers

#### Buchanan

107 Cheapside  
London EC2V 6DN  
Tel: +44 20 7466 5000  
www.buchanan.uk.com

### Registrar

#### Link Market Services (Jersey) Limited

First Floor  
IFC5  
The Esplanade  
St. Helier  
Jersey JE2 3BY

Tel: UK: 0871 664 0300 (calls cost 12 pence a minute plus network extras; lines are open 9.00am–5.30pm GMT Mon–Fri)  
International: +44 (0) 371 664 0300  
Website: www.linkmarketservices.com  
Email: shareholderenquiries@linkgroup.co.uk

### Transfer agent

#### Link Asset Services

The Registry  
34 Beckenham Road  
Beckenham  
Kent BR5 4TU

Tel: UK: 0871 664 0300 (calls cost 12 pence per minute plus network extras; lines are open 9.00am–5.30pm GMT Mon–Fri)  
International: +44 (0) 371 664 0300  
Website: www.linkassetsservices.com  
Email: shareholderenquiries@linkgroup.co.uk

### Auditors

#### BDO LLP

55 Baker Street  
London W1U 7EU  
Tel: +44 207 486 5888



## 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 themselves are not admitted to CREST, but dematerialised depository interests representing the underlying Ordinary Shares issued by Link Market Services 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) and the Company's Bye-Laws.

The Company is a constituent of the FTSE4Good Index.

## Dividend

Distribution covenants were not met for the measurement period to 30 June 2019 and Petra will therefore not declare a dividend for FY 2019.

## Substantial shareholdings

The interests as indicated in the table below in the Ordinary Shares of the Company represented significant shareholdings of the issued share capital as at 8 October 2019.

Shareholder	Number of voting rights <sup>1</sup>	Percentage of issued share capital
Standard Life Aberdeen plc	131,177,932	15.2%
Prudential plc (incorporating M&G Group Limited)	28,175,972	5.3%
Cobas Asset Management, SCIC, S.A.	43,360,171	5.0%
Lazard Asset Management	42,602,976	4.9%
Directors	17,037,625	2.0%

1. Attached to shares and through voting rights.

## Company Bye-Laws

The Company is incorporated in Bermuda and the City Code therefore does not formally 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/](http://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 23 November 2018 ("the 2018 AGM"), authority was given to the Directors to allot:

- unissued Relevant Securities (as defined in the Bye-Laws) in the Company up to a maximum aggregate nominal value of £28,844,549.50, being 288,445,495 Ordinary Shares; and
- equity securities (as defined in the Bye-Laws) in the Company for cash on (a) a non-pre-emptive basis pursuant to the Rights Issue or other offer to shareholders and (b) otherwise up to an aggregate nominal value of £4,326,682.40, being equal to 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 and Corporate Information continued

### Shareholder voting

In advance of the AGM in November 2019, Petra would like to inform shareholders that the Company has moved to a more digital approach to voting and therefore requests that all shareholders vote electronically. The Company will not be sending paper proxy forms and, instead, shareholders can vote either via the Shareholder Portal ([www.signalshares.com](http://www.signalshares.com)) or, for CREST holders, via the CREST Network. Voting in this way is cost effective and efficient and mitigates the risk of lost items via postal systems thus ensuring your vote is received and recorded. Shareholders who still wish to receive a hard copy proxy card should contact Link Asset Services to obtain this. Hard copy 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

There are no restrictions on the transfer of Ordinary Shares other than:

- ▶ 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 may also 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;
- ▶ certain restrictions may from time to time be 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 with at least a 0.25% interest in the Company's shares has been served with a disclosure notice and has failed to provide the Company with information concerning interests in those Ordinary Shares.

### Repurchase of shares

The Company may purchase its own shares for cancellation or acquire them as Treasury Shares (as defined in the Bye-Laws) in accordance with the Companies Act 1981 (Bermuda) 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 Companies Act 1981 (Bermuda), 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 and replacement of Directors

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.

The Company may by resolution at any special general meeting remove any Director before the expiry of their period 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 days before the meeting and at such meeting 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 32 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](http://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](http://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/](http://www.petradiamonds.com/investors/shareholders/faqs/).

### Shareholder Portal

The Company has set up an online Shareholder Portal, [www.signalshares.com](http://www.signalshares.com), which offers a host of shareholder services online.



## 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](mailto: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 were a total of 865,336,485 Ordinary Shares in issue at 30 June 2019.

## 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/](http://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](http://www.londonstockexchange.com). Please note that the Directors of the Company are not seeking to encourage shareholders to either buy or to 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](http://www.fca.org.uk/consumers/scams/investment-scams).

## Glossary

<b>"AGM"</b>	Annual General Meeting
<b>"alluvial"</b>	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
<b>"ASM"</b>	artisanal small-scale mining
<b>"BBBEE"</b>	broad-based black economic empowerment, a policy of the South African Government aimed at addressing past economic imbalances, stimulating further growth and creating employment
<b>"BEE"</b>	black economic empowerment
<b>"Beneficiation"</b>	the refining of a commodity; in the case of diamonds, refers to the cutting and polishing of a rough stone
<b>"block caving"</b>	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'
<b>"bulk sample"</b>	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
<b>"CCMA"</b>	Commission for Conciliation, Mediation and Arbitration
<b>"C-Cut"</b>	the 'Centenary Cut', a major resource of 103 million carats located beneath the B block of the Cullinan orebody
<b>"CAGR"</b>	compound average growth rate
<b>"Capex"</b>	capital expenditure
<b>"carat" or "ct"</b>	a measure of weight used for diamonds, equivalent to 0.2 grams
<b>"Cpht"</b>	carats per hundred tonnes
<b>"CSI"</b>	corporate social investment
<b>"ctpa"</b>	carats per annum
<b>"cut-off grade"</b>	the lowest grade of mineralised material considered economic to extract; used in the calculation of the ore reserves in a given deposit
<b>"DPA"</b>	Diamond Producers Association
<b>"drawpoint"</b>	an opening through which ore from a higher level can fall and subsequently be loaded
<b>"EBITDA"</b>	earnings before interest, tax, depreciation and amortisation
<b>"effluent"</b>	mine effluent is a regulated discharge from a point source like a treatment plant or dam spillway
<b>"EPS"</b>	earnings per share
<b>"ESG"</b>	environmental, social and governance
<b>"Exceptional Diamonds"</b>	Petra classifies 'exceptional' diamonds as stones that sell for US\$5 million or more each
<b>"fissure"</b>	informal term for a narrow, vertical, vein-like kimberlite dyke
<b>"FRC"</b>	the UK's Financial Reporting Council
<b>"FY"</b>	Petra's financial year (1 July to 30 June)



<b>"GDP"</b>	Gross Domestic Product
<b>"GHG"</b>	greenhouse gases
<b>"grade"</b>	the content of diamonds, measured in carats, within a volume or mass of rock
<b>"GRI"</b>	Global Reporting Initiative
<b>"Group II kimberlites"</b>	'Group II' indicates the specific mineralogy and composition of this kimberlite type
<b>"H1" or "H2"</b>	first half, or second half, of the financial year
<b>"ha"</b>	hectares
<b>"HDSA"</b>	historically disadvantaged South African
<b>"HIV/AIDS"</b>	human immunodeficiency virus infection and acquired immune deficiency syndrome
<b>"HSE"</b>	health, safety and environment
<b>"HSEQ"</b>	health, safety, environmental and quality
<b>"HSSE"</b>	health, safety, social and environment
<b>"INED"</b>	independent Non-Executive Director
<b>"Indicated Resource"</b>	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)
<b>"Inferred Resource"</b>	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)
<b>"IPDET"</b>	Itumeleng Petra Diamonds Employee Trust, which is a registered trust holding a 12% interest in each of Petra's South African operations, through which the current and certain former employees (with some exceptions in both cases) of Petra's South African operations participate
<b>"ISO 14001"</b>	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
<b>"KEM JV"</b>	Former joint venture; Petra disposed of its interest in KEM JV during FY 2019
<b>"kimberlite"</b>	An ultramafic igneous rock consisting mainly of olivine, often with phlogopite mica and pyroxenes. Kimberlite is generated at great depth in the Earth's mantle, and may or may not contain diamonds
<b>"Kt"</b>	thousand tonnes
<b>"LDD"</b>	large diameter drilling
<b>"LDP"</b>	Leadership Development Programme
<b>"LED"</b>	local economic development
<b>"LHD"</b>	load haul dumper

## Glossary continued

<b>"LOM"</b>	life of mine
<b>"LTI"</b>	lost time injury; a work-related injury resulting in the employee/contractor being unable to attend work on the day following the injury
<b>"LTIFR"</b>	lost time injury frequency rate; the number of LTIs multiplied by 200,000 and divided by the number of hours worked
<b>"macrodiamond"</b>	diamonds too large to pass through a 0.5mm screen
<b>"Majors"</b>	the major diamond producers, namely De Beers, ALROSA and Rio Tinto
<b>"Mctpa"</b>	million carats per annum
<b>"Mcts"</b>	million carats
<b>"Measured Resource"</b>	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
<b>"microdiamond"</b>	diamonds small enough to pass through a 0.5mm screen
<b>"mL"</b>	metre level
<b>"Mt"</b>	million tonnes
<b>"Mtpa"</b>	million tonnes per annum
<b>"NED"</b>	Non-Executive Director
<b>"NGOs"</b>	non-governmental organisations
<b>"NIHL"</b>	noise induced hearing loss
<b>"NPAT"</b>	net profit after tax
<b>"NUM"</b>	National Union of Mine Workers in South Africa
<b>"open pit"</b>	mining in which ore that occurs close to the Earth's surface is extracted from a pit or quarry
<b>"Opex"</b>	operating costs
<b>"orebody"</b>	a continuous well-defined mass of material of sufficient ore content to make extraction feasible
<b>"pa"</b>	per annum
<b>"PAT"</b>	profit after tax
<b>"PCBC"</b>	GEOVIA PCBC™ is a highly sophisticated software package designed specifically for the planning and scheduling of block cave mines
<b>"PCSLC"</b>	a highly sophisticated software package designed specifically for the planning and scheduling of SLCs
<b>"Probable Reserves"</b>	the economically mineable material derived from a measured and/or indicated diamond resource. It is estimated with a lower level of confidence than a proven reserve. It is inclusive of diluting materials and allows for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, including consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction is reasonably justified





<b>"Proved Reserves"</b>	the economically mineable material derived from a measured diamond resource. It is estimated with a high level of confidence. It is inclusive of diluting materials and allows for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, including consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction is reasonably justified
<b>"raiseboring"</b>	a method of developing vertical or inclined excavations by drilling a pilot hole, then reaming the pilot hole to the required dimensions
<b>"RC"</b>	reverse circulation (drilling)
<b>"RCF"</b>	revolving credit facility
<b>"re-crush system"</b>	processes oversized material from the primary crushers, further reducing it in size
<b>"rehabilitation"</b>	the process of restoring mined land to a condition approximating to a greater or lesser degree its original state
<b>"ROM"</b>	run of mine
<b>"SAMREC"</b>	South African Code for Reporting of Exploration Results, Mineral Resources and Mineral Reserves
<b>"SED"</b>	Social, Ethics and Diversity
<b>"Severity Rate"</b>	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
<b>"shaft"</b>	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
<b>"SHE"</b>	safety, health and environment
<b>"SLC"</b>	sub level cave
<b>"SLP"</b>	social and labour plans
<b>"slimes"</b>	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
<b>"stockpile"</b>	a store of unprocessed ore
<b>"sub level caving"</b>	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
<b>"tailings"</b>	material left over after processing ore
<b>"tailings dump"</b>	dumps created of waste material from processed ore after the economically recoverable metal or mineral has been extracted
<b>"tonnage"</b>	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
<b>"tpa"</b>	tonnes per annum
<b>"tpm"</b>	tonnes per month

## Glossary continued

<b>"trackless equipment"</b>	equipment that does not operate on tracks (rails)
<b>"TSR"</b>	total shareholder return
<b>"Type II diamonds"</b>	<p>Type II diamonds have no measurable nitrogen impurities, meaning they are often of top quality in terms of colour and clarity</p> <ul style="list-style-type: none"> <li>▶ Type IIa diamonds make up 1–2% of all natural diamonds. These diamonds are almost or entirely devoid of impurities, and consequently are usually colourless. Many large famous diamonds, such as the Cullinan and the Koh-i-Noor, are Type IIa</li> <li>▶ Type IIb make up about 0.1% of all natural diamonds. In addition to having very low levels of nitrogen impurities comparable to Type IIa diamonds, Type IIb diamonds contain significant boron impurities which is what imparts their blue/grey colour. All blue diamonds are Type IIb, making them one of the rarest natural diamonds and very valuable</li> </ul>
<b>"underground pipe mines"</b>	Petra's underground kimberlite pipe mines, being Finsch, Cullinan and Koffiefontein
<b>"UHNWI"</b>	ultra high net worth individual
<b>"WCF"</b>	working capital facility
<b>"WiL"</b>	women in leadership
<b>"WiM"</b>	women in mining

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## PetraDiamonds

52-53 Conduit Street  
London W15 2YX  
United Kingdom

Tel: +44 207 494 8203  
Email: [info@petradiamonds.com](mailto:info@petradiamonds.com)

[www.petradiamonds.com](http://www.petradiamonds.com)

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