



PetraDiamonds

Driving Forward



Petra Diamonds Limited
Annual Report and Accounts 2017

Driving forward

A significant improvement in run-of-mine (“ROM”) grades and product mix was achieved in FY 2017 further to the first substantial input of undiluted ore at Finsch and Cullinan.

FY 2017 was a challenging year which saw our expansion programmes ramp up slower than expected; however, the Company remained in growth mode and delivered record production and revenue.



Petra Diamonds is a leading independent diamond mining group and a growing supplier of rough diamonds to the international market

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

It is a constituent of the FTSE4Good Index.

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06

+11%
revenue

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



52

+8%
production

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102

-10%
cashflow

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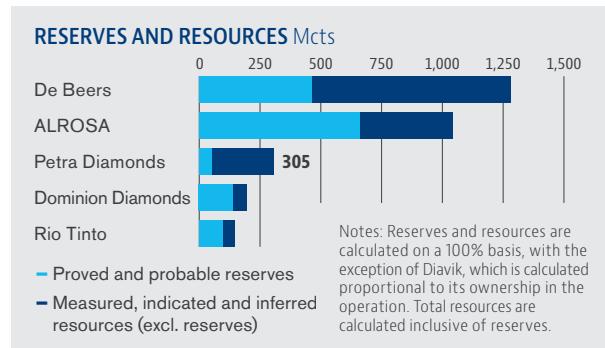
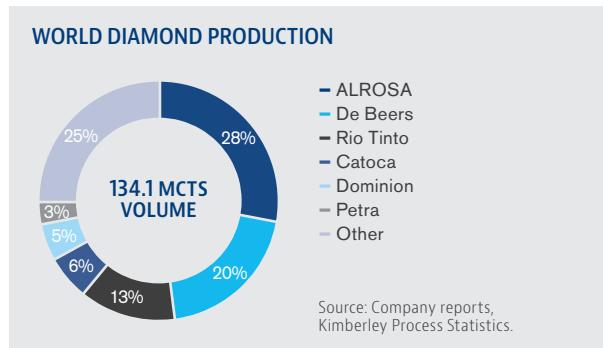
Discover more about Petra online
petradiamonds.com

See our Sustainability Report online
petradiamonds.com/sustainability

At a Glance

One of the world's largest diamond resources

GROUP RESOURCES Mcts	GROUP RESERVES Mcts	EMPLOYEES WORLDWIDE	CONTRACTORS WORLDWIDE	GROUP LTIFR
305.0 -2%	51.1 +7%	5,607 +12%	5,562 -3%	0.27% -7%



World diamond production by volume increased 5% to 134.1 Mcts in 2016, while production by value decreased 11% to US\$12.4 billion (Kimberley Process Statistics). Based on FY 2017 results, Petra accounted for 3% of world supply by volume and 4% by value.

Our world-class resource of 305 Mcts ranks third by size after De Beers and ALROSA. This factor, combined with the significant size of Petra's orebodies, suggests relatively long lives for our mining operations (in particular, Cullinan and Williamson have the potential to be in production for over 50 years to come).

Petra's mines produce the full range of diamonds, a large proportion of which are suitable for the mass luxury market. However our mines also produce world-class white and fancy coloured diamonds, including very large exceptional white diamonds and top quality blue diamonds at Cullinan, 'bubblegum' pink diamonds at Williamson and yellow diamonds at Finsch.

Our Market Pages 18 to 21

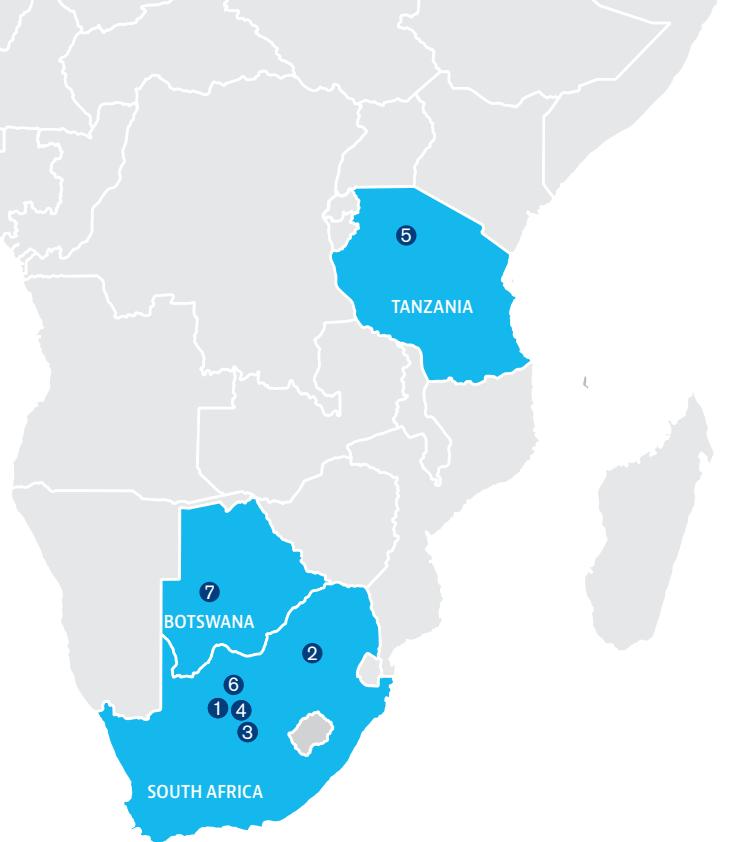


ORE PROCESSED IN FY 2017 Million tonnes	ROUGH DIAMOND PRODUCTION Mcts	REVENUE US\$ million	PROFIT FROM MINING ACTIVITIES ¹ US\$ million
18.8 -1%	4.0 +8%	477.0 +11%	168.5 -4%
ADJUSTED EBITDA ¹ US\$ million	OPERATING CASHFLOW US\$ million	NET PROFIT AFTER TAX US\$ million	EARNINGS PER SHARE US\$ cents
157.2 -4%	160.2 -10%	20.7 -69%	3.47 -67%
CASH AT BANK US\$ million	DIAMOND DEBTORS US\$ million	IFRS NET DEBT US\$ million	BANK FACILITIES AVAILABLE US\$ million
203.7 +318%	41.5 -35%	553.4 +47%	5.6 -95%

1. Refer to pages 161 and 167 of Supplementary Information for definitions of non-GAAP measures together with other non-GAAP measures used in this Report.

Focused on Africa

Africa produces 50% of the world's diamonds by volume and 58% by value. Petra mines and sells rough diamonds from its diversified portfolio of producing mines in South Africa and Tanzania, and is also exploring for diamond deposits in Botswana and South Africa.



1

Finsch

A major producer with top-quality infrastructure

Ownership **74%**
Production **2.14 Mcts**
Revenue **US\$216.7m**
Mine plan **to 2030**

2

Cullinan

One of the world's most celebrated diamond mines

Ownership **74%**
Production **0.8 Mcts**
Revenue **US\$91.3m**
Mine plan **to 2030**

3

Koffiefontein

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

Ownership **74%**
Production **0.05 Mcts**
Revenue **US\$28.4m**
Mine plan **to 2025**

4

Kimberley Ekapa Mining Joint Venture

The site of South Africa's early diamond rush

Ownership **55.5%¹**
Production **0.8 Mcts**
Revenue **US\$82.3m**
Mine plan **to 2035**

5

Williamson

Tanzania's only significant diamond producer

Ownership **75%**
Production **0.2 Mcts**
Revenue **US\$58.4m**
Mine plan **to 2033**

6 7

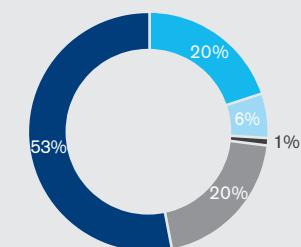
Exploration

The search for new economic deposits

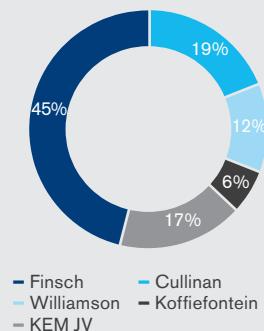
Ownership **100%**
Focus **Evaluation of KX36 (Botswana) and Reivilo (South Africa)**
Spend **US\$0.7m**

FY 2017 actual

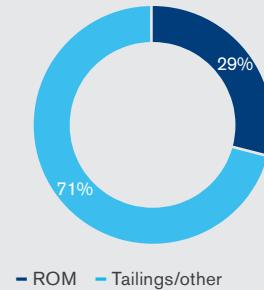
PRODUCTION BY MINE



REVENUE BY MINE



PRODUCTION SPLIT – CARATS



● Operational Review Pages 32 to 41

● Petra's Partners Pages 162 to 163

1. The Group's direct interest in the Kimberley Ekapa Mining JV ("KEM JV") is 55.5%. Refer to footnote 1 on page 162 for details of the Group's effective interest in the KEM JV.

Why Invest

Petra's key competitive strengths...

Operational track record

4.0 MCTS PRODUCTION

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

- **Our Business Model**
[Pages 14 to 15](#)

Diversified portfolio

5 PRODUCING MINES

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

- **Operational Review**
[Pages 32 to 41](#)

Major resource base

305 MCTS RESOURCE BASE

Petra has developed one of the world's largest diamond resources totalling 305 Mcts. The careful management of these resources will ensure sustainable, long-life mining operations for the Group for many years to come.

- **2017 Resource Statement**
[Pages 168 to 171](#)

Sustainability

8.4 US\$ MILLION TRAINING AND DEVELOPMENT PROGRAMMES

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

- **Employee Retention and Development**
[Page 47](#)

Focus on efficiencies

33% ADJUSTED EBITDA MARGIN

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

- **Our Strategy**
[Pages 22 to 25](#)

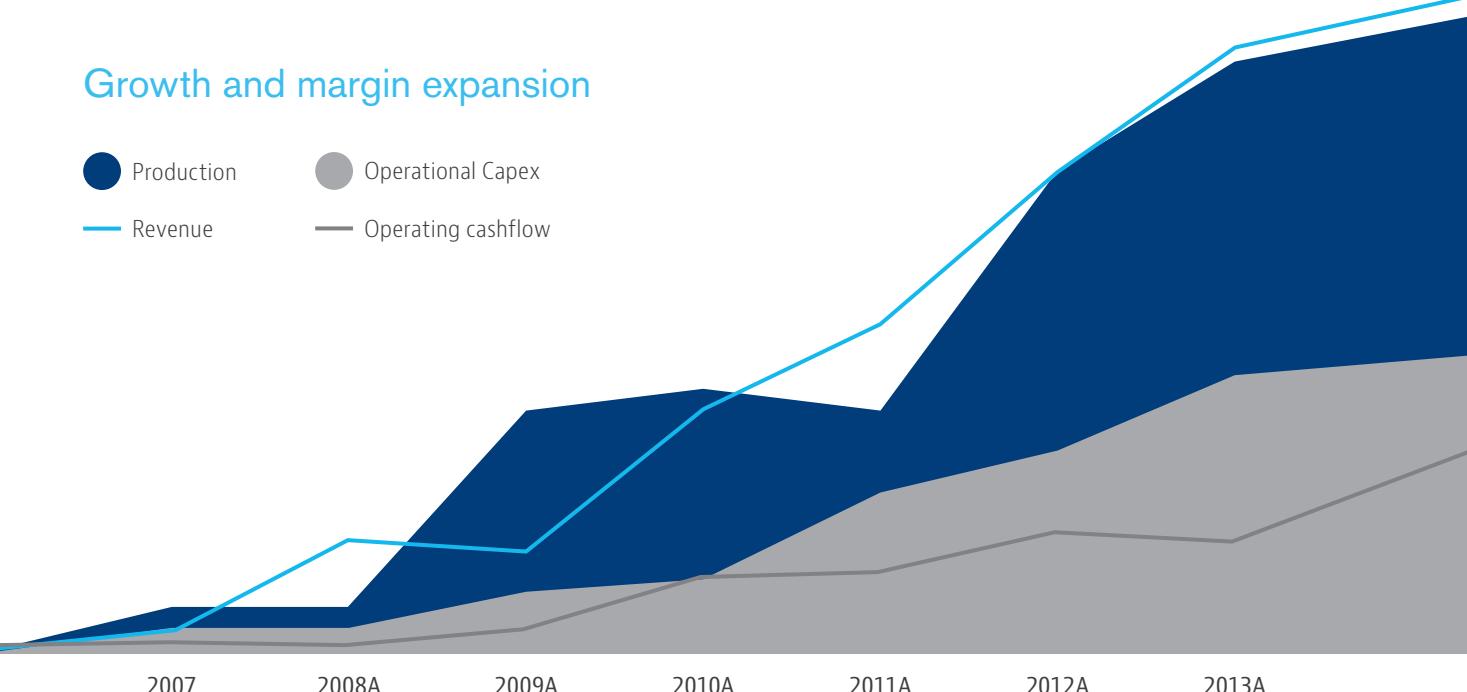
Management culture

9% STAFF TURNOVER

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

- **Employee Retention and Development**
[Page 47](#)

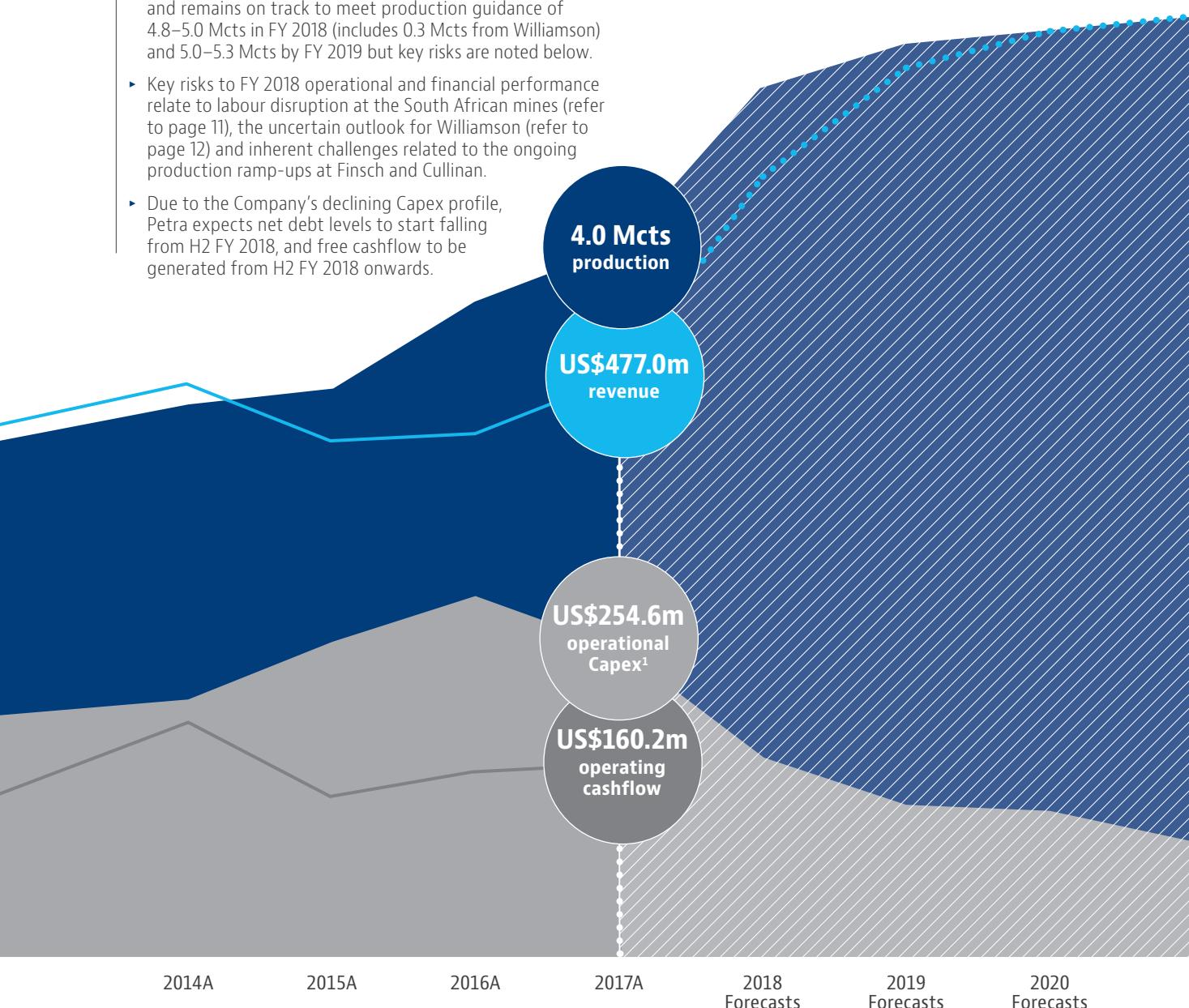
Growth and margin expansion



...leading to a strong growth path

Outlook

- ▶ FY 2018 will see the continued transformation of Petra's production profile, further to ramping up production from the new undiluted mining areas of our underground mines, most notably at Cullinan, while also decreasing the proportion of tailings from around 30% of our carat production in FY 2017 to around 15% in FY 2018.
- ▶ These factors mean that the Company will continue to realise higher average grades, as well as a better quality product mix.
- ▶ Increasing volumes to be realised against Petra's fixed cost base are expected to have a positive impact on the Company's financial results for FY 2018 and beyond.
- ▶ Petra has made a solid production start to FY 2018 and remains on track to meet production guidance of 4.8–5.0 Mcts in FY 2018 (includes 0.3 Mcts from Williamson) and 5.0–5.3 Mcts by FY 2019 but key risks are noted below.
- ▶ Key risks to FY 2018 operational and financial performance relate to labour disruption at the South African mines (refer to page 11), the uncertain outlook for Williamson (refer to page 12) and inherent challenges related to the ongoing production ramp-ups at Finsch and Cullinan.
- ▶ Due to the Company's declining Capex profile, Petra expects net debt levels to start falling from H2 FY 2018, and free cashflow to be generated from H2 FY 2018 onwards.
- ▶ Management forecasts indicate that the Group retains sufficient liquidity from existing cash resources, operating cashflows and existing facilities to meet its capital expenditure and other commitments.
- ▶ However, given labour disruption at three of the Group's South African mines post Year end, the uncertainty surrounding the outlook for Williamson and the impact of lower production than expected in H2 FY 2017, the Company has highlighted to its lender group that a breach of the EBITDA related covenant measurements related to its banking facilities for the 12 month period to, and as at, 31 December 2017 is likely; the Company remains confident that a satisfactory resolution can be reached – read more on page 30.



¹ Capex figures exclude capitalised borrowing costs.



Strategic Report

Strategic Report

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Chairman's Statement

Taking stock after 20 years



While FY 2017 was a difficult year, our imperative is always to critically review our performance in order to evaluate how we can improve.

Dear Shareholder,

I hereby introduce Petra's 2017 Annual Report, which aims to paint a clear picture of the Petra story, including a balanced description of our business, its performance over the last year and its future prospects.

2017 marks Petra's 20th year anniversary on the market and we have come a long way since listing on London's AIM on 30 April 1997 with a market capitalisation of less than £10 million. We may have started small but we had an ambition to play a leading role in the world of diamonds. Our stated strategy at the time was "to become a major producer of gemstone quality diamonds", and I believe that Petra is actively achieving this, given that we are already a leading independent producer of high quality diamonds with a continued strong growth profile.

A challenging FY 2017

Before coming to the operational and financial performance of the Company in FY 2017, I would first like to address health and safety, in recognition that the six fatalities experienced during the Year were unacceptable, as the wellbeing of our employees and the communities in which we work is our first priority. While the general safety performance (represented by our lost time injury frequency rate ("LTIFR")) actually improved, we cannot ignore the worrying occurrences in FY 2017 and see it as a leading operational indicator that must and will be addressed. This is our most important priority for FY 2018 and beyond.

On behalf of myself and the Board, I would like to sincerely express our condolences to the families and friends of the deceased.

In the context of Petra's history to date, FY 2017 was one of the more challenging years in our growth profile. The Company did grow production 8% to a record level of 4.0 Mcts; however, this was below original guidance of 4.4 to 4.6 Mcts, mainly due to the delay in commissioning of the new Cullinan plant, as well as the slower than expected ramp-up of production at the new Sub Level Cave ("SLC") at Finsch.

The shortfall in production and sales, combined with the impact of slightly higher Capex than expected and a stronger Rand for the Year, led to Petra ending FY 2017 with higher net debt and lower EBITDA levels than anticipated. This led to the requirement for a waiver of the two debt facility covenants relating to EBITDA for the measurement period to 30 June 2017.

We recognise that this performance is disappointing to our shareholders, as it is indeed to me and the rest of the Board. While the operational issues that we had to contend with were for the most part overcome due to the flexibility and tenacity of our team, we have learnt some hard lessons over the course of the Year. We understand that Petra needs to improve upon both the setting of achievable guidance (to ensure we do not miss market expectations) and communications (both inside and outside the Company). These are two areas which the Board has noted as key focus points for FY 2018 – read more about our Board Objectives on pages 63 and 64.

Creating five 'new' mines

The major turning point for Petra came about when De Beers commenced a rationalisation of its portfolio with the divestment of the older, non-core assets that had come to represent just a small contribution of its business by production and revenue.

Petra was therefore able to acquire majority interests in five mines over the period 2007 to 2011 which now form the basis of our portfolio. These were assets that had been the mainstay of world diamond production from the late 1800s to the 1960s, prior to the opening of the major producers in Botswana and Russia. The history and heritage of our mines were crucial to our evaluation of the assets prior to their acquisition, as their longevity, quality of diamond production and fame were testament to their economic robustness.

However, these assets had all gone through a prolonged period of being non-core to their previous owner, meaning that they had not had capital committed to their continuity and were subsequently significantly behind in their development programmes. This meant that, upon takeover, Petra had no option but to operate in 'mature' mining blocks, where the majority of the ore had been extracted and which were now suffering from significant ingress of waste material.



Despite this, Petra has always achieved operating margins of 30–40%, which speaks to our culture of rigorous cost control, but we have still to this day not yet operated our assets under 'normal' operating conditions. This is what leads us to believe that we have an exciting future ahead, as the economics of the business are set to be transformed once we have completed our transition to operating in the new mining blocks, thereby gaining access to undiluted ore, which will yield a higher quantity ('grade') of diamonds. This process is well underway, as evidenced by the trend of higher ROM grades, particularly at Finsch and Cullinan.

The Company has now made significant progress with the recapitalisation of our assets. As a team, we internally think about this work as akin to the creation of five new mines, given that we are opening up new mining areas at each asset, putting new ore-handling systems in place, and either constructing new or making major modifications to the various processing plants. While this is a large amount of activity to be carried out at the same time, it has been necessary in order to put in place a long-term, sustainable mine plan at each asset. It was not an easy path to choose, but we believe it was the right one. Read more about our operational performance on pages 32 to 41.

Financing

Petra bolstered its balance sheet during the Year through the issuance of US\$650 million of new 7.25% senior secured second lien notes due 2022. The bond raising was used to redeem the Group's US\$300 million 8.25% senior secured second lien notes due 2020, to repay certain of the Group's bank facilities and to support the expansion plans. The Board supported the bond financing, given the fact that the new capital structure provides Petra with financial flexibility and a bond maturity of 2022, a profile which is better suited to the long-term length of our mine plans. Read more about our balance sheet on pages 29 and 30.

Returns to shareholders

The Company has not declared a dividend for FY 2017 as it did not meet the distribution covenant associated with its debt facilities for the 12-month measurement period to 30 June 2017 – see page 167 for further information. Returns to shareholders remain a priority for the Board and as the Company becomes increasingly cash generative, it intends to resume dividend payments. The decision as to whether to pay a dividend is reviewed by the Board regularly and the market will be updated on this when appropriate.

Upholding high standards of corporate governance

Petra remains committed to upholding high levels of corporate governance and to ensuring that our governance procedures evolve in line with the Company's ongoing development. Read more about our progress on pages 54 to 67.

We announced post Year end that we have strengthened the Senior Management team below the Board with the appointment of Luctor Roode, previously the General Manager at Petra's Finsch mine, to the role of Executive Operations, responsible for operational production matters. Luctor sits alongside Chief Technical Officer Koos Visser and Chief Financial Officer Jacques Breytenbach.

This reorganisation is part of the Company's ongoing succession planning process, as Petra makes the transition from a capital-intensive/expansion phase to a steady-state production focus. This is a focus for our Nomination Committee and further changes to the Board and Senior Management can be expected over the next few years as part of this – read more on page 83.

Outlook

While FY 2017 was a difficult year, our imperative is always to critically review our performance in order to evaluate how we can improve. I am pleased to report that FY 2018 has commenced well, with the continued ramp-up of underground production at Finsch and Cullinan as planned. The Company is on target to reach output of 4.8–5.0 Mcts in FY 2018 and 5.0–5.3 Mcts in FY 2019.

However, we note that key risks to FY 2018 operational and financial performance relate to labour disruption at the South African mines (refer to page 11), the uncertain outlook for Williamson (refer to page 12) and inherent challenges related to the ongoing production ramp-ups at Finsch and Cullinan.

Furthermore, as announced on 9 October 2017, the Company has highlighted to its lender group that a breach of the EBITDA-related covenant measurements related to its banking facilities for the period to, and as at, 31 December 2017 is likely due to both the annualised 12-month nature of the ratios, which takes account of the lower H2 FY 2017 production than expected and post Year end labour disruption, coupled with the uncertain outlook surrounding Williamson. The Company is therefore engaging with its lender group but remains confident that a satisfactory resolution can be reached. Despite this, our forecasts indicate that the Group retains sufficient liquidity from existing cash resources, operating cashflows and existing facilities to meet its capital expenditure and other commitments. Read more in 'Liquidity and covenants' on page 30.

Mining is undoubtedly a tough industry which requires a clear vision, steadfast resolve and a lot of hard work, but the prize is worth it as we have high quality assets which are being set up to produce consistently for many decades to come.

I am only too aware that it is the numerous unsung actions and wins of each and every employee and contractor, who work daily to overcome the many challenges innate to mining, that are critical to fulfilling our vision to be a world-class diamond mining group. I would therefore like to thank each and every one of our employees and contractors for their exceptional contribution to the business. Likewise, I would like to thank all of our stakeholders, including our partners, our local communities and our shareholders for their continued support.



Adonis Pouroulis
Non-Executive Chairman
14 October 2017

2009

Acquired a majority interest in the Williamson mine

2011

Acquired a majority interest in the Finsch mine

2016

Formation of the Kimberley Ekapa Mining Joint Venture

2017

Annual production rose to all-time high of 4.0 Mcts

Chief Executive's Statement

Driving forward



While the ramp-up of our expansion programme was slower than expected the bigger picture remains the same.

Review of FY 2017

While FY 2017 saw the Company in continued growth mode, reaching record production of 4.0 Mcts and revenue of US\$477.0 million, unfortunately we did not meet our production guidance of 4.4–4.6 Mcts for the Year. The lower production and sales for the Year had a knock-on effect to the Company's profitability due to the fixed cost structure of the Group, which is circa 70% of our cost base, rising in line with the ramp-up in our expansion programmes.

Our financial results were further impacted by the strengthening of the Rand, with an average of ZAR13.59:US\$1 for the Year, as opposed to ZAR14.51:US\$1 for FY 2016. Given that 80–85% of our costs are Rand-based, a strengthening Rand has a negative impact on conversion to Dollar reported costs. As a result, the Company recorded an adjusted EBITDA margin¹ of 33% (FY 2016: 38%) and an adjusted net profit after tax¹ of US\$29.0 million (FY 2016: US\$63.6 million).

While this performance is disappointing, we have commenced FY 2018 in a significantly improved position, given that the majority of the capital has now been spent, the major plant construction/modification work has mostly been completed across our mine portfolio, and the new caves at both Finsch and Cullinan are already producing at substantial volumes. We have also been encouraged by the improving grades and product mix, driven by mining higher quantities of undiluted ore from our new mining areas, that we have already experienced to date and which we expect to continue into FY 2018 and beyond.

The two main operational issues impacting results for FY 2017 were the delay in bringing the new plant at Cullinan on stream and a slower than anticipated ramp-up of the new SLC at Finsch.

The Cullinan plant delay was mainly due to labour disruptions experienced by our contractor, followed by a number of commissioning issues. Production ramp-up is continuing, with the plant set to reach nameplate capacity of 6 Mtpa shortly and ready to deliver Cullinan's production and treatment plan for FY 2018, including processing the stockpile of some 400,000t of ROM ore. The new block cave is performing as planned and is expected to more than double output to circa 2.2 Mt in FY 2018 (FY 2017: circa 940,000t).

The Finsch SLC had a challenging period in terms of reaching its required tonnage build-up. This is mostly due to issues encountered with regards to allocation of equipment (drill rigs) and the associated impact on the number of rings drilled and blasted in the SLC. By increasing the size of the long hole drill rig fleet from four to six, we significantly increased the available drilling capacity to ensure blasted ore tonnes will be available to achieve the intended levels of ROM production.

We are now on track to deliver further growth and have provided production guidance ranges of 4.8–5.0 Mcts for FY 2018 and 5.0–5.3 Mcts for FY 2019 (including 0.3 Mctpa from Williamson). Importantly, our longer-term production target of circa 5 Mcts (originally set in FY 2012 to be reached in FY 2019) is soon to be achieved.

Petra will continue to focus on maximising overall value, as opposed to maximising volumes, by optimising production and plant processes. Given our well diversified asset base, along with the quality and size of our orebodies, we will have a lot of flexibility in how we can maximise the value of our production in the future. As we near completion of our capital expansion programmes started in FY 2009, we are looking to create further operational flexibility and extend the current mine lives of our operations on an ongoing basis. We have therefore assigned an ongoing annual capital spend of US\$100–120 million post FY 2019 to continue organic development work at our assets, split as to circa US\$30 million sustaining capital and circa US\$70–90 million expansion capital. This will ensure the continuous opening up of new ore at our mines, thereby leading to long-term sustainable operations and avoiding such a heavy Capex period as we have had over the past few years.

Diamond market

The rough diamond market remained stable in FY 2017, in line with the steady retail demand for diamonds experienced over the same period. Petra therefore experienced firm demand across all diamond size ranges throughout the Year, apart from the few months immediately following the Indian demonetisation, which temporarily affected demand for smaller, lower value categories.

While the diamond market has shown some softness at our first tender of FY 2018, this appears to be attributable to normal seasonal factors, as our assessment of the wider market is that it remains stable. We view the big push in diamond marketing now being made by the Diamond Producers Association, as well as De Beers, as very positive in terms of supporting future consumer demand. Read more on pages 20 and 21.

1. The Group uses several non-GAAP measures throughout this report to focus on actual trading activity by removing non-cash or non-recurring items. Disclosures relating to these non-GAAP measures can be found on pages 161 and 167.

Safety

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.

While Petra's mining methods and operations are inherently safe, there is an ever present risk of accidents as with all heavy industries. For this reason, 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 LTIFR improved to 0.27 for the Year (FY 2016: 0.29), which is a good achievement in the context of the high level of construction activities currently underway and for underground operations. However, we tragically experienced five fatal accidents, which led to five employee and one contractor fatalities. The Board and I are very disappointed with this performance and turning it around is the most important priority for the Group. Petra is working very hard to reinforce its safety procedures as well as implementing new practices in an effort to ensure that every one of our people returns from work unharmed each day. No other outcome will do.

Labour relations

We remain highly focused on managing labour relations, via ongoing priority engagement with unions and employees directly, and via measures such as the Itumeleng Petra Diamonds Employee Trust, which directly holds 12% of each of our South African operations and aims to further align employee and shareholder interests.

Historically, Petra has generally experienced stable labour relations, without protracted disruptions, due to the Company's labour relations strategy. However, further to the completion of its prior three-year wage agreement at the end of June 2017, some labour disruption was experienced in September 2017 prior to the finalisation of a new three-year wage agreement.

While it was encouraging that there was no such disruption at the Cullinan mine, the Finsch, KEM JV and Koffiefontein operations were impacted. Underground mining at each of these three operations was affected during the duration of the disruption (which ranged from four days at Koffiefontein to circa nine days at Finsch and KEM JV), but Petra continued plant treatment of surface material and available stockpiles at near normal capacity at both Finsch and KEM JV to ensure the least possible impact on Group production.

By 2 October 2017, a new three-year wage agreement had been reached with the National Union of Mineworkers at each of Petra's South African operations, allowing for annual increases to NUM members in the region of 9–10% for year one and 8.5% for years two and three. However, given lower wage increases for other levels of employees within the Group, the overall wage inflation for the Company is circa 7.5% per annum. There is no material impact to Petra's cost guidance for FY 2018, which can be found at <https://www.petradiamonds.com/investors/analysts/analyst-guidance/>.

The finalisation of a new wage agreement for the Company's South African mines for the three years to end June 2020 bodes well for a more stable environment during this period.

Focus on safety

Safety has always been at the heart of everything we do at Petra; however, this Year has seen the Company reinforce its safety procedures as a result of the fatalities experienced.

Petra has a fatal accident investigation and remediation programme which was implemented in each instance. This programme includes a full accident report, the execution of full internal and external investigations and the implementation of remedial actions.

The requirement for additional discussions and meetings between Group HSEQ and operational management on the topic of safety was identified in FY 2017 and, as a result, a safety performance 'turn-around' plan, based on the mining sector specific 'back to basics' principles, was drafted and implemented at all operations.

This plan is supported by the two pillars of 'Effective Leadership' and 'Effective Control'. As part of the plan, we emphasise and reiterate the importance of leading from the front to influence activities and conditions and to change behaviour.

Petra has also implemented the below specific health and safety initiatives and campaigns:

- ▶ 'back to basics' campaign;
- ▶ 'stop and fix' initiative;
- ▶ internal health and safety stop notices;
- ▶ scheduled execution of Planned Task Observations ("PTO") on all significant tasks and activities;
- ▶ enforcement and quality control on front line risk assessment;
- ▶ quarterly strategy review sessions;
- ▶ scheduled management walkabouts and communication;
- ▶ reviewed entry and making safe declarations;
- ▶ increased front line and supervisory level safety training and coaching;
- ▶ proactive assessment of existing safety controls against the outcomes of significant accident notices occurring in industry nationally and internationally; and
- ▶ festive seasonal campaigns to discourage negligence and general laxity of standards.



Chief Executive's Statement continued

Post Year end developments in Tanzania

Post Year end, reports appeared in the media about the findings of an investigation into the Tanzanian diamond sector by a parliamentary committee in Tanzania. 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 from export to Petra's marketing office in Antwerp and certain key personnel from Williamson were being questioned by the authorities. Production was temporarily stopped for safety and security reasons, but recommenced on 14 September 2017 after a four-day shut-down following the return of the key personnel to the mine.

The grounds upon which these actions were taken have still not been formally made known to the Company; however, media reports suggested concern about the potential under-valuation of diamond parcels prior to export and the impact this could have on royalty payments to the GoT. Petra therefore published an announcement on 11 September 2017 confirming all operations at Williamson, including the export and sales processes, are conducted in a transparent manner and in full compliance with legislation in Tanzania and the Kimberley Process. Furthermore, Petra confirmed that it is not responsible for the provisional valuation of diamond parcels from Williamson before they are exported to Antwerp; this is carried out by the Government's Diamonds and Gemstones valuation agency. Finally, Petra confirmed that all royalty payments to GoT are based on the actual sales proceeds for the diamonds, once sold in Antwerp, rather than the provisional value prior to export.

As of the date of this report, Petra had received authorisation from the GoT to resume diamond exports and sales from Williamson and a new parcel of diamonds is currently being prepared for export from Tanzania, for eventual sale at the Company's marketing office in Antwerp in October. However, a resolution has not yet been reached with regards to the parcel of diamonds that was blocked from export. The Board is hopeful that the willingness by the Company to facilitate continued full transparency around its diamond marketing will ensure a return to a normal sales cycle from Williamson shortly, with the Group being in a position to thereby tender its available diamond inventory as usual, including the blocked parcel, during H1 FY 2018; however, it should be noted that the outcome of this situation remains uncertain. Petra is committed to continued engagement with the GoT to resolve this matter.

As previously announced, changes to the legislative framework governing the natural resources sector were also recently passed by the GoT and sales at Williamson are now subject to an additional 1% royalty (bringing the total royalty to 6%) and a 1% export clearing fee. Changes have also been enacted with regards to the offsetting of VAT, the impact of which on Williamson is still under discussion with GoT and yet to be determined, but could increase cash on-mine costs by circa 10%. The legislative change does not impact the VAT recoverable as at Year end.

Further key legislative changes also encompass:

- ▶ the provision to the GoT of a non-dilutable, free-carried interest of no less than 16% in all mining projects (note that the GoT already holds 25% of the Williamson mine);
- ▶ the right for the GoT to acquire up to 50% of any mining asset commensurate with the value of tax benefits provided to the owner of that asset by the GoT; and

- ▶ companies with a Special Mining Licence to float 30% of their total issued shares on the Dar es Salaam Stock Exchange in Tanzania by 24 August 2017 (a waiver to the minimum local shareholding requirement may be granted under certain conditions).

The Company is committed to ongoing dialogue with the GoT with respect to the aforementioned matters. However, it should be noted that the situation with regards to operations at Williamson remains uncertain and should the mine be unable to carry out normal production and sales activities in the future, this may impact the Company's ability to meet its production guidance for the Year (Williamson is forecast to contribute circa 0.3 Mcts).

In addition, the uncertainty surrounding the outlook for the final volume of sales from Williamson in H1 FY 2018 has contributed to the Company's assessment that it is likely to breach the two EBITDA related covenant measurements related to its banking facilities – refer to 'Liquidity and covenants' on page 30 of the Financial Review for further information.

South Africa – potential legislative changes

As previously announced, proposed changes to the South African Mining Charter were published in July 2017. The Chamber of Mines, which represents the South African mining industry and of which Petra is a member, responded by launching a court application to interdict the revised Charter. The Chamber of Mines has now retracted the interdict further to the Minister of Mineral Resources' written undertaking on 13 September 2017 to not implement or apply the provisions of the revised Charter pending the judgement of the review application set down for court hearing on 13–14 December 2017. More information about the Chamber of Mines' position can be found at the following website: miningcharter.chamberofmines.org.za.

Outlook

Petra has been working on major expansion programmes at each of its five mines since FY 2009, entailing significant underground and plant projects, a period which has seen the Company's production essentially quadruple from 1.1 Mcts to 4.0 Mcts. While the ramp-up has been slower than anticipated, the bigger picture for the business remains the same as we remain on track to grow production to 4.8–5.0 Mcts in FY 2018 and to 5.0–5.3 Mcts in FY 2019 (though note that a number of risks to FY 2018 outlook are disclosed on page 5), capital expenditure is falling and we are set to generate free cashflow in H2 FY 2018.

FY 2018 will also see the continued transformation of our production profile. This will be achieved through ramping up production from the new undiluted mining areas of our underground mines, most notably at Cullinan, while also decreasing the proportion of tailings from around 30% of our carat production in FY 2017 to around 15% in FY 2018. Both of these factors mean that we will continue to realise higher average grades, as well as a better quality product mix.

Finally I would like to acknowledge that our people and our relationships with our stakeholders are vital to Petra's success. I therefore extend my thanks to each of our employees, contractors and partners, who have contributed so much to ensure the continued progress of the Company on our growth path.



Johan Dippenaar

Chief Executive

14 October 2017



Petra Diamonds Graduation Ceremony 2017

On 24 August 2017, 120 graduates from the Group's various development programmes came to Johannesburg to attend the Petra Diamonds Graduation Ceremony, a day of celebration and recognition for the hard work and dedication they have demonstrated by furthering their skills and personal development within the Company.

Graduates attended from our learnership programmes such as the Rock Breaking Learnership, various engineering disciplines and the National Certificate Level 2 Mineral Processing. These qualifications enable employees to progress into more skilled positions such as artisans and miners, with more than 30% of the graduates being female and 80% historically disadvantaged South Africans ("HDSAs").

All our developmental programmes were represented, being the Supervisory Learnership programme, the Management Development Programme, the Senior Management Development Programme and our flagship Leadership Development Programme. Each of these programmes results in an accredited qualification and each candidate also receives mentoring and coaching to supplement and augment the new knowledge they acquired through their training.

Special recognition was also given to various achievements in the Leadership Development Programme. The overall achiever for 2017 on the programme was Beertjie Boonzaier from Finsch, while the coveted Group of the Year award went to Cullinan course year one. Richard Popham from Group Training received the Mentor of the Year award.

Interns who graduated from their internship programme in areas such as electrical, mechanical and metallurgical engineering, environment and safety were also celebrated.

The day was made even more special by various guest speakers, including our Chief Executive, Johan Dippenaar, who spoke about the importance of learning through doing and how each person's development is a continuous journey, and Microsoft South Africa MD Zoaib Hoosen, who is also the chairperson of Maths Centre, an NGO which collaborates with Petra to improve maths and science education in local schools. Zoaib was able to give attendees a glimpse into the impact of new technologies on our world and the importance of always learning and developing one's skills in order to keep up with the changes associated with the Fourth Industrial Revolution.

The closing remarks were made by Egbert Klapwijk, our Group Support Manager, who spoke about the high poverty levels in South Africa, but also highlighted that continuous education and development offers the opportunity for everyone to pull themselves out of poverty.

After the event, graduates and management had time to socialise and network. During discussions with our graduates, it would seem that many of them are heeding the advice of all our guest speakers and are carrying on with their own development – not stopping with what they have achieved on the day but aiming higher.

“

Petra's annual Graduation Ceremony aims to celebrate and recognise those who have graduated through one of our many internship, learnership or developmental programmes during the year. These are the current and future bright stars of the Company and we hope they will be encouraged to seek lifelong development, not stopping with what they have achieved, but always aiming higher.

Johan Dippenaar
Chief Executive

Our Business Model

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

INPUTS AND THEIR BENEFITS TO PETRA

Responsible leadership

- Sustainable operations
- Uphold the high value placed on diamonds

People and skills

- Company culture
- Productive workforce
- Specialist skills

High quality assets

- Major resources
- Long-term mine lives
- Diverse product range

Financial capital

- Robust balance sheet
- Access to diversified sources of capital

Relationships

(including Governments, trade union partners, local communities and BEE Partners)

- Licence to operate

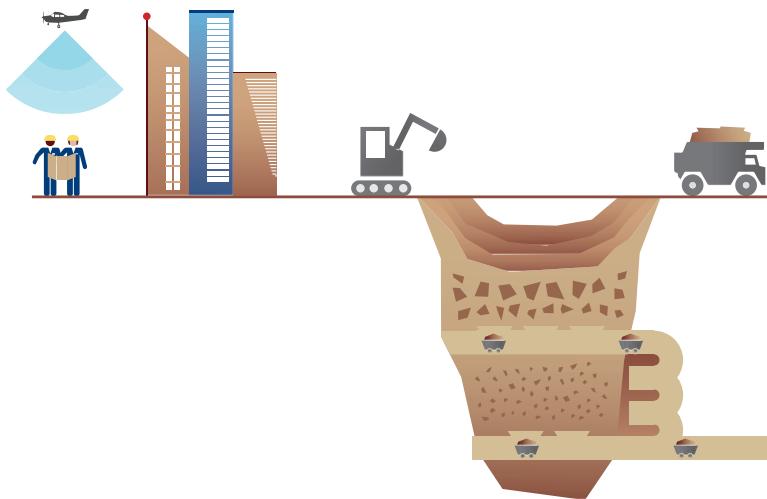
Energy and water

- Sustainable access to energy and water

Technology and equipment

- Extension of mine lives
- Optimisation of operations

WHAT WE DO



Project appraisal

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



Mining and development

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

HOW WE DIFFERENTIATE

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

HOW WE DIFFERENTIATE

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

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



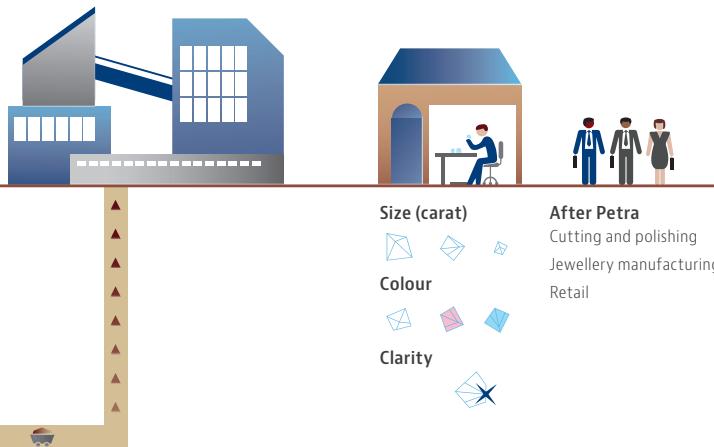
Work responsibly

Committed to responsible development



Increase output

Targeting 5.0–5.3 Mcts by FY 2019



Processing

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

HOW WE DIFFERENTIATE

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



Sorting and sales

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

HOW WE DIFFERENTIATE

- ▶ Petra has always run its own diamond sales, having developed marketing and sales expertise in-house, and therefore does not pay any sales commission to a third party.
- ▶ Petra utilises the competitive tender process for its sales, thereby ensuring maximum competition for its goods.
- ▶ 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
 - ▶ Employee wellbeing initiatives
- Pages 16, 47 and 48

Customers

- ▶ Quality and consistent product offering
 - ▶ Confirmed provenance and heritage
- Pages 16 and 46

Shareholders/Bondholders

- ▶ Growth profile
 - ▶ Future returns to shareholders
- Page 16

Local stakeholders

- ▶ Socio-economic upliftment
 - ▶ Taxes and royalty payments
 - ▶ Community health initiatives
- Pages 17, 46 and 51

Environment

- ▶ Efficient and responsible use of natural resources
 - ▶ Promoting environmental awareness
- Pages 49 and 50

Suppliers

- ▶ Benefits to local businesses and suppliers
 - ▶ Policy of local procurement where possible
- Pages 17 and 46



Optimise recoveries

Improving operating margins at each mine



Drive efficiencies

Maintaining a culture of effective cost control

Stakeholder Engagement

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

Employees/contractors	Customers	Shareholders/Bondholders
<p>WHY THEY ARE IMPORTANT</p> <ul style="list-style-type: none"> Our people are our most important asset as they are integral to the success of our business Without a skilled, productive and healthy workforce, Petra would be unable to implement its strategy <p>HOW WE ENGAGE</p> <ul style="list-style-type: none"> Workplace meetings and internal committees Employee briefs and publications Notice boards and electronic channels Annual CEO tour of operations Various mine forums and union representation on other committees <p>HOW WE DELIVER VALUE</p> <ul style="list-style-type: none"> Salaries, wages and other benefits: US\$145.8 million Employee training and development expenditure: US\$7.6 million 	<p>WHY THEY ARE IMPORTANT</p> <ul style="list-style-type: none"> Our customers buy the diamonds mined at our operations and are therefore the primary source of revenue for the Group Long-standing relationships with customers ensuring an ethical supply chain for our product <p>HOW WE ENGAGE</p> <ul style="list-style-type: none"> Continuous communication with our client base Open door policy and high level of business transparency Full certification of product Site visits to operations Industry advocacy via the DPA <p>HOW WE DELIVER VALUE</p> <ul style="list-style-type: none"> Conflict-free production: 100% Mcts sold: 4.0 Marketing spend committed by DPA: US\$57 million 	<p>WHY THEY ARE IMPORTANT</p> <ul style="list-style-type: none"> Shareholders are the owners of the Petra business and each one is important to us Without support from the equity and fixed income markets, Petra would not have been able to access financing over the years in order to develop the Company <p>HOW WE ENGAGE</p> <ul style="list-style-type: none"> Regular briefings via public announcements, webcasts, meetings, site visits and social media Annual and sustainability reporting Dedicated investor relations department <p>HOW WE DELIVER VALUE</p> <ul style="list-style-type: none"> Production growth since FY 2009: +300% Production growth planned to FY 2019: +29% Total shareholder return since FY 2009: +165%



Kago Diamonds director Vusi Nkosi (a Petra BEE partner) hands out a certificate to Thato Kilelo, a metallurgy learner from KEM JV, at Petra's Graduation Ceremony 2017.



Williamson supports local education through upgrading and donating educational infrastructure including the construction of eight classrooms.

Local communities

WHY THEY ARE IMPORTANT

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

HOW WE ENGAGE

- ▶ Public participation processes and meetings
- ▶ Community newsletters and local media
- ▶ Partnerships on socio-economic projects

HOW WE DELIVER VALUE

- ▶ Social spend: US\$3.4 million
- ▶ Community training spend: US\$0.9 million

Host Governments/Regulators

WHY THEY ARE IMPORTANT

- ▶ Support from Governments and Regulators is required for our licence to operate
- ▶ Petra ensures it complies with all relevant legislation in each of the countries in which it operates

HOW WE ENGAGE

- ▶ Continuous consultation
- ▶ Scheduled meetings
- ▶ Membership of South African Chamber of Mines
- ▶ Regulatory site visits and audits

HOW WE DELIVER VALUE

- ▶ Taxes and royalties: US\$47.2 million
- ▶ Average life of mine plans ranging from eight years to 18 years
- ▶ Estimated number of dependents on our direct employees: 56,000+ (using the accepted x10 multiplier effect for South Africa and 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

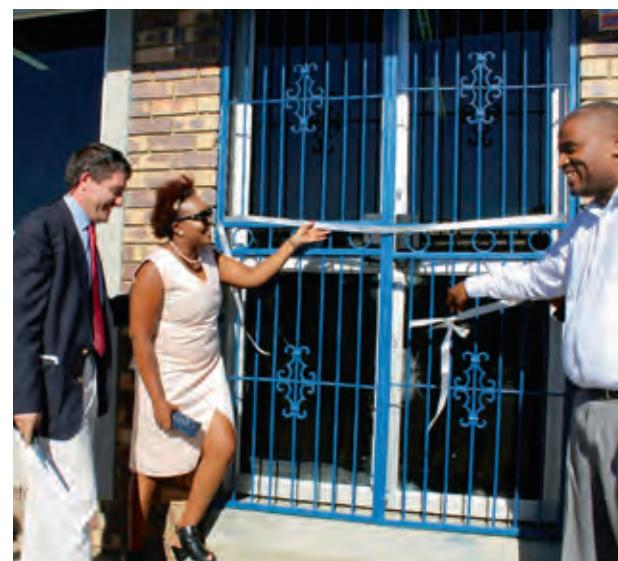
- ▶ Supplier induction process
- ▶ Supplier days and events
- ▶ Local Enterprise Development Centres
- ▶ Continuous liaison
- ▶ Open door policy

HOW WE DELIVER VALUE

- ▶ South Africa supplier expenditure: US\$371.0 million
- ▶ BBBEE and HDSA suppliers: 62%
- ▶ Tanzania supplier expenditure: US\$66.7 million



Cullinan General Manager Juan Kemp playing games with local community members at the multi sports centre built by the mine.

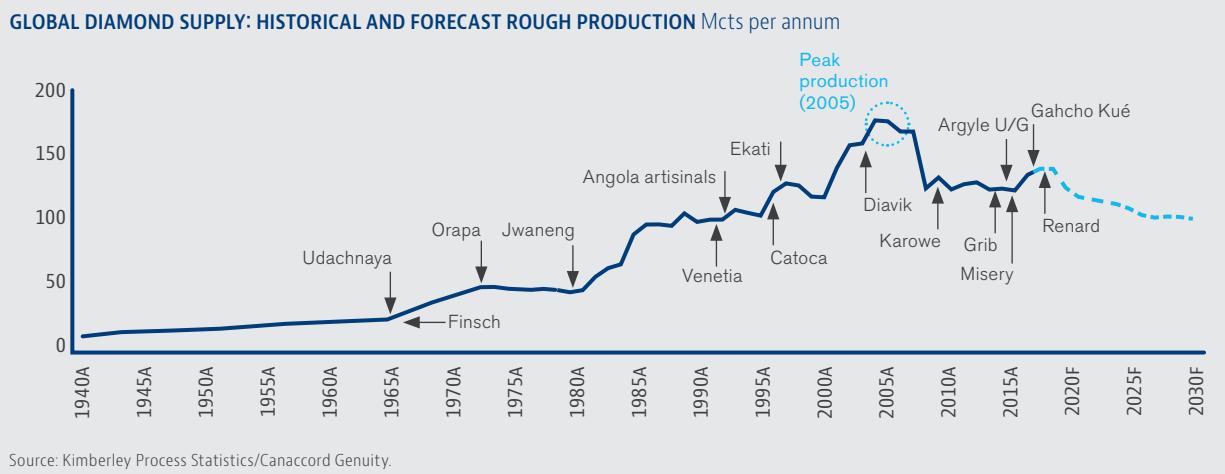


Kimberley's Enterprise Development Centre launched in March 2017 to provide mentoring, procurement opportunities and financing to local SMMEs.

Our Market

Supply

Supply is expected to have already reached peak production in 2005



- Diamond supply by volume increased 5% in 2016 to 134.1 Mcts (2015: 127.4 Mcts).
- This remains significantly below the high of 176.7 Mcts reached in 2005, which is believed to represent world 'peak diamond' supply.
- Diamond supply by value decreased 11% to US\$12.4 billion (2015: US\$13.9 billion) due to the average value per carat mined decreasing 15% to US\$92 (2015: US\$108).

- The lower average value per carat is in part related to lower rough pricing achieved and in part related to mix impact driven by a higher proportion of lower value carats (the largest volume increase in 2016 came from the Democratic Republic of Congo, which is one of the lowest value producers).

Source: Kimberley Process Statistics.

Despite the new production that entered the market, supply is still on a downward trend

- The world's largest diamond mines are maturing and past their peak production levels.
- The success rate in diamond exploration is estimated to be <1% – no significant finds this century, plus exploration expenditure cut worldwide.
- While three diamond mines came into production in 2016 (Gahcho Kué and Renard in Canada and Lihobong in Lesotho), they are not large enough to impact the overall constrained supply picture.

- Decisions were made to not take forward a number of development projects, including Bunder in India, and the following mining operations were recently placed on hold: Ghaghoo and Lerala in Botswana, and Baken, Lace and Saxendrift in South Africa.
- Supply is therefore forecast to grow to circa 143 Mcts by 2019, before declining to circa 101 Mcts by 2030 (source: Canaccord Genuity).

Our strategy

While Petra is increasing production, our overall contribution to world supply (<5%) is too small to materially impact global diamond market conditions.

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



Demand

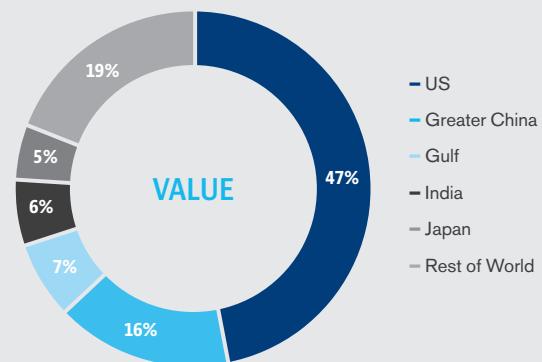
The global diamond jewellery market reached US\$80 billion in 2016

Demand in 2016:

- ▶ Global consumer market for diamond jewellery increased 0.3% in US\$ to US\$80 billion (2015: US\$79 billion).
- ▶ The major US market grew 4% to exceed US\$40 billion for the first time, supported by job creation, wage growth and a strong stock market, and increased its leading market share to 47% (2015: 45%).
- ▶ Demand from China grew 1% in local currency but declined 5% in US\$ to US\$10 billion; however, there was evidence that some buying took place abroad by Chinese tourists travelling to favourable foreign shopping destinations, such as Japan and Europe.
- ▶ The Indian market was weak, showing a decrease of 9% in local currency and 13% in US\$ to US\$3 billion, impacted by an uncertain economic climate and the demonetisation process in late 2016.

Source: De Beers Diamond Insight – June 2017.

SHARE OF WORLD POLISHED DIAMOND CONSUMPTION IN VALUE US\$ polished wholesale price



Source: De Beers Diamond Insight Report – June 2017.

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

- ▶ Continued growth in the major US market.
- ▶ Bridal diamond jewellery continues to be the foundation for the US market, but recent consumer research has identified self-purchase by women as an important growing demand category, as well as products aimed at millennials.
- ▶ Continued urbanisation and strong growth in the middle classes in developing economies, particularly China and India.
- ▶ Brides in developing markets increasingly desire diamonds in their bridal jewellery, as well as traditional gold.
- ▶ Rise in generic diamond marketing to consumers funded by the Diamond Producers Association ("DPA") – focused initially on the US, India and China.
- ▶ Mass luxury (i.e. affordable jewellery items priced from US\$200 to US\$2,000+) expected to drive the market.
- ▶ Trend to use diamonds across a wide range of luxury goods, from watches and accessories to pens and digital devices.

348 million

MIDDLE-CLASS HOUSEHOLDS IN CHINA BY 2030

171 million

MIDDLE-CLASS HOUSEHOLDS IN INDIA BY 2030

Source: Bain & Co.

2.2%

USA PERSONAL DISPOSABLE INCOME CAGR 2017–2021F

5.5%

CHINA PERSONAL DISPOSABLE INCOME CAGR 2017–2021F

Source: IMF, Economist Intelligence Unit.

Our strategy

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

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



Our Market continued

Market performance in FY 2017

A stable market was experienced during FY 2017

The rough diamond market remained stable in FY 2017, in line with the steady retail demand for diamonds experienced over the same period.

During H1 FY 2017, the industry was concerned about the impact on India's major cutting and polishing industry of the country's demonetisation programme, which commenced on 8 November 2016 and saw the Government invalidate 86% of Rupee currency notes in circulation. However, the effects of this were remarkably short-lived and H2 FY 2017 saw a large restocking by the midstream, as Indian manufacturers sought to rebalance and increase capacity, thereby seeing the release of significant inventory of smaller goods, particularly from the major diamond producers (De Beers and ALROSA).

Petra therefore experienced steady demand generally across all diamond size ranges throughout the Year, apart from the few months immediately following the Indian demonetisation, which affected demand for the smaller, lower value categories.

While results from retailers in the US (which accounts for circa 47% of global demand) have been mixed in H2 FY 2017, the market is still assessed by those in the industry to remain stable as a whole, with a stronger performance from independents making up for a weaker performance from large chains.

It has been encouraging to see continued evidence of an improving retail market in China and a recovering market in India, as well as a rebound in the Swiss watch market, which typically uses a significant quantity of small but very high quality diamonds.

Diamond prices

Further to the stable rough diamond market noted for the Year, Petra experienced flat pricing in H1 (six months to December 2016) and pricing up circa 2% on a like-for-like basis in H2 (six months to June 2017).

Post Year end, the Company held its first tender of FY 2018 in early September yielding circa US\$76 million (circa 745,000 carats sold), in line with expectations for the South African operations (no sales for Williamson included). The market is showing signs of normal seasonal weakness, with prices on a like-for-like basis down circa 3% in comparison to H2 FY 2017. The Company will hold two more tenders during H1 FY 2018 and four tenders in H2 FY 2018, as usual.

Given that the first half of the calendar year is the seasonally stronger time for the rough diamond market, Petra remains cautious with regards to the market outlook for the remainder of the calendar year. The Company is therefore guiding flat pricing on a like-for-like basis for FY 2018. However, FY 2018 will mark the first year where Petra will source the majority of its underground tonnages from the new, undiluted mining areas and this, combined with the decreased contribution of lower-value tailings carats to the Group's overall production mix, is expected to lead to an improved product mix at Finsch, Cullinan and KEM JV.

The DPA quadruples its marketing budget to US\$57 million

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

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

In 2017, the DPA announced that it had quadrupled its marketing budget to US\$57 million for 2017. The majority of this budget (circa US\$50 million) is assigned to US marketing, building upon its iconic platform "Real is Rare – Real is a Diamond", and will be spent in the second calendar half of 2017. This represents a significant budget in order to execute the DPA's ambitious plans, which incorporate multichannel advertising, innovative digital programmes and high-impact PR campaigns. The DPA also launched its first marketing campaign in India in October 2017 and will commence marketing in China in April 2018.

Industry advocacy and trade programmes have also been developed, and the DPA will debut a new retail training support programme focused on the new diamond narrative by the end of 2017.



Petra expects to mine a better quality product mix in FY 2018

Diamond prices by operation

Mine	Guidance Weighted average ² US\$/ct FY 2018	Actual ³ US\$/ct FY 2017	Actual ³ US\$/ct FY 2016
Finsch	101–106	101	89
Cullinan	113–119	120 ⁴	126 ⁴
Koffiefontein	525–550	506	462
KEM JV	120–125	100 ⁵	132 ⁶
Williamson	214–224	258 ⁷	384 ⁷

1. Guidance is based on expected weighted average prices for FY 2018, incorporating all sales of ROM and tailings carats, but not including Exceptional Diamonds (diamonds that sell for more than US\$5 million each).
2. Exceptional Diamonds added an average of circa US\$21.7 million per annum to revenues over the last nine years (FY 2009 being the year during which Petra took over the Cullinan mine).
3. All sales (ROM and tailings) including Exceptional Diamonds were used to calculate the average values.
4. Excluding Exceptional Diamonds, the average value per carat for FY 2017 was US\$113 and for FY 2016 was US\$109.
5. The average value per carat was below expectations due to the higher contribution of tailings carats during the Year.
6. The average value per carat for FY 2016 reflects the dilutive impact of combining tailings and ROM sales from H2 FY 2016 onwards.
7. Excluding Exceptional Diamonds, the average value per carat for FY 2017 was US\$235 and for FY 2016 was US\$238.

BLOOMBERG ROUGH DIAMOND INDEX



Source: Bloomberg.

1. The Bloomberg composite rough diamond index increased from 100 to 201 for the period Jan 2004 to Jun 2017. This translates into a CAGR of 5.5% (nominal terms).
2. Excluding the average US CPI of circa 2.5% over the same period, this translates into a circa 3.0% real price escalation.

Industry developments

The CTF Pink Star becomes most expensive diamond ever sold

In April 2017, the 59.6 carat Pink Star diamond was sold by Hong Kong Sotheby's for US\$71 million, setting a new world record for any gemstone sold at auction. The fancy vivid pink, internally flawless, oval cut stone was acquired by Hong Kong jeweller Chow Tai Fook. The diamond was renamed the CTF Pink Star and commemorates the company's 88th anniversary.

This remarkable price demonstrates the keen interest in top quality coloured diamonds due to their incredible

beauty and rarity, as well as their status as a hard asset investment with the potential for strong price appreciation over time.

The CTF Pink Star was originally a 132.5 carat rough stone mined by De Beers in South Africa in 1999. However, it is not publicly known which De Beers mine produced the stone.

Note: While this was not a diamond mined by Petra, our mines produce exceptional coloured diamonds on a regular basis – most notably fancy pinks from Williamson and fancy blues from Cullinan.

Our Strategy



Work responsibly

Committed to responsible development

SAFETY
LTIFR

0.27 FY 2016: 0.29

MAJOR ENVIRONMENTAL INCIDENTS

0 FY 2016: 0

Key Performance Indicators Pages 26 and 27

STRATEGY IN ACTION

Ongoing management of Petra's environmental and social impacts, continued development of our employees and focus on engagement with all stakeholders.

HOW WE ACHIEVE THIS

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

PERFORMANCE AGAINST FY 2017 OBJECTIVES

- ▶ Our LTIFR safety metric improved to 0.27 but we very regrettably recorded six fatalities (five employees and one contractor)

●○○ BELOW EXPECTATIONS

- ▶ Ongoing engagement with stakeholders to continuously re-evaluate and re-prioritise Petra's impacts and adjust its planning accordingly

●○○ MET EXPECTATIONS

- ▶ Successful implementation of a wide range of programmes enabling career development and promotion

●○○ MET EXPECTATIONS

COMMITMENTS AND OBJECTIVES FOR FY 2018

- ▶ Uncompromising commitment to a zero harm workplace focusing on raising safety awareness and enforcing compliance with safety control measures
- ▶ Formal stakeholder engagement process to reassess our sustainability Material Topics
- ▶ Further develop and improve employee communication and engagement

KPIs

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

RISKS

- ▶ Safety
- ▶ Retention of key personnel
- ▶ Country and political
- ▶ Licence to operate
- ▶ Labour relations
- ▶ Community relations
- ▶ Access to energy
- ▶ Access to water

REMUNERATION

- ▶ HSSE performance measures
- ▶ TSR performance measures





Increase output

Targeting 5.0-5.3 Mcts
by FY 2019

ROUGH DIAMOND PRODUCTION Mcts

4.0 +8%

REVENUE US\$ million

477.0 +11%

Key Performance Indicators Pages 26 and 27

STRATEGY IN ACTION

Grade and product mix continued the improving trend as our expansion programmes delivered significant volumes of undiluted ore from the new mining areas.

HOW WE ACHIEVE THIS

- ▶ Ensure we have the right people and skills in place
- ▶ Achieve annual production targets, with Petra setting guidance for the next three years
- ▶ Manage ROM grade and product mix volatility according to the current phase of our expansion and production programmes
- ▶ Improve financial performance through increased production and higher margins, ensuring opportunities for returns to shareholders
- ▶ Evaluate further opportunities to optimise production from our portfolio

PERFORMANCE AGAINST FY 2017 OBJECTIVES

- ▶ Production of 4.0 Mcts was below guidance of 4.4–4.6 Mcts ●○○ BELOW EXPECTATIONS
- ▶ Ramp-up of the new mining areas at Finsch, Cullinan and Koffiefontein was behind schedule ●○○ BELOW EXPECTATIONS
- ▶ Full integration of the new Kimberley Ekapa Mining Joint Venture ●○○ MET EXPECTATIONS

COMMITMENTS AND OBJECTIVES FOR FY 2018

- ▶ Production guidance of 4.8–5.0 Mcts
- ▶ Process the significant stockpiles built up at Cullinan and KEM JV, as a result of the plant modifications in FY 2017
- ▶ Maintain the expected ramp-up rates of the development programmes across the mine portfolio
- ▶ Continue to prioritise training and development of our people

KPIs

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

RISKS

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

REMUNERATION

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



Our Strategy continued



Optimise recoveries

Improving operating margins at each mine

ADJUSTED EBITDA
US\$ million

157.2 -4%

CAPEX
US\$ million

300.1 -7%

Key Performance Indicators Pages 26 and 27

STRATEGY IN ACTION

We neared completion of important processing plant modifications at Cullinan and KEM JV and completed modifications at Williamson during FY 2017.

HOW WE ACHIEVE THIS

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

PERFORMANCE AGAINST FY 2017 OBJECTIVES

- ▶ Capex was higher than guidance of circa US\$218 million (excluding capitalised borrowing costs) due to the strengthening of the Rand, as well as the delay to completion of the Cullinan plant, and scope changes at Finsch and Cullinan to enhance mining flexibility

●○○ BELOW EXPECTATIONS

- ▶ The Cullinan plant was not fully operational by end FY 2017, with the last remaining section completed post Year end

●○○ BELOW EXPECTATIONS

- ▶ Petra continued to make major progress across its mine portfolio to optimise ore-handling and recovery processes

●●○ MET EXPECTATIONS

COMMITMENTS AND OBJECTIVES FOR FY 2018

- ▶ Targeting Group Capex of circa US\$164 million (excluding capitalised borrowing costs)
- ▶ Finalise the plant modification projects at Cullinan and KEM JV, which will allow for improved recoveries across the full diamond spectrum
- ▶ Declining Capex trend and rising production should see the Company's net debt fall and free cashflow commence from H2 FY 2018

KPIs

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

RISKS

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

REMUNERATION

- ▶ Profit and costs performance measures
- ▶ TSR performance measures





Drive efficiencies

Maintaining a culture of effective cost control

CARBON EMISSIONS

tCO₂-e

643,733 -1%

WATER CONSUMPTION

Million m³

40.6 +1%

Key Performance Indicators Pages 26 and 27

STRATEGY IN ACTION

Despite the 8% increase in production, Petra's resource consumption reduction strategies maintained good control over its energy usage, carbon emissions and water consumption

HOW WE ACHIEVE THIS

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

PERFORMANCE AGAINST FY 2017 OBJECTIVES

- ▶ Through strategic sourcing initiatives and effective management, inflationary pressures only added circa 7% to Petra's on-mine cash costs ●●○ MET EXPECTATIONS
- ▶ Water and energy usage per tonne improvements were not realised due to lower tonnage throughput than planned ●○○ BELOW EXPECTATIONS
- ▶ Continued development of the new ore-handling system at Cullinan, including the new shaft ●●○ MET EXPECTATIONS

COMMITMENTS AND OBJECTIVES FOR FY 2018

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

KPIs

- ▶ Profitability
- ▶ Capex
- ▶ Water usage
- ▶ Energy usage
- ▶ Carbon emissions
- ▶ Staff turnover
- ▶ Training spend
- ▶ TSR

RISKS

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

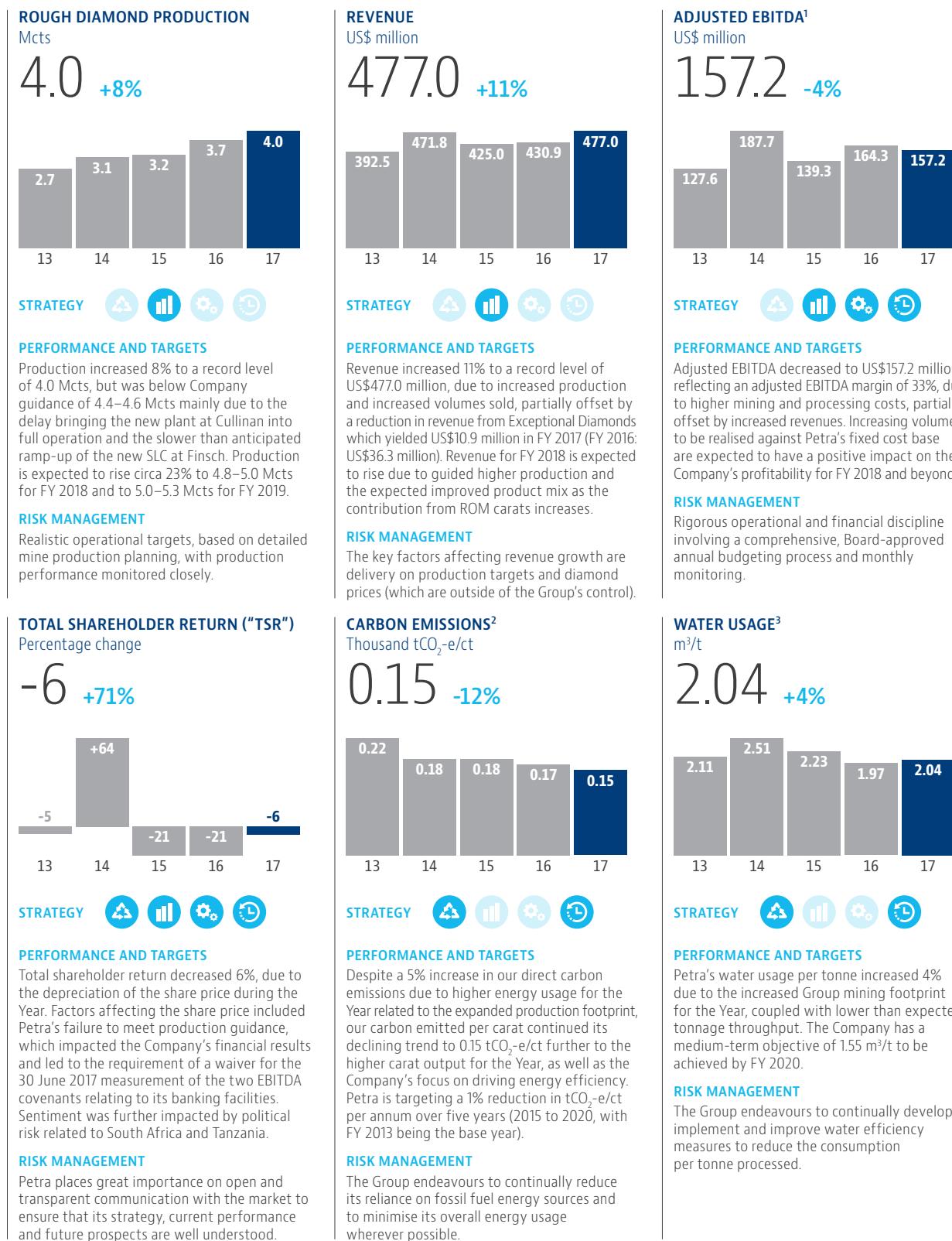
REMUNERATION

- ▶ Profit and cost performance measures
- ▶ TSR performance measures



Key Performance Indicators

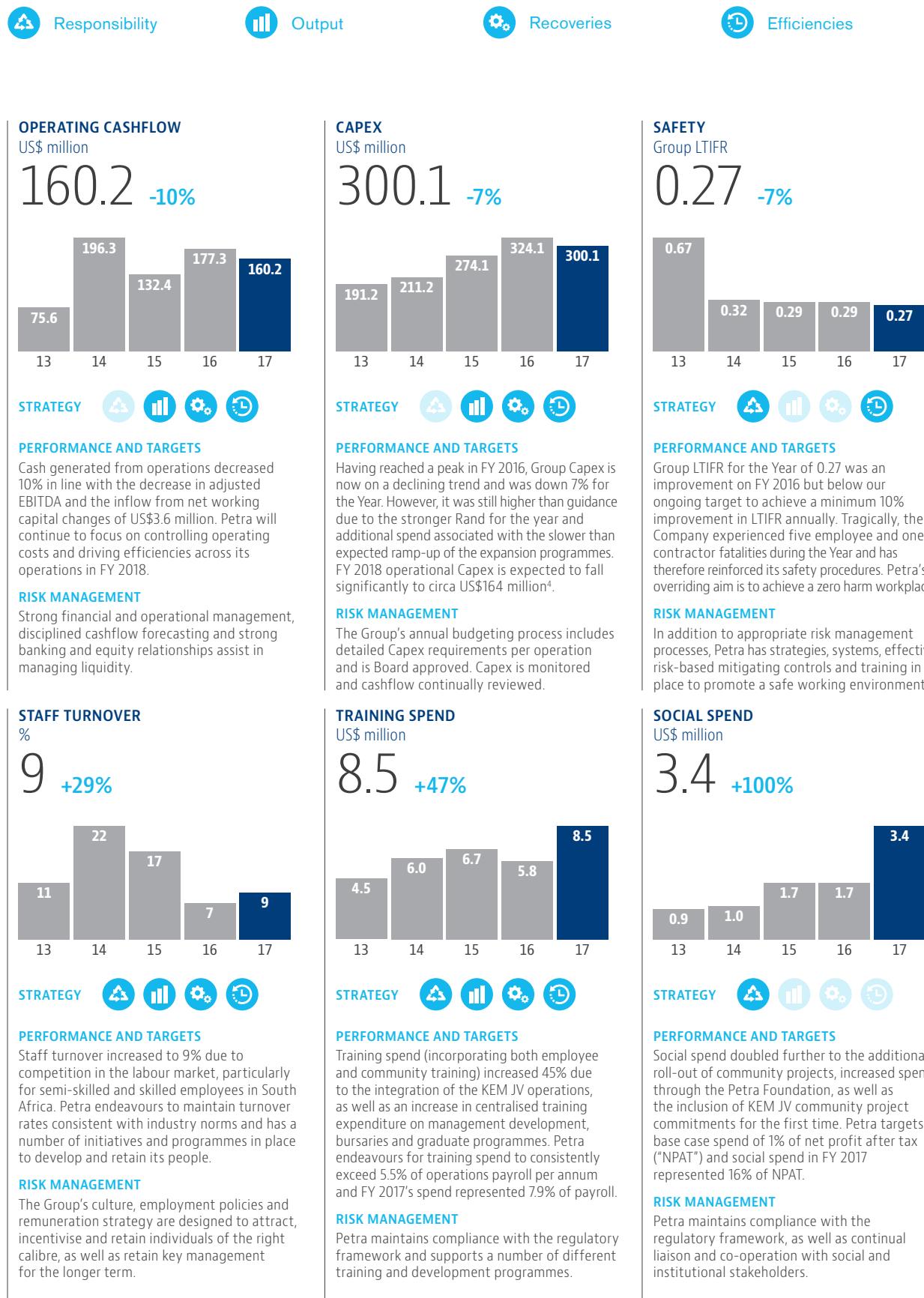
Petra uses various financial and non-financial performance measures, which are linked to our strategic objectives, to help evaluate the ongoing performance of the business. The following measures are considered by management to be some of the most important in evaluating the overall performance of the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



1. Refer to pages 161 and 167 of Supplementary Information for definitions of non-GAAP measures together with other non-GAAP measures used in this Report.

2. Updated emissions reporting methodology implemented during FY 2017 means that historical figures are not directly comparable but the methodology change is not considered to make a material difference; read more on pages 49 and 50.

STRATEGIC OBJECTIVES



3. Consumption is reported per tonne fed to the various plants based on gross tonnes treated, comprising ROM and tailings tonnes, as well as development waste tonnes treated (where appropriate), while specifically excluding recirculating tonnes.

4. Excluding capitalised borrowing costs, in comparable FY 2018 money terms, converted at an exchange rate of ZAR13:US\$1.

Financial Review

A solid position



Our FY 2017 results were negatively impacted by the delayed ramp-up of the expansion programmes, rising on-mine cash costs and the stronger Rand versus the Dollar for the Year. However, despite these setbacks, we still achieved a healthy adjusted EBITDA margin⁴ of 33%.

Revenue

Group revenue for FY 2017 increased 11% to US\$477.0 million (FY 2016: US\$430.9 million) due to an increase in volumes sold, offset by lower sales from Exceptional Diamonds during the Year, contributing only US\$10.9 million (FY 2016: US\$36.3 million).

Diamond inventory as at 30 June 2017 was 570,264 carats valued at US\$50.2 million (FY 2016: 549,620 carats valued at US\$43.6 million).

Mining and processing costs

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

Mining and processing costs

	On-mine cash costs ¹ US\$m	Diamond royalties US\$m	Diamond inventory and stockpile movement US\$m	Group technical, support and marketing costs ² US\$m	Adjusted mining and processing costs US\$m	Depreciation ³ US\$m	Share-based expense US\$m	Total mining and processing costs (IFRS) US\$m
FY 2017	287.3	4.7	(2.6)	21.9	311.3	78.7	0.1	390.1
FY 2016	246.4	5.4	(14.1)	20.0	257.7	51.0	1.6	310.3

Absolute on-mine cash costs in FY 2017 remained in line with expectations, despite ongoing inflationary pressures. The unit cost per tonne was adversely affected by the high fixed cost base and below plan throughput. On-mine cash costs increased by 17% compared to FY 2016, mainly due to:

- ▶ inclusion of Kimberley Ekapa Mining JV ("KEM JV") for the full Year (4% increase);
- ▶ inflationary increases, including the impact of electricity and labour costs (7% increase); and
- ▶ the effect of translating South African operations' ZAR denominated costs at a stronger ZAR/USD exchange rate (6% increase).

Adjusted EBITDA⁴

Adjusted EBITDA (refer to page 161 for definitions of non-GAAP measures) decreased to US\$157.2 million (FY 2016: US\$164.3 million), reflecting an adjusted EBITDA margin of 33% (FY 2016: 38%), mainly due to the increase in mining and processing costs, partially offset by increased revenues.

Operating cashflow

Cash generated from operations for the Year decreased 10% to US\$160.2 million (FY 2016: US\$177.3 million) in line with the decrease in adjusted EBITDA⁴ and the inflow from net working capital changes of US\$3.6 million (FY 2016: US\$13.8 million).

Corporate overhead – general and administration

Corporate overhead (before depreciation and share-based payments) increased to US\$10.7 million for the Year (FY 2016: US\$9.0 million). The increase is mainly attributable to an increased membership contribution to the DPA and non-recurring legal costs relating to the restructuring of the Group's BEE Partners' ownership structure. Overhead costs remained tightly controlled.

KEM JV fair value adjustment

The non-cash and non-recurring US\$4.1 million accounting gain recorded on the formation of KEM JV represents Petra's newly recognised incremental 26% share of the fair value of Ekapa Minerals' assets and liabilities and its 75.9% share of the fair value of Super Stones' assets and liabilities acquired through the transaction, less the 24.1% of the net book value assets and liabilities of the Kimberley Underground mine relinquished by Petra as part of the transaction. Refer to the Financial Statements section, note 31, for further details.

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.

4. Refer to pages 161 and 167 for definitions of non-GAAP measures.

Depreciation

Depreciation for the Year increased to US\$79.6 million (FY 2016: US\$51.8 million), mainly due to the commencement of depreciation relating to newly commissioned assets associated with the expansion programmes, accelerated depreciation on the old KEM JV plants to reflect their remaining useful economic lives, and the strengthening of the Rand during the Year.

Net financial expense

Net financial expense of US\$35.3 million (FY 2016: US\$33.0 million) comprises:

- ▶ interest received on bank deposits of US\$1.8 million (FY 2016: US\$0.4 million); and
- ▶ net unrealised foreign exchange gains of US\$9.9 million (FY 2016: US\$3.2 million) representing (i) the unrealised foreign exchange gains on the foreign currency retranslation of cross-border loans considered to be repayable in the foreseeable future and (ii) unrealised losses on forward exchange contracts,

offset by:

- ▶ net interest payable on the BEE Partners' loans of US\$10.6 million (FY 2016: US\$9.1 million);
- ▶ net realised foreign exchange losses of US\$3.8 million (FY 2016: US\$20.7 million) on the settlement of forward exchange contracts, significantly down as a result of closing out numerous forward exchange contracts in the prior Year;
- ▶ a charge for the unwinding of the present value adjustment for Group rehabilitation costs of US\$5.0 million (FY 2016: US\$4.2 million);
- ▶ interest on the Group's debt and working capital facilities of US\$3.9 million (FY 2016: US\$2.6 million) (stated after the capitalisation of interest of US\$44.1 million (FY 2016: US\$26.5 million) associated with the funding of assets under development); and
- ▶ non-recurring costs of US\$22.3 million associated with the refinancing and early redemption of the US\$300 million loan notes, comprising acceleration of unamortised costs (US\$7.3 million previously capitalised) and early redemption premium of US\$15 million to settle the US\$300 million loan notes.

Tax charge

The tax charge of US\$25.8 million (FY 2016: US\$8.6 million) comprised deferred tax of US\$24.6 million (FY 2016: US\$10.5 million), and an income tax charge of US\$1.2 million (FY 2016: US\$1.9 million credit). The increased deferred tax charge for FY 2017 arises due to utilisation of certain capital allowances at the South African operations during the Year. The effective Group tax rate for FY 2017 is 54% (FY 2016: 11%), which is higher than the South Africa tax rate of 28% (the Group's primary tax paying jurisdiction) primarily due to: a) the write-off of deferred tax assets in the current Year in respect of Koffiefontein; b) loss-making companies (within the Group) based in tax jurisdictions with a 0% tax rate which, when consolidated, reduces the Group's overall net profit, resulting in an increased effective tax rate; and c) losses incurred by the South African operations not recognised as deferred tax assets.

Adjusted net profit after tax⁴

An adjusted net profit after tax of US\$29.0 million was recorded for the Year (FY 2016: US\$63.6 million), adjusted for the KEM JV fair value adjustment, net unrealised foreign exchange gains and losses, bond redemption premium and acceleration of unamortised costs. These adjusted profit figures are considered to be more appropriate in comparing results year on year.

Group profit

The Group's net profit after tax is US\$20.7 million (FY 2016: US\$66.8 million).

Earnings per share

A basic earnings per share from operations of 3.47 US\$ cents was recorded (FY 2016: 10.38 US\$ cents). Adjusted basic earnings per share⁴ from operations (stated before the KEM JV fair value adjustment, net unrealised foreign exchange gains and losses, bond redemption premium and acceleration of unamortised costs) of 5.04 US\$ cents was recorded (FY 2016: 9.76 US\$ cents).

Cash and diamond debtors

As at 30 June 2017, Petra had cash at bank of US\$203.7 million (30 June 2016: US\$48.7 million). Of these cash balances, US\$190.2 million was held as unrestricted cash (30 June 2016: US\$36.7 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 2016: US\$11.1 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 in South Africa (30 June 2016: US\$0.9 million).

Diamond debtors at 30 June 2017 were US\$41.5 million (30 June 2016: US\$63.4 million). These related to the June 2017 tenders and were settled shortly after Year end.

Loans and borrowings

The Group had loans and borrowings (measured under IFRS) at Year end of US\$757.1 million (30 June 2016: US\$424.5 million), comprised of the loan notes plus accrued interest of US\$648.1 million (30 June 2016: US\$293.0 million) and bank loans and borrowings of US\$109.0 million (30 June 2016: US\$131.5 million).

At 30 June 2017, the Group had debt facilities undrawn and available to the Group of US\$5.6 million (30 June 2016: US\$110.0 million), in addition to cash at bank of US\$203.7 million.

BEE loans receivable and payable

BEE loans receivable of US\$35.0 million (FY 2016: US\$28.8 million) relate to the acquisition and financing of the Koffiefontein and Kimberley Underground mines by Petra on behalf of its BEE partners, post the refinancing of the BEE partners' loans at Cullinan and Finsch in FY 2015.

The BEE loans payable of US\$99.5 million (FY 2016: US\$86.2 million, including the portion held in liabilities directly associated with non-current assets held for sale) relate to the initial acquisition loan funding advanced by the Group's BEE partners to the operations to acquire their investments in Finsch, Cullinan, Koffiefontein and Kimberley Underground. The repayment of these loans by the mines to the BEE partners will be from future free cashflows generated by the mining operations.

Other liabilities

Other than trade and other payables of US\$136.7 million (comprising US\$39.1 million trade creditors, US\$21.8 million employee-related accruals and US\$75.8 million other payables) (FY 2016: US\$134.6 million, including the portion held in liabilities directly associated with non-current assets held for sale), the remaining liabilities on the balance sheet mainly comprise provisions for rehabilitation liabilities, post retirement employee-related provisions and deferred tax.

Financial Review continued

Liquidity and covenants

Background

Due to the slower than anticipated build-up of the expansion programmes across its operations in FY 2017, with production for the Year of 4.0 Mcts in comparison to guidance of 4.4 to 4.6 Mcts, the Group's revenue and underlying profitability was lower than anticipated for the Year. As previously announced on 8 September 2017, the Group was due to breach its EBITDA related maintenance covenant measurements related to its senior debt facilities for the period ending, and as at, 30 June 2017 and was forecast to breach for the period ending, and as at, 31 December 2017. A resultant waiver was therefore received post Year end from the Company's lender group (comprising Absa Bank Limited (acting through its Corporate and Investment Banking division), FirstRand Bank Limited (acting through its Rand Merchant Bank division), and Nedbank Limited (acting through its Corporate and Investment Banking division) (together, the "Lender Group") for the 30 June 2017 measurement period and a reset of the relevant covenants for the 31 December 2017 measurement period with reference to the Group's forecasts at that date is below:

- ▶ the net debt to EBITDA ratio was changed to no more than 4.0: 1 (previously 2.80:1); and
- ▶ the EBITDA to net finance charges ratio was changed to no less than 2.7x (previously 3.85x).

The Group's bank debt covenants are set out on page 167.

Forecasts and associated risks

In addition to the ongoing roll out and ramp up of the Group's expansion projects, specifically the new Cullinan Plant and G-Cut and the Finsch SLC, the impact and subsequent resolution of labour disruption at certain of the Group's South African mines and the uncertainty surrounding the outlook at Williamson further to the political and legislative developments in Tanzania (as detailed in the Chief Executive's Statement on page 12) have been a key focus for the Board post Year end.

The Board reviewed the Group's forecasts and reasonably possible sensitivities for a period of at least 12 months from the date the Financial Statements have been approved, including both forecast cashflows and covenants. Given the key focus areas above, this involved particular emphasis and scenarios being run thereon, in addition to the normal sensitivity inputs of diamond pricing, US\$/ZAR exchange rates and volatility of ROM grades achieved at our underground operations.

The forecasts indicate that the Group retains sufficient liquidity from existing cash resources, operating cashflows and existing facilities to meet its liabilities as they fall due under the forecasts and reasonably possible sensitivities. However, the forecasts indicate that the Group will likely breach its 31 December 2017 EBITDA covenant measurement ratios due to both the annualised 12 month nature of the ratios, which take account of the H2 FY 2017 production shortfall, coupled with H1 FY 2018's events and uncertainties, as highlighted above.

Lender Group engagement

As announced on 9 October 2017, based on the above, the Company highlighted to its Lender Group that a breach of the 31 December 2017 covenant measurement ratios is likely.

To date the Lender Group has been highly supportive of Petra's business case, as illustrated by their willingness to accommodate facility restructurings and covenant waivers over the course of the expansion programmes being rolled out over the past years. The Board is of the opinion that this will continue to be the case, particularly as the expansion projects are nearing completion and free cashflow is forecast to be generated from H2 FY 2018. However, following recent discussions it was agreed that, until such time as further certainty is achieved on the outlook for Williamson, coupled with additional clarity on the continued ramp up of production at both Finsch and Cullinan, discussions around covenants and potential waivers or measurement resets is premature. While engagement with its Lender Group will be ongoing, the Company remains confident that the existing facilities will remain in place throughout the period of the forecasts.

Conclusion

The Board is highly cognisant of the scope and significance of the projects undertaken to date, the risks around ramp up and commissioning, coupled with the significant debt financing that has been required to accompany this transformational expansion programme alongside the macro-economic factors pertinent to the industry.

However, with the Cullinan Plant due to achieve nameplate capacity shortly, Cullinan's G-Cut and Finsch's SLC in place and ramping up, optimisation of the Central Treatment Plant ("CTP") at KEM JV, and with a re-shaped Williamson pit and optimised plant, the Board is of the opinion that the fundamental business plan of the Group is intact and structurally in a better position than it has ever been, given that the operations will be achieving the majority of their ROM tonnes from new, undiluted areas from FY 2018 onwards.

Based on this, alongside the Group's existing cash resources and facilities, the Board remains comfortable that the facility headroom remains adequate under the Group's current base case and reasonable sensitivities. Furthermore, the Board recognises the Company's ability to preserve cash should it be required in the short-term (for example, by deferring non-essential cash payments, maintaining very tight control over costs and overhead, and by potentially deferring certain elements of its capital expenditure that are not essential to the current ramp-up plans).

In respect of its banking facility covenants, while Management forecasts currently indicate a breach of the 31 December 2017 covenant measurement ratios is likely, the Company remains confident that the existing facilities will remain in place, having considered all relevant facts and circumstances. Accordingly, the Board has concluded that the going concern basis of preparation remains appropriate and that there are no material uncertainties that would cast doubt on that basis of preparation.

Selected information on FY 2017 financial position

	Unit	As at 30 June 2017	As at 30 June 2016
Cash at bank (including restricted amounts)	US\$m	203.7	48.7
Diamond debtors	US\$m	41.5	63.4
Diamond inventories	US\$m	50.2	43.6
Diamond inventories	Carats	570,264	549,620
US\$650 million loan notes (issued April 2017) ¹	US\$m	650.0	—
US\$300 million loan notes (issued May 2015) ¹	US\$m	—	300.0
Bank loans and borrowings	US\$m	109.0	131.5
Net debt ¹	US\$m	555.3	382.8

1. Net debt is the US\$ loan notes and bank loans and borrowings net of cash at bank. The US\$ loan notes represent the gross capital of US\$650 million (FY 2016: US\$300 million), excluding transaction costs. As such, this and net debt above are non-GAAP measures.

Capex

Total Group Capex for the Year was US\$300.1 million (FY 2016: US\$324.1 million), further to peak Capex being reached in FY 2016. The total Capex figure comprised:

- ▶ US\$230.5 million on expansion Capex (FY 2016: US\$275.2 million);
- ▶ US\$24.1 million on sustaining Capex (FY 2016: US\$20.6 million);
- ▶ US\$44.1 million on capitalised borrowing costs with regards to the expansion Capex (FY 2016: US\$26.5 million); and
- ▶ corporate/exploration Capex of US\$1.4 million (FY 2016: US\$1.8 million).

	Unit	FY 2017	FY 2016
Finsch	US\$m	85.6	73.8
Cullinan	US\$m	151.2	179.4
Koffiefontein	US\$m	18.8	27.5
KEM JV	US\$m	28.4	16.8
Williamson	US\$m	15.0	24.4
Helam	US\$m	0.0	0.1
Subtotal – Capex incurred by operations	US\$m	299.0	322.0
Petra internal projects division – Capex under construction/invoiced to operations ¹	US\$m	(0.3)	0.3
Total operational Capex	US\$m	298.7	322.3
Corporate/exploration	US\$m	1.4	1.8
Total Group Capex²	US\$m	300.1	324.1

1. The Group (Petra internal projects division and other corporate) incurs capital spend on behalf of the operations and although this spend is reported in the Group's total Capex, it is policy not to account for it on a specific mine's Capex until the work completed is invoiced to the relevant operation. Group Capex includes US\$0.3 million for the Year (FY 2016: US\$0.3 million), which was incurred and invoiced by the Group's internal projects facility and Corporate division. Therefore, the mine-by-mine Capex plus the internal projects division and other corporate Capex will add together to make the Capex total above.

2. Capex for the Year includes US\$44.1 million (FY 2016: US\$26.5 million) of capitalised borrowing costs.

3. Petra's annual Capex guidance is cash-based and excludes capitalised borrowing costs. Given that the majority of Petra's debt funding is in relation to its expansion and development programmes, Petra's guidance is to assume that the majority of interest and financing fees will be capitalised for the duration of the project phases and not expensed through the income statement. However, as our projects are nearing completion, more interest will be expensed from FY 2018 onwards.



Jacques Breytenbach
Chief Financial Officer
14 October 2017

Operational Review

Delivering undiluted ore



Petra has in effect been constructing five new mines, given the total overhaul required.

Petra has continued to make significant progress with its development programmes, with the transition from old mining areas, heavily diluted with waste rock, to new mining areas, from which the Company will be able to mine fresh ore, being well advanced. This is evident in the Group reaching a record level of production for the Year of 4.0 Mcts.

However, despite the tireless labours of our team throughout the Year, we unfortunately did not meet our production guidance of 4.4–4.6 Mcts, with the main contributing factors being the delay bringing the new plant at Cullinan into full production and the slower than anticipated ramp-up of the new SLC at Finsch.

While this performance is understandably very disappointing to our shareholders, Petra did expend huge efforts to overcome the numerous challenges necessary to keep the Company in growth mode and in fact we ended the Year running at production rates across the board which support our guidance of higher record production of between 4.8 and 5.0 Mcts for FY 2018 (includes 0.3 Mcts from Williamson).

Creating five new mines

As noted in our Chairman's introduction on page 8, Petra has in effect been constructing five new mines, given the total overhaul that has been required at our assets. Upon acquisition of each project, our approach has been decisive in terms of putting a development plan in place and getting started straight away. This speed was crucial as the mines were already years behind in terms of the development required to open up access to new ore. We were therefore playing catch-up and all the while contending with ever increasing dilution of our current working areas, particularly at Cullinan.

We have also had to remain highly adaptable in terms of how we deliver on our expansion programmes, driven by an ever greater understanding of our mines and their respective orebodies over time. This has led to scope changes on occasion (for example changing the mining method from block caving to sub level caving at Finsch and Koffiefontein, and our current work now to incorporate more of the eastern side of the orebody at Cullinan into our mine plan), but we have always focused on making decisions that are value accretive over the long term and therefore speak to the sustainability of each mine plan.

While there remains work to do in terms of completing the final stages of our expansion programmes, we have come a long way and have surmounted many of the biggest hurdles:

- ▶ the majority of the capital has been spent and we are now on a declining trend;
- ▶ the programmes to open up the new SLC at Finsch and the new block cave at Cullinan are well advanced and already producing at significant volumes;
- ▶ we are set to produce the majority of our ROM tonnes from the new mining areas in FY 2018;
- ▶ the major plant construction/modification projects across our portfolio are coming to an end and we now have processing facilities that are fit for purpose at each operation;
- ▶ the simplification of ore handling infrastructure both below and above surface has mostly been completed; and
- ▶ the contribution of tailings to our overall carat production is set to fall from 29% in FY 2017 to circa 15% in FY 2018.

All these factors mean that we are set to achieve higher ROM grades in FY 2018 (particularly at Cullinan) a better value product mix, and will continue to drive mining and cost efficiencies – all set against the backdrop of our declining capital spend. This is what gives us confidence that our adjusted EBITDA margin¹ is set to rise from 33% in FY 2017 to 45–50% by FY 2019.

2017 Resource Statement

Petra manages one of the world's largest diamond resources of over 300 Mcts. This major resource suggests that the potential mine lives of our assets could be considerably longer than the current mine plans in place at each operation, or could support significantly higher production rates.

As at 30 June 2017, the Group's gross Diamond Resources (inclusive of Reserves) decreased 2% to 305.0 Mcts (30 June 2016: 312.2 Mcts), due to depletion by mining activity at all operations and Resource re-estimations at Finsch, Koffiefontein and Williamson.

A handwritten signature in black ink, appearing to read "Jim Davidson".

Jim Davidson
Technical Director
14 October 2017

● **Full 2017
Resource Statement
Pages 168 to 171**

● **FY 2017 Operations
Results tables
Pages 164 to 166**

¹ Refer to pages 161 and 167 for disclosures on non-GAAP measures.

FY 2017 production – combined operations

	Unit	Year ended 30 June 2017 ¹	Year ended 30 June 2016 ²	Variance
Production				
ROM tonnes	Mt	10.1	11.3	-11%
Tailings and other ³ tonnes	Mt	8.7	7.7	+13%
Total tonnes treated	Mt	18.8	19.0	-1%
ROM diamonds	Carats	2,849,247	2,582,135	+10%
Tailings and other ³ diamonds	Carats	1,163,966	1,119,270	+4%
Total diamonds	Carats	4,013,213	3,701,405	+8%
Sales				
Diamonds sold	Carats	4,006,856	3,448,084	+16%
Revenue	US\$m	477.0	430.9	+11%

1. FY 2017 production and sales are stated on an attributable basis, including 75.9% of KEM JV effective from 1 July 2016.

2. FY 2016 production and sales are stated on an attributable basis, including 75.9% of the Combined Kimberley Operations from 18 January 2016 to 30 June 2016.

3. 'Other' includes mining of the Ebenhaezer satellite kimberlite pipe at Koffiefontein and alluvial diamond mining at Williamson.

Driving efficiencies with the new Cullinan plant

The original ore processing plant at Cullinan was commissioned in 1947 and has since undergone various refurbishments and 'add-ons' over the years. Owing to its age and operational complexity, it was expensive to maintain and operate, and had developed into a sprawling footprint of circa 26 ha. The plant was also based on old crushing technology, which is known to impact large stone recoveries, as while diamond is the hardest substance known to man, it cannot take impact and therefore very large stones can be shattered using conventional processing techniques. At the same time, the energy efficiency of the old plant was not aligned with the Company's vision.

The design, planning and construction of a modern, fit-for-purpose processing plant at the mine with a throughput capacity of 6 Mtpa was initiated to address these shortcomings and was considered an important factor in setting out a long-term sustainable future for the mine. The upgraded plant is expected to improve the recovery of the full spectrum of diamonds, including the large stones for which the mine is renowned, and improve the efficiency of the material flow, thereby significantly lowering operating costs.

In addition, the plant will have a significantly smaller footprint of just 5 ha, with the associated reduction of engineering infrastructure deployed, including a reduction in:

- the number of conveyor belts used from 151 to 22 (from 15 km to just 3 km);
- the number of water pumps used from 121 to 9; and
- the number of electrical motors from 589 to only 84.

In efficiency terms, these changes will give effect to improvements of 12% in electricity consumption (as expressed in kWh/t) and a staggering 65% in water consumption (0.17 m³/t to 0.06 m³/t).

This is a good example of how Petra has applied the integrated environmental management principle of 'cradle to grave' planning for a new project as it has embedded environmental efficiency into the process.



Recoveries



Efficiencies



Responsibility



Operational Review continued



REVENUE CONTRIBUTION	CARAT CONTRIBUTION	REVENUE US\$ million	PRODUCTION Mcts	AVERAGE PRICE PER CARAT US\$
45%	53%	216.7 +16%	2.1 -3%	101 +14%

FY 2017 saw the first significant input of undiluted ore from the Block 5 SLC, which led to a 28% increase in ROM grade and an improved product mix.

Responsibility Finsch purchased a mobile health clinic to deliver essential health services directly to rural areas of its local communities.	Performance in FY 2017 ROM production increased 16% to 1,818,454 carats further to initial production from the new Block 5 SLC, which delivered circa 750 Kt of undiluted ore. The inclusion of significantly higher volumes of undiluted ore from the new mining areas had a positive impact on production, with Finsch's ROM grade up 28% from 44.3 cph in FY 2016 to 56.6 cph in FY 2017.
Output ROM production increased 16% further to initial production from the new Block 5 SLC, though overall levels were below expectations.	This output was below initial expectations due to the slower than expected ramp-up of the SLC. The shortfall in ROM tonnes mined compared to guidance relates to challenges associated with the allocation of equipment and work streams in the transitioning period as the old Block 4 is decommissioned and the Block 5 SLC ramps up. The commissioning of additional mining equipment at the start of Q4 addressed the challenges mentioned above with the mine ending the Year operating at the required levels.
Recoveries The average value per carat rose 14% due to the higher proportion of ROM versus tailings carats.	Total production decreased 3% to 2,149,896 carats (FY 2016: 2,214,064 carats), due to the planned decrease in tailings production to 331,442 carats (FY 2016: 641,339 carats).
Efficiencies Inefficiencies were experienced during the Year further to the duplication of services while operating in both Block 4 and the new Block 5 SLC.	

Revenue increased by 16% to US\$216.7 million (FY 2016: US\$186.4 million) mainly due to the greater weighting of higher value ROM carats (as opposed to lower value tailings carats) in the overall production profile and the resultant 14% improvement in the average value per carat to US\$101 (FY 2016: US\$89).

Costs

The on-mine cash cost of ZAR253/t was an increase of 38% from FY 2016 (ZAR183/t), mainly due to the planned reduction in lower cost tailings tonnes being treated during the Year. Unit costs were negatively affected, when compared to guidance, due to the negative effect of the high fixed cost base and below plan ROM throughput.

Capex

FY 2017 Capex of US\$85.6 million exceeded previous guidance by circa US\$8 million, mainly due to additional equipment purchased to address constraints experienced during the transitioning period as the old Block 4 is decommissioned and the Block 5 SLC ramps up.

Development plan

Petra's development plan at Finsch is due to increase higher value ROM production from 1.8 Mcts in FY 2017 to steady-state production of circa 2 Mcts by FY 2018. Petra's initial mine plan has a life to 2030, but resources in Block 6 and the adjacent precursor kimberlite, which sits next to the main body of the Finsch kimberlite pipe, are expected to prolong the actual life of mine ("LOM"). The mine has a significant gross resource of 45.0 Mcts.

Mining is currently ramping up in the new Block 5 SLC over four levels from 700 mL to 780 mL and this is expected to deliver circa 1.9 Mt in FY 2018. A new Block 5 Cave will be installed at 900 mL from FY 2023/FY 2024.

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

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

Portable skills training



Community members local to Finsch proudly attained their driver's licences.

Petra provides training in 'portable skills' to both employees and community members to enable them to enter self-employment at the end of their careers with the Company or at mine closure.

This form of training includes computer literacy training, technical training, plumbing, basic building techniques and carpentry, driver's licence training, as well as other opportunities related to local economic activity.

Operational Review continued



REVENUE CONTRIBUTION	CARAT CONTRIBUTION	REVENUE US\$ million	PRODUCTION Mcts	AVERAGE PRICE PER CARAT US\$
19%	20%	91.3 +10%	0.8 +16%	120 -5%

FY 2017 saw the first significant input of undiluted ore from the C-Cut block cave, which led to a 29% increase in ROM grade and an improved product mix.

- Responsibility**
Cullinan funded the construction of a new science laboratory for the Chipa-Tabane High School to improve local science education.
- Output**
Production rose 16% further to initial production from the new C-Cut block cave, though the delay to the start-up of the new plant affected output.
- Recoveries**
Excluding Exceptional Diamonds, Cullinan's average value was up 4%, reflecting an improved product mix.
- Efficiencies**
The delay to bringing the new plant into operation had a negative impact on throughput and costs for the Year.
- Performance in FY 2017**
Cullinan's production increased 16% to 786,509 carats (FY 2016: 680,813 carats), but performance was below planned levels due to the delay in bringing on stream the new Cullinan plant. As a result, circa 400 Kt of ROM stockpile is available for treatment during H1 FY 2018.
While the plant delay was disappointing, it is encouraging that Cullinan's new block cave, known as C-Cut Phase 1, has progressed in line with expectations. ROM production from the new block cave reached 940 Kt for the Year, in line with guidance, driving the 29% improvement in the ROM grade for H2 FY 2017 to 38.0 cph, giving a full year grade of 36.1 cph (FY 2016: 28.0 cph). However, this H2 grade was lower than planned, due to the late start of the new plant and the associated benefits of improved diamond liberation.
Cullinan's revenue increased by 10% to US\$91.3 million for the Year (FY 2016: US\$83.3 million) due to higher sales, though with a lower contribution of sales from Exceptional Diamonds of US\$5.7 million (FY 2016: US\$11.2 million).

Costs

The on-mine unit cash cost per total tonne treated was ZAR316/t, an increase of 23% from FY 2016 (ZAR257/t), mainly due to the decrease in total tonnes being treated as a result of delays in commissioning the new plant.

Capex

FY 2017 Capex of US\$151.2 million exceeded previous guidance by circa US\$14 million at Cullinan due to the direct and indirect impacts of the delays of the new plant and included US\$3 million additional spend associated with the C-Cut Phase 1 project.

Development plan

Cullinan contains a 'Tier 1' diamond resource of 192.7 Mcts (including 17.3 Mcts in tailings) and the Company is capitalising on this by undertaking an expansion programme at the mine to take annual production to circa 2.2 Mcts by FY 2019 (comprising circa 2 Mcts ROM and circa 0.2 Mcts tailings).

The ramp-up of production from the C-Cut Phase 1 block cave (extraction level: 839 mL) will continue during FY 2018 and is expected to contribute in excess of 2.2 Mt for the year.

New Cullinan plant

The new Cullinan plant did not meet its target of being fully commissioned by the end of FY 2017 due to labour disruptions experienced by our contractor, followed by a number of commissioning issues.

Production ramp-up is continuing, with the plant set to reach nameplate capacity of 6 Mtpa shortly and ready to deliver Cullinan's production and treatment plan for FY 2018. The Large Diamond Recovery section was the final part to be completed and this was achieved by the end of September. Following this, the plant is now fully operational with all components of the plant commissioned as per the flow design.

The recovered grade is performing in line with expectations given the current stage of commissioning, especially in the middle and coarse (larger) size fractions. Further optimisation is in progress to improve recovery efficiencies in the finer (smaller) size fractions.

- A schematic of the Cullinan mine and orebody is available on Petra's website

petradiamonds.com/investors/analysts/analyst-guidance

- More detail online

petradiamonds.com/operations/operating-mines/cullinan

Time Out safety sessions



The General Manager ("GM") at Cullinan schedules quarterly health and safety Time Out sessions with all employees and contractors at the mine. During these sessions the GM, supported by the management team as well as health and safety committee members, addresses, highlights and focuses on Petra's vision, values, health and safety performance targets and progress.

In addition, the roles and responsibilities of the HSE specialists, managers, supervisors and health and safety representatives are highlighted to ensure that everyone is continually striving to achieve and maintain Petra's 'zero harm' culture.

Operational Review continued



Koffiefontein

REVENUE CONTRIBUTION	CARAT CONTRIBUTION	REVENUE US\$ million	PRODUCTION Mcts	AVERAGE PRICE PER CARAT US\$
6%	1%	28.4 +11%	0.05 -18%	506 +10%

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



Responsibility

Koffiefontein supported the Vision 4 Change initiative aimed at making a difference in the lives of children who are visually impaired.



Output

The SLC project did not ramp up as expected, mainly due to problems encountered with the ore-handling infrastructure.



Recoveries

The average value per carat increased 10% further to only ROM carats mined during the Year.



Efficiencies

Costs were negatively impacted due to lower throughput and additional maintenance to manage unforeseen breakdowns.

Performance in FY 2017

ROM production at Koffiefontein increased 1% to 51,173 carats (FY 2016: 50,825 carats), but was below expectations due to challenges encountered with the SLC ore-handling infrastructure. This work was hampered by difficult ground conditions in both the second crusher chamber and decline ramp, restricting the ability to transport material and equipment to the working levels. The second crusher, which aims to alleviate ground handling constraints, will be fully operational in Q2 FY 2018.

Overall production was down 18% to 51,173 carats (FY 2016: 62,190 carats), as production from the satellite Ebenhaezer pit ceased in FY 2016, as planned, together with the challenges encountered with the SLC ore-handling infrastructure detailed above.

Revenue increased 11% to US\$28.4 million (FY 2016: US\$25.7 million) for the Year, as the planned reduction in tailings production resulted in an improved product mix, with the average value per carat up 10% from US\$462 to US\$506.

Costs

The marked increase in higher value, higher cost, underground production resulted in a 68% increase in the unit cash cost per total tonne treated to ZAR532/t (FY 2016: ZAR317/t). This was significantly above guidance of ZAR310/t, due to the increased fixed cost base in anticipation of the production ramp-up, which did not materialise as planned, coupled with additional maintenance costs due to unforeseen breakdowns. Measures and control systems are being put in place to increase control over maintenance and to limit the occurrences of these breakdowns on machines and ground-handling infrastructure.

Capex

Capex of US\$18.8 million was above guidance by US\$5.5 million, mainly relating to over-runs and delays as a result of the aforementioned SLC ore-handling infrastructure challenges.

Development plan

Petra's expansion plan at Koffiefontein will increase production from 51,173 ctpa in FY 2017 to circa 85,000 ctpa by FY 2019. Petra's current mine plan has a life to 2025, but the residual resources at the mine indicate that the actual LOM could be in excess of 20 years.

As at Finsch, the SLC mining method is now being used at Koffiefontein, before putting in place a new block cave. The SLC is to be mined over three levels from 560 mL to 600 mL, and production has now commenced on the 560 mL and 580 mL. The SLC is expected to ramp up to circa 1.1 Mtpa by FY 2019 at an average grade of circa 8.5 cph.

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

- More detail online

- petradiamonds.com/operations/operating-mines/Koffiefontein



Kimberley Ekapa Mining JV^{1,2}

REVENUE CONTRIBUTION	CARAT CONTRIBUTION	REVENUE US\$ million	PRODUCTION Mcts	AVERAGE PRICE PER CARAT US\$
17%	20%	82.3 +43%	0.8 +51%	100 -24%

The KEM JV division incorporates the Kimberley Underground operation and numerous tailings retreatment programmes.



Responsibility

A number of sites in Kimberley were assessed to be fully environmentally rehabilitated during FY 2017.



Output

Production rose 51%, driven by a 61% increase in tailings production, but ROM production was below expectations.



Recoveries

The average value for the Year was below expectations due to the higher proportion of tailings versus ROM than planned.



Efficiencies

Post Year end, Petra finalised the Central Treatment Plant modifications to enable it to process ROM ore.

Performance in FY 2017

Production increased 51% to 800,434 carats for the Year (FY 2016: 531,469 carats).

Further to the modifications required to the CTP in order to enable it to handle ROM material from the Kimberley Underground operation, KEM JV built up a ROM stockpile of circa 75 Kt (attributable to Petra), which will be processed during H1 FY 2018. Since the Year end, KEM JV has completed the new ROM crusher within the CTP and has therefore been able to process ROM ore through the CTP since October 2017. A new pan plant is also being incorporated as part of the CTP and will be fully operational by the end of H1 FY 2018.

1. Data for FY 2017 reflect Petra's 75.9% attributable share (including both ROM production from Kimberley Underground and tailings production).

2. Data for FY 2016 reflect production from Kimberley Underground ROM and tailings production for the period 1 July 2015 to 17 January 2016 and Petra's 75.9% attributable production from the Combined Kimberley Operations for the period 18 January 2016 to 30 June 2016.

Revenue increased 43% to US\$82.3 million (FY 2016: US\$57.7 million) further to the higher sales, though the average value per carat was down 24% to US\$100 (FY 2016: US\$132) due to the much higher proportion of tailings carats as opposed to ROM.

Costs

The on-mine cash cost decreased to ZAR133/t (FY 2016: ZAR140/t), due to the inclusion of the lower cost, higher volume tailings operations for the full Year. However, this was above guidance of ZAR107/t, due to below planned throughput, as a result of the slower than expected start-up of the CTP plant modifications.

Capex

Capex of US\$28.4 million was in line with guidance. FY 2018 expansion Capex is guided at circa US\$12.0 million, associated with underground development and shaft upgrades at both Joint Shaft and Wesselton (circa US\$10.0 million) to increase ROM throughput to circa 1.2 Mtpa by FY 2019.

Development plan

The KEM JV is a joint venture between Petra and its partner Ekapa Mining and incorporates the Kimberley Underground mine (mining the Bultfontein, Dutoitspan and Wesselton kimberlite pipes), extensive tailings retreatment programmes (with total tailings resources of some 140.1 Mt) and the high volume CTP. The combination of these diamond mining assets in Kimberley has yielded cost synergies and allows for a mine plan to 2035.

The KEM JV business plan envisages a combined steady-state throughput of circa 6.7 Mtpa (circa 1.2 Mtpa ROM and circa 5.5 Mtpa tailings) yielding circa 574,500 carats, and only utilising the CTP plant for both tailings and ROM processing from FY 2019 onwards.

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

● **More detail online petradiamonds.com/operations/operating-mines/Kem**

Operational Review continued



Williamson

REVENUE CONTRIBUTION	CARAT CONTRIBUTION	REVENUE US\$ million	PRODUCTION Mcts	AVERAGE PRICE PER CARAT US\$
12%	6%	58.4 -26%	0.2 +6%	258 -33%

Important modifications were made to Williamson's plant during the Year to improve diamond liberation and recoveries.



Responsibility

Williamson upgraded local educational infrastructure, including the provision of over 3,000 desks, the construction of eight classrooms and two school ablution facilities.



Output

Production was below expectations due to throughput constraints experienced during the commissioning of the new plant milling section.



Recoveries

Williamson's average value per carat was lower than FY 2016 due to a reduction of Exceptional Diamonds recovered.



Efficiencies

The important plant modifications had a positive impact on Williamson's ROM grade, with a 16% increase during the Year.

Performance in FY 2017

Production increased 6% to 225,202 carats (FY 2016: 212,869 carats), mainly due to a 16% increase in ROM grades (as a result of improved liberation associated with the new milling section of the plant), partially offset by throughput constraints experienced during commissioning of the new milling section during H2 FY 2017.

Revenue decreased 26% to US\$58.4 million (FY 2016: US\$78.9 million) due to the contribution of revenue from Exceptional Diamonds for the Year falling to US\$5.2 million (FY 2016: US\$25.1 million).

Costs

The on-mine cash cost of US\$11.6/t (FY 2016: US\$10.9/t) was in line with expectations.

Capex

Capex of US\$15.0 million for the Year exceeded guidance of circa US\$6.0 million due to additional spend relating to the water recovery thickener and mill plant project.

Development plan

Petra's expansion plan at Williamson is expected to see production rise from circa 225,000 carats in FY 2017 to circa 337,500 ctpa by FY 2019. The current mine plan has a life extending to 2033, but given that the Mwadui kimberlite hosts a major resource of 39.0 Mcts, there is potential to extend the LOM considerably.

ROM throughput is planned at circa 4.6 Mt at a grade of circa 6.75 cph during FY 2018, before ramping up to steady state of circa 5 Mt by FY 2019 onwards at a grade of 7.0 cph.

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

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



The Company's focus on delivery of its expansion programmes at its producing operations resulted in a further decrease in exploration spend to US\$0.7 million during FY 2017 (FY 2016: US\$2.7 million).

Botswana

In Botswana, Petra's focus has been on the evaluation of the KX36 deposit. Further to the work carried out in FY 2016, KX36 has a Resource of 8.7 Mcts (contained in 24.6 Mt at an average grade of 35 cph) and an estimated average diamond value of US\$65 per carat, which is below the expectations raised by the work carried out in FY 2015. This is due to a finer (smaller) size frequency distribution caused by an increase in recoveries of diamonds smaller than 7 DTC sieve size, further to an improved crushing circuit in the sample plant, as well as due to not recovering the coarser (larger) range of diamonds modelled originally from the total diamond content data. However, Petra is of the view that the current KX36 grade and value derived from LDD samples may be underestimated due to diamond breakage or loss.

The Company has now completed a pre-feasibility study on KX36 and submitted this to the Botswana Department of Minerals and Energy. The outcome of this exercise indicates that, under present market conditions, the KX36 project is not economic and needs further detailed evaluation so as to increase confidence in the results. As a result of this, Petra has actively embarked on investigating the potential for a joint venture partner to take this kimberlite deposit forward.

Petra also holds four contiguous prospecting licences that constitute the Orapa South West Project Area, located to the south-west of the Orapa kimberlite field. Low-key ground geophysical follow-up of several large anomalies is ongoing, with the intention of executing a drilling programme during Q2 FY 2018.

South Africa

In South Africa, Petra's focus remains the investigation of the Reivilo project, which is situated approximately 110 km north-east of the Finsch mine and where the Company has delineated a cluster of three kimberlite bodies within a 250m radius with estimated sizes of 3.1 ha, 1.7 ha and 0.9 ha respectively.

The FY 2017 drilling programme entailed a total of 755m of core drilling in four core boreholes which targeted the two larger bodies. The deepest kimberlite intersection from the drilling was at 172m below surface, and the kimberlites remain open ended at depth. The preliminary identification of three kimberlite phases has been made, each with varying degrees of internal waste. In general the 3.1 ha body shows higher internal waste dilution than the smaller 1.7 ha body.

Heavy mineral abundance ("HMA") sampling of core from the kimberlite intersections replicated the results from the initial soil samples in that abundant diamond stability field G10 and high sodium diamond stability field eclogitic paragenesis garnets were recovered. The presence of these diamond indicator minerals indicates that the kimberlite bodies are diamondiferous (contain diamonds), though the internal waste content, especially in the larger body, will have a negative effect on overall diamond grade.

Microdiamond sampling of core recovered during the FY 2017 drilling programme is planned for FY 2018 to obtain a preliminary grade estimate for the two larger bodies, which will take into account the effects of internal waste dilution.

Petra has recently been awarded further prospecting rights in the Northern Cape adjacent to Reivilo and the Sedibeng diamond mine (which was previously operated by Petra), bringing the total surface area of prospecting rights held to 524 km². The area adjacent to Sedibeng is covered by recent alluvium, and sits over a graben structure on a known kimberlite trend with the potential for hidden kimberlite pipes. An airborne geophysical survey is planned for FY 2018.

Risks Overview

Principal risks and uncertainties

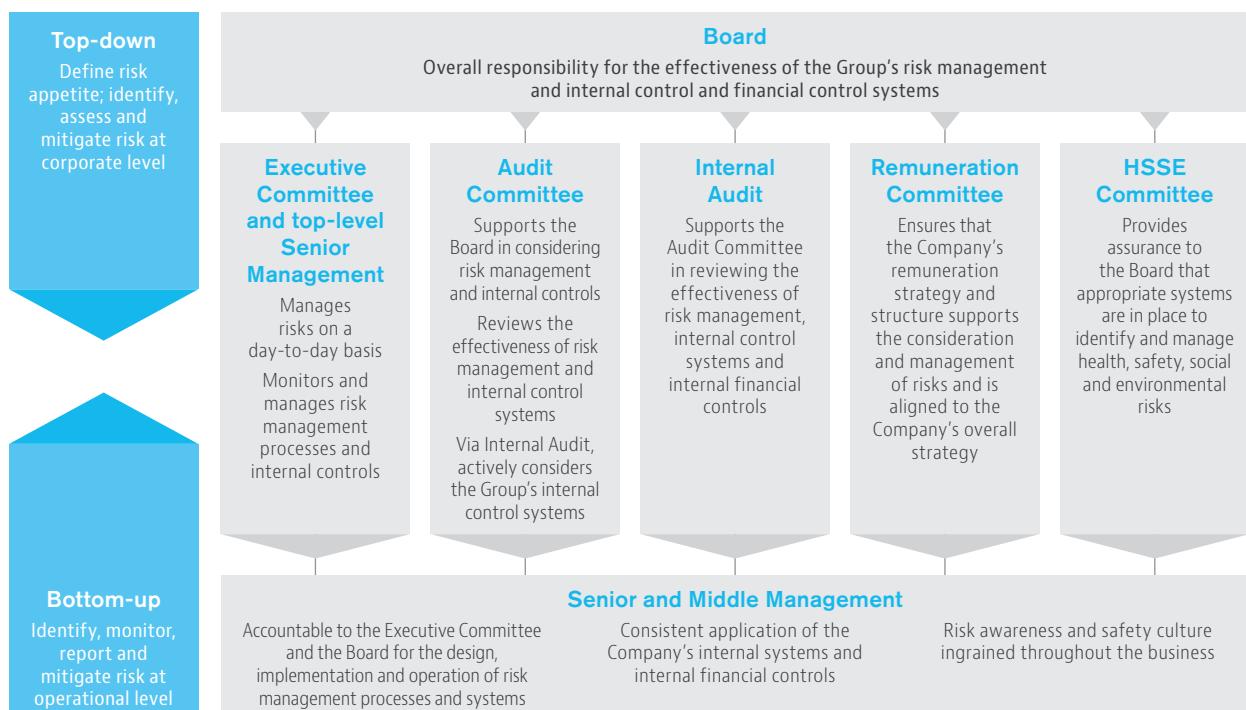
The Group is exposed to a number of risks and uncertainties which could have a material impact on its performance and long-term development. The effective identification, management and mitigation of these risks and uncertainties is a core focus of the Group, as they are key to the Company's strategy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

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

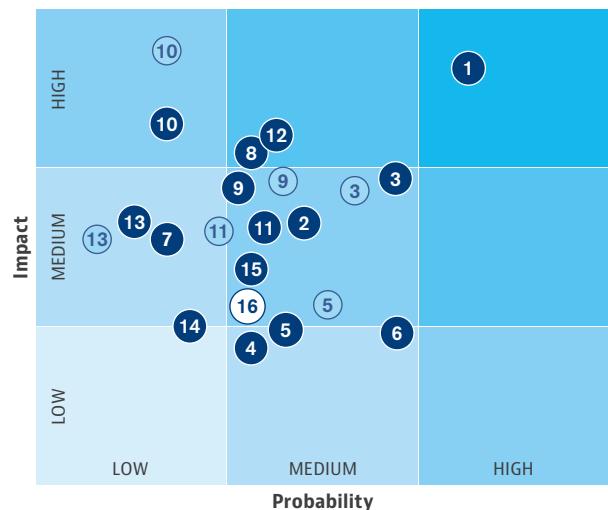
Petra's operational management and Internal Audit teams reviewed and updated the Group's principal risks with reference to the Group's internal risk registers. The only new material Group risk identified was 'Community Relations', previously considered as a subset of the 'Licence to Operate' risk, but separately classified during FY 2017 as a result of increased community pressures in South Africa. This risk is managed by the Group through its stakeholder engagement processes.

The rating of 'Country and Political Risks' has increased over the Year following proposed changes in mining-related legislation in both South Africa and Tanzania being tabled without consultation with mining industry representative bodies – read more on page 76. Post Year end, risks related to Tanzania increased yet further, due to the blocking of export and confiscation of a parcel of diamonds from the Williamson mine – read more on page 12, and financing risk has remained unchanged notwithstanding the Company's likely breach of the two EBITDA covenants related to its banking facilities for the 31 December 2017 measurement period – read more on page 30.

Risk management framework



1 Risk position this year 1 Risk position last year 1 New risk this year



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

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

Principal risks

The risks listed below were identified as the Group's principal external, operational, strategic and HSSE risks (in no order of priority).

Risk	Risk appetite	Risk rating	Nature of risk	Change in FY 2017
External risks				
Diamond price	High	High	Long-term	No change – pricing was stable, with modest improvements in H2.
Currency	High	Medium	Long-term	No change – significant ZAR:USD volatility was experienced.
Country and political	High	Medium	Long-term	Higher – high profile political activity, coupled with proposed mining legislative changes in South Africa and Tanzania further increased regulatory uncertainty.
Access to energy	Medium	Low	Long-term	No change – stable power supply was experienced throughout FY 2017.
Access to water	Medium	Low	Long-term	Lower – unseasonably high rains across large parts of South Africa during Q3 FY 2017 largely dissipated the threat of water scarcity.
Synthetic diamonds	High	Low	Long-term	No change – synthetic diamond production techniques continue to advance, but natural diamonds are expected to remain the premium product.
Operational risks				
Safety	Low	Medium	Long-term	No change – whilst the inherent risk around the safety of our operations remains unchanged, Petra tragically experienced six fatalities in FY 2017. Group LTIFR improved.
Mining and production	Medium	Medium	Long-term	No change – it remained a challenging year operationally due to the ramping up of expansion programmes and the commissioning of the new Cullinan plant.
ROM grade and product mix volatility	Medium	Medium	Short-term	Lower – volatility continued but Petra realised encouraging improvements in the ROM grade and product mix at Finsch and Cullinan.
Expansion and project delivery	Medium	Medium	Medium-term	Lower – significant progress was made in delivery of first production from Finsch's SLC and Cullinan's C-Cut projects, as well as with the various plant projects during the Year, but overall the expansion programmes ramped up slower than expected.
Labour relations	Medium	Medium	Short to medium-term	Higher – the Company's three-year wage agreement relating to its South African operations expired at Year end and some labour disruption was experienced post Year end before finalisation of a new three-year wage agreement.
Strategic risks				
Financing	Medium	Medium	Medium-term	No change – Petra significantly bolstered its balance sheet via the US\$650 million bond issue, but a waiver to its debt facility EBITDA covenants was required due to sales and cashflow being below expectations.
Cost control and capital discipline	Medium	Medium	Long-term	Higher – operating costs and corporate overheads remained well controlled. However, certain cost inefficiencies are evident during the transition phases from old mining areas to the new areas accessed through the capital programmes.
Retention of key personnel	Medium	Medium	Long-term	No change – Petra's approach to retention has proven successful throughout the duration of the expansion programmes.
Licence to operate	Low	Medium	Long-term	Higher – proposed legislative changes in both South Africa and Tanzania are placing additional financial and social burdens on Petra's operations.
Community relations	Medium	Medium	Long-term	New – increased community pressures witnessed in South Africa, particularly relating to decreasing local employment opportunities for contract labourers, and illegal mining activity.

Sustainability

Sustainability is at the heart of Petra

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



Our approach

Sustainability is at the heart of Petra as mining is inherently a long-term business and it is essential to put in place the right actions today which will benefit the future of a project, rather than focusing on short-term outcomes.

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

Our approach to managing HSSE matters is reinforced through the Group HSSE Management Framework and mine level policies and strategies, covering all key sustainability areas, as well as internationally recognised standards such as OHSAS 18001 (health and safety), ISO 14001 (environment) and ISO 31000 (risk management).

Sustainability objectives exist across our operations and specific indicators are used to monitor and assess performance against targets on a mine-by-mine basis, as well as at Group level. A robust system of reporting on these indicators is in place, with information flowing from the Health, Safety and Environmental Committees at mine level to the Group HSE Operational Steering Committee and then to the Board, via the HSSE Committee.

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

Defining our Material Topics

Petra defines a Material Topic as an ESG issue that is of critical importance both to its stakeholders and to its long-term success as a business. We therefore include shareholder views when determining our Material Topics and carry out a formal materiality assessment every two years. This was last carried out in FY 2016 and will therefore be done again in FY 2018.

The following were identified as Petra's Material Topics in FY 2017, in accordance with the GRI Standards process and guidelines.

Corporate governance	Generating economic benefit
Consumer demand	Health and safety
Employee retention and development	Diversity
Labour relations	Environmental management
Climate change and energy usage	Water management
Community development and engagement	Legal compliance



Corporate governance

0 FINES PAID FOR REGULATORY NON-COMPLIANCE

FTSE4Good Index PETRA CONFIRMED AGAIN AS CONSTITUENT

Effective corporate governance is the backbone of Petra and enables each part of the business to operate efficiently, successfully and sustainably. Read more about how we apply corporate governance on pages 54 to 101.

Ensuring ethical behaviour

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

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

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

Anti-bribery

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

Petra has a Group Anti-Bribery Policy in place which is made public on both the Company's intranet and website and which is implemented through a training and communication plan. All Petra employees, contractors and suppliers are informed as part of the Company's induction procedure about this important corporate policy, which can be accessed at www.petradiamonds.com/about-us/corporate-governance/business-ethics.

Whistleblowing procedure

Petra has a whistleblowing procedure in place that provides employees and others the opportunity to independently and anonymously report conduct that is in contravention of the Code of Ethical Conduct or the Anti-bribery Policy, e.g. fraud, corruption, diamond theft or any other workplace crime. In

order to uphold its independence, this service is outsourced to an independent service provider.

In FY 2017 Petra reviewed the Company's whistleblowing procedure and the requirement for appropriate independence in the reporting process and for employees to be fully briefed on steps to be taken if they wish to report a matter or incident were both addressed. The system was subsequently updated and a new, external whistleblowing and fraud hotline, which is monitored by the Audit Committee, was activated in March 2017.

Employees were fully briefed in the form of a whistleblowing awareness programme and details can be accessed on Petra's website: www.petradiamonds.com/about-us/corporate-governance/business-ethics. Training is also provided to the various operations on anti-bribery as part of creating awareness and encouraging the reporting of any bribery or corruption. Further information on calls made to the whistleblowing hotline in FY 2017 is disclosed on page 71 of the Report of the Audit Committee.

Human rights

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

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

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

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

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

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

Sustainability continued



Generating economic benefit

US\$47.2 million PAID IN TAXES AND ROYALTIES IN FY 2017
US\$145.8 million SPENT ON SALARIES IN FY 2017
US\$438.1 million TOTAL SUPPLIER EXPENDITURE

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

Petra published a Report on Payments to Governments for the first time in December 2016, in line with the United Kingdom's Report on Payments to Governments Regulations 2014 (as amended), which apply to large, UK-listed extractive companies. The report is available on our website at www.petradiamonds.com/investors/results-reports and will be published on an annual basis.

Our supply chain

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

Petra sources 100% of the goods and services for its South African, Tanzania and Botswana operations from the countries in which they are located, as even those goods supplied by international companies are purchased through their operating branches in-country. However, we view targeted local procurement as a powerful lever for local economic development and community empowerment and preference is therefore always given to suppliers in close proximity to our mines when possible. In FY 2017 59% of our goods and services were sourced from local/regional suppliers in South Africa and 87% in Tanzania.



Consumer demand

100% PERCENTAGE OF PETRA PRODUCTION THAT IS CERTIFIED CONFLICT-FREE
US\$57 million INVESTMENT COMMITTED BY THE DPA TO GENERIC MARKETING

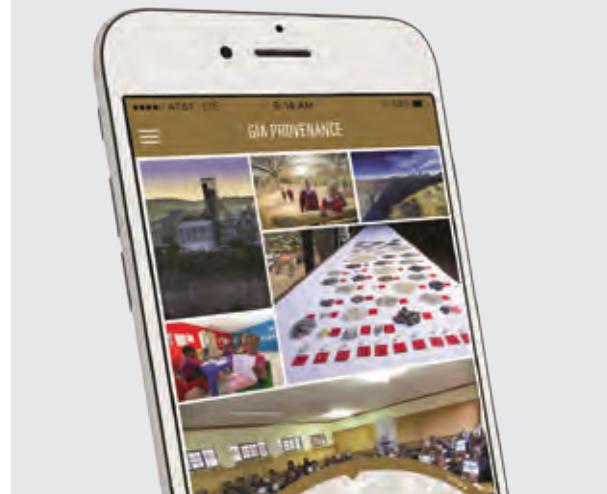
If consumers no longer aspire to buy and own diamonds, then there is no future for our business. While diamonds occupy a unique cultural position in that they are used to celebrate our most special moments, their continued acceptance is reliant on the assurance that they are sourced by ethical means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

The Diamond Producers Association

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

Petra is involved in the GIA M2M™ service, a consumer app which tells the story of a diamond's ethical journey through the pipeline, from mine to market.

● **Find out more**
www.gia.edu/m2m





Health and safety

0.27 LTIFR

0.05 FIFR

100% OF STAFF TRAINED IN HEALTH AND SAFETY STANDARDS IN FY 2017

100% OF EMPLOYEES UNDERWENT MEDICAL SCREENING IN FY 2017

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

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

The significant material hazards that resulted in unwanted events during the Year related to mobile machinery and human interaction, moving conveyance, rolling rock, failure of suspended loads and contact with live electrical sources. The root causes of accidents were primarily linked to unsafe acts by individuals, resulting in the breaching of or non-conformances to effective, risk-based safety controls. Contributing factors highlighted at risk behaviour due to complacency and ineffective front line supervision.

In spite of our historically good safety records, we tragically experienced five fatal accidents in FY 2017, resulting in six fatalities. We are deeply saddened by these incidents. The accidents were investigated in detail by specialist teams comprising operational management, health and safety committee members and Group subject specialists. The outcomes of the investigations were analysed and actioned by updating existing controls and developing additional controls where necessary, and implemented throughout the Group at all operations where similar incidents or accidents could potentially occur. Read more about the remedial action taken on page 11.

Petra's LTIFR continued its improving trend to 0.27 for FY 2017 (FY 2016: 0.29), despite the number of risk hours worked rising by 3.5 million during the Year. The number of days lost in South African production due to governmental stoppages (known as Section 54 stop notices) also reduced by 50% in FY 2017 to 11

(FY 2016: 22), as a result of dramatically improved safety standards and compliance throughout the Company.

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

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



Employee retention and development

11,169 EMPLOYEES AND CONTRACTORS IN FY 2017

9% STAFF TURNOVER RATE

US\$7.6 million INVESTED IN STAFF TRAINING AND DEVELOPMENT IN FY 2017

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

Of our total training budget, circa US\$7.6 million was allocated to staff training. Employee training and development spans a very wide scope of safety training, technical training, a variety of development programmes, both technical and managerial in nature, as well as literacy and numeracy skills for unskilled workers. Petra is particularly proud of its flagship Leadership Development Programme, which is an important strategic tool to assist the organisation in the identification and development of employees who display the potential to fulfil leadership positions in the future. At the end of the two-year programme all participants receive a Higher Certificate in Generic Management (NQF Level 5).

► **Read more about the Petra Diamonds Graduation Ceremony 2017 on Page 13**

Sustainability continued



Diversity

17% OF OUR WORKFORCE
ARE WOMEN

43% OF PETRA'S INTERNS
ARE WOMEN

28% OF LEADERSHIP DEVELOPMENT PROGRAMME
CANDIDATES ARE WOMEN

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

Breakdown of gender diversity across the Group:

	Men		Women		Total
	FY 2017	FY 2016	FY 2017	FY 2016	
Board	86%	87%	14%	13%	7
Senior Management	97%	94%	3%	6%	39
Management	81%	82%	19%	18%	255
Employees	83%	82%	17%	18%	5,306
Total	83%	82%	17%	18%	5,607

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

Petra has a number of initiatives aimed at developing women into managerial positions, such as the LDP, which has since its inception focused on the advancement of women (28% of participants are female). We are focused on affording women an equal role as part of the next generation of Petra employees, and as a result 43% of our interns, 33% of our engineering learnerships, 31% of our mining learnerships and 26% of our bursars in FY 2017 were female.

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

The WIM Committee is tasked with reviewing Company policies and procedures, with the goal of attracting and retaining female representation in the Group, as well as providing input and recommendations to management on issues relating to women. The WIM Committee meets every quarter and provides input and feedback to the Petra Group HSEQ Steering Committee.



Labour relations

71% PERCENTAGE OF WORKFORCE WITH UNION MEMBERSHIP

The labour relations climate in South Africa has been notably volatile. While Petra has experienced largely stable labour relations over the last three years, failure to prioritise and manage this area could lead to issues such as work stoppages and poor Company morale. Petra therefore places great emphasis on internal employee communications and initiatives such as the Itumeleng Petra Diamonds Employee Trust, which aims to align employee, management and shareholder interests.

In FY 2017, Petra did not experience any industrial action from its employees at any of its mines. However, the contractor carrying out the construction of the new Cullinan plant engaged in industrial action in December 2016/January 2017, which affected the completion dates of the project.

However, further to the completion of its prior three-year wage agreement related to its South African operations at the end of June 2017, some labour disruption was experienced in September 2017 prior to the finalisation of a new three-year wage agreement. While it was encouraging that there was no such disruption at the Cullinan mine, the Finsch, KEM JV and Koffiefontein operations were impacted. Fortunately the disruption was contained to a period of less than two weeks' due to the concerted effort of Petra's top management in terms of engagement with all levels of the National Union of Mineworkers ("NUM") in order to find a resolution.

The finalisation of a new wage agreement on 2 October 2017 for the Company's South African mines for the three years to end June 2020 bodes well for a more stable environment during this period; however, Petra remains highly committed to ongoing engagement with its employees and representative unions in order to optimise labour relations going forward, and has included 'Further develop and improve employee communication and engagement' as a key strategic objective for FY 2018 (as disclosed on page 22).



Environmental management

44% LESS WASTE GENERATED
IN FY 2017

100% NUMBER OF SUPPLIERS SCREENED USING
ENVIRONMENTAL CRITERIA

10,255 ha PROTECTED LAND ADJACENT
TO OUR OPERATIONS

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

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

At an operational level, an Environmental Management System ("EMS") is in place for each mining licence. This sets out the detailed processes for the identification of environmental risks and implementation of action plans to mitigate the impacts of our activities. All our operations, with the exception of one, are certified to the international environmental standard ISO 14001:2004 through the British Standards Institution ("BSI").

Potential key environmental risks caused by our operations are:

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

Potential key environmental risks to our operations are:

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

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



Climate change and energy usage

2.9 million GIGAJOULES ENERGY
CONSUMED BY GROUP

30.6 kWh/t ENERGY EFFICIENCY
PER TONNE

643,733 tCO₂-e TOTAL CARBON EMITTED
BY GROUP

0.03 tCO₂-e/t CARBON EFFICIENCY
PER PRODUCTION TONNE

We recognise the growing importance of climate change, both to our Company and to our stakeholders, and have a carbon reduction strategy in place to assist in minimising our impacts. Managing our energy usage is the most important method by which we can limit our emissions and therefore combat climate change, plus driving energy efficiency leads to significant operational and financial benefits to the Company.

As driven by the unprecedented Paris Agreement and the global call to action from the Sustainable Development Goal on 'Climate Change', we are supportive of 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.

Our carbon reduction strategy is focused on the following goals:

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

Petra's total energy consumption for FY 2017 rose 7% to 2.9 million gigajoules, (FY 2016: 2.7 million gigajoules), further to the large number of expansion projects underway.

Sustainability continued

Climate change and energy usage continued

During the Year, Petra updated the methodology and systems by which it calculates the Company's carbon emissions in order to move to reporting of full GHG emissions and to comply with new carbon tax legislation in South Africa. The new methods for calculation are completed based on the Greenhouse Gas Protocol using global warming potential rates as supplied by the IPCC 2006 Guideline. This has seen the restatement of our emissions data for FY 2016, though note that the restated figure for FY 2016 still does not represent the Company's full GHG emissions as per the new methodology; however, it was not possible to restate the data for years prior to FY 2016.

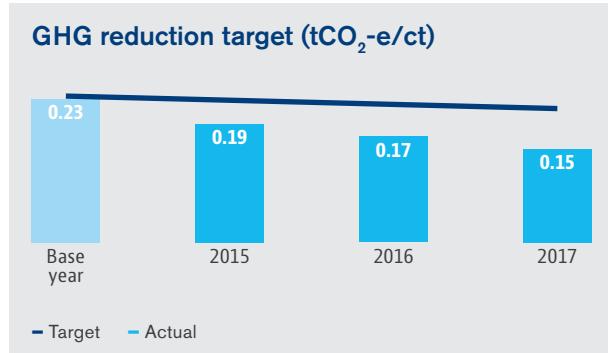
The total carbon emitted by the Group decreased 1% to 643,733 tCO₂-e (FY 2016: 648,969 tCO₂-e), due to a decrease in estimated scope 3 emissions for the Year. However the direct carbon emissions linked to our operations (scope 1 and 2) increased 5% to 635,482 tCO₂-e (FY 2016: 603,390 tCO₂-e), in line with the higher energy usage for the Year.

In terms of intensity indicators, our carbon emitted per tonne remained constant at 0.03 tCO₂-e/t (FY 2016: 0.03 tCO₂-e/t); however, our carbon emitted per carat continued its improving trend, falling to 0.15 tCO₂-e/ct in FY 2017 (FY 2016: 0.16 tCO₂-e/ct).

Climate change adaptation strategy

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 being to prepare itself for scenarios that include restrictions on the availability of water from surface resources (rivers and dams) 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 (between industries and with local communities) that may lead to reputational risk.

The Company is also investigating the possibility to fund feeding schemes and to provide meal supplements to employees in the event that a decrease in the availability of maize/food production in our communities influenced our workforce. Petra will continue to develop its climate change adaptation strategy in FY 2018 and beyond.



Water management

40,587,452m³ WATER USED BY THE GROUP

2.04m³/t WATER CONSUMPTION PER TONNE

52% PERCENTAGE OF RECYCLED WATER USED ON MINE

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

As part of Petra's strategy on climate change adaptation, preparation for responsible water consumption and improved efficiency projects are in progress.

The severe drought conditions in South Africa experienced in FY 2016 continued into FY 2017, further exacerbating the water stress of our local communities. We responded by putting in place operational changes to maximise our water efficiency. Total water used by our operations therefore only increased by 1% in FY 2017 to 40,587,452 m³ (FY 2016: 39,217,351 m³), despite our production rising 8%.



KEM JV encourages grassroots environmental awareness with a tree planting activity for local schoolchildren to mark Arbor Day.

1. FY 2016 total water use has been restated due to the exclusion of "off mine potable water consumption" by local villages; however, this does not have a material impact.



Community development and engagement

US\$3.4 million	SOCIAL INVESTMENT IN FY 2017
US\$0.9 million	INVESTED IN TRAINING OF NON-EMPLOYEES AND COMMUNITY MEMBERS
117	COMMUNITY STAKEHOLDER MEETINGS HELD IN FY 2017

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

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



The Petra Foundation, a registered non-profit organisation which raises funds for community projects adjacent to our operations, funded the construction of a new science laboratory for the Chipa-Tabane High School near Cullinan.

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

Our Group social spend doubled to circa US\$3.4 million in FY 2017 (FY 2016: US\$1.7 million), further to the additional roll-out of community projects, increased spend through the Petra Foundation as well as the inclusion of KEM JV community project commitments for the first time.

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

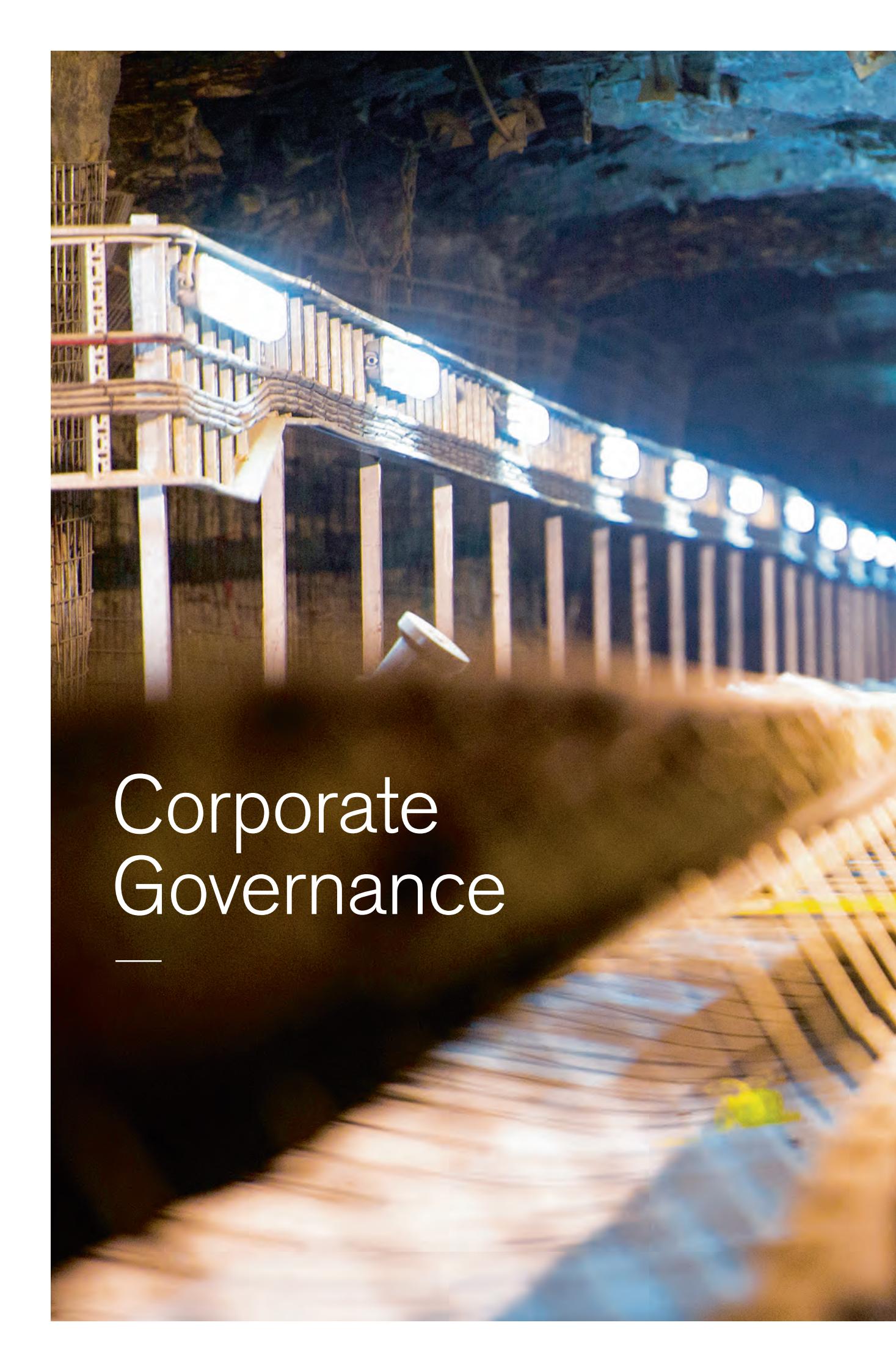
During FY 2017 we spent a total of US\$0.9 million on community training and development programmes. The main areas of expenditure for this category are the bursary scheme and school support projects.



Legal compliance

- 0 NUMBER OF FINES ISSUED FOR NON-COMPLIANCE WITH ENVIRONMENTAL LEGISLATION IN FY 2017
- 0 NUMBER OF FINES ISSUED FOR NON-COMPLIANCE WITH SOCIO-ECONOMIC LEGISLATION IN FY 2017

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

The background image shows a bridge at night. The bridge's structure is visible, with several vertical support pillars and a series of glowing blue and white rectangular lights along its length. In the foreground, there is a blurred, circular white object, possibly a traffic cone or a light fixture, which adds to the sense of motion and depth. The overall atmosphere is dark and moody.

Corporate Governance



Corporate Governance

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Chairman's Introduction to Governance



Effective corporate governance is the backbone of Petra and enables each part of the business to operate efficiently, successfully and sustainably.

Dear Shareholder,

Our strategy is to continue to ensure the highest governance standards appropriate to the Group, commensurate with Petra's increasing size and stature. This requires an approach of continual improvement, in line with best practice, as well as evolving corporate governance regulations in our relevant jurisdictions. FY 2017 continued to see further progression and I have highlighted key achievements below.

Board strategy and performance

The Board made good progress with its objectives for FY 2017, but there is clearly work to be done as we ready Petra for the next phase, post completion of our expansion programmes, as we transition to steady-state production operations. An external Board review was conducted by Armstrong Bonham Carter LLP during the Year and it was concluded that the Board is functioning effectively, though with areas for improvement that have been factored into our Board Objectives for FY 2018. Read more on pages 63 and 64.

Planning for the future

As part of its role in ensuring the long-term sustainability and success of the Company, the Board consistently assesses Petra's ability to meet its objectives and the resources needed to do so. The US\$650 million Notes Issue due 2022 and concurrent simplification and restructuring of Petra's debt facilities were considered to be an optimal way of providing the Group with additional financial flexibility and a more appropriate debt maturity profile, given the advanced stage of the capital programmes.

There were no changes to the composition of the Board during FY 2017; however, its make-up continues to be reviewed on a regular basis to ensure that the appropriate combination of experience and expertise is available. However, the Senior Management team directly below the Board was strengthened post Year end by the internal promotion of Luctor Roode to the role of Executive Operations. This was an important part of our succession planning process as Petra continues its transition from an expansion phase to a production focus, and the Nomination Committee will be evaluating potential Board changes with this in mind over the next three years.

The Board approved the migration of the Company's tax residence from Jersey to the United Kingdom during the Year. We believe that this is the correct jurisdiction going forward for our Company and the move will enable us to access UK-South Africa double tax treaties at a juncture where the Group is nearing free cashflow generation, as it reaches the advanced stages of its long-term Capex programmes, thereby facilitating the payment of dividends from the South African operating entities up to the Company.

Governance updates

In line with the requirement for UK companies to report on steps taken to ensure that slavery and human trafficking are not taking place in their supply chain, Petra published its first Modern Slavery and Human Trafficking Statement in December 2016, which is available on our website: www.petradiamonds.com/about-us/corporate-governance/business-ethics. This will be updated on an annual basis and forms an important part of our commitment to ethical behaviour.

In accordance with the United Kingdom's Report on Payments to Governments Regulations 2014 (as amended), Petra also published its first Report on Payments to Governments for FY 2016, which is also available on our website: www.petradiamonds.com/investors/results-reports. We see this as an important step in our duty to provide transparent communications and will provide an update for FY 2017 towards the end of the calendar year.

Stakeholder feedback

Finally, input from our stakeholders is valued by Petra. As always, should any shareholders like to speak to me or the Senior Independent Director about any aspects of this Report or the Company's performance, please do not hesitate to get in contact via our corporate communications team based in London (see page 172 for contact details). Tony Lowrie and I will be conducting a governance roadshow in FY 2018 to engage with our investors in person.

A handwritten signature in black ink, appearing to read "Adonis Pouroulis".

Adonis Pouroulis
Non-Executive Chairman
14 October 2017

Case study: Our 'can do' culture

As Chairman, I am responsible for overseeing Petra's culture, values and behaviour. These aspects are set by the Board and top management and from there permeate throughout the organisation, thereby ensuring good governance levels throughout the Group. The Board believes that a continuous focus on culture is therefore critical in achieving the Company's strategies and goals and we have given significant consideration to Company culture in FY 2017.

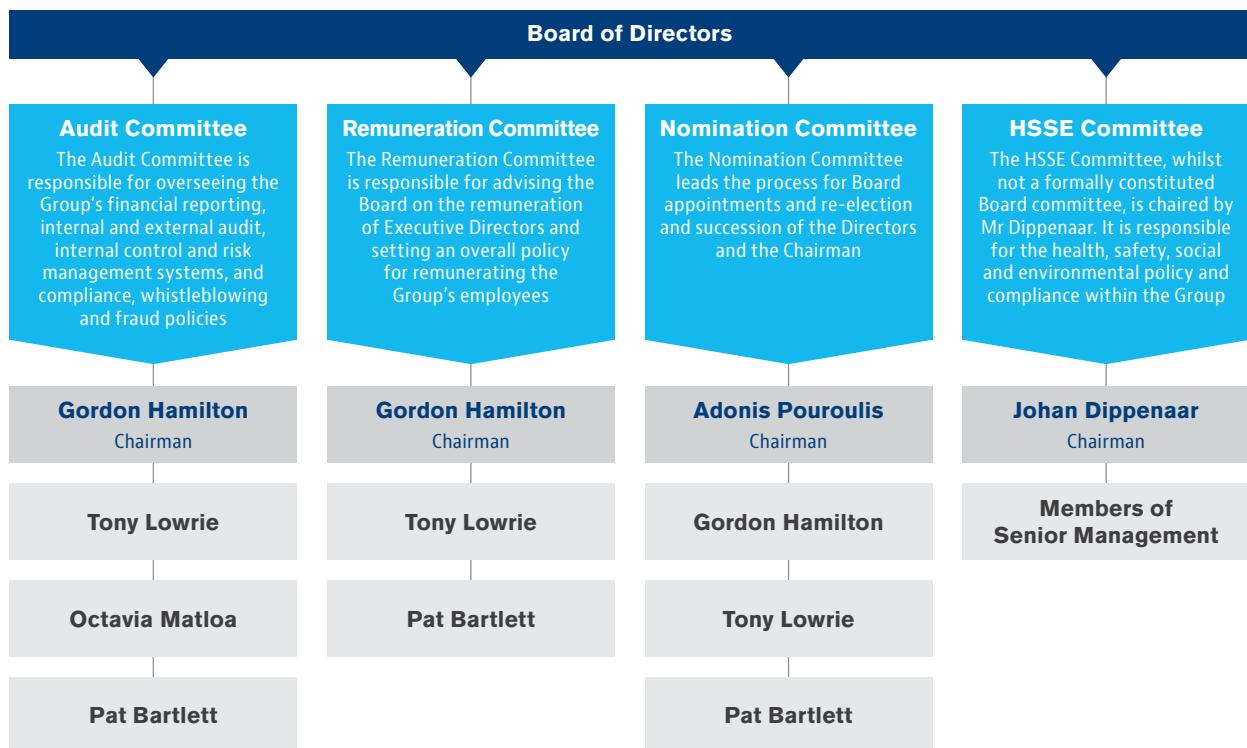
When marking the Company's 20-year anniversary as a listed company in April 2017, I addressed a letter to all employees setting out the remarkable achievements of the Company to date and I truly believe the enabling factor to have been Petra's 'can do' culture, where entrepreneurial thinking is encouraged and rewarded, big challenges are taken on and tackled systematically, change is embraced and full accountability is placed on all individuals to act with integrity and to the best of their abilities. Learning from our mistakes has always been central to Petra's ethos, and has enabled the Company to successfully navigate many hurdles along its path.

We invest in our operations and our people and always strive to look for 'a better way of doing things', with a focus on keeping things simple and using common sense. We treat people fairly and play to their strengths in terms of

contributing to the overall team. We aim to not only mitigate our impacts but also to actively enhance our local environments and communities. Finally we have a clear vision of what we want to achieve and we pull together as a united team in one direction.

The Board believes that the Company's Itumeleng Petra Diamonds Employee Trust ("IPDET") is an important aspect in both demonstrating and rewarding our culture of ownership and responsibility, providing the opportunity for our South African employees to directly share in the successful development of the mine in which they work. This concept of 'ownership' is vital to driving productivity.

One critical aspect of Petra's culture has been given specific emphasis during the Year, as a result of the tragic fatalities experienced at our operations, and this is safety. This has been a focal point of Board and HSSE discussions in FY 2017 and there continues to be a Company-wide drive to achieve a 'zero harm' working environment and to further cement Petra's strong culture of working safely from the top down.



Board of Directors

Adonis Pouroulis (47)
Non-Executive Chairman



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.

RELEVANT PAST EXPERIENCE He founded Petra Diamonds in 1997 and it became the first diamonds company to float on AIM. He has since chaired Petra as it has developed into a mid-tier diamond producer of global significance and London's largest quoted diamond mining group.

EXTERNAL APPOINTMENTS (QUOTED/LISTED COMPANIES)
Non-Executive Director of Chariot Oil & Gas plc and Non-Executive Chairman of Rainbow Rare Earths Limited.

INTEREST IN THE COMPANY AS AT 30 JUNE 2017
7,735,000 shares (30 June 2016: 9,564,650 shares).

Johan Dippenaar (60)
Chief Executive Officer



APPOINTMENT DATE June 2005

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

SKILLS Mr Dippenaar has led Petra through a period of significant growth, taking the Company's annual production from circa 175,000 carats in FY 2006 to 4 Mcts in FY 2017, and establishing the Company as a leading independent diamond producer.

RELEVANT PAST EXPERIENCE Since 1990 Mr Dippenaar has been involved in the leadership and management of diamond mining companies. Prior to his appointment as CEO of Petra, he was CEO of ASX-quoted Crown Diamonds, which merged with Petra in 2005.

EXTERNAL APPOINTMENTS (QUOTED/LISTED COMPANIES)
None.

INTEREST IN THE COMPANY AS AT 30 JUNE 2017¹
5,009,972 shares (30 June 2016: 1,060,719 shares).

Jim Davidson (72)
Technical Director



Tony Lowrie (75)
Senior Independent
Non-Executive Director



APPOINTMENT DATE June 2005

QUALIFICATIONS Geologist – Member of the Geological Society of South Africa and registered with the South African Council for Natural Scientific Professions.

SKILLS Mr Davidson has had a multidisciplinary professional career spanning 45 years and is an authority on the exploration, mining and beneficiation of diamond deposits worldwide. His unique tenure in diamonds brings a specialist and pragmatic oversight across the full spectrum of the diamond process, with a particular focus on exploration, project appraisal, mining techniques, driving efficiencies, and improving diamond recoveries via optimising plant processes.

RELEVANT PAST EXPERIENCE He was key to the building up of Crown Diamonds' fissure mine portfolio. Following the Crown merger with Petra, he continued in the role of Technical Director for Petra to oversee the technical and geological stewardship of the Group.

EXTERNAL APPOINTMENTS (QUOTED/LISTED COMPANIES)
None.

INTEREST IN THE COMPANY AS AT 30 JUNE 2017¹
4,812,981 shares (30 June 2016: 1,043,775 shares).

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.

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

EXTERNAL APPOINTMENTS (QUOTED/LISTED COMPANIES)
None.

INTEREST IN THE COMPANY AS AT 30 JUNE 2017¹
2,300,000 shares (30 June 2016: 2,300,000 shares).

Dr Pat Bartlett (72)
Independent
Non-Executive Director



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.

RELEVANT PAST 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 (QUOTED/LISTED COMPANIES)
None.

INTEREST IN THE COMPANY AS AT 30 JUNE 2017

Nil shares (30 June 2016: nil shares).

Gordon Hamilton (72)
Independent
Non-Executive Director



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.

RELEVANT PAST 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. He was formerly a director of Barloworld Limited and Beazley plc.

EXTERNAL APPOINTMENTS (QUOTED/LISTED COMPANIES)
Non-executive director of Nedbank Private Wealth and other related companies within the Nedbank Group and of Atrium Underwriting Group Limited.

INTEREST IN THE COMPANY AS AT 30 JUNE 2017

152,000 shares (30 June 2016: 152,000 shares).

Octavia Matloa (41)
Independent
Non-Executive Director



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.

RELEVANT PAST 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 Tsikulu Chartered Accountants Inc and Mukundi Mining Resources.

EXTERNAL APPOINTMENTS (QUOTED/LISTED COMPANIES)
Non-executive director of eXtract Group Limited.

INTEREST IN THE COMPANY AS AT 30 JUNE 2017

Nil shares (30 June 2016: nil shares).

Board experience



71%
MINING



29%
GEOLOGY



71%
FINANCE



71%
CAPITAL MARKETS



29%
AUDIT



86%
AFRICA

Committee key

A Audit

R Remuneration

H HSSE

C Chairman

N Nomination

1. There have been changes to the shareholdings of Johan Dippenaar and Jim Davidson since 30 June 2017 as disclosed in 'Directors' shareholding and share interests' on page 92 of the Directors' Remuneration Report.

Corporate Governance Statement

UK Corporate Governance Code compliance

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

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

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

- ▶ The Company's Non-Executive Chairman, Adonis Pouroulis, is not 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") continued to be of the opinion that, whilst not considered to be independent for the reasons stated, Mr Pouroulis demonstrates integrity in judgement, character and action. Furthermore, his contribution, leadership and accumulated experience and track record of building

natural resource companies justifies their recommendation that shareholders support his re-election to the Board at the Company's forthcoming Annual General Meeting.

- ▶ Remuneration of Non-Executive Directors ("NEDs") – as noted, Petra's Non-Executive Chairman, Mr Pouroulis, holds share options granted prior to the Company's step-up from AIM to the Main Market of the LSE, representing a form of performance-related benefits. Whilst the Code states that NEDs should not receive performance-related remuneration, these are legacy arrangements and there have been no further share option or share incentive awards to the Non-Executive Chairman since 17 March 2010. Other than this exception, the Group has fully incorporated the principles of the Code when determining remuneration for NEDs (for further information, please review the Directors' Remuneration Report on pages 86 to 101).

Matters reserved for the Board

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

Board time in FY 2017



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

Mr Dippenaar:

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

The role of the Senior Independent Director

Mr Lowrie:

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

The role of the iNEDs

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

- ▶ challenge the opinions of the Executive Directors, provide fresh insight in terms of strategic direction, and bring their diverse experience and expertise to the benefit of the leadership of the Group;
- ▶ assess the performance of the Chairman;
- ▶ scrutinise the performance of the Executive Directors in terms of meeting agreed goals and objectives;
- ▶ ensure that the financial information, controls and systems of risk management within the Group are robust and appropriate; and
- ▶ determine the appropriate levels of remuneration of the Executive Directors.

Dr Bartlett, Mr Hamilton and Mr Lowrie are members of Petra's Audit, Remuneration and Nomination Committees (and Chairman of the Audit and Remuneration Committees in the case of Mr Hamilton), thereby bringing their skill-set and independent judgement to the benefit of these Committees. Ms Matloa is a member of Petra's Audit Committee, bringing her specific financial experience to the benefit of this Committee.

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 and more often as required. Post Year end, it was decided that the Board would also hold monthly calls to discuss operational matters and the ongoing roll-out of the Group's expansion programmes. There is frequent communication between Board members outside of the set meeting dates, in order to stay abreast of business developments.

Up until May 2017, the formal Board and Committee meetings were held in Jersey, Channel Islands, where the Company was domiciled. With effect from 1 May 2017, the Company's tax residence migrated to the United Kingdom and as a result all meetings thereafter were held in London.

The formal Board and Committee meeting dates are scheduled to address key events in the corporate calendar (see page 66 for further information). 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.

Petra's Board and Committee meetings are generally spaced out over two days, allowing for considerable interaction by the members, both inside and outside of the formal meetings, including at dinners attended by all members in the evenings. The use of free time to discuss issues allows for clarification and engagement, meaning that consensus during the meeting is more easily attained. It is also outside of the formal meetings that input on specific issues can be addressed, with individual Directors drawing on their personal experiences.

Packs for the meetings are prepared by management following input on the agendas formulated by the respective Chairmen, and circulated electronically prior to the meeting, thereby allowing the Directors adequate time to consider the variety of issues to be presented and debated. In the minutes of the meetings, issues identified for follow-up are set out, ensuring that 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 2017 Board calendar

	Board meetings 5 held	Audit Committee 4 held	Remuneration Committee 3 held	Nomination Committee 2 held	HSSE Committee 4 held	Annual General Meeting 1 held
Adonis Pouroulis	5	n/a	n/a	2	n/a	1
Johan Dippenaar	5	n/a	n/a	n/a	4	1
Jim Davidson	5	n/a	n/a	n/a	n/a	1
Tony Lowrie	5	4	3	2	n/a	1
Gordon Hamilton	5	4	3	2	n/a	1
Pat Bartlett	5	4	3	2	n/a	1
Octavia Matloa	5	4	n/a	n/a	n/a	1

Date of meetings held

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Board meetings	1		1		1			1			1	
iNEDs and Chairman	1		1		1			1			1	
Audit Committee			1		1			1			1	
Remuneration Committee	1		1					1				
Nomination Committee			1								1	
HSSE Committee					1			1	1			1
Annual General Meeting							1					
Board evaluation											1	

Site visits

Visiting Petra's operations in person and interacting with Senior Management is very important for all Board members. Annual site visits are therefore arranged for the NEDs to ensure that, in addition to papers presented at Board meetings, they continue to stay informed of development and progress at the operations. The Executive Directors visit the operations on a regular basis as part of their day-to-day business.

A full Board site visit was not held during FY 2017; however, various trips to Petra's operations were arranged for the NEDs throughout the Year. Dr Bartlett and Mr Hamilton visited the South African operations in October 2016 and in August 2017. Mr Hamilton also visited Cullinan in February 2017 during the Company's annual investor and analyst group site visit, thereby allowing for direct contact with financial market participants. Mr Lowrie visited Cullinan in June 2017 and Mr Pouroulis visited Cullinan shortly after the Year end, in July 2017. A visit to the South African operations for the iNEDs, hosted by the Technical Director, Executive Operations and Chief Technical Officer, took place in October 2017.

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

Why our Board is effective

Director commitment

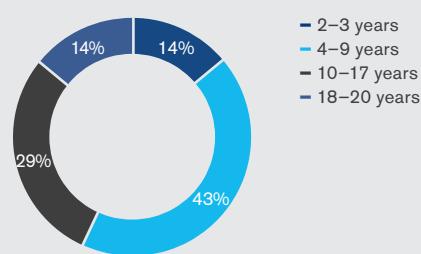
The Directors' biographies and duties can be found on pages 56 and 57 and there have been no changes to their respective duties during the Year.

The Board believes that each of the Directors is able to allocate sufficient time to the Company to fulfil their obligations, as confirmed by the external Board evaluation carried out in May 2017.

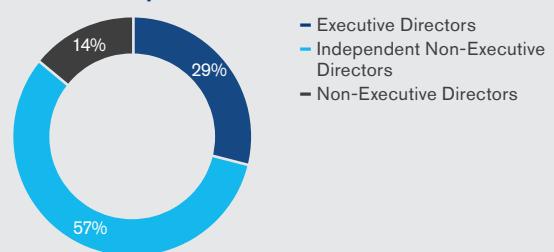
Executive Directors may, subject to Board consent, accept external appointments to act as non-executive directors of other companies. However, the Board would reserve the right to review such appointments to ensure no conflict of interest and that the time spent on fulfilling such obligations would not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

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

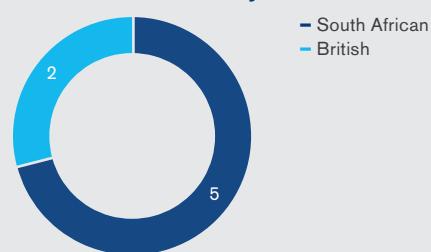
Tenure of Directors



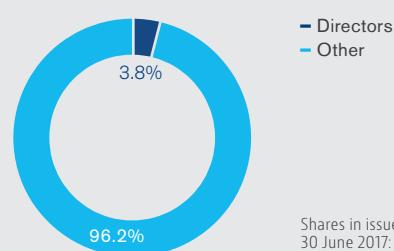
Board composition



Directors' nationality



Number of shares held



Shares in issue as at
30 June 2017: 531,986,218

Corporate Governance Statement continued

Why our Board is effective continued

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 to the Board at the Company's forthcoming Annual General Meeting.

In accordance with the Code, the Board considers Mr Hamilton, Mr Lowrie, Dr Bartlett and Ms Matloa to be independent and all four iNEDs are independent of any relationship listed in the provisions of the Code. None of the iNEDs received any fees from the Company in FY 2017 other than their contractual iNED fees, as set out on pages 91 and 92 of the Directors' Remuneration Report.

Conflicts of interest

Whilst conflicts should be avoided, the Board acknowledges that instances arise where this is not always possible. In such circumstances, Directors are required to notify the Chairman before the conflict arises and the details are recorded in the minutes. If a Director notifies the Board of such an interest, they may be, if requested by the Chairman, excluded from any related discussion and will always be excluded from any formal decision; this was not required at any point in FY 2017.

Director information, training and development needs

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

Petra has an induction programme designed to bring new Directors up to speed as quickly as practicable, following their appointment to the Board. Such an induction would typically involve meetings with the Board and various members of Senior Management, an information pack of all necessary

corporate documents, including the Company's latest Annual and Sustainability Reports, the Bye-Laws, Committee Terms of Reference and other key Group policies, such as the Group Code of Ethical Conduct and the Anti-Bribery Policy, enabling them to familiarise themselves with the Group, its procedures and current activities. A site visit to one or more of the Group's key operations is held as soon as possible, to provide the new Director with further information on the operations, including production/expansion plans and key ESG considerations.

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

In FY 2017, Petra organised two training sessions for the Board. The first session took place in November 2016 and consisted of an update from Company advisers on the Market Abuse Regulations ("MAR") as well as a technical presentation on Company-specific matters, given by Koos Visser, Petra's Chief Technical Officer. An internal session on cyber security was given at the time of the May 2017 Board meeting.

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

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



The Petra Board was educated about the various plant modifications underway throughout the Petra Group.

Board strategy and performance

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

OBJECTIVES FOR FY 2017

PROGRESS IN FY 2017

OBJECTIVES FOR FY 2018

Strategy and operations

<ul style="list-style-type: none"> ▶ Continue to review and monitor the Group's production results and delivery against the approved expansion and development plans, with continued focus on carat production, revenue, earnings, cashflow generation and appropriate treasury and balance sheet oversight. ▶ Strategic focus on 'value tonnes' as opposed to 'volume tonnes' in order to maximise revenue per tonne. ▶ Consider and approve a longer-term production strategy and plans for the Group based on its current portfolio of assets, providing guidance on the outlook post FY 2019. ▶ Continue to assess opportunities to maximise value and cashflow opportunities from the Group's substantial resource base. ▶ Continue to evaluate growth opportunities in the diamond sector that have the potential to further diversify the Group's asset/geographical spread and deliver significant shareholder value. ▶ Evaluate an appropriate longer-term capital allocation strategy and dividend policy for the Group. ▶ Consideration of the Petra culture and how to enhance and preserve it. 	<ul style="list-style-type: none"> ▶ The Board evaluated the roll-out of the Group's expansion programmes, in accordance with Petra's short-term target for FY 2017 of 4.4–4.6 Mcts and medium-term target of 5.0–5.3 Mcts by FY 2019. ▶ Due to the operational issues experienced in FY 2017, the Board approved the issue of a caution in the Interim Results on 20 February 2017 that Petra was likely to be at the bottom of its production guidance range and the publication of a Market Update on 28 June 2017 noting that production would be 8–9% below guidance. ▶ The Board continued to monitor the Group's financial position and approved the 2022 US\$650 million Notes Issue and restructuring of Group debt facilities in April 2017. ▶ Consideration of longer-term production strategy, noting the Group's focus on 'value' as opposed to 'volume', was given by the Board and production guidance post FY 2019 was published for the first time. Minor scope changes were approved to Finsch and Cullinan mine plans. ▶ While the Board considers external growth opportunities on an ad hoc basis, the Company is focused on delivery of its organic growth profile. ▶ Petra's culture was discussed during Board meetings, with a focus on how best to distil, enhance and preserve it. 	<ul style="list-style-type: none"> ▶ Safety of all Petra people is paramount to the Company and therefore turning around the fatalities trend in FY 2017 is the Board's number one operational priority. ▶ Hold an off-site day in FY 2018 solely dedicated to strategy. ▶ Continue to review and monitor the Group's production results and delivery against the approved expansion and development plans, with continued focus on carat production, revenue, earnings, cashflow generation and appropriate treasury and balance sheet oversight. ▶ Particular focus on setting achievable production guidance. ▶ Assessment and ongoing focus on effective market communications. ▶ Continue to assess opportunities to maximise value and cashflow opportunities from the Group's substantial resource base. Strategic focus on value production as opposed to volume and on resetting the cost base. ▶ Further consideration of an appropriate longer-term capital allocation strategy and dividend policy for the Group. ▶ A governance roadshow led by the Chairman and the Senior Independent Director will take place in November 2017. ▶ Ongoing consideration of Company culture and how this is vital to the delivery of Petra's strategy.
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Board composition

<ul style="list-style-type: none"> ▶ Continue to consider Board and Committee composition, taking into account the specialist nature of Petra's business and the diamond mining industry. ▶ Continue to ensure appropriate systems are in place to allow for suitable succession on both the Board and Senior Management teams. 	<ul style="list-style-type: none"> ▶ The Board and Committee composition was reviewed by the Nomination Committee during May 2017 and was found to be effective. ▶ The Succession Policy was approved by the Board and it was noted that a running list of candidates for Board and Senior Management positions would be kept up to date. 	<ul style="list-style-type: none"> ▶ Continue to consider Board and Committee composition, taking into account the Company's ongoing transition from an expansion phase to a production focus and with an emphasis on diversity.
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Corporate Governance Statement continued

Board strategy and performance continued

OBJECTIVES FOR FY 2017	PROGRESS IN FY 2017	OBJECTIVES FOR FY 2018
<p>Risk management</p> <ul style="list-style-type: none"> ▶ Ensure that the annual Internal Audit Plan addresses the key business risk areas that can be mitigated by Internal Audit reviews. This will be backed up by Internal Audit continuing to consider other parts of the business where the ongoing review of the systems of internal controls and internal financial controls is relevant to superior Group risk management. ▶ Continue to consider the key risks that are relevant to the Group, ensuring the possible effect of such risks and plans for the mitigation thereof is fully understood and continually actioned by the Board and Senior Management. ▶ Arrange at least one annual visit for the full Board to the Group's operations, providing the Chairman and iNEDs with the opportunity to experience production and project development directly, as well as to interact with key management and discuss important issues. 	<ul style="list-style-type: none"> ▶ The Audit Committee Chairman and the Group Internal Audit Manager reported to the Board on the work of the Internal Audit function, including the approval of the Internal Audit plans for FY 2017 and FY 2018 and the ongoing compilation of an integrated Group Risk Register. ▶ Towards the end of FY 2017, Senior Management undertook a full Group Risk Review of the business, not just considering risks previously identified but also including working sessions to identify and report on any risks not previously recorded in the Group's risk reporting processes to the Board. The results of this updated Group Risk Review were presented to the Audit Committee in July 2017. ▶ It was not possible to arrange a full Board site visit in FY 2017; however, the majority of the Board visited at least one of Petra's operations separately throughout the Year. A site visit to the South African operations for the iNEDs, hosted by the Technical Director, Executive Operations and Chief Technical Officer, took place in October 2017. 	<ul style="list-style-type: none"> ▶ Ensure that the annual Internal Audit Plan addresses the key business risk areas that can be mitigated by Internal Audit reviews. This will be backed up by Internal Audit continuing to consider other parts of the business where the ongoing review of the systems of internal controls and internal financial controls is relevant to superior Group risk management. ▶ Continue to consider the key risks that are relevant to the Petra Group, ensuring the possible effect of such risks and plans for the mitigation thereof is fully understood and continually actioned by the Board and Senior Management. ▶ Arrange at least one annual visit for the full Board to the Group's operations.
<p>Board process</p> <ul style="list-style-type: none"> ▶ Continue the level of communication between all Board Directors, both of a formal and informal nature, to ensure that all Directors are continually fully informed about the Group's business and in a position to contribute both during and outside of formal Board meetings. ▶ A more formalised recording and tracking of Board objectives at regular periods throughout the year. ▶ Hold an externally facilitated Board evaluation process in FY 2017. ▶ 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. 	<ul style="list-style-type: none"> ▶ Alongside regular formal Board and Committee meetings, the Directors met on a frequent basis. Non-Executive Directors were also presented with the opportunity to meet with Senior Management. ▶ Board objectives were reviewed during the Year but frequency could be improved. ▶ An externally facilitated Board evaluation process was conducted by Armstrong Bonham Carter LLP. ▶ The Directors were provided with opportunities to attend relevant external and internal training sessions throughout the year. 	<ul style="list-style-type: none"> ▶ In addition to the four formal meetings in person per annum, the Board will hold group calls on a monthly basis in order to track progress of production and the remaining key deliverables of the Group's expansion programmes. ▶ A more formalised recording and tracking of Board objectives at regular periods throughout the year. ▶ Hold an internal Board evaluation process in FY 2018. ▶ Continue to assess the Directors' training needs and to provide relevant training opportunities to the Directors in order to ensure that all Board members stay abreast of relevant developments. ▶ Continued refinement of Board papers to improve communication of key issues.

Evaluation of the Board's performance

In FY 2017, an external evaluation to assess the effectiveness of the Board and the board committees was carried out by Armstrong Bonham Carter LLP, a consultancy which has no other relationship with the Company.

The evaluation comprised interviews with each Board member, with the interview agenda designed to understand whether the Directors have thoroughly discussed and agreed the use of the shareholders' funds to ensure the Company is successful whilst managing the risks inherent in the strategy, plans and the operating environment. This was then augmented by an assessment of how effective the Board is in ensuring that the Executive team implements the strategy and plans and manages all the other activities of the Company.

The facilitator collated and analysed the results from the evaluation exercise and prepared a report on each Director summarising the key findings on the individual's performance, as well as a report for the Board, summarising its effectiveness as a whole and one for each Committee.

The Board report and those of the Committees were presented by Armstrong Bonham Carter LLP to the full Board and each Director was provided with a copy of their individual report in a discussion with the Chairman or the Senior Independent Director, as appropriate.

The evaluation confirmed positive aspects with regards to Board culture and cohesion, noting that there was a shared clarity of purpose about the direction of the business and the implementation of the strategy and plans. Good progress has been made by the Company in terms of continuing to grow production and sales, and keeping the considerable capital expenditure programme largely on track. While there were a number of challenges to contend with in FY 2017, these were met and overcome without compromising the Company's growth path.

Highlighted areas for improvement include:

- ▶ a review of the Board's definition of success to ensure there is a consensus in both the medium and long-term strategy, while ensuring that the risk appetite is aligned;
- ▶ consideration of an appropriate longer-term capital allocation strategy and dividend policy for the Group;
- ▶ an off-site strategy day to be held annually; and
- ▶ continuing assessment of Company culture and engagement mechanisms by which to assess whether employees at all levels in the Group adhere to Company culture in a proactive and comprehensive way in order to help ensure the strategy is successful.

As a result of this process it was concluded that the Board remains effective and appropriate to the size of the business.

IR strategy

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

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

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

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

Recognising the growing importance of social media both in terms of news dissemination and in terms of providing an alternative communications channel to stakeholders, Petra continues to develop its presence through its LinkedIn and Twitter channels.

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, CFO and Corporate Communications team commit time to hold regular formal and informal meetings in person and via the telephone with the Company's shareholders and potential investors, in addition to twice yearly roadshows, which coincide with the publication of Petra's interim and annual results. The Company also hosts results webcasts at least twice a year, which are broadcast live on the Company's website to ensure that all shareholders can participate in the presentation, regardless of their location, and are available to access thereafter at www.petradiamonds.com/investors/financial-events-calendar. Furthermore, regular meetings are arranged with sell-side analysts and broker sales teams.

In addition, the Chairman is available to meet with shareholders as required and the iNEDs, both as part of the induction process and subsequently, are also provided with opportunities to meet with shareholders throughout the year. Petra's Senior Independent Director is available to shareholders to address concerns that contact with the Chairman, CEO or CFO 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 previous one having been held in FY 2016. This is scheduled to take place in November 2017 and will provide the opportunity for relevant governance contacts amongst Petra's top shareholders to engage with Mr Pouroulis and Mr Lowrie.

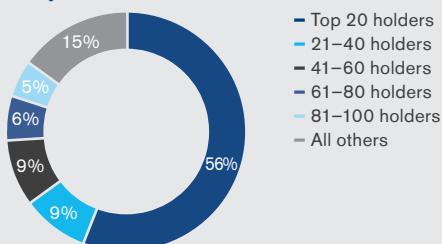
Petra hosts one formal investor/analyst site visit per year, with additional smaller ad hoc visits arranged as required or requested. Such visits are considered an essential part of the Company's IR programme as seeing one of the operations in person is the best way for an investor/analyst to understand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

Corporate Governance Statement continued

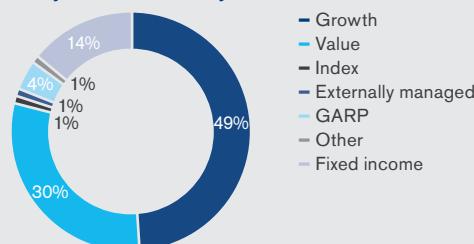
Shareholder communication

Shareholder breakdown as at 30 June 2017

Analysis of investor concentration



Analysis of investor style



Investor relations ("IR") calendar for FY 2017

July	FY 2016 Trading Update and FY 2017 Guidance	
September	FY 2016 Prelim Results Investor roadshow in UK and North America	
October	Annual Report published Q1 FY 2017 Trading Update	
November	Sustainability Report published AGM Investor roadshow in UK and Continental Europe	
January	H1 FY 2017 Trading Update	
February	Investor/analyst site visits to Cullinan H1 FY 2017 Interim Results Participation in industry investor conferences in South Africa and North America Investor roadshow in UK	
March	Participation in industry investor conferences in Canada, South Africa and UK Fixed income investor roadshow in UK	
April	Fixed income investor roadshow in North America Q3 FY 2017 Trading Update Participation in industry investor conferences in UK	
May	Participation in industry investor conferences in UK and Europe	



Investor/analyst presentation and webcast



Conferences



Investor/analyst conference call



Site visit



Investor one-on-one meetings



Report publication

FY 2017 shareholder engagement

During FY 2017, the Company's CEO and IR team held meetings with over 260 investors, including the fixed income marketing roadshow held in advance of the US\$650 million Notes Issue due 2022, thereby engaging with over 300 people from 17 countries (FY 2016: over 180 meetings held). The team met with all of the active managers within the Group's top 20 shareholders at least once during the Year.

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

- ▶ Petra's expansion programmes and execution risks (read more on pages 32 to 40);
- ▶ progress made at the new Cullinan plant (read more on page 37);
- ▶ health and safety across Petra's operations (read more on page 47);
- ▶ Petra's financial position, particularly focusing on the Company's leverage levels and ability to meet its debt facility covenant measurements (read more on page 30);

- ▶ returns to shareholders and Petra's future capital allocation strategy;
- ▶ the state of the diamond market and expectations with regards to diamond pricing (read more on pages 20 and 21);
- ▶ synthetic 'man-made' diamonds and how these affect the market for natural diamonds (read more on page 77); and
- ▶ the political situation and legislative updates in South Africa and Tanzania (read more on pages 12 and 76).

In addition to these meetings, 30 investors and analysts visited Petra's operations during the Year, affording them with the opportunity to engage with Petra's Executive Directors and relevant members of the Company's senior management and mine management teams. Along with the formal site visit to Cullinan held in February 2017, ad hoc site visits were arranged for investors to Petra's two flagship operations, Finsch and Cullinan, at other points during the Year.



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[@PetraDiamondsIR](#)

Reporting

Petra's objective with regards to external reporting (via its Annual Report and Sustainability Report, supported by its website) is to provide a high level of transparency, in order to set out a clear picture of the Group's past performance

and its potential future prospects. To this end Petra has aimed to provide a high level of disclosure, particularly across the area of sustainability, having produced detailed standalone Sustainability Reports for the last eight years.

Annual General Meeting (“AGM”)

Shareholders are encouraged to participate at the AGM, ensuring that there is a high level of accountability and identification with the Group's strategy and goals. The full Board was present at the AGM in November 2016, with the Committee Chairmen available to answer any questions relevant to their activities.

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

Results of our FY 2016 AGM

		Total votes for %	Total votes against %	Votes withheld
1	Statutory accounts	100	0	88,217
2	Directors' Annual Remuneration Report	98.17	1.83	12,441,097
3	Re-appointment of auditors	99.43	0.57	414,217
4	Authorisation to set auditors' remuneration	100	0	64,217
5-11	Re-appointment of Directors	96.35–99.96	0.04–3.65	64,217–2,417,555
12	Authority to allot relevant securities	100	0	65,559
13	Disapplication of pre-emption rights	100	0	65,363

Report of the Audit Committee



Members of the Audit Committee

Gordon Hamilton (Chairman)

Pat Bartlett

Tony Lowrie

Octavia Matloa

The Audit Committee continued its important work to continually assess whether the Group's reporting, controls and systems are robust and appropriate to the business.

Dear shareholder,

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

Whistleblowing policy updates

In line with the Company's commitment to ethical behaviour and its focus on ensuring compliance with our codes and policies, Petra's whistleblowing procedure was reviewed by the Committee during the Year. The requirements for appropriate independence in the reporting process and for employees to be fully briefed on steps to be taken if they wish to report a matter or incident were both addressed and the system was accordingly updated. A new external whistleblowing and fraud hotline, which is monitored by the Committee, was activated on 1 March 2017 and employees were fully briefed. Details can be accessed in Petra's Code of Ethical Conduct and on the Company's website: www.petradiamonds.com/about-us/corporate-governance/business-ethics.

External review of Audit Committee effectiveness

An external evaluation of the effectiveness of the Audit Committee was carried out as part of the overall Board evaluation process in May 2017 and comprised interviews with the Board, members of Senior Management and the External Audit Partner. The findings of the evaluation confirmed that the Committee does fulfil its Terms of Reference effectively and therefore there were no specific recommendations on how it could improve its effectiveness.

External auditor tender process

BDO LLP has been the Group's external auditors for 12 years since FY 2006 (following a formal tender). The Company recognises the importance of audit independence and, in consideration of the Code and the associated FRC transition guidelines, as well as to ensure compliance with the Competition & Markets Authority's Statutory Audit Services for Large Companies Market Investigation Order 2014, put the audit out to tender in FY 2018.

Given the importance of the appointment, the Audit Committee, with assistance from the CFO and finance team, put in place a nine-month process during which to assess the most effective outcome for the business. Consideration of potential audit firms was therefore initiated by the Audit Committee in January 2017, with the scope of the tender set to extend across the entire Petra Group, wherein the participating external audit firms would be required to illustrate their capacity, competency and ability to add significant value in the jurisdictional areas of South Africa, Tanzania, the United Kingdom, Botswana, Belgium, Jersey and the Netherlands.

Further to the initial assessment period, a request for proposal ("RFP") was sent to a shortlist of three external audit firms considered to have the most relevant expertise suited to Petra's business. The tender process took place in September 2017, when presentations were made to the Committee by the participating audit firms.

Further to the presentation process, the Audit Committee took time for careful consideration of the proposals in order to assess the appropriate external auditors for Petra. Following this, the Committee recommended the re-appointment of BDO LLP to the Board on 6 October 2017, with BDO LLP deemed most appropriate to service the needs of the Group going forward. This process has coincided with the external partner rotation at BDO and therefore a new partner will be assigned to the Company for FY 2018 onwards.

Committee experience

In light of the publication of the 2016 edition of the UK Corporate Governance Code and the Financial Reporting Council ("FRC") Guidance on Audit Committees, it is important to specifically address the Committee's backgrounds and experience. The changes to the Code, which were applicable as at 1 January 2017, prompt me to highlight the significant level of experience present on the Committee as it relates to both audit and Petra's specific sector of diamond mining – as set out on page 69.

Gordon Hamilton

Chairman of the Audit Committee

14 October 2017



Committee experience and skill-set

The members of the Audit 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.

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.

New members to the Audit Committee 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 62), 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 2017.

Committee meetings

Five meetings were held in FY 2017 and the Committee invited the Group Chairman, the Executive Directors 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 2017 where he was able to meet with the CFO and team, as well as the Group Internal Audit Manager, in order to discuss and monitor the financial controls and audit activities of the Group on a timely basis.

In addition, site visits were arranged for Committee members during the Year to the Group's various operations, enabling the Chairman and the Committee to uphold a comprehensive understanding of corporate and finance developments and activities, any associated risks, as well as the controls in place at Petra. A site visit was undertaken by Mr Hamilton and Dr Bartlett to all of the South African operations during October 2016 and in August 2017 and Mr Hamilton also accompanied the investor/analyst site visit to Cullinan in February 2017. A site visit by the full Committee to all of the South African operations took place in October 2017.

Report of the Audit Committee continued

Committee role and activities

The principal functions of the Audit Committee are listed below, along with the corresponding activity and performance in FY 2017.

ROLE	ACTIVITIES IN FY 2017	OUTCOMES
To monitor the integrity of the interim and preliminary full year results announcements, as well as the Annual Report and Accounts published by the Company, reviewing significant financial reporting judgements contained therein.	<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 included 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 their understanding of the Group, as well as the tone and language used in the reporting, ensuring that it should be comprehensible to readers of various backgrounds.</p> <p>Outside of formal Committee meetings, accounting matters were also discussed by the Chairman of the Committee and the CFO. 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.
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.	<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 2017 Annual Report are set out on page 72.</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.
To ensure that Petra's risk management systems, internal financial controls and other internal controls are effective.	<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 2017 included presentations by BDO LLP regarding the results of the FY 2016 audit, the interim review for H1 FY 2017 and the FY 2017 Audit Committee Planning Report, with a presentation by BDO LLP of the results of the FY 2017 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 financial internal 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>
To ensure the Internal Audit function is adequately resourced and effective and is supported by the Committee in its role.	The Internal Audit Charter was reviewed, updated and approved by the Committee in FY 2017. 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.

Committee role and activities continued

ROLE	ACTIVITIES IN FY 2017	OUTCOMES
To consider the appointment, re-appointment or removal of the external auditors, to recommend the remuneration and terms of engagement of the external auditors and to assess the external auditors' independence and objectivity. To review the engagement of the external auditors to ensure the provision of non-audit services by the external audit firm does not impair their independence or objectivity.	The Committee proposed the re-appointment of BDO LLP to act as auditors for FY 2017, having considered the independence, objectivity, tenure and effectiveness of BDO LLP and the audit process. In advance of the FY 2017 audit, the Committee reviewed and approved the external auditors' audit planning presentation and assessed the appropriateness of the audit strategy, scoping, materiality and audit risks. The Committee approved the audit fees as part of the audit planning process. The Committee also reviewed audit related fees in relation to the interim review and comfort letters in relation to the US\$650 million loan notes issued during the Year, having considered the FRC's Ethical Standard. The services represented audit related services, which are not considered to create independence threats under the FRC's Ethical Standard. Details of the Committee's assessment of the auditors' independence and its assessment of their effectiveness are provided on page 73.	The Committee has taken appropriate steps to assess the independence of its auditors, recognising the importance of audit independence to the audit process. The Committee has reviewed and gained a thorough understanding of the external auditors' strategy and has satisfied itself that it is robust and that the auditors remain independent.
To give due consideration to relevant laws and regulations, the provisions of the Code and the requirements of the UK Listing Rules.	The Committee received adequate timely information, briefings and training on all relevant regulatory updates and developments. The Committee as a whole and, on occasion, the Chairman of the Committee met separately with the BDO LLP Audit Partner to discuss significant audit, accounting and governance developments during the Year.	The Committee is satisfied that Petra continues to act in accordance with the Code and all relevant laws, regulations and the UK Listing Rules.
To review the adequacy of the Company's whistleblowing system, its fraud detection procedures and the systems and controls in place for bribery prevention.	The Committee continues to consider the adequacy of the various policies and systems in place across the Group that cover the whistleblowing system, its fraud detection procedures and the systems and controls in place for bribery prevention. The Group's whistleblowing procedure was reviewed and updated during the Year, with a new external whistleblowing and fraud hotline being activated in March 2017, and communicated to all employees.	During FY 2017, there were three reported incidents involving fraud that were reported, two of which could not be substantiated. The other matter is currently under investigation, but the amount involved is not considered material to the Company. Further to the outcome of the investigation, the Company will consider whether changes to its system of internal controls are required to limit such events taking place in the future. In addition, since the inception of the new external whistleblowing hotline on 1 March 2017, Petra received 37 calls and, of these, four reports involving alleged irregularities relating mostly to procurement and illegal substance abuse were considered necessary to investigate. Two of these matters could not be substantiated and investigation into the other two matters is ongoing, but they are not of a material nature.

Committee Terms of Reference

The Committee's Terms of Reference were reviewed by the Committee post Year end, and subsequently considered and approved by the Board. They can be accessed at: www.petradiamonds.com/about-us/corporate-governance/board-committees.

Report of the Audit Committee continued

Significant issues considered by the Committee in FY 2017

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 105 to 109.

SIGNIFICANT MATTERS CONSIDERED	OUR RESPONSE TO THESE MATTERS
Going concern and debt facility covenants	
<p>During April 2017, the Group issued US\$650 million 7.25% loan notes due 2022 as part of a refinancing of its existing US\$300 million loan notes due 2020 and made amendments to its banking facilities. During April 2017, the Group restructured its banking facility covenants for the three covenant measurement periods from June 2017.</p> <p>Going concern and covenant compliance remained a risk and area of focus given the delays in the commissioning of the Cullinan plant, the cumulative production issues at the mining operations and the forecast of a covenant breach for the reporting period ending 30 June 2017, in addition to the inherent risks surrounding diamond pricing and foreign exchange rates.</p> <p>Subsequent to the Year end, the Group obtained a covenant waiver for the two EBITDA covenant tests for the 12-month measurement period to, and as at, 30 June 2017 and reset the two EBITDA covenant tests for the 12-month measurement period to, and as at, 31 December 2017. However, following the impact of lower production than expected in H2 FY 2017, the impact of Year end labour disruption, and the uncertainties associated with the outlook for the Williamson mine, Management forecasts as at the date of this report indicate that the Group will likely breach the two EBITDA covenants tests for the 31 December 2017 measurement period – as detailed in note 1.1.</p> <p>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.</p>	<p>The Committee reviewed the covenant waiver received post Year end from the Group's lenders for the 30 June 2017 covenants and confirmed that the 31 December 2017 covenants were reset in line with the revised covenant ratios.</p> <p>The Committee members critically reviewed the forecast cashflow and banking covenant models against forecast Group liquidity requirements and covenants in relation to the banking facilities, particularly considering diamond pricing, exchange rate, project commissioning and production assumptions. The forecasts demonstrated that the Group retained sufficient liquidity; however, the forecasts indicated a likely breach of the banking covenants. Further details are provided in note 1.1.</p> <p>Management presented a sensitivity analysis on liquidity and covenant ratios with due consideration given to potential risk areas (diamond pricing, production, project commissioning and exchange rates), as well as the Group's capacity to defer capital expenditure.</p> <p>Management further presented sensitivity analysis on liquidity and covenant ratios for a scenario in which the Group was unable to resume exports and diamond sales receipts at Williamson, including the parcel currently blocked for export – refer to 'Liquidity and covenants' in the Financial Review on page 30 for post Year end developments.</p> <p>Having considered the models, risks and sensitivity analysis, the Committee was satisfied that Management's judgements and forecasts were appropriate.</p> <p>Given that the Group is forecasting a likely covenant breach of the two EBITDA covenants tests for the 31 December 2017 measurement period, the Group will likely need to obtain a waiver or reset of covenant ratios before the covenant test date in March 2018. The Committee considered the judgement that the Group would be able to engage with its lender group and obtain such a waiver or reset and retain access to its facilities in the event of such a breach and concluded that the judgement was appropriate having carefully considered all relevant facts and circumstances, including the historical track record in this regard.</p> <p>The Committee assessed the disclosures in the Annual Report and Financial Statements with respect of going concern and covenant compliance and concluded that they were appropriate. Refer to note 1.1 on pages 115 to 116 for further details.</p>

Carrying value of mining assets

The carrying value of the Williamson and Koffiefontein mining assets were a key focus area for the Committee in FY 2017.

At Williamson additional risks arising from recent legislative changes, political uncertainties, the post Year end parliamentary committee review into the Tanzanian diamond industry and the post Year end blocking of a parcel of diamonds due for export placed additional emphasis on the carrying value of the Williamson mining assets. The Year end impairment test showed that headroom at Williamson decreased to 2% using a discount factor of 9.0% (30 June 2016: 81% headroom using a discount rate of 10.0%).

At Koffiefontein, the headroom has decreased to 10% (30 June 2016: 94%) and additional emphasis was placed on the Group's ability to meet its Life of Mine plan, given underperformance against budget.

The impairment tests include significant estimates and judgements and therefore represented a key focus for the Committee, as covered in note 8 on pages 120 to 121.

The Committee critically reviewed the key assumptions and parameters (diamond price forecasts versus historic pricing, foreign exchange rates against current and forward rates, and the basis for production and cost forecasts) in the LOM plans for both Williamson 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 and the effect on headroom or potential impairments under various scenarios.

In relation to Williamson, the Committee reviewed post Year end 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 2017 including consideration of the extent to which developments in Tanzania post Year end represented non-adjusting subsequent events. In addition, the Committee confirmed with Management that if a copy of the parliamentary committee report on the Tanzanian diamond industry is received, such copy will be made available to the Committee.

At Koffiefontein, the key area considered was the delay in the commissioning and ramp-up of the SLC, which delayed the mining of the new orebody. Extensive consultation with Management was held, focusing on the forecast expenditure for the block cave and challenging the timing and costs thereof. In addition, the Committee reviewed independent diamond pricing estimates and actual production data (FY 2018: July to September 2017) to assess the assumptions used in the FY 2018 budget.

The Committee satisfied itself that Management's judgements were appropriate and headroom exists under the Life of Mine plans at Year end. The Committee further considered the disclosures made in note 8 on pages 120 to 121 and the disclosure of potential impacts of events in Tanzania subsequent to Year end in note 37 on pages 158 to 159.

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.

External auditors

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

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

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

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

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

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

Auditors' remuneration US\$ million	FY 2017	FY 2016
Audit services ¹	0.9	0.9
Audit related assurance services ²	0.4	0.1
Total	1.3	1.0

1. Audit services are in respect of audit fees for the Group.

2. Audit related services are in respect of the interim review (US\$0.1 million) plus services in respect of the issuance of comfort letters in respect of the issue of the US\$650 million loan notes, which were capitalised under non-current loans and borrowings (US\$0.3 million).

External auditor tender process

BDO LLP has been the Group's external auditors for twelve years since FY 2006 (following a formal tender). The Company recognises the importance of audit independence and, in consideration of the Code and the associated FRC transition guidelines, put the audit out to tender in FY 2018.

As disclosed on page 68, following this formal tender process, the Audit Committee recommended the reappointment of BDO LLP to the Board on 6 October 2017, with BDO LLP deemed to be the most appropriate to service the needs of the Group going forward.

Non-audit services

The Committee requires that any non-audit services to be performed by BDO LLP are formally approved by the Committee. Audit related services do not require pre-approval and encompass actions necessary to perform an audit, including areas such as 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 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, nor during the prior Year.

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

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

The Group's Internal Audit function

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

The three-year Internal Audit strategy, approved in FY 2016, and the 'Findings Register' are in place to keep track of the periodic Internal Audit follow-up process pertaining to unresolved audit findings. As part of the scope agreed with the Committee, the Internal Audit work plan continues to focus on procurement and payroll-related controls. Any key unresolved findings, where applicable, now also form part of the formal quarterly Internal Audit submission to the Audit Committee. In addition, the FY 2017 Internal Audit Plan was approved by the Committee.

System of internal control

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

For FY 2017, the Group Internal Audit Manager and the Committee remained satisfied that no material weaknesses in internal control systems were identified. Whilst being satisfied that controls and risk management remain appropriate for the Group's activities, the Committee continues to undertake a thorough review and to challenge internal controls, risk management procedures, Internal Audit resourcing and strategy to ensure that its practices develop and remain appropriate. When internal control reviews identified necessary or beneficial improvements, appropriate steps have been taken to ensure the control environment is effective. This includes systems to track Management's responses to the areas for improvement and subsequent Internal Audit visits to test the implementation.

Viability Statement



Viability Statement

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 2020, taking into account the Group's current position and the potential impact of the principal risks that could affect the viability of the Group. This assessment is done annually before the approval of the Annual Financial Statements.

While the Group maintains a full business model based predominantly on the Life of Mine plans for each of its significant operations, the Group's key business and strategic planning period is through to the end of FY 2020, with its targeted annual production being 5.0–5.3 Mcts.

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

The forecasts indicate that the Group will maintain sufficient liquidity through the period to June 2020.

In assessing the Group's viability, the Board was cognisant that the forecasts indicate a likely breach of the two EBITDA measurement covenants in respect of the banking facilities for the 12-month period to, and as at, 31 December 2017, as detailed in note 1.1 to the Financial Statements. As set out in note 1.1, the Company remains confident that the existing facilities will remain available to the Group and the forecasts have therefore been prepared on this basis.

Risks and stress tests

For the purpose of assessing the Group's viability, the Board focused its attention on the more critical principal risks. In order to determine those risks, the Directors assessed the Group-wide principal external, operational and strategic risks by undertaking consultations with Senior Management (refer to the Risk Overview and Risk Management sections of this report set out on pages 42 to 43 and 75 to 82 respectively). Through this analysis, the Directors also identified low probability, high loss scenarios – 'singular events' – with the potential magnitude to severely impact the solvency and/or liquidity of the Group.

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

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

- ▶ production affected by unplanned stoppages due to, *inter alia*, power or labour interruptions;
- ▶ below plan recovery efficiency in the new Cullinan plant for a period of 18 months with overall recovery losses of 5% over this period;
- ▶ Williamson being placed on care and maintenance due to the inability to resume diamond exports from Tanzania on a timely basis;
- ▶ a significant decrease in forecast rough diamond prices; and
- ▶ a significant appreciation of the South African Rand to the US Dollar.

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

Conclusion

Based on their robust assessment of the principal risks, prospects and viability of the Group, the Board confirms that they have reasonable expectation that the Group will be able to continue operation and meet its liabilities as they fall due over the three-year period ending June 2020.

Risk Management

Identifying, managing and mitigating risk

Risk management is the overall responsibility of the Board at Petra, but the Board Committees also play important roles in terms of the identification, management and ongoing mitigation of risks within their realm of responsibilities. Given the long-term nature of the mining business, particularly taking into account the long life of Petra's assets, the majority of the Group's previously identified risks are unlikely to alter significantly on a yearly basis. However, inevitably the level of risk can change, as could the Group's risk appetite.

External risks

Rough diamond prices

Long term



RISK CHANGE IN FY 2017

DESCRIPTION AND IMPACT

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

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

MITIGATION

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

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

FY 2017 RISK DEVELOPMENTS AND MANAGEMENT

FY 2017 saw signs of stabilisation in the rough diamond market, with steady demand across the majority of size ranges and pricing on a like-for-like basis up circa 2% for the Year. Lower value categories experienced some pressure due to the Indian Government's demonetisation programme in late 2016, but recovered thereafter. The Company continued to sell all of its production at each tender and did not withhold goods from sale.

In 2017, the DPA announced it was more than quadrupling its spend on generic diamond marketing for the year.

KPIs

Revenue; Profitability

DIRECTOR/COMMITTEE RESPONSIBILITY

Executive Directors

READ MORE

Our Market – pages 18 to 21

Currency

Long term



RISK CHANGE IN FY 2017

DESCRIPTION AND IMPACT

With Petra's operations mainly in South Africa, but diamond sales based in US Dollars, the volatility and movement in the Rand is a significant factor to the Group. Also, the Group undertakes transactions in a number of different currencies. Fluctuations in these currencies may have a significant impact on the Group's performance.

MITIGATION

The Group continually monitors the movement of the Rand against the Dollar and takes expert advice from its bankers in this regard. It is the Group's policy to hedge a portion of future diamond sales when weakness in the Rand indicates it appropriate. Such contracts are generally short term in nature.

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

FY 2017 RISK DEVELOPMENTS AND MANAGEMENT

Political risk developments in South Africa, coupled with its investment rating downgrade, further enhanced currency volatility during the Year.

Further to the volatility experienced in FY 2016, the Company continued with its approach to focus on short-dated hedge positions. Realised FX losses incurred by the Company reduced significantly to US\$3.8 million (FY 2016: US\$20.7 million).

KPIs

Revenue; Profitability

DIRECTOR/COMMITTEE RESPONSIBILITY

Executive Directors

READ MORE

Financial Review – page 28

Note 9 to the Financial Statements – page 122

Risk Management continued

Identifying, managing and mitigating risk continued

STRATEGIC OBJECTIVES

 Responsibility

 Output

 Recoveries

 Efficiencies

External risks continued

Country and political Long term



 RISK CHANGE
IN FY 2017

DESCRIPTION AND IMPACT

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

MITIGATION

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

FY 2017 RISK DEVELOPMENTS AND MANAGEMENT

South Africa's credit rating was cut to junk status in April 2017 following political upheaval in the country.

In addition, there were proposed mining legislative changes in both South Africa and Tanzania in FY 2017.

In South Africa, the Mining Charter III was published in June 2017 and proposes higher targets of BEE participation in the industry. The revised charter is being opposed by the Chamber of Mines, an industry lobby group of which Petra is a member – read more on page 12.

In Tanzania, a number of legislative changes to the legal framework governing the natural resources sector were enacted post Year end, as disclosed on page 12.

Furthermore, the Company announced post Year end that a parcel of Williamson diamonds had been blocked for export. Read more on page 12.

KPIs

Profitability; Diversity; Social spend; TSR

DIRECTOR/COMMITTEE RESPONSIBILITY

Executive Directors; HSSE Committee

READ MORE

Chief Executive's Statement – page 12

Access to energy Long term



 RISK CHANGE
IN FY 2017

DESCRIPTION AND IMPACT

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

MITIGATION

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

FY 2017 RISK DEVELOPMENTS AND MANAGEMENT

The quality of power supply across the South African operations was very stable throughout FY 2017. The Company is equipped to manage the disruption of requests for load curtailment from the national utility, Eskom, with available back-up generator capacity at all the South Africa operations, which can cater for a 10% load reduction if required.

In Tanzania, the Company has back-up power which can supply the majority of the mine's requirements in the event of an outage.

KPIs

Production; Revenue; Profitability; Energy usage; Carbon emissions

DIRECTOR/COMMITTEE RESPONSIBILITY

Executive Directors; HSSE Committee

READ MORE

Climate Change and Energy Usage – pages 49 and 50

Access to water

Long term



RISK CHANGE IN FY 2017

DESCRIPTION AND IMPACT

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

MITIGATION

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

FY 2017 RISK DEVELOPMENTS AND MANAGEMENT

Unseasonably high rainfall across large parts of South Africa during Q3 FY 2017, following an extended period of drought conditions across the region, has largely dissipated the shorter-term threat associated with water scarcity. However, Petra put in place a number of operational changes in FY 2017 in order to improve its water efficiency.

KPIs

Production; Revenue; Profitability; Water usage

DIRECTOR/COMMITTEE RESPONSIBILITY

Executive Directors; HSSE Committee

READ MORE

Water Management – page 50

Synthetic diamonds

Long term



RISK CHANGE IN FY 2017

DESCRIPTION AND IMPACT

Man-made or 'synthetic' diamonds have been available for many years, but to date have predominantly been used to manufacture smaller diamonds for industrial purposes. Technological advancements mean that gem quality synthetics are now more widely available but they are still estimated to represent only circa 3% of mined diamond supply. (Source: Canaccord Genuity – Quarterly Diamond Focus – 8 August 2017).

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

MITIGATION

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

FY 2017 RISK DEVELOPMENTS AND MANAGEMENT

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

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

KPIs

Revenue; Profitability

DIRECTOR/COMMITTEE RESPONSIBILITY

Executive Directors

READ MORE

n/a

Risk Management continued

Identifying, managing and mitigating risk continued

STRATEGIC OBJECTIVES



Responsibility



Output



Recoveries



Efficiencies

Operational risks

Safety

Long term

RISK CHANGE
IN FY 2017

DESCRIPTION AND IMPACT

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

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

MITIGATION

Petra is highly focused on managing its safety performance and follows a risk-based approach which entails continual hazard identification, risk assessment and instilling safety awareness into the workplace culture. HSSE targets are explicitly included as part of Petra's annual bonus framework.

FY 2017 RISK DEVELOPMENTS AND MANAGEMENT

Whilst the inherent risk around safety of our operations remains unchanged, the Company tragically experienced five employee and one contractor fatalities during the Year. The Company therefore reinforced its safety procedures under the two management pillars of 'Effective Leadership' and 'Effective Control'.

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

KPIs

Production; LTIFR; FIFR

DIRECTOR/COMMITTEE RESPONSIBILITY

HSSE Committee; Remuneration Committee

READ MORE

Chief Executive's Statement – page 11

Health and Safety – page 47

Directors' Remuneration Policy Report – page 96

Mining and production

Long term

RISK CHANGE
IN FY 2017

DESCRIPTION AND IMPACT

The mining of diamonds from kimberlite deposits involves an intrinsic degree of risk from various factors, including geological, geotechnical and seismic factors, industrial and mechanical accidents, unscheduled plant shutdowns, technical failures, ground or water conditions and inclement or hazardous weather conditions.

MITIGATION

All of Petra's kimberlite operations have long histories of production and therefore the geology and economics of each mine are well understood. Petra's work to expand the lives of its assets is classed as 'brownfields' expansions, meaning that the knowledge of the deposits allows management to eliminate much 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 2017 RISK DEVELOPMENTS AND MANAGEMENT

FY 2017 was challenging operationally due to the level of activity related to the commissioning phases of expansion programmes reaching a peak across each of the Group's operations.

Challenges specifically related to managing the transition of mining from the old mining areas to the new mining areas at the Company's underground mines in South Africa, including the commissioning of new ore-handling infrastructure, the decommissioning of old producing areas, modifications taking place at the Company's processing plants and the commissioning of the new plant at Cullinan. With these now largely commissioned, the Company is looking forward to the final phases of commissioning and ramp-up, followed by operational stability at its mining operations.

KPIs

Production; Revenue; Profitability

DIRECTOR/COMMITTEE RESPONSIBILITY

Executive Directors

READ MORE

Operational Review – pages 32 to 40

ROM grade and product mix volatility

Short term



RISK CHANGE IN FY 2017

DESCRIPTION AND IMPACT

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

MITIGATION

Petra's development programmes are in the process of ramping up output from new production areas in deeper areas of undiluted kimberlite. As the Group's production profile continues shifting from diluted to undiluted ore, ROM grades are forecast to rise significantly and the average value per carat (specifically at Finsch, Cullinan and Koffiefontein) is expected to improve due to a better average quality product mix.

FY 2017 RISK DEVELOPMENTS AND MANAGEMENT

Petra realised improvements in both ROM grades and product mix at Cullinan and Finsch, demonstrating the positive impact of the increasing tonnages from the new mining areas to the Company's production profile.

We expect ROM grade and product volatility to decrease in FY 2018 as it is the first year when Petra will source the majority of its underground tonnages from the new mining areas.

Recoveries are also expected to be assisted by the new milling technology incorporated into the plants at both Cullinan and Williamson.

KPIs

Production; Revenue; Profitability

DIRECTOR/COMMITTEE RESPONSIBILITY

Executive Directors

READ MORE

Operational Review – pages 32 to 40

Expansion and project delivery

Medium term



RISK CHANGE IN FY 2017

DESCRIPTION AND IMPACT

Petra has set out a clear and transparent growth profile to increase annual production to 5.0–5.3 Mcts by FY 2019. Actual production may vary from estimates of future production for a variety of reasons and it should be noted that long-term assumptions may be subject to change as the Company continually evaluates its projects to optimise efficiency and production profitability.

MITIGATION

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

FY 2017 RISK DEVELOPMENTS AND MANAGEMENT

FY 2017 was challenging operationally due to the slower than anticipated roll-out of our expansion programmes which saw production for the Year below guidance. Specifically, Petra encountered challenges relating to the delay in bringing the new plant at Cullinan into operation, which had a knock-on effect upon the ore hoisting from the underground operations, and at Finsch, production related to the new SLC took longer than anticipated to ramp up to required levels.

The aforementioned challenges were largely overcome, with the final commissioning of the Cullinan plant achieved post Year end.

KPIs

Production; Revenue; Capex

DIRECTOR/COMMITTEE RESPONSIBILITY

Executive Directors; Audit Committee; Remuneration Committee

READ MORE

Chief Executive's Statement – page 10

Operational Review – pages 32 to 40

Report of the Audit Committee – pages 68 to 73

Directors' Remuneration Report – page 90

Risk Management continued

Identifying, managing and mitigating risk continued

STRATEGIC OBJECTIVES



Responsibility



Output



Recoveries



Efficiencies

Operational risks continued

Labour relations

Short to medium term



RISK CHANGE IN FY 2017

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

MITIGATION

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

A key part of Petra's labour relations strategy is the IPDET, which is one of the Company's core BEE Partners and which receives annual advances in order to provide cash pay-outs for its beneficiaries (employees of the Group).

FY 2017 RISK DEVELOPMENTS AND MANAGEMENT

The Company's three-year wage agreement relating to its South African operations expired at Year end and required renegotiation. Post Year end, the Company experienced some labour disruptions during this process at the Finsch, KEM JV and Koffiefontein operations.

Underground mining at each of these three operations was affected during the duration of the disruption (which ranged from four days at Koffiefontein to circa nine days at Finsch and KEM JV), but Petra continued plant treatment of surface material and available stockpiles at near normal capacity at both Finsch and KEM JV in order to ensure the least possible impact on Group production.

The finalisation of a new wage agreement for the Company's South African mines for the three years to end June 2020 bodes well for a more stable environment during this period.

KPIs

Production; Local employment; Staff turnover

DIRECTOR/COMMITTEE RESPONSIBILITY

Executive Directors

READ MORE

Chief Executive's Statement – page 11

Labour Relations – page 48

Strategic risks

Financing

Medium term



RISK CHANGE IN FY 2017

DESCRIPTION AND IMPACT

Petra has a significant Capex programme over the years to FY 2019. The Company plans to continue to finance this Capex from operating cashflows and debt finance. Lack of adequate available cashflows as a result of reduction in operating cashflows and/or breaches in banking covenants could delay development work.

MITIGATION

Whilst Management prepares detailed plans, actual Capex may differ from estimates. In order to mitigate this, Capex requires a tiered level of approval and variances to Capex plans are monitored on a timely basis. The Company closely monitors and manages its liquidity risk, including regularly reviewing its cashflow planning to ensure that Capex plans are adequately financed and regularly monitoring its position with regards to its covenant measurements.

FY 2017 RISK DEVELOPMENTS AND MANAGEMENT

Petra raised US\$650 million in a notes issue in April 2017, which enabled the Company to refinance and simplify its prior capital structure.

However, post Year end, a waiver to Petra's two EBITDA-related debt facility covenants was required due to the impact of lower production than expected on the Company's financial results.

The Group's forecasts at the date of this Report show that Petra has sufficient liquidity to meet its working capital and capital development requirements. However, the forecasts indicate that the Group will likely breach the two EBITDA related covenant measurements related to its banking facilities for the period to, and as at, 31 December 2017 due to both the annualised 12 month nature of the ratios, which takes account of the lower H2 FY 2017 production than expected, the post Year end labour disruption, coupled with the uncertain outlook surrounding Williamson, as set out on page 12. The Company is therefore engaging with its Lender Group, but remains confident that a satisfactory resolution can be reached and that its banking facilities will remain available. Read more in 'Liquidity and covenants' on page 30.

KPIs

Production; Revenue; Profitability; Capex

DIRECTOR/COMMITTEE RESPONSIBILITY

Executive Directors; Audit Committee

READ MORE

Financial Review – page 30

Cost control and capital discipline

Long term



RISK CHANGE IN FY 2017

DESCRIPTION AND IMPACT

As is usual for the mining industry, Petra's operations have a relatively high fixed-cost base, estimated to be circa 70%. Petra's main cost inputs are labour and energy, both of which have been rising faster than the official inflation rates in South Africa and Tanzania. Ineffective cost control leads to reduced margins and profitability.

MITIGATION

The Company's strategy to access undiluted ore will lead to progressively higher diamond recoveries at both Finsch and Cullinan over the years to FY 2019, without requiring a significant increase in the Group's overall tonnage throughput. The Company's expansion plans also include initiatives to streamline ore-handling and plant processes, thereby driving efficiencies. Profit and cost measures form part of Petra's annual bonus framework.

FY 2017 RISK DEVELOPMENTS AND MANAGEMENT

FY 2017 Capex was higher than guidance, mainly due to the impact of the strengthening of the ZAR/USD exchange rate on Dollar reported costs and some additional spend associated with the slower than expected ramp-up in some of the expansion programmes.

Absolute on-mine cash costs in FY 2017 remained in line, but unit costs per tonne were adversely affected by the high fixed cost base, the below plan throughput and the impact of the stronger Rand.

Furthermore, certain cost inefficiencies are evident during the transition phases from old mining areas to the new areas accessed through the capital programmes, though it is expected that these will be alleviated once the benefits of the new ore handling systems and plant processing facilities start to come through from FY 2018 onwards.

A focus on efficiency initiatives helped to contain increases in our energy usage, carbon emissions and water usage, despite the increase in production.

Corporate overheads remained tightly controlled.

KPIs

Profitability

DIRECTOR/COMMITTEE RESPONSIBILITY

Executive Directors; Remuneration Committee

READ MORE

Financial Review – pages 28 to 31

Climate Change and Energy Usage – pages 49 and 50

Water Management – page 50

Retention of key personnel

Long term



RISK CHANGE IN FY 2017

DESCRIPTION AND IMPACT

The successful achievement of the Group's strategies, business plans and objectives depends upon its ability to attract and retain certain key personnel.

Petra believes that employees who are empowered and accountable for their actions work to the best of their ability and are able to fulfil their true potential.

MITIGATION

Petra's clear strategy and continued achievement of its objectives help to propagate a positive Company culture, in which employees feel they can directly contribute to the Company's success. The Group's employment policies and terms are designed to attract, incentivise and retain individuals of the right calibre and its remuneration strategy is designed to reward management for delivery against the Company's long-term objectives, as well as retain key management for the longer term.

FY 2017 RISK DEVELOPMENTS AND MANAGEMENT

The Group's approach to retention of key personnel has proven successful throughout the duration of the expansion programmes.

Ongoing succession planning and development of future managers are continually assessed to ensure future skills availability.

KPIs

Production; Revenue; Profitability; Staff turnover

DIRECTOR/COMMITTEE RESPONSIBILITY

Remuneration Committee

READ MORE

Employee Development and Retention – page 47

Report of the Nomination Committee – page 83

Directors' Remuneration Policy Report – pages 96 to 101

Risk Management continued

Identifying, managing and mitigating risk continued

STRATEGIC OBJECTIVES



Responsibility



Output



Recoveries



Efficiencies

Strategic risks continued

Licence to operate

Long term

RISK CHANGE
IN FY 2017

DESCRIPTION AND IMPACT

In order to maintain its exploration and mining licences, Petra must comply with stringent legislation to justify its licence to operate. Failure to comply with relevant legislation in South Africa, Tanzania or Botswana could lead to delays or suspension of its exploration and mining activities.

MITIGATION

Petra's approach is to go 'beyond compliance' in terms of meeting its health and safety, social, environmental and local community obligations, by adopting a holistic approach with the true long-term sustainability of each operation in mind.

The Company also continually stays abreast of developments and changes in the laws and regulations of all of the countries in which it operates, and has systems to ensure it meets all the requirements of its mining rights and related matters.

FY 2017 RISK DEVELOPMENTS AND MANAGEMENT

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

As mentioned in 'Country and political' risk on page 76, recent legislative developments in both South Africa and Tanzania may place additional financial and social burdens on Petra's operations.

KPIs

Production; Revenue; Profitability; all HSSE indicators

DIRECTOR/COMMITTEE RESPONSIBILITY

Executive Directors; Audit Committee; HSSE Committee

READ MORE

Legal Compliance – page 51

Report of the HSSE Committee – pages 84 and 85

Community relations

Long term

RISK CHANGE
IN FY 2017

DESCRIPTION AND IMPACT

Mutual support between our operations and the communities around them is vital to the success of our activities and for maintaining our social licence to operate.

There is an ongoing risk of illegal mining taking place in areas where Petra has surface operations (as opposed to underground), namely the Williamson open pit and the tailings operations of our South African mines.

MITIGATION

Petra regards its host communities as one of the most important of its primary stakeholders and contributing to these groups in a meaningful, sustainable and long-term manner is therefore central to its strategy.

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

Petra regards direct engagement with its stakeholders as the primary means of building relationships and identifying issues to be resolved, and therefore has a continuous, planned and scheduled engagement process in place at all of its operations.

FY 2017 RISK DEVELOPMENTS AND MANAGEMENT

Petra continued to experience increased pressures from host communities in South Africa during FY 2017, mainly related to the decreasing requirement for local contractor hiring and the poor delivery of public services. These matters are being managed as part of Petra's stakeholder engagement processes.

The highest incidence of illegal mining activities amongst Petra's operations occurs on certain tailings dumps at KEM JV. However, there was a reduction in the number of illegal miners operating in FY 2017, mainly as a result of KEM JV's eviction application. While this activity is not expected to have a material impact upon Petra's production in the short to medium term, Petra is committed to finding a long-term solution, via multifaceted stakeholder engagement and co-operation with the South African Police, the DMR and other relevant parties.

KPIs

Local employment; Social spend

DIRECTOR/COMMITTEE RESPONSIBILITY

Executive Directors; HSSE Committee

READ MORE

Community Development and Engagement – page 51

Report of the Nomination Committee

Members of the Nomination Committee

Adonis Pouroulis (Chairman)

Pat Bartlett

Gordon Hamilton

Tony Lowrie

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



The Nomination Committee has commenced a review process to evaluate optimal Board, board committee and Senior Management composition and structures in line with the Company's transition from a capital-intensive expansion phase to a steady-state production focus."

Adonis Pouroulis

Chairman of the Nomination Committee

Nomination Committee role and activities

The principal functions of the Nomination Committee are listed below, along with the corresponding activity and performance in FY 2017.

Board composition and diversity

Petra is of the view that diversity is important to the effective functioning of a board as it allows for a broad range of views, experiences and backgrounds to be drawn upon for the benefit of the business.

The Petra Board is considered to have a broad and highly relevant skill-set, as set out on pages 56 and 57; however, the Committee will continue to review its composition, bearing in mind a range of factors, including diversity.

While the Committee assesses the current skills, experience and diversity of the Board to be appropriate, it will continue to evaluate its composition, with a particular focus on diversity, being mindful and supportive of external targets for improving female representation on boards throughout the FTSE 350. The Board also monitors and assesses diversity at other levels of the Group and in 2017 was pleased to respond to the Hampton-Alexander Review, an independent review body which builds on the work of the Davies Review to increase the number of women on FTSE boards and with an important new focus to improve women's representation in senior leadership positions. Read more about Petra's approach to diversity on page 48.

ROLE	ACTIVITIES IN FY 2017	OUTCOMES
To review the structure, size and composition of the Board (including appropriate skills, knowledge, experience and diversity), and to make recommendations to the Board with regard to any changes.	The Committee reviewed the composition of the Board and the board committees, including discussions around the importance of diversity to the effective functioning of these entities. The Committee also reviewed the board committees, giving particular focus to the structure of the HSSE Committee.	Post Year end, the Committee agreed that it would commence a review process to evaluate optimal Board, board committee and Senior Management composition and structures in line with the Company's transition from a capital-intensive expansion phase to a steady-state production focus. A timeframe of three years was given for development and progress with this.
To identify, nominate and recommend, for the approval of the Board, appropriate candidates to fill Board and Committee vacancies as and when they arise.	No Board or Committee changes were made during FY 2017.	No outcomes required.
To satisfy itself, with regards to succession planning, that plans are in place with regards to both Board and Senior Management positions.	The Committee continued to focus on succession planning. It was agreed that certain members of Senior Management would be given exposure to Board meetings and increased interaction with Board members. Post Year end, the Committee carried out its annual review of the Group's succession planning policy.	Exposure to Board meetings was provided for the Chief Financial Officer, Chief Technical Officer, Group Legal Services Manager and Corporate Communications Manager.
To recommend to the Board the re-election by shareholders at the AGM of any Director under the retirement and re-election provisions of the Company's Bye-Laws.	An external Board evaluation exercise took place in respect of FY 2017.	The overall result of the evaluation exercise was positive with regards to the Board's overall culture and performance, as well as highlighting a number of areas for further improvement. See page 65. Each Director was considered to remain effective and was proposed by the Committee for re-election to the Board at the forthcoming AGM.

Report of the HSSE Committee

Members of the HSSE Committee

Johan Dippenaar, (Chairman)
Koos Visser, Chief Technical Officer
Teon Swanepoel, Mining Executive (resigned post Year end)
Howard Marsden, Mining Executive
Charl Barnard, Group HSEQ Manager
Egbert Klapwijk, Group Support Manager
Craig Kraus, Group Legal Services Manager
Luctor Roode, Executive Operations (appointed post Year end)

“

Safety and risk management has been a particular area of focus for the HSSE Committee in FY 2017 and we remain committed to achieving the 'zero harm' working environment towards which we strive. ESG management remains core to Petra's business and our approach as a Committee is to drive meaningful change throughout the Group and to promote a culture of strong ESG practice, backed up by robust systems and procedures.”

Johan Dippenaar

Chairman of the HSSE Committee



HSSE Committee role and activities

The principal functions of the HSSE Committee are listed below, along with the corresponding activity and performance in FY 2017.

ROLE	ACTIVITIES IN FY 2017	OUTCOMES
To evaluate the effectiveness of the Group's policies and systems for identifying and managing health, safety, social and environmental risks within the Group's operations.	<p>Material risk management process undertaken, involving the development, implementation and review of health and safety related operational risk management processes, and effective controls for all significant hazards and risks. Environmental risk management processes were aligned to the operational risk management process.</p> <p>Development of Group standards on significant HSEQ processes.</p>	<p>Complete operational risk management policy, procedures and system implementation, with significant controls linked to standards and legislation as well as a first round effectiveness review at all South African operations.</p> <p>Continued emphasis on ensuring suitable and effective HSSE policies and systems are in place across the Group.</p>
To assess the policies and systems within the Group for ensuring compliance with applicable legal and regulatory requirements with respect to health, safety, social and environmental aspects.	<p>Levels of compliance were monitored across the Group. Third party legal specialists were sourced to conduct legal compliance audits at all South African operations as part of the Committee's annual assurance verification process.</p> <p>Implementation of a HSEQ legal register, managed and updated with all relevant legislations, law and standards applicable to mining, in a timely manner as legislative promulgation occurs.</p>	<p>The Board is updated regularly with regards to Petra's levels of compliance.</p> <p>Six audits and 32 ad hoc inspections were conducted. Audit reports were issued and concluded.</p> <p>Introduction, training and implementation of the HSEQ legal register.</p>
To assess the performance of the Group with regards to the impact of health, safety, social and environmental decisions and actions upon employees, communities and other stakeholders.	<p>Monitoring of HSSE performance throughout the Year and review of annual Group occupational health, safety and environmental targets and objectives.</p> <p>Consideration of main causes of accidents, risks and incidents across the HSSE spectrum.</p> <p>Migration of certified environmental management systems to the ISO 14001:2015 standard.</p>	<p>The Board was regularly kept informed of the Group's HSSE performance.</p> <p>Performance targets and objectives aligned with the Mine Health and Safety Council industry milestones and international environment legislative requirements.</p> <p>Continual real time HSSE performance trending and intervention from Group HSSE leads to drive zero harm, a safe workplace and a sustainable environment.</p>
To review management's investigation of any fatalities and/or serious HSSE-related accidents or incidents within the Group and the efficacy of the resultant remedial actions implemented.	<p>Very regrettably five fatal accidents occurred in FY 2017, resulting in six fatalities.</p> <p>Formal internal investigations, supported by management and subject specialists, were conducted to identify causes. Action plans were drafted and implemented and learnings were shared at all other operations to mitigate possible reoccurrences across the Group, with any relevant procedures being tested and inspected.</p>	<p>Remedial actions to address the cause of the incident and to help prevent similar occurrences at other operations were carried out.</p> <p>Boards of inquiry by the DMR into the causes and contributing factors of the accidents were completed without significant liability or major impact to the Group.</p> <p>Detailed feedback reports regarding actions implemented after the fatal accidents were submitted to the DMR and the Board.</p>
To evaluate the quality and integrity of reporting to external stakeholders concerning HSSE aspects.	<p>Continued annual reporting to GRI, CDP, MSCI and FTSE4Good. Decision taken to progress from GRI G4 to the new GRI Standards for Petra's FY 2017 Sustainability Report.</p> <p>Updated data collection processes for full GHG reporting and accurate carbon footprint calculations.</p> <p>Ongoing review of international guidelines and best practice in respect of Petra's sustainability reporting.</p>	<p>Petra's FY 2017 Sustainability Report is compiled in accordance with GRI Standards.</p> <p>Scope 3 activities for the calculation of the carbon footprint were expanded. This improvement is reflected in the FY 2017 Sustainability Report as well as the 2018 CDP submission.</p>



Johan Dippenaar
HSSE Committee Chairman
14 October 2017

► Additional HSSE activity details are contained in the Sustainability Report petradiamonds.com/sustainability

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

Directors' Remuneration Report

Letter from the Chairman

Members of the Remuneration Committee

Gordon Hamilton (Chairman)
Pat Bartlett
Tony Lowrie

Key highlights

- ▶ 95.31% of shareholders voted in favour of our 2016 Directors' Annual Remuneration Report, a positive reflection of how shareholders view the structure of the remuneration policies applied by the Committee in supporting the Group's commercial objectives.
- ▶ The out-turns under bonus and share plans reflect that this has been a challenging year and annual bonus outcomes have been adjusted down by the Committee.
- ▶ The Committee has determined that for the second consecutive year the Directors will be awarded reduced PSP awards of 100% of salary.

Dear shareholder,

I am pleased to present the Petra Diamonds Directors' Remuneration Report for FY 2017 ("the Report").

Petra is a leading independent diamond mining group that offers shareholders an attractive medium-term growth and value proposition. The Company operates in an industry which requires specialist skills and experience, and against this background the Remuneration Committee's ("the Committee") objective is to operate an appropriate and measured remuneration policy that supports the Company's growth strategy.

Directors' Remuneration Report

Three years have now passed since shareholders voted on and approved our Remuneration Policy Report at the November 2014 AGM. During the Year the Committee undertook a review of the policy to ensure its alignment with the Group's strategic priorities. The Committee determined that the policy remained appropriate and, in light of our current policy receiving the support of over 95% of shareholders in 2014, is not proposing any significant changes. Notwithstanding that Petra is a non-UK company, we are therefore once again looking to shareholders to vote separately on our Remuneration Policy and our Annual Remuneration Report at the AGM on 25 November 2017.

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.

With regards to Executive Director base salary levels, Petra has always adopted a modest approach. For the FY 2018 Executive Directors' salary reviews, the Committee took account of operational performance and project delivery coupled with external macro developments and it was decided that the Executive Directors' base salaries would not be adjusted for the year commencing 1 July 2017. The Company's general employee population received inflationary-related increases relevant to the country where employees are based.

Performance out-turns and decisions in the Year

FY 2017 was one of the more challenging years in Petra's growth profile. While Petra delivered record levels of production and revenue, delivery was below guidance to the market, and the ramp-up of certain expansion programmes took longer than expected. A number of tragic fatalities were also experienced during the Year – an unacceptable outcome and one where remedial action is being taken as a priority. The Committee has therefore set the variable levels of Executive remuneration in FY 2017 to reflect the underperformance of certain key objectives.

The management team made steady progress in relation to its core strategic objectives but did not reach the minimum target in others. In health and safety the Committee awarded a zero outcome. The assessment against all targets set resulted in a formulaic bonus outcome of 17.1%. 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 of 11.4% of maximum, 100% of which has been deferred into shares for two years. This outcome is substantially lower than FY 2016 (55% of salary, of which 25% was deferred into shares for two years) and is the third consecutive year the Committee has made a downwards adjustment to the formulaic outcome.

Performance Share Plan ("PSP") awards granted in November 2014 vested at 24.9% of maximum as a result of our three-year performance to 30 June 2017. This outcome reflects the challenges against project delivery and operational performance objectives over the last three years, coupled with no vesting in respect of our shareholder returns over the period.

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

During the course of FY 2018 the Committee intends to review the overall remuneration framework to ensure that it continues to be aligned with Petra's strategic objectives.

AGM

Last year the Remuneration Committee was pleased to note that 95.31% 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.

We hope you find our report for this Year informative and will continue to support our remuneration policies and practices by voting in favour of both resolutions at the Company's AGM.

Gordon Hamilton

Chairman of the Remuneration Committee
14 October 2017

Directors' Remuneration Report

Directors' Annual Remuneration Report

This report explains how the Group's Remuneration Policy was implemented during FY 2017 and how it will be applied for FY 2018.

Overview of policy and how it will be applied for FY 2018 (for active Directors)

Salary

Influenced by role, individual performance and experience and market positioning.

Increases of 0% were applied from 1 July 2017 for the Chief Executive and Technical Director. This is less than those given across the Group's employee population for FY 2018, where inflationary linked increases were applied.

With effect from 1 July 2017, Executive Director base annual salaries remained at:

- ▶ Johan Dippenaar – £370,800.
- ▶ Jim Davidson – £299,340.

Benefits

Provision of an appropriate level of benefit for the relevant role and local market.

Executive Directors receive:

- ▶ a benefits allowance of 10% of salary in lieu of both pension and other benefits; and
- ▶ Group life, disability and critical illness insurance.

Annual bonus

Linked to key financial, operational, HSSE and strategic goals of the Company, which reflect critical factors of success.

Maximum opportunity for FY 2018 of 150% of salary.

For FY 2017, 100% of the bonus earned for the Year has been deferred into shares for two years.

For FY 2018, the bonus will be linked to:

- ▶ carat production;
- ▶ cost management;
- ▶ adjusted EBITDA and profit;
- ▶ major project delivery;
- ▶ HSSE objectives; and
- ▶ corporate and strategic priorities.

Annual bonus will be subject to a clawback provision, which may apply for up to two years following the end of the performance period in the event of serious misconduct or a material error in the calculation of the bonus outcome.

Performance Share Plan

Aligned with shareholders and motivating the delivery of long-term objectives.

The Committee has determined that for the second consecutive year a conditional share award of 100% of salary will be granted to Executive Directors. This compares to a minimum allowable award level of 200% as per policy and 150% awarded historically.

Performance is measured over three financial years (FY 2018 to FY 2020):

- ▶ TSR relative to FTSE 350 mining companies and listed diamond mining peers (25%);
- ▶ absolute TSR, with a threshold target of 8% growth per annum and a maximum target of 16% growth per annum (25%); and
- ▶ operational performance (40%) and project delivery (10%), recognising that the Company is transitioning from a capital-intensive/expansion phase towards steady-state operations.

The PSP is subject to a clawback provision, which applies for up to two years following the end of the relevant performance period in the event of serious misconduct or a material error in the calculation of the vesting outcome.

Shareholding guidelines

Aligned with shareholders.

Shareholding guidelines of 100% of salary.

Executive Directors' actual shareholdings are significantly above the guidelines.

Directors' Remuneration Report

Directors' Annual Remuneration Report continued

Single figure of total remuneration

The following table gives a breakdown of the remuneration received by the Executive Directors for FY 2017 and FY 2016. Although the Company's reporting currency is US Dollars, these figures are stated in Pounds Sterling so as to be aligned with the Directors' service contracts.

		Johan Dippenaar Chief Executive		Jim Davidson Technical Director
	£	2017	2016	2017
	£			2016
Salary	£	370,800	360,000	299,340
Benefits	£	46,328	44,979	31,861
Annual bonus – paid in cash	£	—	222,750	—
Annual bonus – deferred to shares	£	63,407	74,250	51,186
Long-term incentives – PSP awards ^{1,2}	£	65,152	248,999	52,595
Legacy incentives – LTSP awards ³	£	—	186,543	—
Retirement benefits ⁴	£	—	—	—
Total – including legacy incentives	£	545,687	1,137,521	434,982
Less legacy incentives	£	—	(186,543)	—
Total ⁵	£	545,687	950,978	434,982
				793,132

1. Long-term incentives (PSP awards) in FY 2017 relate to the PSP awards granted on 26 November 2014 based on performance between 1 July 2014 and 30 June 2017. The awards vested at 24.9% of the maximum shortly after Year end. For the purpose of this table the awards have been valued based on the share price on 5 October 2017 of 86.25 pence, the closing price prior to vesting.

2. Long-term incentives (PSP awards) in FY 2016 relate to the PSP awards granted on 23 December 2013 based on performance between 1 July 2013 and 30 June 2016. The awards vested at 55.0% of the maximum and were released on 7 October 2016. For the purpose of this table, the awards have been valued based on the share price on 15 September 2016 of 110.25 pence, the closing price prior to vesting.

3. Legacy incentives in FY 2016 relate to the LTSP awards granted on 15 May 2012 with a total final vesting of 84.8% (FY 2015: 42.5% and FY 2016: 42.3%). For the purpose of this table, the awards shown for FY 2016 were valued based on the share price on 15 September 2016 of 110.25 pence, the closing price prior to vesting.

4. Executive Directors are provided with a benefits allowance but do not currently participate in any Company pension plan and are not provided with any retirement benefits.

5. The LTSP incentives were once off legacy incentive awards (from a scheme that was put in place prior to the Company's step-up to the Main Market of the LSE), which only vested in 2015 and 2016 and do not continue thereafter. Given the legacy nature of these awards the disclosure above has been given to show ongoing total remuneration on a comparable like-for-like basis.

6. David Abery stepped down as Finance Director effective 30 June 2016. For FY 2016 his salary was £290,615, benefits were £36,386, annual bonus was £179,819 (cash) plus £59,939 (deferred to shares), long-term incentives – PSP awards were £231,827 and legacy incentives – LTSP awards were £186,543. Total including legacy incentives was £985,129, while the total excluding legacy incentives was £798,586.

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 2017 the amounts above are considerably lower than for FY 2016. This demonstrates our 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 100% has been deferred into shares with no 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.
- ▶ In the FY 2016 single figures, amounts have been included in respect of legacy LTSP awards. The LTSP does not form part of Petra's ongoing Executive Director remuneration package.
- ▶ Executive Directors have significant shareholdings, reflecting their commitment to Petra's future and sustainable growth going forward.

Additional notes to the remuneration table

Salary

For FY 2018 the Committee has determined that the base salaries (per annum) for Executive Directors should be as set out below:

	Base salary to 1 July 2016 £	Base salary from 1 July 2017 £
Johan Dippenaar	370,800	370,800
Jim Davidson	299,340	299,340

Base salaries for the Chief Executive and Technical Director were not increased for FY 2018. 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 do not participate in a Company pension scheme.

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 2017, 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	WEIGHTING	PERFORMANCE AND TARGETS	VESTING OUTCOME																				
Production and project delivery (carat production and delivery against project milestones)	40%	<table border="1"> <thead> <tr> <th></th><th>Threshold</th><th>Target</th><th>Maximum</th><th>FY17 Performance</th></tr> </thead> <tbody> <tr> <td>Production (Mcts)</td><td>4,120</td><td>4,578</td><td>4,807</td><td>4,013</td></tr> <tr> <td>Project delivery</td><td>6</td><td>8</td><td>10</td><td>6.5</td></tr> </tbody> </table>		Threshold	Target	Maximum	FY17 Performance	Production (Mcts)	4,120	4,578	4,807	4,013	Project delivery	6	8	10	6.5	7.35%					
	Threshold	Target	Maximum	FY17 Performance																			
Production (Mcts)	4,120	4,578	4,807	4,013																			
Project delivery	6	8	10	6.5																			
Profitability (adjusted EBITDA, adjusted net profit and cost management)	40%	<table border="1"> <thead> <tr> <th></th><th>Threshold</th><th>Target</th><th>Maximum</th><th>FY17 Performance</th></tr> </thead> <tbody> <tr> <td>Adjusted EBITDA (\$m)</td><td>203</td><td>254</td><td>271</td><td>157.2</td></tr> <tr> <td>Costs</td><td>6</td><td>8</td><td>10</td><td>7.5</td></tr> <tr> <td>Adjusted NPAT (\$m)</td><td>72</td><td>108</td><td>120</td><td>29</td></tr> </tbody> </table>		Threshold	Target	Maximum	FY17 Performance	Adjusted EBITDA (\$m)	203	254	271	157.2	Costs	6	8	10	7.5	Adjusted NPAT (\$m)	72	108	120	29	5.25%
	Threshold	Target	Maximum	FY17 Performance																			
Adjusted EBITDA (\$m)	203	254	271	157.2																			
Costs	6	8	10	7.5																			
Adjusted NPAT (\$m)	72	108	120	29																			
Corporate (including corporate and strategic priorities and health, safety, social and environmental performance)	20%	<ul style="list-style-type: none"> ▶ LTIFR 0.27 (FY 2016: 0.29) – an encouraging trend in the context of the high level of activity around the capital programmes. Due to the fatalities that occurred at Williamson, Cullinan and Finsch, the Committee awarded 0% for safety performance for the Year. ▶ The Committee carefully considered the performance of the Executive Directors in delivering against corporate and strategic priorities, with key focus on the establishment of the KEM JV, the corporate and BEE restructuring and debt optimisation (US\$650 million note issuance and covenant realignment). 	4.50%																				
Total			17.10%																				

Taking into account overall performance, the Committee determined that the bonus for Executive Directors would be 17.1% of the maximum award (equating to 25.7% of base salary); however, only 11.4% of the maximum award (equating to 17.1% of base salary) has been awarded. This is the third consecutive year in which the Committee has made a downwards adjustment to the formulaic outcome for the bonus scorecard. The Committee has determined that 100% of the bonuses earned by Mr Dippenaar and Mr Davidson will be deferred for two years into shares (or settled as a cash equivalent after two years, in line with the Remuneration Policy), resulting in no cash bonuses for the Year.

For FY 2018, the Committee has agreed a balanced scorecard of performance measures, targets and milestone achievements, which is consistent with that applied for FY 2017, other than the weighting shifting more towards operational performance, away from project delivery, in line with business focus moving towards steady-state operations. The key measures are:

PERFORMANCE MEASURE	WEIGHTING
Operational performance and profitability (including carat production, adjusted EBITDA, adjusted NPAT and cost management)	60%
Project delivery	20%
Corporate (including corporate and strategic priorities and health, safety, social and environmental performance)	20%

As noted above, the bonus framework includes both measurement against pre-defined targets and the exercise of judgement, within a scoring framework which uses measurable and defined objectives.

Directors' Remuneration Report

Directors' Annual Remuneration Report continued

Single figure of total remuneration continued

Annual bonus continued

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 2015 to FY 2017 award

The long-term incentive figures shown in the single figure table relate to the awards granted under the PSP in November 2014 that were subject to performance measures assessed over the period from 1 July 2014 to 30 June 2017. These awards were linked to total shareholder return (50%) and to project and operational delivery (50%).

Following the end of the performance period, the Committee assessed performance achieved against the pre-determined measures and targets.

Performance measure	Weighting	25% of element vests ¹	100% of element vests	Actual performance
Ranked TSR vs FTSE 350 mining companies and diamond mining peers	25%	Median	Upper quartile	Below median (0% vested)
Absolute TSR growth	25%	8% per annum	16% per annum	Below threshold (0% vested)

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

Petra's TSR over the period was ranked 17th out of 21 companies in the comparator group. As a result this element lapsed in full. The element linked to absolute TSR also lapsed in full, reflecting both internal challenges and external macro factors. As shown in the chart on page 94, Petra has delivered positive shareholder returns over the longer eight-year period.

Weighting	25% of element vests ¹	80% of element vests	100% of element vests	Actual performance
Project delivery and operational performance/efficiency	50%	6/10	8/10	10/10 Overall 6.9/10

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

Project delivery was measured at each mine where several significant expansion programmes were nearing completion, considering an assessment of performance against expansion progress metrics. Performance was in respect of Finsch, Cullinan and Koffiefontein/KEM JV/Williamson together combined (weighted 20%, 20% and 10% respectively). The metrics included safety, staffing, project management, financial, governance, development metres, raiseboring metres, design and engineering milestones and project spend. The Committee considered the operational element based on carat production, cashflow, costs and profitability across all of the Group's operations. The assessment at the end of the period is based on an agreed framework with vesting based on the weighted average score out of ten across all mines; the objectives for each mine are approved by the Committee and the Board. Further details of performance at each site are set out in the Operational Review of the Strategic Report on pages 32 to 41.

Following this assessment of project delivery and operational performance, this element can be varied by up to 15% (upwards or downwards) to reflect operational efficiency, including factors such as operating and cashflow generation, production, revenue, costs and profitability, overall mine management and other metrics considered appropriate by the Committee. Following a detailed review of performance, the Committee deemed it appropriate to not adjust this element.

Final vesting of the project delivery and operational performance element was 24.9% (out of 50%).

On the basis of the above performance the total vesting for the PSP awards for Executive Directors vested at 24.9% of the maximum.

FY 2018 awards

The long-term incentive performance measurement framework for share awards in FY 2018 is summarised below. This is similar to the performance framework that applied to FY 2017 but with increased focus on operational performance.

Summary of performance targets

PERFORMANCE MEASURES

<p>Ranked TSR vs FTSE 350 mining companies plus diamond mining peers</p> <p>Absolute TSR growth</p>	<ul style="list-style-type: none"> ▶ Half of the award is linked to returns made for shareholders. ▶ The first element is linked to relative TSR measured against other mining peers. ▶ The second element is based on absolute TSR so that reward is linked to the creation of absolute value for shareholders. 												
	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 25%;">Weighting</th> <th style="width: 25%;">25% of element vests¹</th> <th style="width: 50%;">100% of element vests</th> </tr> </thead> <tbody> <tr> <td>Ranked TSR vs mining companies</td> <td>25%</td> <td>Median</td> </tr> <tr> <td>Absolute TSR growth</td> <td>25%</td> <td>8% per annum</td> </tr> <tr> <td colspan="2"></td><td>16% per annum</td></tr> </tbody> </table>	Weighting	25% of element vests ¹	100% of element vests	Ranked TSR vs mining companies	25%	Median	Absolute TSR growth	25%	8% per annum			16% per annum
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Ranked TSR vs mining companies	25%	Median											
Absolute TSR growth	25%	8% per annum											
		16% per annum											
	1. No portion of an element vests for performance below this threshold level.												
<p>Operational performance and project delivery</p>	<ul style="list-style-type: none"> ▶ The Company is committed to realising value from its asset portfolio; key to this is the successful delivery of expansion projects at its core operations. ▶ The operational element is based on carat production, cashflow, costs and profitability. ▶ The expansion element is based on an assessment of performance at each mine where a significant expansion programme is underway. ▶ The assessment at the end of the period is based on an agreed framework with vesting based on the weighted average score out of ten across all mines; the objectives for each mine are approved by the Committee and the Board. ▶ Recognising that the Company is transitioning from a capital intensive/expansion phase towards steady state operations the scorecard weighting is operational performance (40%) and project delivery (10%). ▶ This element can be varied by up to 15% (upwards or downwards) to reflect operational efficiency, including factors such as operating and cashflow generation, production, revenue, costs and profitability, overall mine management and other metrics considered appropriate by the Committee. 												
	<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 25%;">Weighting</th> <th style="width: 25%;">25% of element vests¹</th> <th style="width: 50%;">80% of element vests</th> <th style="width: 50%;">100% of element vests</th> </tr> </thead> <tbody> <tr> <td>Operational performance (40%) and project delivery (10%)</td> <td>50%</td> <td>6 out of 10</td> <td>8 out of 10</td> </tr> <tr> <td colspan="2"></td><td>10 out of 10</td><td></td></tr> </tbody> </table>	Weighting	25% of element vests ¹	80% of element vests	100% of element vests	Operational performance (40%) and project delivery (10%)	50%	6 out of 10	8 out of 10			10 out of 10	
Weighting	25% of element vests ¹	80% of element vests	100% of element vests										
Operational performance (40%) and project delivery (10%)	50%	6 out of 10	8 out of 10										
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	1. No portion of an element vests for performance below this threshold level.												

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 and Remuneration Committees are £15,450 and £12,875 respectively. There is no additional fee for chairmanship of the Nomination Committee. The additional annual fee paid to the Senior Independent Director is £23,175.

For FY 2018, 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 2017 (in accordance with the Company's normal policy) did not receive any other remuneration from the Company outside of the fee policy outlined above.

Directors' Remuneration Report

Directors' Annual Remuneration Report continued

Non-Executive Director remuneration continued

Single figure of total remuneration

The following table gives a breakdown of the remuneration received by the Non-Executive Directors for FY 2017 and FY 2016. 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	2017	159,650	3,650	163,300
Chairman	2016	155,000	3,844	158,844
Pat Bartlett	2017	56,650	—	56,650
	2016	55,000	—	55,000
Gordon Hamilton	2017	84,975	—	84,975
	2016	82,500	—	82,500
Tony Lowrie	2017	79,825	—	79,825
	2016	77,500	—	77,500
Octavia Matloa	2017	56,650	—	56,650
	2016	55,000	—	55,000

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 one year's basic salary for the applicable Director. All of the Executive Directors meet this guideline. 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 2017 are detailed below. Executive Directors currently exceed the guideline for Petra share ownership.

	Shareholding as at 30 June 2017 ¹	Shareholding as at 30 June 2016	Shareholding guideline ²
Adonis Pouroulis	Chairman	7,735,000	9,564,650
Johan Dippenaar ¹	Chief Executive	5,009,972	1,060,719
Jim Davidson ¹	Technical Director	4,812,981	1,043,775
Tony Lowrie	Senior iNED	2,300,000	2,300,000
Pat Bartlett	iNED	—	—
Gordon Hamilton	iNED	152,000	152,000
Octavia Matloa	iNED	—	—

1. As detailed above, following the Year end various outstanding share awards (PSP) vested during October 2017. As a result, the shareholding of the Executive Directors has increased to: Mr Dippenaar 5,085,511 shares and Mr Davidson 4,873,961 shares.

2. Shareholding guideline based on three-month average share price to 30 June 2017 of 127.35 pence.

3. Mr Abery stepped down as Finance Director effective 30 June 2016. As at 30 June 2016, Mr Abery's shareholding was 2,371,834 shares.

As at 30 June 2017, the Directors' interests in share plans of the Company were as follows:

Breakdown of share plan interests as at 30 June 2017	Shares		Options	
	Unvested and subject to performance ¹	Unvested and not subject to performance ²	Vested but not exercised	Exercised in the Year
Executive Directors				
Johan Dippenaar	1,107,784	136,875	1,450,000	—
Jim Davidson	887,008	110,494	1,450,000	—
Non-Executive Directors				
Adonis Pouroulis	—	—	200,000	250,000
Pat Bartlett	—	—	—	—
Gordon Hamilton	—	—	—	—
Tony Lowrie	—	—	—	—
Octavia Matloa	—	—	—	—

1. These figures overstate the Executive Directors' current interests in shares as a portion of PSP awards lapsed following the Year end. For Mr Dippenaar 227,832 shares lapsed and for Mr Davidson 183,920 shares lapsed.

2. This comprises outstanding deferred share awards in respect of FY 2015 and FY 2016. During FY 2016, the following awards were granted: Mr Dippenaar – 61,875 shares and Mr Davidson – 49,949 shares. These awards represent 25% of the total bonus in respect of FY 2016. Post Year end, the FY 2015 deferred share awards vested: Mr Dippenaar – 75,000 shares, and Mr Davidson – 60,545 shares.

3. Options held by Mr Pouroulis relate to the 2005 ESOS awards granted to him between 2006 and 2010, when he was an Executive Director of the Company. Following his move to the position of Non-Executive Chairman, Mr Pouroulis does not participate in any future Company share scheme arrangements.

As at 30 June 2017, Executive Directors held the following interests in the 2012 PSP:

	Date of award	Outstanding at 1 July 2016	Awarded during the Year	Vested during the Year	Lapsed during the Year	Outstanding at 30 June 2017	Performance period
Johan Dippenaar	20/12/2013 ¹	410,637	—	225,850	184,787	—	July 13–June 16
	26/11/2014 ²	303,371	—	—	—	303,371	July 14–June 17
	06/10/2015 ³	495,413	—	—	—	495,413	July 15–June 18
	07/10/2016 ⁴	—	309,000	—	—	309,000	July 16–June 19
Total		1,209,421	309,000	225,850	184,787	1,107,784	
Jim Davidson	20/12/2013 ¹	382,317	—	210,274	172,043	—	July 13–June 16
	26/11/2014 ²	244,900	—	—	—	244,900	July 14–June 17
	06/10/2015 ³	399,929	—	—	—	399,929	July 15–June 18
	07/10/2016 ⁴	—	242,179	—	—	242,179	July 16–June 19
Total		1,027,146	242,179	210,274	172,043	887,008	

- The performance measures applicable to the awards consist of: (a) TSR relative to FTSE 350 mining and listed diamond companies (25%); (b) absolute TSR (25%); and (c) project delivery and operational performance (50%). The share price on 20 December 2013 was 113.8 pence; the 30-day trading average price to the date preceding the date of the award, which was used to calculate the maximum share award, was 110.7 pence. Further details of the performance conditions are set out on pages 89 and 91. As noted above, following the Year end this award vested at 55% 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) project delivery and operational performance (50%). The share price on 26 November 2014 was 208.8 pence; the 30-day trading average price to the date preceding the date of the award, which was used to calculate the maximum share award, was 178.0 pence. As noted above, following the Year end this award vested at 34.5% 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) project delivery and operational performance (50%). The share price on 6 October 2015 was 93.25 pence; the 30-day trading average price to the date preceding the date of the award, which was used to calculate the maximum share award, was 109.0 pence.
- The performance measures applicable to the awards consist of: (a) TSR relative to FTSE 350 mining and listed diamond companies (25%); (b) absolute TSR (25%); and (c) project delivery and operational performance (50%). The share price on 6 October 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 at 30 June 2017, Executive Directors held the following interests in the 2011 LTSP:

	Date of award	Outstanding at 1 July 2016	Awarded during the Year	Vested during the Year	Lapsed during the Year	Outstanding at 30 June 2017	Performance period
Johan Dippenaar	15/05/2012	230,000	—	169,200	60,800	—	July 12–June 16
Total		230,000	—	169,200	60,800	—	
Jim Davidson	15/05/2012	230,000	—	169,200	60,800	—	July 12–June 16
Total		230,000	—	169,200	60,800	—	

As at 30 June 2017, Executive Directors and the Chairman held the following vested share options under the 2005 ESOS:

	Date of grant	Exercisable from	Exercise price (p)	Outstanding at 1 July 2016	Granted during the Year	Lapsed during the Year	Exercised during the Year	Outstanding at 30 June 2017	Expiry date
Adonis Pouroulis	12/03/2009	12/03/2012	27.5	250,000	—	—	250,000	—	12/03/2019
	30/09/2009	30/09/2012	45.5	100,000	—	—	—	100,000	30/09/2019
	17/03/2010	17/03/2013	60.5	100,000	—	—	—	100,000	17/03/2020
Total				450,000	—	—	250,000	200,000	
Johan Dippenaar	12/03/2009	12/03/2012	27.5	750,000	—	—	—	750,000	12/03/2019
	30/09/2009	30/09/2012	45.5	350,000	—	—	—	350,000	30/09/2019
	17/03/2010	17/03/2013	60.5	350,000	—	—	—	350,000	17/03/2020
Total				1,450,000	—	—	—	1,450,000	
Jim Davidson	12/03/2009	12/03/2012	27.5	750,000	—	—	—	750,000	12/03/2019
	30/09/2009	30/09/2012	45.5	350,000	—	—	—	350,000	30/09/2019
	17/03/2010	17/03/2013	60.5	350,000	—	—	—	350,000	17/03/2020
Total				1,450,000	—	—	—	1,450,000	

Directors' Remuneration Report

Directors' Annual Remuneration Report continued

External non-executive directorships

None of the Company's Executive Directors hold a directorship at another listed company.

Other disclosures

Performance graph

The graph below shows a comparison between the TSR for Petra shares for the eight-year period to 30 June 2017 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.

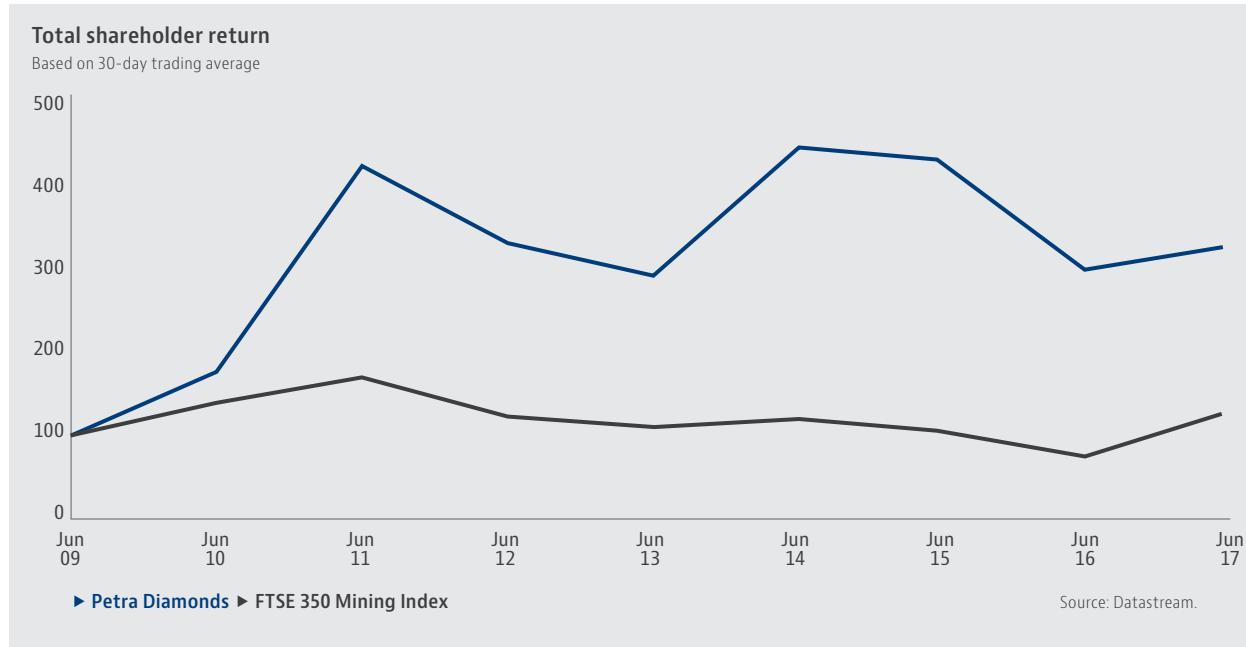


Table of historical data for the Chief Executive

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 eight-year period.

	AIM				Main Market				FY 2017
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016		
Single figure of total remuneration (£)	507,500	879,258	1,115,496	804,361	1,075,225	999,034	1,137,521	566,934	
Annual bonuses as a % of maximum ¹	—	—	68%	72.5%	85.5%	40.0%	55.0%	11.4%	
Long-term incentives (PSP awards) as a % of maximum ²	—	—	—	—	62.2%	57.0%	55.0%	24.9%	
Long-term incentives (LTSP awards) as a % of maximum	—	—	—	—	n/a	42.5%	42.3%	n/a	

1. The Chief Executive's annual bonuses for FY 2010 and FY 2011 were £180,000 and £170,000 respectively.

2. Prior to FY 2012, the Company granted share options to Executive Directors. For the purposes of the single figure for FY 2010 to FY 2013 in the table above, these options have been split into three equal tranches and valued based on the notional gain as at the first, second and third anniversaries of the original grant date.

Percentage change in remuneration of the Chief Executive

In FY 2016, the Chief Executive's salary and benefits allowance (as a percentage of salary) was unchanged. This compares to an average increase in salaries across Petra of 7.3% (measured in local currencies). The Chief Executive's annual bonus earned in respect of the Year increased by 37.5%.

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 2017 US\$m	FY 2016 US\$m	Change %
Payments to shareholders	nil	15.4	(100%)
Group employment costs	145.8	125.9	15.8%

Service contracts

Director	Role	Date of contract	Term	Notice period by Company or Director
Executive Directors				
Mr Dippenaar	Chief Executive	28 November 2011	n/a	12 months
Mr Davidson	Technical Director	28 November 2011	n/a	12 months
Non-Executive Directors				
Mr Pouroulis	Non-Executive Chairman	17 September 2015	36 months	1 month
Mr Lowrie	Senior Independent Non-Executive Director	17 September 2015	36 months	1 month
Dr Bartlett	Independent Non-Executive Director	17 September 2015	36 months	1 month
Mr Hamilton	Independent Non-Executive Director	17 September 2015	36 months	1 month
Ms Matloa	Independent Non-Executive Director	11 November 2014	36 months	1 month

Membership of the Committee

The Committee members for FY 2017 were Gordon Hamilton (Chairman), Pat Bartlett and Tony Lowrie.

The Committee is responsible for determining on behalf of the Board and shareholders:

- ▶ the Company's general policy on the remuneration of the Executive Directors, the Chairman and the Senior Management team;
- ▶ the total individual remuneration for the Chairman, Executive Directors and Senior Management including base salary, benefits, performance bonuses and share awards;
- ▶ the design and operation of the Company's share incentive plans;
- ▶ performance conditions attached to variable incentives; and
- ▶ service contracts for Executive Directors.

The full Terms of Reference for the Remuneration Committee have been approved by the Board and are available on the Company's website at www.petradiamonds.com/about-us/corporate-governance/board-committees.

Where appropriate, the Chairman and Executive Directors attend Committee meetings to provide suitable context regarding the business. Individuals who attend meetings do not participate in discussions which determine their own remuneration.

External advisers

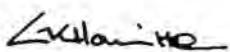
The Committee engages the services of Deloitte LLP ("Deloitte") to provide independent advice to the Committee relating to remuneration matters. Deloitte is a member of the Remuneration Consultants Group and, as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK. The Committee is satisfied that the advice it has received from Deloitte during the Year has been objective and independent. The fees paid to Deloitte for work carried out in the financial Year ended 30 June 2017 for the Remuneration Committee totalled £15,925 (FY 2016: £23,350) 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 Group. BDO LLP remain the Group auditors.

Statement of shareholder voting

At the last AGM on 28 November 2016, the Directors' Remuneration Report received the following votes from shareholders:

	%	Number
For	95.31	404,935,706
Against	1.77	7,529,622
Withheld	2.92	12,441,097
Total votes cast		424,906,425



Gordon Hamilton

Chairman of the Remuneration Committee
14 October 2017

Directors' Remuneration Report

Directors' Remuneration Policy Report

Directors' Remuneration Policy Report

The following section sets out the Group's remuneration policy (the "Policy Report"). As a Bermuda-incorporated company, Petra is not subject to the UK disclosure regulations. However, the Remuneration Committee continues to recognise the importance of good governance and therefore we are resubmitting our Policy Report to shareholders in accordance with the three-year renewal timeframe. It is intended that this Policy Report will be put forward to shareholders for approval at the AGM on 24 November 2017 and will thereafter come into immediate effect following the AGM.

Remuneration principles

Petra's culture is performance driven, and we have a management team that is highly experienced within the specialist world of diamond mining and therefore brings unique skills to bear. Against this background, our approach to remuneration is guided by the following overarching principles:

- ▶ The employment terms for Executive Directors and Senior Management are designed to attract, motivate and retain high calibre individuals who will drive the performance of the business. The Group competes for talent with major mining companies and packages need to be competitive in this market.
- ▶ Remuneration packages should be weighted towards performance-related pay.
- ▶ Performance measures should be tailored to Petra's strategic goals, and targets should be demanding.
- ▶ Share-based reward should be meaningful – the Committee believes long-term share awards provide alignment with the long-term interests of shareholders and the Company.
- ▶ Remuneration structures should take into account best practice developments, but these should be applied in a manner that is appropriate for Petra's industry and specific circumstances.

Changes to the Policy Report

Following a review, the Remuneration Committee determined that the current Remuneration Policy remained appropriate and therefore we are not proposing any material changes. The key changes between this Policy Report and the policy report which was approved by shareholders at the AGM in November 2014 are as follows:

- ▶ an increase to the Executive Directors' shareholding guidelines from one year's basic salary to two years' basic salary; and
- ▶ the formal adoption of clawback provisions, which were introduced in FY 2016, to the annual bonus and Performance Share Plan ("PSP").

Fixed remuneration

Salary	
Purpose and link to strategy	<ul style="list-style-type: none"> ▶ To attract and retain Executive Directors of the calibre required by the business. ▶ This is a core element of the remuneration package.
Operation	<ul style="list-style-type: none"> ▶ The base salaries for Executive Directors are determined by the Committee taking into account a range of factors including: <ul style="list-style-type: none"> ▶ the scope of the role; ▶ the individual's performance and experience; and ▶ positioning against comparable roles in other mining companies of similar size and complexity. ▶ Base salaries are normally reviewed annually with changes effective from the start of the financial Year on 1 July. ▶ With effect from 1 July 2017, Executive Director salaries were unchanged at: <ul style="list-style-type: none"> ▶ Johan Dippenaar – £370,800. ▶ Jim Davidson – £299,340.
Maximum opportunity	<ul style="list-style-type: none"> ▶ In determining salary increases, the Committee is mindful of general economic conditions and salary increases for the broader Company employee population. ▶ More significant increases may be made at the discretion of the Committee in certain circumstances, including (but not limited to): <ul style="list-style-type: none"> ▶ where an individual's scope of responsibilities has increased; ▶ where, in the case of a new Executive Director who is positioned initially on a lower starting salary, an individual has gained appropriate experience in the role; and ▶ where the positioning is out of step with salary for comparable roles in the market.

Benefits

Purpose and link to strategy	<ul style="list-style-type: none"> ▶ To provide market competitive benefits.
Operation	<ul style="list-style-type: none"> ▶ Benefit policy is to provide an appropriate level of benefit for the role taking into account relevant market practice. ▶ Under the current arrangements, Executive Directors receive: <ul style="list-style-type: none"> ▶ a cash allowance of 10% of salary in lieu of both benefits and pension; and ▶ Group life, disability and critical illness insurance. ▶ The Committee retains the discretion to provide reasonable additional benefits based on individual circumstances (e.g. travel allowance and relocation expenses for new hires, or pension arrangements).
Maximum opportunity	<ul style="list-style-type: none"> ▶ The benefit provision will be set at an appropriate level taking into account the cost to the Company and the individual's circumstances.

Variable remuneration

Annual bonus

Purpose and link to strategy	<ul style="list-style-type: none"> ▶ To motivate and reward performance measured against annual key financial, operational and strategic goals of the Company, which reflect critical factors of success. ▶ Deferred element of the annual bonus ensures that part of the value of payments earned remains aligned to the Company's share price, thus creating alignment with the shareholder experience.
Operation	<ul style="list-style-type: none"> ▶ Short-term annual incentive based on performance during the financial Year. ▶ A proportion of the award earned for the financial Year will normally be deferred into shares. ▶ Deferred shares may accrue dividend equivalents. ▶ In respect of FY 2017, 100% of the award earned was deferred for a period of two years. ▶ Where delivery of the deferred element of the bonus in shares is deemed by the Company to be impractical for any reason (e.g. due to exchange control regulations) cash equivalents linked to the share price provides alignment with shareholders. ▶ Awards will be subject to malus and clawback provisions.
Maximum opportunity	<ul style="list-style-type: none"> ▶ Maximum award of up to 150% of base salary.
Performance measures	<ul style="list-style-type: none"> ▶ The amount of bonus earned is based on performance against financial, operational and strategic measures. ▶ The Committee reviews the performance measures annually and sets targets to ensure that they are linked to corporate priorities and are appropriately stretching in the context of the business plan. ▶ Prior to determining bonus outcomes, the Committee considers performance in the round to ensure that actual bonuses are appropriate. ▶ For FY 2018, the performance measures for the bonus will include carat production, cost management, adjusted EBITDA and profit, project delivery, HSSE objectives, and strategic and corporate priorities. ▶ Any amounts deferred into shares (or a cash equivalent) will be subject to continuing employment, but not to any further performance measures.

Directors' Remuneration Report

Directors' Remuneration Policy Report continued

Directors' Remuneration Policy Report continued

Changes to the Policy Report continued

Variable remuneration continued

Performance Share Plan ("PSP")

Purpose and link to strategy	<ul style="list-style-type: none"> ▶ To motivate and reward for the delivery of long-term objectives in line with the business strategy. ▶ To create alignment with the shareholder experience and motivate long-term objectives.
Operation	<ul style="list-style-type: none"> ▶ Awards of conditional shares (or equivalent) which will normally vest based on performance over a period of three years. ▶ Awards may accrue dividend equivalents. ▶ Where delivery in shares is deemed by the Company to be impractical for any reason (e.g. due to exchange control regulations) cash equivalents linked to the share price provide alignment with shareholders. ▶ Awards will be subject to malus and clawback provisions.
Maximum opportunity	<ul style="list-style-type: none"> ▶ Maximum award of up to 200% of salary and a normal award of 150% of salary. ▶ For FY 2018, Executive Directors will be granted conditional awards of up to 100% of salary.
Performance measures	<ul style="list-style-type: none"> ▶ Vesting is based on performance against financial, operational and strategic measures. ▶ The Committee determines targets each year to ensure that targets are stretching and represent value creation for shareholders, while remaining motivational for management. ▶ For FY 2018, the performance measures used will be: <ul style="list-style-type: none"> ▶ TSR relative to FTSE 350 mining companies and listed diamond mining peers (25%); ▶ absolute TSR, with a threshold target of 8% growth per annum and a maximum target of 16% growth per annum (25%); and ▶ operational performance (40%) and project delivery (10%).

Shareholding guidelines

It is the Company's policy that each of the Executive Directors holds a meaningful number of Petra shares. The guideline is to build and maintain a minimum of two years' basic salary for the applicable Director. Newly appointed Executive Directors will have five years from the date of appointment to reach this guideline.

Notes to the Remuneration Policy table

Performance measures for incentives

The performance measures and targets for the annual bonus and PSP awards to Executive Directors are intended to be closely aligned with the Company's short-term and long-term objectives. The intention is to provide a direct link between reward levels, performance and the shareholder experience. The following summarises the performance measures currently used:

Production	<ul style="list-style-type: none"> ▶ Carat production is at the core of Petra's strategy. These measures are therefore embedded in the performance measurement framework.
Costs and profitability	<ul style="list-style-type: none"> ▶ Petra remains focused on managing costs and profitability. EBITDA, adjusted net profit and cost management measures form part of the annual bonus metrics.
Project delivery and ramp-up	<ul style="list-style-type: none"> ▶ Progress is measured as part of the short-term annual bonus, and the long-term share awards include stretching targets supporting Petra's long-term ambitions.
Corporate	<ul style="list-style-type: none"> ▶ Corporate and strategic priorities including health, safety, social and environment measures are explicitly included as part of the annual bonus framework, reflecting Petra's commitment to corporate responsibility.
Total shareholder return	<ul style="list-style-type: none"> ▶ Share awards are linked to value created for shareholders by measuring both relative and absolute total shareholder return ("TSR").

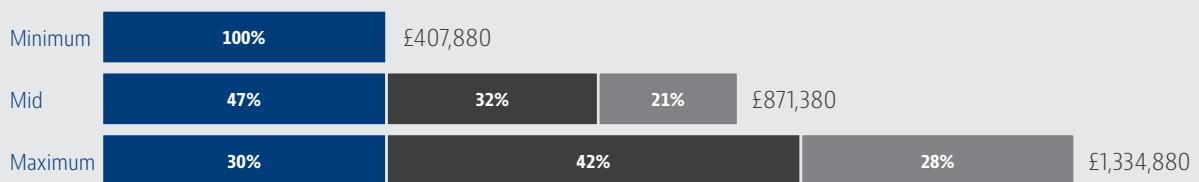
Malus and clawback provisions

In line with best practice, the vesting of deferred bonus and PSP awards is subject to malus and clawback provisions. The malus provision enables the Committee to exercise discretion to reduce, cancel or impose further conditions on an award prior to vesting or exercise (as the case may be). The clawback provision enables the Committee to require participants to return some or all of an award after payment or vesting. Both provisions may be applied in circumstances including:

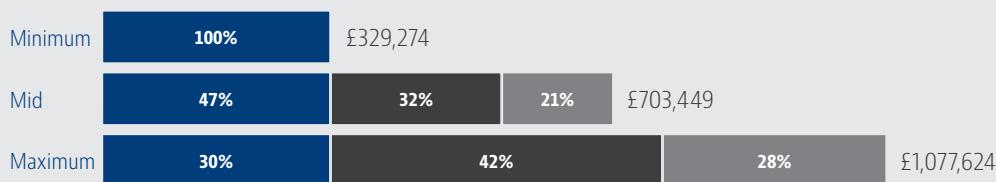
- ▶ a serious downturn in the financial performance of the Company;
- ▶ a serious misstatement of the Company's audited results;
- ▶ a serious failure of risk management; or
- ▶ serious reputational damage to the Company.

ILLUSTRATION OF APPLICATION OF THE REMUNERATION POLICY

Chief Executive Officer



Technical Director



— Fixed remuneration — Annual variable remuneration — Long-term variable remuneration

The charts above have been compiled using the following assumptions:

Fixed remuneration	Fixed remuneration (salary and benefits allowance) as at 1 July 2017.
Variable remuneration	<ul style="list-style-type: none"> ▶ Annual bonus: maximum award of up to 150% of salary. ▶ PSP: FY 2018 conditional awards are being made at 100% of salary as opposed to the normal award size of 150% of salary. ▶ The amounts shown do not take into account share price growth or receipt of dividend equivalents.

Performance scenarios

Minimum	Fixed remuneration only.
Mid	Fixed remuneration plus variable pay for the purpose of illustration as follows: <ul style="list-style-type: none"> ▶ Annual bonus: assumes a bonus pay-out of 50% of maximum. ▶ PSP: assumes vesting of 50% of maximum.
Maximum	Fixed remuneration plus variable pay for the purpose of illustration as follows: <ul style="list-style-type: none"> ▶ Annual bonus: assumes a bonus pay-out of 100% of maximum. ▶ PSP: assumes vesting of 100% of maximum.

Recruitment policy

The Committee's key principle when determining appropriate remuneration arrangements for a new Executive Director (appointed from within the organisation or externally) is to ensure that arrangements are in the best interests of both Petra and its shareholders, without paying more than is considered necessary by the Committee to recruit an executive of the required calibre to develop and deliver the business strategy.

Fixed pay	Salary and benefits would be determined within the bounds of the future policy table above.
Variable pay	The UK regulations require the identification of a maximum level of variable pay which may be granted on recruitment (excluding any buy-out arrangements). The maximum level of variable pay (bonus and long-term incentives) for a new recruit will be consistent with the policy table on page 100. Within these limits and where appropriate the Committee may tailor the incentives (e.g. timeframe, form, performance criteria) based on the commercial circumstances at the time of recruitment.
Buy-outs	The Committee may need to buy out remuneration forfeited on joining Petra. In such circumstances, the Committee will seek to ensure any buy-out is of comparable commercial value and is capped as appropriate. The quantum, form and structure of any buy-out arrangement will be determined by the Committee taking into account the terms of the forfeited arrangements (e.g. form of award, timeframe, performance criteria, likelihood of vesting, etc.). The buy-out may be structured as an award of cash or shares; however, where appropriate, the Committee will normally seek to make awards under the existing incentive plans.
Non-Executive Directors	On the appointment of a new Non-Executive Chairman or Non-Executive Director, the fees will be consistent with the policy set out on page 100. Fees to Non-Executive Directors will not include share options or other performance-related elements.

Directors' Remuneration Report

Directors' Remuneration Policy Report continued

Directors' Remuneration Policy Report continued

Executive Director service contracts and policy on payment for loss of office

When determining leaving arrangements for an Executive Director, the Committee takes into account any contractual agreements including the provisions of any incentive arrangements, typical market practice and conduct of the individual. The Committee may also make any payments by way of compromise or settlement of any claim arising in connection with an Executive Director's cessation. Any such payments may include amounts in respect of accrued leave and any other professional or legal fees in connection with the cessation.

Notice period	The Executive Director service contracts are terminable by 12 months' written notice on either side and contain non-compete and non-solicitation clauses (dealing with customers/clients and non-solicitation of Directors or senior employees restrictions following termination).
Payment in lieu of notice	In the event of termination by the Company of an Executive Director's employment, the contractual remuneration package (incorporating base salary and benefits including any legal and professional fees), reflecting the 12-month notice period, would normally be payable.
Annual bonus	The Executive Director may, at the discretion of the Committee, remain eligible to receive an annual bonus for the financial Year in which they ceased employment. Such a bonus will be determined by the Committee taking into account time in employment and performance.
Share awards	<p>'Good leavers' (e.g. ill health or retirement) If a participant is deemed to be a good leaver, unvested awards will usually continue until the normal vesting date, unless the Board determines that the award will vest sooner (e.g. at the time of departure). For PSP awards any vesting will normally take account of any performance targets and, unless the Board determines otherwise, the time elapsed since the award was granted.</p> <p>'Bad leavers' If a participant is deemed to be a bad leaver, unvested awards will lapse.</p>

Future remuneration policy for Non-Executive Directors

The remuneration of the Independent Non-Executive Directors, with the exception of the Chairman, is determined by the Chairman and the Executive Directors; the remuneration of the Chairman is determined by the Committee. Directors are not involved in any decisions as to their own remuneration.

The table below sets out the remuneration policy with respect to the Non-Executive Directors. Independent Non-Executive Directors do not participate in the Company's bonus arrangements, share schemes or pension benefit plans. Any new Independent Non-Executive Director will be treated in accordance with this policy.

APPROACH TO SETTING FEES

The fees for Non-Executive Directors are set at a level which is considered appropriate to attract individuals with the necessary experience and ability to oversee the business.
Fees are reviewed periodically, typically annually.
Judgement is used and consideration is given to a number of internal and external factors including responsibilities, market positioning, inflation and pay increases for the broader Company employee population.
Limited role-specific benefits may be provided. Mr Pouroulis continues to receive the benefit of membership of the Group's life insurance scheme.
Travel and other reasonable expenses (including fees incurred in obtaining professional advice in the furtherance of their duties and any associated taxes) incurred in the course of performing their duties may be reimbursed to Non-Executive Directors.

OPPORTUNITY

The fee opportunity reflects responsibility and time commitment.
Additional fees are paid for further responsibilities, such as chairmanship of Committees.
The value of benefits provided will be reasonable in the market context and take account of the individual circumstances and benefits provided to comparable roles.

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 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 other or future Company share scheme arrangements.

Detailed provisions

The Committee may approve payments outside of the Remuneration Policy in order to satisfy any legacy arrangements agreed prior to the adoption of this Policy Report or made to a Director prior to (but not in contemplation of) appointment to the Board.

Prior to moving from AIM to the Main Market the Company previously operated the Employee Share Option Scheme (introduced in 2005), whereby it could issue options to eligible employees (including Executive Directors and Senior Management) to subscribe for shares in the Company at set prices. The last awards under this plan were granted to the Executive Directors in March 2010 and are now capable of exercise. There is currently no intention to grant further awards to Executive Directors under this plan.

All incentive awards are subject to the terms of the relevant plan rules under which the award was granted. The Committee may adjust or amend awards in accordance with the provisions of the plan rules. This includes making adjustments to awards to reflect corporate events, such as a change in the Company's capital structure.

The Committee may adjust the calibration of performance measures and vesting outcomes, or substitute or amend any vesting condition (e.g. due to a significant acquisition or disposal) provided that the resulting condition is appropriate and not materially more or less difficult to satisfy.

In the event of a change of control of the Company, the Committee may determine the extent to which any PSP award will vest based on the extent that any performance target has been satisfied, the period of time that has elapsed since the award was granted, and such other factors the Board deems relevant. Deferred awards will normally vest in full on a change of control, unless the Committee determines otherwise.

The Committee may make minor amendments to the Remuneration Policy to aid its operation or implementation without seeking shareholder approvals (e.g. for regulatory, exchange control, tax or administrative purposes).

Remuneration elsewhere in the Company

When assessing remuneration, the Committee takes care to ensure that pay levels reflect roles and responsibilities. The Committee also takes care to ensure that packages for senior individuals are appropriate in comparison to the remuneration of other employees within the Company, whilst still supporting delivery of Petra's corporate objectives. Remuneration arrangements throughout the organisation are based on similar reward principles.

Shareholder engagement

The Committee believes that it is very important to maintain open dialogue with shareholders on remuneration matters. Where significant changes are proposed to the Executive Directors' remuneration framework, the Committee's normal approach is to consult with major shareholders.



Financial Statements

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, 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

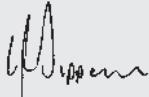
As far as each of the Directors are aware at the time this report was approved:

- ▶ 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 appointment of BDO LLP as auditors of the Company is to be proposed at the 2017 AGM to be held on 24 November 2017.

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 2017 and are signed on its behalf by:



Johan Dippenaar

Chief Executive
14 October 2017

Independent Auditors' Report

To the members of Petra Diamonds Limited

1. Opinion

We have audited the Financial Statements of Petra Diamonds Limited for the Year ended 30 June 2017 which comprise the Consolidated Income Statement, the Consolidated Statement of Other Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Financial Position, the Consolidated Statement of Cashflows and Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

In our opinion the Financial Statements:

- ▶ give a true and fair view of the state of the Group's affairs as at 30 June 2017 and of the Group's profit 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 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 Section 10 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

Materiality	FY 2017	FY 2016
Materiality for the Financial Statements as a whole	US\$14.0 million	US\$12.5 million
Materiality levels used for the audits of the significant components of the audit	US\$3.9 million to US\$7.0 million	US\$3.9 million to US\$6.2 million
Audit scope coverage	99% of total assets, 100% of revenue and 97% of profit before tax	

Key audit matters

- ▶ Going concern and covenant compliance
- ▶ Carrying value of mining assets at Williamson and Koffiefontein

4. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditors' Report

To the members of Petra Diamonds Limited continued

4. Key audit matters continued

Matters identified

Matter identified	How we addressed the matter	Our findings
1. Going concern and covenant compliance		
<p>The Group has significant debt facilities which are subject to financial covenants. On 28 June 2017 the Group announced that it would not meet its market guidance on production and that it was likely to breach two EBITDA-based covenants at 30 June 2017. On 8 September 2017 the Group received a covenant waiver from its Lender Group for the two EBITDA measurement covenants for the 12-month period to, and as at, 30 June 2017 and the covenant ratios were reset for the rolling 12-month period to, and as at, 31 December 2017.</p> <p>Following the H2 FY 2017 production shortfall and labour disruption at certain of the Group's South African operations in September 2017, the Group's forecasts indicate that the Group is likely to breach the two EBITDA-related covenant ratios when measured in March 2018, using financial information as at 31 December 2017. In addition, the forecasts are based on diamond sales and receipts at the Williamson mine in Tanzania resuming in H1 FY 2018 which represents a significant judgement given the matters set out in 'Post Year End Developments in Tanzania' on page 12. If the Group is unable to resume these diamond sales and receipts in Tanzania this would further impact the covenant ratios at 31 December 2017. As detailed in note 1.1 to the Financial Statements, 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 due to the inherent judgements and estimates required.</p>	<ul style="list-style-type: none"> ► We obtained a copy of the covenant waiver received from the Lender Group post Year end in respect of the two EBITDA-related covenants as at 30 June 2017. We confirmed that the borrowings have been appropriately recorded as current liabilities in the Consolidated Statement of Financial Position at the Year end. In addition, we obtained a copy of the confirmation from the Lender Group that the 31 December 2017 covenants have been reset as set out in note 22. ► We recalculated Management's covenant compliance calculations and forecast covenant compliance calculations and assessed the consistency of such calculations with the ratios stated in the relevant lender agreements. ► We critically assessed Management's liquidity and covenant models and the key underlying assumptions, including diamond pricing, foreign exchange rates, production, expenditure and the debt facilities currently available to the Group. In doing so, we considered factors such as empirical performance, trading to date during H1 FY 2018 and external market data. We specifically confirmed that the forecasts included the impact of the recent legislative changes to costs at the Williamson mine. ► We challenged Management regarding the impact of: <ul style="list-style-type: none"> a) the recent legislative changes in Tanzania; b) the parcel of diamonds blocked for export; and c) media reports regarding the Williamson mine on the Group's plans for the operations and associated impact on facility headroom and covenant forecasts. We obtained copies of correspondence from the Tanzanian authorities confirming that shipments can resume from the Williamson mine and obtained written representations from Management regarding the outcomes of meetings held with the relevant authorities. ► We considered the impact of the labour disruption in South Africa during September 2017 on the Group's ability to meet its production forecasts and reviewed the agreements reached with the trade union. ► We assessed Management's sensitivity analysis performed in respect of key assumptions underpinning the forecasts. We performed our own sensitivities in respect of diamond pricing, production and foreign exchange rates. In addition, we performed specific sensitivities in relation to Williamson regarding the impact of an inability to resume diamond sales and realise receipts from such tenders in H1 FY 2018 as whilst the Group has received permission to resume exports, a parcel of diamonds remains blocked from export. ► Given the forecasts indicate a likely breach of covenants we critically assessed the Directors' 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. We held independent discussions with representatives of the Lender Group regarding the nature of discussions held with Management. In addition, we considered the Board's assessment of factors such as the recent covenant waiver, the advanced stage of the development projects funded by the facilities and forecast free cashflows which formed part of the Board's conclusion. ► We reviewed the disclosures in note 1.1 to the Financial Statements in respect of going concern. 	<p>We found Management's forecasts indicated that the Group would likely breach its banking covenant ratios as at 31 December 2017. We found the key underlying assumptions to be within an acceptable range. We note that the forecasts assume that the Williamson mine operates normally with diamond sales and receipts resuming during H1 FY 2018 including the parcel currently blocked from export which represents a significant judgement.</p> <p>We found the Board's judgement that, in the event of a breach under either the Group's base case forecasts, or a scenario in which diamond sales and receipts are unable to be resumed in H1 FY 2018, including the parcel currently blocked from export, the Group would expect to be able 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

Matters identified continued

Matter identified	How we addressed the matter	Our findings
2. Carrying value of mining assets at Williamson and Koffiefontein		
<p>As detailed in note 8, the assessment of any impairment to the carrying value of mining assets required significant judgement and estimate by Management, with the Group's impairment models indicating headroom above carrying value of the relevant cash-generating units of 2% for the Williamson mine and 10% for the Koffiefontein mine.</p> <p>The carrying value of the Williamson mining assets at 30 June 2017 represented a significant risk for our audit given the level of estimation required in assumptions regarding factors such as diamond pricing (including the contribution from Exceptional Diamonds) and operational inputs. Additionally, significant judgement was required in respect of the effect of legislative changes and political uncertainties in Tanzania on the life of mine plan and the discount rate at 30 June 2017.</p> <p>The carrying value of the Koffiefontein mining assets at 30 June 2017 represented a significant risk for our audit given the continued sensitivity of the carrying value to assumptions over future diamond prices, foreign exchange rates and achieving increased production in the near future given the history of shortfalls in production versus budget.</p>	<ul style="list-style-type: none"> ▶ 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 Williamson and Koffiefontein. ▶ Our testing included comparison of the diamond price forecasts to prices achieved in the Year, pricing trends and market forecasts; comparison of foreign exchange rates to market spot and forward rates; recalculation of discount rates; and critical review of the forecast cost and production profiles against approved mine plans, resources and reserves reports and empirical performance. ▶ We reviewed the recent legislative changes in Tanzania using publicly available information and considered the Group's internal reports to the Board on the implications of the legislative changes on the Williamson impairment model. We confirmed that the additional costs associated with the legislative changes had been incorporated into the forecasts. ▶ We critically assessed the assumptions regarding the inclusion of revenues from Exceptional Diamonds in the Williamson LOM plan based on factors such as empirical data on such revenues. We formed our own assessment of the appropriate range of discount rates as at 30 June 2017, in conjunction with our valuation specialists and considered the impact of the legislative changes and political situation in Tanzania as at 30 June 2017 versus the post Year end period. ▶ We challenged the Group's ability to achieve forecast growth in carat production at Koffiefontein based on production data since Year end, the status of the expansion project and comparison of forecast grades with the Competent Person's Report. In respect of diamond pricing at Koffiefontein, we specifically considered the impact of the changing product mix on forecast diamond prices and considered the consistency of the assumptions with pricing estimates prepared by the independent consultant as part of the Mineral Resource estimate. We further considered the quality of historical estimates, including operating and capital costs, and challenged Management as to the future forecasts. ▶ We reviewed Management's sensitivity analysis and performed our own sensitivity analysis over individual key inputs, together with a combination of sensitivities over such inputs. ▶ We evaluated the disclosures given in note 8 and found them to be relevant and informative. 	<p>We found the Group's assessment that its impairment models support the carrying value of mining assets to be appropriate with the key assumptions within an acceptable range. Overall, we found that the LOM plans demonstrate headroom; however, the impairment models for Koffiefontein and Williamson were sensitive to reasonably possible changes in the key assumptions.</p> <p>We found the disclosures included in the Financial Statements to be appropriate, including the potential impact of the political situation in Tanzania subsequent to Year end on the carrying value of the Williamson mining assets in note 37.</p>

Independent Auditors' Report

To the members of Petra Diamonds Limited continued

5. Our application of materiality

The materiality we applied equates to less than 1% of the total assets of the Group and represents 2.2% of total equity and 8.9% of adjusted EBITDA¹. 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\$14.0 million (FY 2016: US\$12.5 million), each significant component of the Group was audited to a lower materiality as detailed in Section 3.

We agreed with the Audit Committee that we would report to them all individual audit differences identified during the course of our audit in excess of US\$0.32 million. We also agreed to report differences below that threshold that, in our view, warranted reporting on qualitative grounds.

6. An overview of the scope of our audit

Whilst Petra Diamonds Limited is a London Stock Exchange listed company, the Group's operating mines are located in South Africa and Tanzania. We assessed there to be six significant components, being the Finsch, Cullinan, Koffiefontein and KEM JV operations in South Africa, the Williamson mine in Tanzania and the Group's head office function.

Full scope audits for Group reporting purposes were performed on the four significant South African reporting components by BDO in South Africa. The BDO firm in South Africa also performed audits on the South African non-significant components for Group reporting purposes. A full scope audit of the one significant component in Tanzania was performed by a non-BDO firm in Tanzania. The Group audit team performed an audit of Petra Diamonds Limited as a standalone entity, along with the audit of the significant head office component, and the consolidation. The combined effect of the component audits performed to component level materiality levels for the purpose of the Group audit opinion covered:

Total assets	Revenue	Profit before tax
99%	100%	97%

The remaining non-significant holding companies were principally subject to analytical review procedures.

As part of our audit strategy, as Group auditors:

- ▶ Detailed Group reporting instructions were sent to the component auditors, which included the significant areas to be covered by the audits (including areas that were considered to be key audit matters as detailed above), and set out the information required to be reported to the Group audit team.
- ▶ Members of the Group audit team were physically present in South Africa and Tanzania at certain times during the planning and fieldwork phases of the audits.
- ▶ The Group audit team was actively involved in the direction of the audits performed by the component auditors for Group reporting purposes, along with the consideration of findings and determination of conclusions drawn.
- ▶ The Responsible Individual or his representative in the Group audit team visited four of the operating mines, attended clearance meetings for all significant components and spent significant periods of time with the component auditors responsible for the significant components during their fieldwork and completion phases.

7. Conclusions relating to going concern, the Viability Statement and principal risks

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 115 and 116 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 twelve 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 whether we have anything material to add or draw attention to:

- ▶ whether the Directors' statement relating to going concern on page 115 is materially inconsistent with our knowledge obtained in the audit;
- ▶ the Directors' explanation set out on page 74 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;
- ▶ the disclosures in the Annual Report set out on pages 75 to 82 that describe the principal risks and explain how they are being managed or mitigated; and
- ▶ the Directors' confirmation set out on page 74 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.

1. Adjusted EBITDA is net profit after tax stated before KEM JV fair value adjustment, bond redemption premium and acceleration of unamortised costs, depreciation, share-based expense, net finance expense, tax expense and net unrealised foreign exchange gains and losses.

8. Other information in the Annual Report set out on pages 1 to 104 and 160 to 178

The Directors are responsible for the other information. Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- ▶ **Fair, balanced and understandable set out on page 70** – the statement given by the Directors that they consider the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- ▶ **Audit Committee reporting set out on pages 72 and 73** – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- ▶ **Directors' statement of compliance with the UK Corporate Governance Code set out on page 58** – 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 104, the Directors are responsible for the preparation of the Financial Statements in accordance with the Bermuda Companies Act 1981. The Directors are responsible for such internal controls as the Directors determine are 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 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 responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK). Those standards require us to comply with the FRC's Ethical Standard for Auditors. Our audit work has been undertaken so that we might state to the 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 Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

A further description of our responsibilities for the audit of the Financial Statements is located on the FRC's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

11. Other matters

Following the recommendation of the Audit Committee, we were appointed to audit the Financial Statements for the year ending 30 June 2006 and subsequent financial periods. The period of total uninterrupted engagement is 12 years, covering the years ending 30 June 2006 to 30 June 2017.

Non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company and we remain independent of the Group in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit Committee.



Scott McNaughton (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor
London
14 October 2017

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 2017

US\$ million	Notes	2017	2016
Revenue	2	477.0	430.9
Mining and processing costs	3	(390.1)	(310.3)
Other direct income	4	2.8	2.8
Exploration expenditure	5	(0.8)	(2.9)
Corporate expenditure	6	(11.2)	(12.1)
Total operating costs		(399.3)	(322.5)
Fair value uplift on Kimberley Ekapa Mining Joint Venture		4.1	—
Financial income	9	14.2	7.0
Financial expense	9	(49.5)	(40.0)
Profit before tax		46.5	75.4
Income tax charge	10	(25.8)	(8.6)
Profit for the Year		20.7	66.8
Profit for the Year attributable to:			
Equity holders of the parent company		18.3	54.2
Non-controlling interest		2.4	12.6
		20.7	66.8
Earnings per share attributable to the equity holders of the parent during the Year			
Basic profit – US\$ cents	12	3.47	10.38
Diluted profit – US\$ cents	12	3.43	10.14
Dividend per ordinary share (paid during the Year) – US\$ cents	21	—	3.0

The notes on pages 115 to 159 form part of these Financial Statements.

Consolidated Statement of Other Comprehensive Income

For the Year ended 30 June 2017

US\$ million	2017	2016
Profit for the Year	20.7	66.8
Exchange differences on translation of the share-based payment reserve	(0.4)	(2.9)
Exchange differences on translation of foreign operations ¹	68.7	(121.4)
Exchange differences on non-controlling interest ¹	9.3	(9.6)
Total comprehensive income/(expense) for the Year	98.3	(67.1)
Total comprehensive income/(expense) for the Year attributable to:		
Equity holders of the parent company	86.6	(70.1)
Non-controlling interest	11.7	3.0
	98.3	(67.1)

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 115 to 159 form part of these Financial Statements.

Consolidated Statement of Financial Position

At 30 June 2017

US\$ million	Notes	2017	2016
ASSETS			
Non-current assets			
Property, plant and equipment	14	1,441.3	1,079.3
Deferred tax assets	25	5.9	7.1
BEE loans receivable	15	35.0	28.8
Other receivables	17	17.8	2.7
Total non-current assets		1,500.0	1,117.9
Current assets			
Trade and other receivables	17	75.5	115.9
Inventories	18	75.6	57.9
Cash and cash equivalents (including restricted amounts)	19	203.7	48.7
Total current assets		354.8	222.5
Non-current assets classified as held for sale	36	—	18.8
Total assets		1,854.8	1,359.2
EQUITY AND LIABILITIES			
Equity			
Share capital	20	89.6	88.6
Share premium account	20	666.0	665.2
Foreign currency translation reserve	20	(303.4)	(372.1)
Share-based payment reserve	20	12.8	14.4
Hedging and other reserves	20	(0.8)	(0.8)
Retained earnings	20	129.5	109.1
Attributable to equity holders of the parent company		593.7	504.4
Non-controlling interests	16	52.7	42.4
Total equity		646.4	546.8
Liabilities			
Non-current liabilities			
Loans and borrowings	22	598.5	317.2
BEE loans payable	15	99.5	84.6
Provisions	24	72.0	59.7
Deferred tax liabilities	25	143.1	106.0
Total non-current liabilities		913.1	567.5
Current liabilities			
Loans and borrowings	22	158.6	107.3
Trade and other payables	23	136.7	125.4
Total current liabilities		295.3	232.7
Liabilities directly associated with non-current assets classified as held for sale	36	—	12.2
Total liabilities		1,208.4	812.4
Total equity and liabilities		1,854.8	1,359.2

The notes on pages 115 to 159 form part of the Financial Statements.

The Financial Statements were approved and authorised for issue by the Directors on 14 October 2017.

Consolidated Statement of Cashflows

For the Year ended 30 June 2017

US\$ million	Notes	2017	2016
Profit before taxation for the Year		46.5	75.4
Depreciation of property, plant and equipment		79.6	51.8
Movement in provisions		(0.6)	(0.7)
Fair value uplift on Kimberley Ekapa Mining Joint Venture		(4.1)	—
Financial income	9	(14.2)	(7.0)
Financial expense	9	49.5	40.0
Profit on sale of property, plant and equipment		(0.3)	(0.1)
Share-based payment provision		0.2	4.1
Operating profit before working capital changes		156.6	163.5
Decrease/(increase) in trade and other receivables		18.5	(46.8)
(Decrease)/increase in trade and other payables		(5.4)	64.9
Increase in inventories		(9.5)	(4.3)
Cash generated from operations		160.2	177.3
Realised foreign exchange losses on foreign exchange contracts		(3.8)	(20.7)
Finance expense		(3.9)	(2.6)
Income tax paid		—	(0.3)
Net cash generated from operating activities		152.5	153.7
Cashflows from investing activities			
Acquisition of assets at Kimberley Mines net of cash		—	(3.0)
Acquisition of property, plant and equipment (including capitalised cash interest paid of US\$34.7 million (30 June 2016: US\$24.3 million))		(282.9)	(327.9)
Proceeds from sale of property, plant and equipment		0.9	—
Loans advanced to BEE Partners		(12.9)	(6.8)
Repayment of loans from BEE Partners		0.5	3.4
Finance income		1.8	0.4
Transfer to restricted cash deposits		—	(0.5)
Net cash utilised in investing activities		(292.6)	(334.4)
Cashflows from financing activities			
Proceeds from the issuance of share capital		1.1	1.4
Increase in borrowings (net of bond issue costs of US\$12.6 million (30 June 2016: US\$nil))		798.8	137.0
Dividends paid		—	(15.4)
Repayment of borrowings (including bond redemption premium of US\$15.0 million (30 June 2016: US\$nil))		(508.8)	(40.4)
Net cash generated by financing activities		291.1	82.6
Net increase/(decrease) in cash and cash equivalents		151.0	(98.1)
Cash and cash equivalents at the beginning of the Year		36.7	153.5
Effect of exchange rate fluctuations on cash held		2.5	(18.7)
Cash and cash equivalents at the end of the Year¹	19	190.2	36.7

1. Cash and cash equivalents in the Consolidated Statement of Financial Position includes restricted cash of US\$13.5 million (30 June 2016: US\$12.0 million) and unrestricted cash of US\$190.2 million (30 June 2016: US\$36.7 million).

Significant non-cash transactions which are not reflected in the Consolidated Statement of Cashflows are set out in note 29.

The notes on pages 115 to 159 form part of the Financial Statements.

Consolidated Statement of Changes in Equity

For the Year ended 30 June 2017

US\$ million	Share capital	Share premium account	Foreign currency translation reserve	Share-based payment reserve	Hedging and other reserves	Retained earnings	Attributable to the parent	Non-controlling interest	Total equity
At 1 July 2016	88.6	665.2	(372.1)	14.4	(0.8)	109.1	504.4	42.4	546.8
Profit for the Year	—	—	—	—	—	18.3	18.3	2.4	20.7
Non-controlling interest acquired	—	—	—	—	—	1.4	1.4	(1.4)	—
Other comprehensive income	—	—	68.7	(0.4)	—	—	68.3	9.3	77.6
Transfer between reserves for exercise of options	—	—	—	(0.7)	—	0.7	—	—	—
Equity-settled share-based payments	—	—	—	0.2	—	—	0.2	—	0.2
Allotments during the Year:									
– Share options exercised	0.3	0.8	—	—	—	—	1.1	—	1.1
– LTSP share grants	0.7	—	—	(0.7)	—	—	—	—	—
At 30 June 2017	89.6	666.0	(303.4)	12.8	(0.8)	129.5	593.7	52.7	646.4

US\$ million	Share capital	Share premium account	Foreign currency translation reserve	Share-based payment reserve	Hedging and other reserves	Retained earnings	Attributable to the parent	Non-controlling interest	Total equity
At 1 July 2015	87.6	664.0	(250.7)	21.7	(0.8)	61.3	583.1	39.4	622.5
Profit for the Year	—	—	—	—	—	54.2	54.2	12.6	66.8
Other comprehensive expense	—	—	(121.4)	(2.9)	—	—	(124.3)	(9.6)	(133.9)
Dividends paid	—	—	—	—	—	(15.4)	(15.4)	—	(15.4)
Transfer between reserves for exercise of options	—	—	—	(9.0)	—	9.0	—	—	—
Equity-settled share-based payments	—	—	—	5.3	—	—	5.3	—	5.3
Allotments during the Year:									
– Share options exercised	0.2	1.2	—	—	—	—	1.4	—	1.4
– LTSP share grants	0.8	—	—	(0.7)	—	—	0.1	—	0.1
At 30 June 2016	88.6	665.2	(372.1)	14.4	(0.8)	109.1	504.4	42.4	546.8

The notes on pages 115 to 159 form part of these Financial Statements.

Notes to the Annual Financial Statements

For the Year ended 30 June 2017

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.

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

Due to the slower than anticipated build-up of the expansion programmes across its operations in FY 2017, with production for the Year of 4.0 Mcts in comparison to guidance of 4.4–4.6 Mcts, the Group's revenue and underlying profitability was lower than anticipated for the Year. As previously announced on 8 September 2017, the Group was due to breach its EBITDA-related maintenance covenant measurements related to its senior debt facilities for the period ending, and as at, 30 June 2017 and was forecast to breach for the period ending, and as at, 31 December 2017. A resultant waiver was therefore received post Year end from the Company's lender group (comprising Absa Bank Limited (acting through its Corporate and Investment Banking division), FirstRand Bank Limited (acting through its Rand Merchant Bank division) and Nedbank Limited (acting through its Corporate and Investment Banking division) (together, the "Lender Group") for the 30 June 2017 measurement period and a reset of the relevant covenants for the 31 December 2017 measurement period with reference to the Group's forecasts at that date is below:

- ▶ the net debt to EBITDA ratio was changed to no more than 4.0:1 (previously 2.80:1).
- ▶ the EBITDA to net finance charges ratio was changed to no less than 2.7x (previously 3.85x); and

The Group's bank debt covenants are set out on page 167.

Forecasts and associated risks

In addition to the ongoing roll-out and ramp-up of the Group's expansion projects, specifically the new Cullinan plant and C-Cut and the Finsch SLC, the impact and subsequent resolution of labour disruption at certain of the Group's South African mines and the uncertainty surrounding the outlook at Williamson further to the political and legislative developments in Tanzania (as detailed in the Chief Executive's Statement on page 12) have been a key focus for the Board post Year end.

The Board reviewed the Group's forecasts and reasonably possible sensitivities for a period of at least 12 months from the date the Financial Statements have been approved, including both forecast cashflows and covenants. Given the key focus areas above, this involved particular emphasis and scenarios being run thereon, in addition to the normal sensitivity inputs of diamond pricing, US\$/ZAR exchange rates and volatility of ROM grades achieved at our underground operations.

The forecasts indicate that the Group retains sufficient liquidity from existing cash resources, operating cashflows and existing facilities to meet its liabilities as they fall due under the forecasts and reasonably possible sensitivities. However, the forecasts indicate that the Group will likely breach its 31 December 2017 EBITDA covenant measurement ratios due to both the annualised 12-month nature of the ratios, which take account of the H2 FY 2017 production shortfall, coupled with H1 FY 2018's events and uncertainties, as highlighted above.

Lender group engagement

As announced on 9 October 2017, based on the above, the Company highlighted to its lender group that a breach of the 31 December 2017 covenant measurement ratios is likely.

To date the lender group has been highly supportive of Petra's business case, as illustrated by their willingness to accommodate facility restructurings and covenant waivers over the course of the expansion programmes being rolled out over the past years. The Board is of the opinion that this will continue to be the case, particularly as the expansion projects are nearing completion and free cashflow is forecast to be generated from H2 FY 2018. However, following recent discussions and until such time as further certainty is achieved on the outlook for Williamson, coupled with additional clarity on the continued ramp-up of production at both Finsch and Cullinan, discussions around covenants and potential waivers or measurement resets is premature. While engagement with its lender group will be ongoing, the Company remains confident that the existing facilities will remain in place throughout the period of the forecasts.

Conclusion

The Board is highly cognisant of the scope and significance of the projects undertaken to date, and the risks around ramp-up and commissioning, coupled with the significant debt financing that has been required to accompany this transformational expansion programme alongside the macro-economic factors pertinent to the industry.

However, with the Cullinan plant due to achieve nameplate capacity shortly, Cullinan's C-Cut and Finsch's SLC in place and ramping up, optimisation of the CTP at KEM JV, and with a re-shaped Williamson pit and optimised plant, the Board is of the opinion that the fundamental business plan of the Group is intact and structurally in a better position than it has ever been, given that the operations will be achieving the majority of their ROM tonnes from new, undiluted areas from FY 2018 onwards.

Based on this, alongside the Group's existing cash resources and facilities, the Board remains comfortable that the facility headroom remains adequate under the Group's current base case and reasonable sensitivities. Furthermore, the Board recognises the Company's ability to preserve cash should it be required in the short-term (for example, by deferring non-essential cash payments, maintaining very tight control over costs and overhead, and by potentially deferring certain elements of its capital expenditure that are not essential to the current ramp-up plans).

Notes to the Annual Financial Statements

For the Year ended 30 June 2017 continued

1. Accounting policies continued

1.1 Basis of preparation continued

Going concern continued

Conclusion continued

In respect of its banking facility covenants, while Management forecasts currently indicate a breach of the 31 December 2017 covenant measurement ratios is likely, the Company remains confident that the existing facilities will remain in place, having considered all relevant facts and circumstances. Accordingly, the Board has concluded that the going concern basis of preparation remains appropriate and that there are no material uncertainties that would cast doubt on that basis of preparation.

Currency reporting

The functional currency of the Company is Pounds Sterling (GBP). The functional currency of the Group's business transactions in Botswana is Botswana Pula (BWP) and Tanzania is US Dollars (US\$). The functional currency of the South African operations is South African Rand (ZAR or R). The Group Financial Statements are presented in US Dollars (US\$). ZAR balances are translated to US Dollars at ZAR13.05 as at 30 June 2017 (30 June 2016: ZAR14.68) and at an average rate of ZAR13.59 for transactions during the Year ended 30 June 2017 (30 June 2016: ZAR14.51).

Financial statements of foreign entities

Assets and liabilities of foreign entities (i.e. those with a functional currency other than US\$) are translated at rates of exchange ruling at the financial Year end; income and expenditure and cashflow items are translated at rates of exchange ruling at the date of the transaction or at rates approximating the rates of exchange at the date of the translation where appropriate. Fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the exchange rate ruling at the reporting date. Exchange differences arising from the translation of foreign entities are recorded in the Consolidated Statement of Other Comprehensive Income and recycled to the Consolidated Income Statement on disposal of the foreign entity.

Foreign operations

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

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

Foreign currency transactions

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

Significant judgements and estimates relevant to the basis of preparation

Net investments in foreign operations

Management assesses the extent to which intra-group loans to foreign operations that give rise to unrealised foreign exchange gains and losses are considered to be permanent as equity or repayable in the foreseeable future. The judgement is based upon factors including the life of mine ("LOM") plans, cashflow forecasts and strategic plans. The foreign exchange on permanent as equity loans is recorded in the foreign currency translation reserve until such time as the operation is sold, whilst the foreign exchange on loans repayable in the foreseeable future are recorded in the Consolidated Income Statement.

1.2 Basis of consolidation

Subsidiaries

Subsidiaries are those entities over whose financial and operating policies the Group has the power to exercise control. Control is achieved where the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group Financial Statements incorporate the assets, liabilities and results of operations of the Company and its subsidiaries. The results of subsidiaries acquired and disposed of during a financial year are included from the effective dates of acquisition to the date control ceases. Where necessary, the accounting policies of subsidiaries are changed to ensure consistency with the policies adopted by the Group.

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.

1. Accounting policies continued

1.2 Basis of consolidation continued

Transactions eliminated on consolidation

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

Non-controlling interests

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

Joint arrangements

The Group is a party to a joint arrangement when there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to the Group and at least one other party. The Group classifies its interests in joint arrangements as jointly controlled operations where the Group has the rights to both assets and obligations for the liabilities of the joint arrangement. In assessing the classification of interests in joint arrangements, the Group considers the structure of the arrangement, the legal form and the contractual agreements between the parties.

The Group accounts for its interests in joint operations by recognising its share of assets, liabilities, revenues and expenses in accordance with its contractually conferred rights and obligations (refer to note 31 for further details).

1.3 Key estimates and judgements

The preparation of the Consolidated Financial Statements requires Management to make estimates and judgements and form assumptions that affect the reported amounts of the assets and liabilities, reported revenue and costs during the periods presented therein. The estimates and assumptions that have a significant risk of causing a material adjustment to the financial results of the Group in future reporting periods are discussed in the relevant sections of this report and summarised as follows:

Key estimate or judgement	Note
Net investments in foreign operations judgements	1.1
Life of mine and ore reserves and resources estimates and judgements	8
Impairment review estimates and judgements	8
Capitalisation of borrowing costs judgements	9 and 14
Depreciation judgements	14
VAT receivable at Williamson	17
Provision for rehabilitation estimates	24
Kimberley Ekapa Mining Joint Venture	31
Kimberley Mines acquisition in prior year	31
Pension scheme estimates	32
Post-retirement medical fund estimates	33
Non-current assets held for sale in prior year	36

1.4 New standards and interpretations applied

The IASB has issued no new standards, amendments to published standards or interpretations to existing standards with effective dates on or prior to 1 July 2016 which have a material effect on the Group.

New standards and interpretations not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning after 1 July 2017 or in later periods, which the Group has decided not to adopt early or which are yet to be European Union endorsed.

		Effective period commencing on or after
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16 ¹	Leases	1 January 2019
IAS 7 ¹	Disclosure Initiative	1 January 2017
IAS 12 ¹	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017

1. Not yet endorsed by the European Union.

Notes to the Annual Financial Statements

For the Year ended 30 June 2017 continued

1. Accounting policies continued

1.4 New standards and interpretations applied continued

New standards and interpretations not yet effective continued

The only standards which are anticipated to be significant or relevant to the Group are:

IFRS 15 "Revenue from Contracts with Customers"

The Group is required to apply IFRS 15 for annual reporting periods beginning on or after 1 January 2018. Management has assessed the core principle of IFRS 15, that the Group will recognise revenue to depict the transfer of promised diamond sales to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for the diamond sales.

Diamond sales are made through a competitive tender process. Diamond sales are recognised when significant risks and rewards of ownership are transferred to the buyer, costs can be reliably measured and receipt of tender proceeds probable – this is deemed to be the point at which the tender is awarded. The Group has reviewed the terms and conditions of the current tender contract entered into with each of the buyers and is satisfied that, based on the terms of the current contracts, there is no change to the timing of revenue recognition on tender sales under IFRS 15.

Where the Group makes rough diamond sales to customers and retains a vested right in the future sale of the polished diamond, the Group will record such revenue only at the date when the polished diamond is sold (and only its interest therein). The Group has reviewed the terms and conditions of its current contracts pertaining to such scenarios and is satisfied that there is no change, based on the terms of the current contracts, to the timing of revenue recognition on such sales under IFRS 15.

IFRS 16 "Leases"

The Group is required to apply IFRS 16 for annual reporting periods beginning on or after 1 January 2019. Management has assessed the core principle of IFRS 16, to reflect the right of use assets and lease liabilities in the consolidated statement of financial position for the first time in respect of its current operating leases. Management considers the impact to be immaterial.

IFRS 9 "Financial Instruments"

IFRS 9 "Financial Instruments" addresses the classification and measurement of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income ("OCI") and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. There is now a new expected credit loss model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in credit risk in OCI for liabilities designated at fair value through profit or loss. The impact of IFRS 9 is likely to be largely affected by the Group's hedge accounting policies that will apply at the time of the standard's adoption. The Group is currently assessing both its hedging policies and the overall impact of IFRS 9.

2. Revenue

Significant accounting policies relevant to revenue

Revenue comprises net invoiced diamond sales to customers excluding VAT. Diamond sales are made through a competitive tender process and recognised when significant risks and rewards of ownership are transferred to the buyer, costs can be measured reliably and receipt of future economic benefits is probable. This is deemed to be the point at which the tender is awarded. Where the Group makes rough diamond sales to customers and also retains a right to an interest in their future sale as polished diamonds, the Group records the sale of the rough diamond's but such contingent revenue on the onward sale is only recognised at the date when the polished diamonds are sold.

Where the Group enters into a tolling agreement under which the combined production of the parties is sold by the Group, the Group only recognises revenue from the portion of sales for which it acts as principal. No revenue is recognised for the remaining portion, for which the Group acts as an agent and receives no further income. During FY 2016, the Group entered into an agreement with Ekapa Mining (Pty) Ltd ("Ekapa Mining") whereby the Combined Kimberley Operations were operated under a tolling agreement. The tolling agreement was cancelled following the Group entering into a joint venture agreement with Ekapa Mining, effective 1 July 2016.

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	2017	2016
Revenue from diamond sales	477.0	430.9

3. Mining and processing costs

Refer to notes 11, 14, 18 and 27 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	2017	2016
Raw materials and consumables used	167.3	136.6
Employee expenses (including share-based payments)	142.0	118.7
Depreciation of mining assets	78.7	51.0
Diamond royalty	4.7	5.4
Tolling costs ¹	—	12.7
Changes in inventory of finished goods and stockpiles	(2.6)	(14.1)
	390.1	310.3

1. During FY 2016, the Group and its consortium partner Ekapa Mining completed the acquisition of the Kimberley Mines assets from De Beers in a jointly controlled operation. For the period 18 January 2016 to 30 June 2016 the parties further agreed to jointly operate their respective operations in the Kimberley area ("Combined Kimberley Operations"). The joint operation utilised a tolling treatment arrangement, with a resultant attributable interest to the Group of 75.9% in the production and associated costs from the Combined Kimberley Operations. The tolling agreement was cancelled following the Group entering into a joint venture arrangement with KEM JV, effective 1 July 2016.

4. Other direct income

US\$ million	2017	2016
Profit on disposal of fixed assets	(0.3)	(0.1)
Revaluation of environmental rehabilitation liability – change in assumption/estimate	(3.9)	(1.2)
Other mining expense/(income)	1.4	(1.5)
	(2.8)	(2.8)

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	2017	2016
Direct exploration costs	0.4	1.8
Employee expenses	0.3	0.9
Depreciation of exploration assets	0.1	0.2
	0.8	2.9

6. Corporate expenditure

Corporate expenditure includes:

US\$ million	2017	2016
Depreciation of property, plant and equipment	0.8	0.6
London Stock Exchange and other regulatory expenses	1.1	1.4
Share-based expense – Directors	(0.3)	2.3
Share-based expense – Senior Management	—	0.3
Salaries and other staff costs	3.8	3.7
Total staff costs	3.5	6.3

7. Auditors' remuneration

US\$ million	2017	2016
Audit services ¹	0.9	0.9
Audit related assurance services ²	0.4	0.1
Total	1.3	1.0

1. Audit services are in respect of audit fees for the Group.

2. Audit related services are in respect of the interim review (US\$0.1 million) plus services in respect of the issuance of comfort letters in respect of the issue of the US\$650 million loan notes, which were capitalised under non-current loans and borrowings (US\$0.3 million).

Notes to the Annual Financial Statements

For the Year ended 30 June 2017 continued

8. Impairment of operational assets and investments

Significant accounting policies relevant to impairment

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

In assessing value in use, the expected future pre-tax cashflows from the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The LOM plan for each mine is the approved management plan at the reporting date for ore extraction and its associated capital expenditure. The capital expenditure included in the impairment model does not include capital expenditure to enhance the asset performance outside of the existing LOM plan. The ore tonnes included in the Resource Statement, which Management considers economically viable, often includes ore tonnes in excess of those used in the LOM model and therefore the impairment test.

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

Significant judgements and estimates relevant to impairment

Life of mine and ore reserves/resources

There are numerous risks inherent in estimating ore reserves and resources and the associated current LOM plan. The LOM plan for each mine is the current approved management plan for ore extraction that considers specific ore reserves and resources and associated capital expenditure. The LOM plan frequently includes fewer tonnes than the total reserves and resources that are set out in the Group's Resource Statement and which Management may consider to be economically viable and capable of future extraction.

Management must make a number of assumptions when making estimates of reserves and resources, including assumptions as to exchange rates, rough diamond and other commodity prices, extraction costs and recovery and production rates. Any such estimates and assumptions may change as new information becomes available. Changes in exchange rates, rough diamond and commodity prices, extraction and recovery costs and production rates may change the economic viability of ore reserves and resources and may ultimately result in the restatement of the ore reserves and resources and potential impairment to the carrying value of the mining assets and LOM.

The current LOM plans are used to determine the ore tonnes and capital expenditure in the impairment tests.

Ore reserves and resources, both those included in the LOM and certain additional tonnes contained within the Group's Resource Statement which form part of reserves and resources considered to be sufficiently certain and economically viable, also impact the depreciation of mining assets depreciated on a units-of-production basis (refer to note 14). Ore reserves and resources further impact the estimated date of decommissioning and rehabilitation (refer to note 24).

Impairment reviews

While conducting an impairment review of its assets using value in use impairment models, the Group exercises judgement in making assumptions about future exchange rates, rough diamond prices, contribution from Exceptional Diamonds, volumes of production, ore reserves and resources included in the current LOM plans, feasibility studies, future development and production costs and macro-economic factors such as inflation and discount rates. Changes in estimates used can result in significant changes to the Consolidated Income Statement and the Consolidated Statement of Financial Position. The key inputs and sensitivities are detailed on page 121.

30 June 2017

During the Year ended 30 June 2017, the Group reviewed the carrying value of its investments and operational assets for indicators of impairment. Following the assessment, no impairment of investments, property, plant and equipment or reversal of impairment losses in prior years are considered appropriate. Details of the impairment test assessments are shown in note 8.1.

Significant developments which may impact the carrying value of the Williamson assets post Year end are set out in note 37.

8. Impairment of operational assets and investments continued

8.1 Impairment testing assumptions

(a) Impaired operations

No operations were impaired during the Year under review, nor in the year ended 30 June 2016.

(b) Non-impaired operations

The Group performs impairment testing on an annual basis of all operations and when there are potential indicators which may require impairment. The results of the impairment testing performed did not indicate any impairments on the mining operations. The key assumptions used in determining the recoverable value calculations, determined on a value in use basis, are listed in the table below:

Key assumptions	Explanation
LOM and recoverable value of reserves and resources	Economically recoverable reserves and resources are based on Management's expectations based on the availability of reserves and resources at mine sites and technical studies undertaken in-house and by third party specialists. Resources remaining after the current LOM plans have not been included in impairment testing for the operations.
LOM – capital expenditure	Management has estimated the timing and quantum of the capital expenditure based on the Group's current LOM plans for each operation. There is no inclusion of capital expenditure to enhance the asset beyond exploitation of the LOM plan orebody.
Diamond prices	The diamond prices used in the impairment test have been set with reference to recent achieved pricing and market trends, and long-term diamond price escalators which reflect the Group's assessment of market supply/demand fundamentals as further guided on pages 18 and 19. A long-term inflation rate of 4.0% (30 June 2016: 4.0%) above a long-term US inflation rate of 2.5% (30 June 2016: 2.5%) per annum was used for US\$ diamond prices. Estimates for the contribution of Exceptional Diamonds are determined with reference to historical trends. Contribution for Exceptional Diamonds are included at Cullinan and Williamson.
Discount rate	A discount rate of 9% was used for the South African operations and Williamson, and was calculated based on a nominal weighted cost of capital including the effect of factors such as market risk and country risk as at the Year end.
Cost inflation rate	Long-term inflation rates of 3.5–7.5% (30 June 2016: 3.5–7.5%) above the long-term US\$ inflation rate were used for Opex and Capex escalators.
Exchange rates	Exchange rates are estimated based on an assessment of current market fundamentals and long-term expectations. The US\$/ZAR exchange rate range used, for all South African operations commenced at ZAR13.25 (30 June 2016: ZAR14.00), further devaluing at 3.5% (30 June 2016: 3.5%) per annum.
Valuation basis	Discounted present value of future cashflows.
Sensitivity	The headroom at Koffiefontein was 10.0% (30 June 2016: 94.0%). Management notes that a 2.7% reduction in diamond prices or a 32.0% reduction in production (for FY 2018 only) or a 3.7% reduction in foreign exchange rates as compared to the ZAR13.25/US\$1 base foreign exchange rate for FY 2018 at Koffiefontein would result in a break-even impairment scenario. The diamond prices used in the impairment test have been set with reference to recent achieved prices and market trends, the product mix anticipated from increased undiluted ore contribution and increased volume. The long-term escalators reflect the Group's assessment of market supply/demand fundamentals, although short-term volatility remains present within the market. Foreign exchange rate volatility remains. The impairment model includes an increase of 56.4% in carat production in FY 2018 versus FY 2017, reflecting a 29.0% increase in ROM tonnage throughput, which is supported by current production rates and trend. The net present value exceeds the carrying value of US\$117.9 million (30 June 2016: US\$99.3 million) of Koffiefontein's mining assets but remains sensitive to rough diamond prices, foreign exchange rates and production rates. The impairment test for Williamson included the estimated effects of the legislation changes in Tanzania resulting in increased royalty, export and VAT costs, notwithstanding that they were only formally enacted shortly after Year end, and further considered the impact from regulatory uncertainty within Tanzania. The headroom on the impairment test at Williamson was 2.0% (30 June 2016: 81.0%) on a carrying value of US\$130.9 million. Accordingly the carrying value of the assets is highly sensitive to a change in any of the underlying assumptions. The most sensitive inputs are diamond prices (including expected revenue from Exceptional Diamonds) and discount rates. The diamond prices (including expected revenue from Exceptional Diamonds) used in the impairment test have been set with reference to recent achieved prices and product mix. The long-term diamond price escalators reflect the Group's assessment of market supply/demand fundamentals, although short-term volatility remains present within the market. A discount rate of 9.0% was used, calculated based on a nominal weighted cost of capital including the effect of factors such as market risk and country risk at Year end. A sustained 5.0% drop in prices would result in a US\$28.3 million impairment charge as at the Year end; a 1.0% increase in the discount rate would result in a US\$8.2 million impairment charge. Refer to note 37 for the potential impact of non-adjusting post Year end events.

Notes to the Annual Financial Statements

For the Year ended 30 June 2017 continued

9. Net financing expense

Significant accounting policies relevant to net financial expense

Finance income comprises income from interest and finance-related exchange gains and losses. Interest is recognised on a time-apportioned basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is probable that such income will accrue to the Group.

Borrowing costs, including any upfront costs, that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale. Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

Other borrowing costs are recognised as an expense in the period in which the borrowing cost is incurred.

Refer to notes 11, 14, 24 and 34 for the Group's policy on foreign exchange, borrowing cost capitalisation, unwinding of rehabilitation provisions and derivative instruments together with key estimates and judgements.

US\$ million	2017	2016
Net unrealised foreign exchange gains	9.9	3.2
Interest received on BEE loans and other receivables	2.5	3.4
Interest received on bank deposits	1.8	0.4
Financial income	14.2	7.0
Gross interest on bank loans and overdrafts	(48.0)	(29.1)
Interest on bank loans and overdrafts capitalised	44.1	26.5
Net interest expense on bank loans and overdrafts	(3.9)	(2.6)
Bond redemption premium and acceleration of unamortised bond costs ¹	(22.3)	—
Other debt finance costs, including BEE loan interest and facility fees	(14.5)	(12.5)
Unwinding of present value adjustment for rehabilitation costs	(5.0)	(4.2)
Realised foreign exchange losses on the settlement of forward exchange contracts ²	(3.8)	(20.7)
Financial expense	(49.5)	(40.0)
Net financial expense	(35.3)	(33.0)

1. Bond redemption premium and acceleration of unamortised bond costs of US\$22.3 million relate to costs associated with the refinancing and early redemption of the US\$300 million bond, comprising unamortised upfront costs (US\$7.3 million previously capitalised) and make-whole premium (US\$15.0 million).

2. During the current Year the Group ceased to classify its forward currency contracts as cashflow hedges. The Group recognised an amount of US\$nil (30 June 2016: US\$7.2 million) in the Consolidated Income Statement in respect of the intrinsic and time value of these derivative positions that remained open at year end. The Company recognised a realised loss of US\$3.8 million (30 June 2016: US\$20.7 million) in the Consolidated Income Statement in respect of foreign exchange contracts closed during the Year. This realised loss arose due to the hedging positions being closed out at foreign exchange rates higher than the foreign exchange rates applicable at the inception of the original hedges.

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.

10. Taxation continued

Significant accounting policies relevant to taxation continued

US\$ million	2017	2016
Current taxation:		
– Current tax charge/(credit)	1.1	(1.9)
Deferred taxation:		
– Current period (origination and reversal of temporary differences)	24.7	10.5
	25.8	8.6
Reconciliation of tax rate:		
– Profit before taxation	46.5	75.4
Tax at South African corporate rate of 28%	13.0	21.1
Effects of:		
– Tax charge at rates in foreign jurisdictions	(1.2)	3.6
– Non-deductible expenses	8.6	3.1
– Non-taxable income	(16.8)	(6.2)
– Tax losses not recognised/(recognised for the first time)	16.3	(13.0)
– Prior year under provision of deferred tax	5.9	—
Total tax charge	25.8	8.6

In the current Year there are unrecognised tax losses which increase the current taxation payable totalling US\$16.3 million (30 June 2016: US\$13.0 million recognised 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 2017 amount to US\$162.0 million (30 June 2016: US\$106.4 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 2017 amount to US\$65.8 million (30 June 2016: US\$26.0 million) and arise in South Africa. There is no taxation arising from items of other comprehensive income and expense.

11. Director and employee remuneration

Significant accounting policies relevant to remuneration

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

Refer to note 27 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	2017	2016
Wages and salaries – mining	142.0	118.7
Wages and salaries – exploration	0.3	0.9
Wages and salaries – administration	3.5	6.3
	145.8	125.9
Number	Number	Number
Number of employees (excluding the Non-Executive Directors and contractors)	5,602	5,000

Key management personnel

Key management is considered to be the Executive Directors, the Chief Financial Officer, the Chief Technical Officer and the Non-Executive Directors. The Chief Financial Officer and the Chief Technical Officer were newly created positions effective from 1 July 2017. Remuneration for the Year for key management is disclosed in the table below:

US\$ million	2017	2016
Salary	2.0	2.0
Benefits	0.1	0.2
Annual bonus – paid in cash	0.3	0.9
Annual bonus – deferred to shares	0.2	0.3
Share-based payment (credit)/charge	(0.3)	2.3
	2.3	5.7

Notes to the Annual Financial Statements

For the Year ended 30 June 2017 continued

12. Earnings per share

Significant accounting policies relevant to earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the Year attributable to ordinary equity holders of the parent by the weighted average number of Ordinary Shares outstanding during the Year. Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of Ordinary Shares outstanding during the Year plus the weighted average number of Ordinary Shares that would be issued on conversion of all the dilutive potential Ordinary Shares into Ordinary Shares.

	Total 30 June 2017 US\$	Total 30 June 2016 US\$
Numerator		
Profit for the Year attributable to parent	18,330,197	54,173,140
Denominator	Shares	Shares
Weighted average number of Ordinary Shares used in basic EPS		
As at 1 July	524,172,967	518,138,799
Effect of shares issued during the Year	4,397,609	3,592,017
As at 30 June	528,570,576	521,730,816
	Total 30 June 2017 US\$	Total 30 June 2016 US\$
Dilutive effect of potential Ordinary Shares	5,904,758	12,547,315
Weighted average number of Ordinary Shares in issue used in diluted EPS	534,475,334	534,278,131
	US\$ cents	US\$ cents
Basic profit per share	3.47	10.38
Diluted profit per share	3.43	10.14

In the current Year, the number of potentially dilutive Ordinary Shares in respect of employee share options and Executive Director and Senior Management share award schemes is 5,904,758 (30 June 2016: 12,547,315). 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.

13. Adjusted earnings per share (non-GAAP measure)

In order to show earnings per share from operating activities on a consistent basis, an adjusted earnings per share is presented which excludes certain items as set out below. It is emphasised that the adjusted earnings per share is a non-GAAP measure. The Petra Board considers the adjusted earnings per share to better reflect the underlying performance of the Group. The Company's definition of adjusted earnings per share may not be comparable to other similarly titled measures reported by other companies.

	US\$	US\$
Profit for the Year attributable to parent	18,330,197	54,173,140
Adjustments:		
Net unrealised foreign exchange gains	(9,908,160)	(3,257,585)
Kimberley Ekapa Mining JV fair value adjustment	(4,140,552)	—
Bond redemption premium and accelerated unamortised bond costs	22,347,670	—
Adjusted profit for the Year attributable to parent	26,629,155	50,915,555
	Shares	Shares
Weighted average number of Ordinary Shares used in basic EPS		
As at 1 July	524,172,967	518,138,799
Effect of shares issued during the Year	4,397,609	3,592,017
As at 30 June	528,570,576	521,730,816
	Shares	Shares
Dilutive effect of potential Ordinary Shares	5,904,758	12,547,315
Weighted average number of Ordinary Shares in issue used in diluted EPS	534,475,334	534,278,131

13. Adjusted earnings per share (non-GAAP measure) continued

	US\$ cents	US\$ cents
Adjusted basic profit per share	5.04	9.76
Adjusted diluted profit per share	4.98	9.53

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.

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 24 for the Group's policy on impairment, borrowing cost capitalisation and rehabilitation provisions and associated decommissioning assets.

Notes to the Annual Financial Statements

For the Year ended 30 June 2017 continued

14. Property, plant and equipment continued

Significant judgements and estimates relevant to property, plant and equipment continued

Depreciation continued

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.

US\$ million	Plant and machinery	Mineral properties	Assets under construction ¹	Total
Cost				
Balance at 1 July 2015	555.6	74.0	494.2	1,123.8
Exchange differences	(95.5)	(12.7)	(77.2)	(185.4)
Acquired through acquisition	8.7	—	—	8.7
Additions	1.1	—	323.0	324.1
Transfer of assets under construction	137.1	—	(137.1)	—
Change in rehabilitation asset	(8.8)	—	—	(8.8)
Non-current assets held for sale ²	(15.5)	—	(4.9)	(20.4)
Disposals	(0.7)	—	—	(0.7)
Balance at 30 June 2016	582.0	61.3	598.0	1,241.3
Balance at 1 July 2016	582.0	61.3	598.0	1,241.3
Exchange differences	96.8	8.0	62.1	166.9
Share of KEM JV assets	10.6	4.1	—	14.7
Additions	0.3	—	299.8	300.1
Transfer of assets under construction	547.7	—	(547.7)	—
Change in rehabilitation asset	—	—	—	—
Disposals	(1.9)	—	—	(1.9)
Balance at 30 June 2017	1,235.5	73.4	412.2	1,721.1
Depreciation and impairment				
Balance at 1 July 2015	141.3	13.7	—	155.0
Exchange differences	(34.5)	(3.4)	—	(37.9)
Disposals	(0.6)	—	—	(0.6)
Non-current assets held for sale ²	(6.3)	—	—	(6.3)
Provided in the Year	50.1	0.1	1.6	51.8
Balance at 30 June 2016	150.0	10.4	1.6	162.0
Balance at 1 July 2016	150.0	10.4	1.6	162.0
Exchange differences	37.4	2.1	—	39.5
Disposals	(1.3)	—	—	(1.3)
Provided in the Year	73.8	4.7	1.1	79.6
Balance at 30 June 2017	259.9	17.2	2.7	279.8
Net book value				
At 30 June 2016	432.0	50.9	596.4	1,079.3
At 30 June 2017	975.6	56.2	409.5	1,441.3

1. During the Year, assets under construction comprising stay-in-business and expansion capital expenditure of US\$547.7 million (30 June 2016: US\$137.1 million) were commissioned and transferred to plant and machinery. Included within assets under construction are amounts mainly for expansion projects at the Finsch, Cullinan and Koffiefontein mines.

2. Non-current assets held for sale are in respect of 24.1% of the Kimberley Underground mining assets (refer to note 36).

14. Property, plant and equipment continued

Capital commitments

The Group's total commitments of US\$25.6 million (30 June 2016: US\$63.3 million) at Year end were mainly in respect of assets under construction and future capital expenditure projects, mainly comprising Cullinan US\$6.8 million (30 June 2016: US\$36.1 million), Finsch US\$13.8 million (30 June 2016: US\$14.1 million), Koffiefontein US\$2.6 million (30 June 2016: US\$4.4 million), KEM JV US\$1.9 million (30 June 2016: Kimberley Underground US\$4.1 million) and Williamson US\$0.5 million (30 June 2016: US\$4.3 million). Borrowing costs of US\$44.1 million (30 June 2016: US\$26.5 million) have been capitalised to assets under construction.

The contract entered into by the Group for the construction of a new processing plant at Cullinan at a cost of ZAR1.6 billion (circa US\$123.0 million) has been completed with the plant commissioned at the end of July 2017.

15. BEE loans receivable and payable

Significant accounting policies relevant to BEE loans receivable and payable

Refer to note 34 for the Group's policy in respect of financial instruments, which include BEE receivables and payables.

US\$ million	2017	2016
Non-current assets		
BEE loans receivable ¹	35.0	28.8
Non-current liabilities		
BEE loans payable ^{2,3}	99.5	84.6

- 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.
- 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.
- In FY 2016, the BEE loans payable excluded amounts, payable to Sedibeng Mining (Pty) Ltd, classified as non-current assets held for sale of US\$1.6 million (refer to note 36).

Effective 1 July 2016, the Company completed the restructuring of the Group and its BEE Partner structures, allowing for a simplified Group structure. The IPDET now owns a 12% interest in each of the Group's South African operations, with Petra's commercial BEE Partners holding the remaining 14% interest through their respective shareholdings in Kago Diamonds, in which Petra has a 31.46% interest. The effect of the restructuring for shareholders at 1 July 2016 is an increase in the equity attributable to the shareholders of the Company as the non-controlling interest in the underlying net assets of the operations decreased by US\$1.4 million. This decrease reflects the non-controlling interest's increased share of cumulative profits at Finsch, a reduction in the share of the cumulative profits at Cullinan and an increased share of cumulative losses at Kimberley, Koffiefontein and Helam. The increase of US\$1.4 million, attributable to the Group's shareholders, excludes the effect of the KEM JV transaction in note 31. The table below shows the BEE Partners' nominal interest and the Group's effective interest in the operations.

Mine	BEE Partner	BEE interest %	Resultant Group's effective interest %
Finsch	Kago Diamonds and IPDET	26.00	78.4
Cullinan	Kago Diamonds and IPDET	26.00	78.4
Koffiefontein	Kago Diamonds and IPDET	26.00	78.4
KEM JV	Kago Diamonds and IPDET	20.40 ¹	58.3 ²
Helam	Sedibeng Mining	26.00	74.0

1. The 20.4% reflects the BEE Partners' effective interest in the KEM JV. The BEE interest at the Group's subsidiary level is 31.5%, comprising Kago (14.0%) and IPDET (17.5%).

2. The 58.3% effective interest in KEM JV post-restructuring reflects both the Group's interest in KEM JV following the transaction in note 31 and the impact of the BEE restructuring.

The Group has provided surety to Absa, Investec and RMB for repayment of loans advanced by Absa, Investec and RMB to the Group's BEE Partners. The BEE Lender facilities were amended on 1 July 2016 to include Kago Diamonds as a party to the BEE Lender facilities and to extend the repayment terms to align with the delivery of the capital expansion programmes at the underlying Petra mining operations. The probability of repayment default by the BEE Partners to Absa, Investec and RMB is considered remote.

Further details of the transactions with the BEE Partners are included in note 28.

Notes to the Annual Financial Statements

For the Year ended 30 June 2017 continued

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	Helam	Tarorite	Williamson	Total
Effective interest %	21.6	21.6	21.6	17.58	26.0	17.85	25.0	
Country	South Africa	South Africa	South Africa	South Africa	South Africa	South Africa	Tanzania	
As at 1 July 2016	23.3	30.2	(0.7)	(4.5)	(4.0)	—	(1.9)	42.4
Profit/(loss) for the Year (Acquired)/ disposed through Group restructuring	(5.3)	13.0	(3.9)	0.3	(0.5)	0.2	(1.4)	2.4
Foreign currency translation difference	(1.5)	7.0	(0.1)	(2.7)	(4.1)	—	—	(1.4)
At 30 June 2017	21.3	56.3	(4.9)	(7.5)	(9.4)	0.2	(3.3)	52.7

During the Year, no dividends were paid to the non-controlling interests (30 June 2016: US\$nil). For additional information on total assets, total liabilities and segment results for each operation in the table above refer to note 35.

17. Trade and other receivables

Significant accounting policies relevant to trade and other receivables

Refer to note 34 for the Group's policy in respect of financial instruments, which include trade and other receivables.

Significant judgements and estimates relevant to VAT receivable at Williamson

The Group holds VAT receivables carried at US\$15.8 million (30 June 2016: US\$10.8 million) in the Statement of Financial Position in respect of the Williamson mine, a major portion of which is past due. The assessment of carrying value required significant judgement including the payment history, ongoing discussions with the relevant authorities in Tanzania and the wider operating environment. The VAT receivables are considered valid and are not being disputed by the tax authorities. Accordingly, the Group will be pursuing near term payment in accordance with legislation. However, acknowledging the challenges of the current operating environment in Tanzania the receivables have been reclassified as non-current given the potential for delays in receipt.

US\$ million	2017	2016
Current		
Trade receivables	42.9	71.3
Other receivables ¹	28.8	42.3
Prepayments	3.8	2.3
	75.5	115.9
Non-current		
Other receivables ²	17.8	2.7
	17.8	2.7

1. In FY 2016, current trade and other receivables exclude amounts classified as non-current assets held for sale of US\$3.0 million (refer to note 36).

2. Other non-current receivables comprising VAT receivable at Williamson of US\$15.8 million and loan receivable of US\$2.0 million due from Ekapa Mining and its subsidiaries. The loan due from Ekapa Mining is interest free and is repayable from future cashflows generated from the KEM JV mining operation.

Included in trade and other receivables are amounts due from related parties (refer to note 28).

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.

Significant judgements and estimates relevant to inventories

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.

US\$ million	2017	2016 ¹
Diamonds held for sale	50.2	43.6
Work in progress stockpiles	11.2	5.7
Consumables and stores	14.2	8.6
	75.6	57.9

1. In FY 2016, inventories exclude amounts classified as non-current assets held for sale of US\$1.7 million (refer to note 36).

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	2017	2016
Cash and cash equivalents – unrestricted	190.2	36.7
Cash – restricted	13.5	12.0
	203.7	48.7

The Group's insurance product, which currently includes the Finsch, Cullinan, Koffiefontein, Kimberley Underground and Helam mines, has secured cash assets of US\$12.6 million (30 June 2016: US\$11.1 million) held in a cell captive. The Group has a commitment to pay insurance premiums over the next year of US\$2.4 million (30 June 2016: US\$2.1 million) to fund the insurance product.

The rehabilitation provisions are disclosed in note 24.

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	2017	Number of shares	2016
Authorised – Ordinary Shares of 10 pence each				
At 1 July 2016 and 30 June 2017	750,000,000	131.4	750,000,000	131.4
Issued and fully paid				
At 1 July	524,172,967	88.6	518,138,799	87.6
Allotments during the Year	7,813,251	1.0	6,034,168	1.0
At 30 June	531,986,218	89.6	524,172,967	88.6

Allotments during the Year were in respect of the award of 646,398 Ordinary Shares to Executive Directors granted under the 2012 Performance Share Plan (in respect of performance measured over the period 1 July 2012 to 30 June 2016), the award to the Executive Directors of 507,600 Ordinary Shares granted under the 2011 Longer-term Share Plan, in receipt of performance measured over the period 1 July 2012 to 30 June 2016, the award to the Executive Directors of 156,233 Ordinary Shares granted under the deferred bonus plan, in receipt of performance measured over the period 1 July 2013 to 30 June 2014, the award to Senior Management of 4,371,770 Ordinary Shares granted under the 2011 Longer-term Share Plan, in receipt of performance measured over the period 1 July 2012 to 30 June 2016, and the exercise of 2,131,250 share options held by Executive Directors and employees.

Notes to the Annual Financial Statements

For the Year ended 30 June 2017 continued

20. Equity and reserves continued

Share capital continued

Allotments during the prior year were in respect of the award of 683,013 Ordinary Shares to Executive Directors granted under the 2012 Performance Share Plan (in respect of performance measured over the period 1 July 2012 to 30 June 2015), the award to the Executive Directors of 510,000 Ordinary Shares granted under the 2011 Longer-term Share Plan, in receipt of performance measured over the period 1 July 2012 to 30 June 2015, the award to Senior Management of 3,463,750 Ordinary Shares granted under the 2011 Longer-term Share Plan, in receipt of performance measured over the period 1 July 2012 to 30 June 2015, and the exercise of 1,377,405 share options held by Executive Directors and employees.

The Group's equity and reserve balances include the following:

Share capital

The share capital comprises the issued Ordinary Shares of the Company at par.

Share premium account

The share premium account comprises the excess value recognised from the issue of Ordinary Shares at par less share issue costs.

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of entities with a functional currency other than US Dollars and foreign exchange differences on net investments in foreign operations.

Share-based payment reserve

The share-based payment reserve comprises:

- ▶ the fair value of employee and Director options as measured at grant date and spread over the period during which the employees or Directors become unconditionally entitled to the options;
- ▶ the fair value of shares awarded under the 2011 Longer-term Share Plan and the 2012 Performance Share Plan measured at grant date (inclusive of market-based vesting conditions) with estimated numbers of awards to vest due to non-market-based vesting conditions evaluated each period and the fair value spread over the period during which the employees or Directors become unconditionally entitled to the awards;
- ▶ foreign exchange retranslation of the reserve;
- ▶ amounts transferred to retained losses in respect of exercised and lapsed warrants and options; and
- ▶ amounts derecognised as part of cash settlement of vested awards originally planned for equity settlement.

Other reserves

The other reserves comprise the cumulative gains or losses arising from available-for-sale financial assets of US\$0.8 million (30 June 2016: US\$0.8 million). The Directors do not consider there to be objective evidence that the available-for-sale financial asset is permanently impaired.

Retained earnings

The retained earnings comprise the Group's cumulative accounting profits and losses incurred since incorporation.

Non-controlling interest

Non-controlling interest comprises amounts attributable to BEE (in South Africa) and Government (in Tanzania) shareholders in the Finsch, Cullinan, Koffiefontein, KEM JV, Helam and Williamson mines together with foreign exchange retranslation of the reserve. The non-controlling interest share of total comprehensive income includes US\$11.7 million total comprehensive income (30 June 2016: US\$3.0 million) for the Year. Refer to note 16 for further detail.

21. Dividends

	2017	2016
Dividend paid during the Year – Ordinary Shares (US\$million)	—	15.4
Dividend paid per share during the Year – Ordinary Shares (US\$ cents)	—	3.0

No dividends have been declared in respect of the Year ended 30 June 2017 (30 June 2016: US\$nil).

On 30 November 2015, the shareholders approved at the Annual General Meeting the payment of a maiden dividend of 3.0 US\$ cents per share for the year ending 30 June 2015 (US\$15.4 million). The dividend was paid in FY 2016.

22. 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.

22. Interest-bearing loans and borrowings continued

Significant accounting policies relevant to loans and borrowings continued

The following table summarises the Group's current and non-current interest-bearing borrowings:

US\$ million	2017	2016
Current		
Loans and borrowings – senior secured lender debt facilities	109.0	80.3
Loans and borrowings – senior secured second lien notes	49.6	27.0
	158.6	107.3
Non-current		
Loans and borrowings – senior secured lender debt facilities	—	51.2
Loans and borrowings – senior secured second lien notes	598.5	266.0
	598.5	317.2

(a) US\$650 million senior secured second lien notes

On 12 April 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 ("the Notes"), with a maturity date of 1 May 2022. The Notes carry a coupon of 7.25% per annum, which is payable semi-annually in arrears on 1 May and 1 November of each year. The costs associated with issuing the Notes of US\$12.6 million were capitalised against the principal amount. As at 30 June 2017, the Notes had accrued interest of US\$10.7 million. The Notes are guaranteed by the Company and by the Group's material subsidiaries and are secured on a second-priority basis on the assets of the Group's material subsidiaries. The Notes are listed on the Irish Stock Exchange and traded on the Global Exchange Market. On or after 1 May 2019, the Company has the right to redeem all or part of the Notes at the following redemption prices (expressed as percentages of the principal amount), plus any unpaid accrued interest:

	Redemption price
Period of 12 months from 1 May 2019	103.6250%
Period of 12 months from 1 May 2020	101.8125%
Period of 12 months from 1 May 2021	100.0000%

Proceeds from the Notes were used to repay the existing US\$300 million senior secured second lien notes (principal amount, plus the applicable premium, accrued and unpaid interest) of US\$324.1 million and amounts outstanding under certain of the Company's existing bank loan facilities (refer to (b) below) and to pay fees and expenses associated with the issue of the Notes. The balance of the funds from the Notes, together with future drawdowns from the Company's bank loan facilities, are being used to further the Group's expansion projects.

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

During April 2017, the Group amended its debt and hedging facilities and its banking partners (Absa Corporate and Investment Banking ("Absa"), FirstRand Bank Limited (acting through its Rand Merchant Bank division) ("RMB"), IFC and Nedbank Limited) to facilitate the exit of Bank of China Limited from its amortising term facility. In April 2017, as part of the US\$650 million senior secured loan notes issuance (in (a) above), the Group repaid the IFC amortised term facility (capital and interest) of US\$35.2 million, the IFC revolving credit facility (capital and interest) of US\$18.9 million, the FirstRand, Absa, Nedbank ZAR amortising term facility (capital and interest) of US\$68.7 million and a portion of the FirstRand, Absa ZAR revolving credit facility (capital and interest) of US\$19.9 million. Both IFC facilities were cancelled, the ZAR revolving credit facility adjusted to ZAR1 billion (previously ZAR1.5 billion), the ZAR working capital facility adjusted to ZAR500 million (previously ZAR700 million) and the ZAR amortising term facility adjusted to ZAR nil (previously ZAR900 million). Further details of the Group's senior secured lender debt facilities are detailed in the table on page 132.

(c) US\$300 million senior secured second lien notes

In the prior year, Petra Diamonds US\$ Treasury Plc, a wholly owned subsidiary of the Company, issued debt securities consisting of US\$300 million five-year senior secured second lien loan notes ("the 2020 Notes"), with a maturity date of 31 May 2020. The 2020 Notes carried a coupon of 8.25% per annum, which was payable semi-annually in arrears on 31 May and 30 November of each year, beginning on 30 November 2015. The 2020 Notes were guaranteed by the Company and by the Group's material subsidiaries and were secured on a second-priority basis on the assets of the Group's material subsidiaries. The 2020 Notes were listed on the Irish Stock Exchange and traded on the Global Exchange Market. On or after 31 May 2017, the Company had the right to redeem all or part of the 2020 Notes, details of which were included in the 2016 Annual Report.

The 2020 Notes were repaid on 20 April 2017 from the proceeds received from the issue of the Notes (refer to (a) above).

Notes to the Annual Financial Statements

For the Year ended 30 June 2017 continued

22. Interest-bearing loans and borrowings continued

(c) US\$300 million senior secured second lien notes continued

The Group's debt and hedging facilities are detailed in the table below:

	Bank loan – secured		Bank loan – secured		Bank loan – secured		Bank loan – secured		Senior second lien notes – secured	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Institution	FirstRand, Absa, IFC		FirstRand, Absa		FirstRand, Absa, Nedbank		IFC		Bond holders	
Type	Revolving credit facility		Working capital facility		Amortising term facility		Amortising term facility		Bond notes	
Total facility (ZAR million)	1,000.0	1,500.0	500.0 ¹	500.0	—	665.0	—	—	—	—
Total facility (US\$ million)	—	250	—	—	—	—	—	35.0	650.0	300.0
Draw-down (ZAR million)	76.7	57.1	32.3	20.5	—	—	—	—	—	—
Draw-down (US\$ million)	—	18.9	—	—	—	—	—	35.0	650.0	300.0
Interest rate (ZAR)	SA JIBAR plus 5.0%	SA JIBAR plus 5.0%	SA Prime less 1.0%	SA Prime less 1.0%	—	SA JIBAR plus 3.5%	—	—	—	—
Interest rate (US\$)	—	US LIBOR plus 5.5%	—	—	—	—	—	US LIBOR plus 4.0%	7.25%	8.25%
Interest rate at Year end (ZAR)	12.1%	12.1%	9.5%	9.5%	—	10.6%	—	—	—	—
Interest rate at Year end (US\$)	—	5.9%	—	—	—	—	—	4.6%	7.25%	8.25%
Interest repayment period	Monthly	Monthly	Monthly	Monthly	—	Quarterly	—	Quarterly	Bi-annually	Bi-annually
Latest date available for draw-down	20 October 2021	November 2019	Annual review	Annual review	—	March 2017	—	Fully drawn down	Fully drawn down	Fully drawn down
Capital repayment profile	Single payment	Single payment	On demand	On demand	—	3 semi-annual, commencing March 2018	—	3 semi-annual, commencing March 2018	Single payment	Single payment
Final repayment date (US\$ million)	—	20 December 2019	—	—	—	—	Fully repaid 13 April 2017	20 March 2019	1 May 2022	Fully repaid 20 April 2017
Final repayment date (ZAR million)	20 October 2021	20 December 2019	On demand	On demand	Fully repaid 20 April 2017	20 March 2019	—	—	—	—

1. The facility also comprises a ZAR300 million (30 June 2016: ZAR400 million) foreign exchange settlement line not included above.

The revolving credit, working capital and amortising term facilities are secured on the Group's interests in Finsch, Cullinan, Koffiefontein, Kimberley Underground and Williamson.

22. Interest-bearing loans and borrowings continued

(c) US\$300 million senior secured second lien notes continued

Effective 12 April 2017, the Group agreed revisions to the bank debt maintenance covenant measurements. The covenant measurements linked to the senior secured lender debt facilities will be measured semi-annually on a rolling twelve-month period at 30 June and 31 December, and are set out in the table below. These covenants were further amended subsequent to Year end, following a breach of covenant at 30 June 2017. Refer to note 37 and page 167.

	Maintenance covenants ¹				Distribution covenants
	12 months to 30 June 2017	12 months to 31 December 2017 ²	12 months to 30 June 2018	12 months to 31 December 2018 and thereafter	
Consolidated net debt ³ to consolidated EBITDA	2.80:1 (revised from 2.50:1)	2.80:1 (revised from 2.50:1)	2.50:1	2.50:1 (no change)	≤2.0x
Consolidated EBITDA to consolidated net finance charges	3.5:1 (revised from 4.0:1)	3.85:1 (revised from 4.00:1)	4.00:1	4.00:1 (no change)	≥6.0x
Consolidated net senior debt ⁴ to book equity items ⁵	0.40:1 (revised from 0.60:1)	0.40:1 (revised from 0.5:1)	0.4:1	0.4:1 (no change)	≤0.3x

1. Fees to the lender group relating to the above mentioned changes in covenants and facilities are US\$0.6 million (30 June 2016: US\$0.9 million).

2. For changes relating to the covenant ratios subsequent to the Year end, refer to note 37.

3. Consolidated net debt is consolidated debt per published results, less cash and diamond debtors plus the guarantee for the BEE Partners' loan facilities of ZAR1,370 million as at 30 June 2017 (30 June 2016: ZAR1,303 million).

4. Consolidated net senior debt is consolidated debt per published results excluding senior secured second lien notes plus the guarantee for the BEE Partners' loan facilities of ZAR1,370 million as at 30 June 2017 (30 June 2016: ZAR1,303 million).

5. Book equity is equity excluding accounting reserves.

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

23. Trade and other payables

Significant accounting policies relevant to trade and other payables

Refer to note 34 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	2017	2016 ¹
Current		
Trade payables	39.1	66.1
Accruals and other payables	96.3	58.9
	135.4	125.0
Income tax payable	1.3	0.4
	136.7	125.4

1. In FY 2016, current trade and other payables exclude amounts classified as non-current assets held for sale of US\$9.2 million (refer to note 36).

Included in trade and other payables are amounts due to related parties (refer to note 28).

24. 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.

Notes to the Annual Financial Statements

For the Year ended 30 June 2017 continued

24. Provisions continued

Significant judgements and estimates relevant to provisions continued

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.

Refer to notes 32 and 33 for the Group's policy in respect of pensions and medical aid schemes and related key judgements and estimates.

Significant estimates and assumptions are made in determining the amount attributable to rehabilitation provisions. These deal with uncertainties such as the legal and regulatory framework, timing and future costs. In determining the amount attributable to rehabilitation provisions, Management used a discount rate range of 7.7–9.9% (30 June 2016: 8.1–9.6%), estimated rehabilitation timing of 10 to 48 years (30 June 2016: 11 to 49 years) and an inflation rate range of 5.7–7.9% (30 June 2016: 6.1–7.6%). The Group estimates the cost of rehabilitation with reference to approved environmental plans filed with the local authorities. Reductions in estimates are only recognised when such reductions are approved by local legislation and are consistent with the Group's planned rehabilitation strategy. Increases in estimates are immediately recognised.

US\$ million	Pension and post-retirement medical fund	Rehabilitation	Total
Balance at 1 July 2015	13.1	58.9	72.0
Acquired through acquisition	0.7	4.8	5.5
Decrease in rehabilitation liability provision – change in estimate	—	(11.0)	(11.0)
Provisions directly associated with non-current assets held for sale (note 36)	—	(1.4)	(1.4)
Increase in provisions	0.5	—	0.5
Unwinding of present value adjustment of rehabilitation provision	—	4.2	4.2
Exchange differences	(2.1)	(8.0)	(10.1)
Balance at 30 June 2016	12.2	47.5	59.7
Balance at 1 July 2016	12.2	47.5	59.7
Decrease in rehabilitation liability provision – change in estimate	—	(2.8)	(2.8)
Increase in provisions	1.5	—	1.5
Unwinding of present value adjustment of rehabilitation provision	—	5.0	5.0
Exchange differences	1.8	6.8	8.6
Balance at 30 June 2017	15.5	56.5	72.0

Employee entitlements and other provisions

The provisions relate to provision for an unfunded post-retirement medical fund and pension fund. The provision for the post-retirement medical fund and the pension fund is further disclosed in notes 32 and 33.

Rehabilitation

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

	Total		Finsch		Cullinan		Koffiefontein		KEM JV ¹		Kimberley Underground ¹		Kimberley Mines ¹		Helam		Williamson	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Decommissioning period (years)			16	17	48	49	10	11	19	—	—	11	—	3	—	—	16	17
Estimated rehabilitation cost (US\$ million)	56.5	47.5	21.1	17.3	13.3	10.7	6.4	5.3	11.9	—	—	4.6	—	5.7	1.6	1.3	2.2	2.6

1. The rehabilitation provisions of Kimberley Underground and Kimberley Mines are combined under the KEM JV for FY 2017.

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, change in estimates and unrealised foreign exchange on retranslation from functional to presentational currency.

In FY 2016, the US\$11.4 million decrease in the provisions were attributable to the acquisition of the Kimberley Mines operations, unwinding of discount, unrealised foreign exchange on retranslation from functional to presentational currency, classification of Kimberley Underground (24.1%) to non-current assets held for sale, change in estimate at Kimberley Underground together with a reduction at Williamson arising from an independent assessment of closure costs and the approval thereof by the Tanzanian Government.

Cash and cash equivalents have been secured in respect of rehabilitation provisions, as disclosed in note 19.

25. Deferred taxation

Significant accounting policies relevant to deferred taxation

Deferred tax is provided using the balance sheet liability method, based on temporary differences. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax is charged to the Consolidated Income Statement except to the extent that it relates to a transaction that is recognised directly in other comprehensive income or a business combination that is an acquisition. The effect on deferred tax of any changes in tax rates is recognised in the Consolidated Income Statement, except to the extent that it relates to items previously charged or credited directly to other comprehensive income. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Judgement is applied in making assumptions about recognition of deferred tax assets. Judgement is required in respect of recognition of such deferred tax assets including the timing and value of estimated future taxable income and available tax losses, as well as the timing of rehabilitation costs and the availability of associated taxable income.

US\$ million	2017	2016
Balance at the beginning of the Year	98.9	106.7
Income statement charge	24.7	10.5
Foreign currency translation difference	13.6	(18.3)
Balance at the end of the Year	137.2	98.9
Comprising:		
Deferred tax asset	(5.9)	(7.1)
Deferred tax liability	143.1	106.0
	137.2	98.9

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	2017 Recognised	2017 Unrecognised
Deferred tax liability			
– Property, plant and equipment	212.3	212.3	—
– Prepayment and accruals	0.2	0.2	—
	212.5	212.5	—
Deferred tax asset			
– Capital allowances	(54.6)	(51.2)	(3.4)
– Provisions and accruals	(22.7)	(20.2)	(2.5)
– Tax losses	(35.8)	(3.9)	(31.9)
	(113.1)	(75.3)	(37.8)
Net deferred taxation liability/(asset)	99.4	137.2	(37.8)

US\$ million	Total	2016 Recognised	2016 Unrecognised
Deferred tax liability			
– Property, plant and equipment	230.1	230.1	—
	230.1	230.1	—
Deferred tax asset			
– Capital allowances	(117.7)	(113.2)	(4.5)
– Provisions and accruals	(18.4)	(16.5)	(1.9)
– Tax losses	(17.6)	(1.5)	(16.1)
	(153.7)	(131.2)	(22.5)
Net deferred taxation liability/(asset)	76.4	98.9	(22.5)

Deferred tax assets of US\$5.9 million (30 June 2016: US\$7.1 million) have been recognised in respect of tax losses and other temporary differences to be utilised by future taxable profits at KEM JV (30 June 2016 comprised tax losses and other temporary differences for Koffiefontein and Kimberley Underground). The Directors believe it is probable these tax assets will be recovered through future taxable income or the reversal of temporary differences, as a result of improving operating results at KEM JV.

Notes to the Annual Financial Statements

For the Year ended 30 June 2017 continued

25. Deferred taxation continued

Movements in deferred tax include amounts recognised in the Consolidated Income Statement, together with foreign exchange retranslation. The Consolidated Income Statement deferred tax charge for the Year reflects movements in deferred tax of US\$25.9 million (30 June 2016: US\$11.4 million) in respect of property, plant and equipment and associated capital allowances, with the remainder US\$1.2 million credit (30 June 2016: US\$0.9 million credit) comprised of immaterial items.

26. 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 expected to be sold in the foreseeable future and only then will Petra's share of the proceeds in the retained interest be recognised as revenue.

Environmental

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

BEE Lender guarantees

The Group has provided surety to Absa, Investec and RMB for repayment of loans advanced by Absa, Investec and RMB to the Group's BEE Partners (refer to note 15). The BEE Lender facilities were amended on 1 July 2016 to include Kago Diamonds as a party to the BEE Lender facilities and to extend the repayment terms to align with the delivery of the capital expansion programmes at the underlying Petra mining operations. The probability of repayment default by the BEE Partners to Absa, Investec and RMB is considered remote.

Details of related parties are disclosed in note 28.

27. Share-based payments

Significant accounting policies relevant to share-based payments

Employee and Director share option scheme

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

The LTIP award fair value is recognised annually at the date of grant as an employee expense with reference to the Company share price and award quantum. The amount recognised as an expense is then adjusted to reflect the final number of LTIPs which vest once the final performance conditions and weighted average share price are determined. Measurement of the expense is calculated on a straight-line basis (LTIP award multiplied by the vesting percentage, multiplied by the Company's share price multiplied by the foreign exchange rate).

2011 Longer-term Share Plan ("LTSP"), 2012 Performance Share Plan ("PSP") and 2016 Longer-term Incentive Plan ("LTIP")

Share-based awards granted under the LTSP and PSP are valued using the Monte Carlo model at the date of grant and the associated expense recognised over the vesting period during which the associated vesting conditions are satisfied unconditionally by the beneficiaries with a corresponding increase in reserves.

Where the awards are subject to non-market-based performance conditions, the expense will be adjusted subject to the actual vesting outcome of those specific performance conditions.

The LTSP performance conditions were non-market-based (i.e. production which is independent of the Company's share price) such that performance conditions are not reflected in the fair value of the award at grant date; however, at each reporting period, the Company would assess the likelihood of the conditions being met and revise the cumulative expense accordingly. In the event that vesting conditions were not met the charge would be reversed.

The PSP performance conditions are a combination of market-based (i.e. movement/growth in Company share price) and non-market-based conditions. The vesting conditions attributable to market-based conditions are valued by taking into account the considered likelihood of meeting the vesting conditions at the date the fair value is calculated. Unlike non-market conditions, no adjustment is made for changes in the likelihood of the market conditions being met. The non-market-based vesting conditions are treated as per the LTSP above.

The LTIP performance conditions are non-market-based (i.e. HSSE, production, project delivery and adjusted EBITDA) with vesting conditions measured annually.

27. Share-based payments continued

Company schemes

The total share-based payment charge of US\$0.2 million (30 June 2016: US\$5.3 million) for the LTSP and PSP share plans comprises US\$0.1 million (30 June 2016: US\$4.1 million charge) credited to the Consolidated Income Statement and US\$0.3 million (30 June 2016: US\$1.2 million) capitalised within property, plant and equipment.

The total charge of US\$1.3 million (30 June 2016: US\$nil) for the LTIP share plan was charged to the Consolidated Income Statement.

Share grants to Directors: LTSP, 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 LTSP and the PSP granted during the current and prior year and the assumptions used in the Monte Carlo model are as follows:

LTSP – non-market-based subject to performance conditions	2012 (last award)	
Fair value	133.0p	
Grant date	15 May 2012	
Share price at grant date	133.0p	
Life of award	3.4–4.4 years	
Expected dividends	—	
PSP – market and non-market-based performance conditions	2017	2016
Fair value (PSP absolute TSR/PSP relative TSR/PSP non-market)	81.9p/99.0p/139.8p	24.0p/55.0p/93.25p
Grant date	6 October 2016	6 October 2015
Share price at grant date	139.8p	93.25p
Expected volatility	46.9%	37%
Life of award	3 years	3 years
Expected dividends	—	—
Performance period	3 years	3 years
Correlation	22%	19%
Risk-free interest rate (based on national Government bonds)	0.1%	0.8%

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, 551,179 (30 June 2016: 1,295,271) PSP shares were awarded at a fair value price of 139.8 pence (30 June 2016: 93.25 pence). There were no shares awarded under the 2011 LTSP (30 June 2016: nil). 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 26 November 2015, the Executive Directors of the Company were granted a total of 161,773 (30 June 2016: 196,090) 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 25% of the total bonus in respect of performance for the financial year ended 30 June 2016. The awards vest on 30 June 2018 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 86 to 101.

Share grants to Senior Management: 2011 LTSP

The share-based payment awards are considered to be equity settled, albeit they can be cash settled at the Company's option. There were no shares granted in the current Year. The fair value of the LTSP awards granted to Senior Management during the prior year and the assumptions used in the Monte Carlo model are as follows:

LTSP – non-market-based subject to performance conditions	2017	2016
Fair value	n/a	104.0p
Grant date	n/a	30 March 2016
Share price at grant date	n/a	104.0p
Life of award	n/a	0.3 years
Expected dividends	n/a	—

During the Year, nil (30 June 2016: 385,000) 2011 LTSP shares were awarded, 1,404,480 lapsed (30 June 2016: 475,000) and 4,371,770 vested (30 June 2016: 3,463,750) subject to the 50% partial vesting criteria. These awards had no exercise price. The awards vested at 84.4% based on performance conditions measured over the period ending 30 June 2016. The awards have the same performance targets as the awards to Directors under the 2011 LTSP. Further information on the performance targets of the awards can be found on page 91 of the Directors' Remuneration Report.

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For the Year ended 30 June 2017 continued

27. Share-based payments continued

Share grants to Senior Management: 2011 LTSP continued

The interests of Senior Management under the LTSP are as follows:

	2017 Number	2016 Number
Outstanding at the beginning of the Year	5,776,250	9,330,000
Granted during the Year	—	385,000
Lapsed during the Year	(1,404,480)	(475,000)
Vested during the Year	(4,371,770)	(3,463,750)
Outstanding at the end of the Year	—	5,776,250
Vested at the end of the Year	—	—

There are no Senior Management awards outstanding at 30 June 2017.

Senior Management LTIP: 2017

The Senior Management LTIP awards will be cash settled. During the year 1,994,168 LTIP awards vested. 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	2017	2016
Number of awards	6,060,168	n/a
Fair value	109.0p	n/a
Grant date	1 September 2016	n/a
Share price at grant date	109.0p	n/a
Life of award	3 years	n/a
Foreign exchange rate (ZAR/USD\$)	ZAR13.05	n/a

Employee and Director share options

The Company has a legacy share option plan, the 2005 Executive Share Option scheme. The last awards under this plan were granted in March 2010 and no further awards will be granted to Executive Directors or Senior Management under this plan. The share-based payment expense has been calculated using the Black-Scholes model. All share options are equity settled.

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

Employees and Directors entitled	Grant date	Number	Vesting period	Remaining life of options (years)
Options granted to Directors	12 March 2009	1,500,000	1/3 per annum from grant date	2
	30 September 2009	800,000	1/3 per annum from grant date	2
	17 March 2010	800,000	1/3 per annum from grant date	3
Options granted to Senior Management	12 March 2009	788,333	1/3 per annum from grant date	2
	30 September 2009	398,333	1/3 per annum from grant date	2
	17 March 2010	803,334	1/3 per annum from grant date	3
	25 November 2010	165,000	1/3 per annum from grant date	3

27. Share-based payments continued

Employee and Director share options continued

	2017			2016	
	Weighted average exercise price (pence)	Number		Weighted average exercise price (pence)	Number
Outstanding at the beginning of the Year	42.4	7,386,250		47.0	8,767,500
Cancelled	—	—		65.7	(3,845)
Exercised during the Year	37.6	(2,131,250)		71.7	(1,377,405)
Outstanding at the end of the Year	43.7	5,255,000		42.4	7,386,250
Exercisable at the end of the Year	43.7	5,255,000		42.4	7,386,250

The weighted average market price of the shares in respect of options exercised during the Year was 131.9 pence (30 June 2016: 114.7 pence). The options outstanding at 30 June 2017 have an exercise price in the range of 27.5 pence to 92.8 pence (30 June 2016: 27.5 pence to 92.8 pence) and a weighted average remaining contractual life of two years (30 June 2016: three years).

The above mentioned options are fully vested and due to be equity settled under the plan terms. No legal or constructive obligation to cash settle the remaining options or share awards is considered to exist.

28. Related parties

Subsidiaries and jointly controlled operations

Details of subsidiaries and jointly controlled operations are disclosed in note 30 and note 31 respectively.

Directors

Details relating to Directors' emoluments are disclosed in note 11 and in the Directors' Remuneration Report on pages 86 to 101. Details relating to Directors' shareholdings in the Company are disclosed in the Corporate Governance Report on pages 56 and 57. Key Management remuneration is disclosed in note 11.

In the prior year, Mr Abery stepped down as Petra's Finance Director, effective 30 June 2016, in order to pursue other opportunities. He entered into a fixed term employment contract for advisory services with the Company effective from 1 July 2016 for a fixed period of seven months until 31 January 2017 as part of the succession process. Further details with regards to Mr Abery's resignation and subsequent fixed term employment contract are disclosed in the Directors' Remuneration Report.

BEE Partners and related party balances

The Group's related party BEE Partners, Kago Diamonds, (30 June 2016: Senakha Diamonds Investments (Pty) Ltd ("Senakha"), Thembinkosi Mining Investments (Pty) Ltd ("Thembinkosi"), Re-Teng Diamonds (Pty) Ltd ("Re-Teng Diamonds")) and Sedibeng Mining (Pty) Ltd ("Sedibeng Mining") and their gross interests in the mining operations of the Group are disclosed in the table and Group restructuring paragraph below.

Mine	Partner and respective interest as at 30 June 2017	Partner and respective interest as at 30 June 2016
Finsch	Kago Diamonds (14%)	Senakha (21%)
Cullinan	Kago Diamonds (14%)	Thembinkosi (14%)
Koffiefontein	Kago Diamonds (14%)	Re Teng Diamonds (30%)
Kimberley Underground	n/a	Sedibeng Mining (26%)
KEM JV ¹	Kago Diamonds (8.4%) Ekapa Mining (24.1%)	n/a
Helam	Sedibeng Mining (26%)	Sedibeng Mining (26%)
Kimberley Mines	n/a	Ekapa Mining (50.1%)

1. The KEM JV was formed effective 1 July 2016 (refer note 31).

Notes to the Annual Financial Statements

For the Year ended 30 June 2017 continued

28. 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	2017	2016
Non-current receivable		
Re Teng Diamonds	—	0.6
Sedibeng Mining	1.0	14.1
Kago Diamonds	11.8	—
Senakha ²	—	2.1
Thembinkosi ^{1,2}	—	2.4
Ekapa Mining ³	2.0	2.7
	14.8	21.9
Non-current payable		
Sedibeng Mining	—	1.1
Kago Diamonds	53.6	—
Senakha ²	—	35.2
Thembinkosi ^{1,2}	—	21.8
	53.6	58.1
Finance income		
Sedibeng Mining	—	1.3
Senakha ²	—	0.1
Kago Diamonds	0.7	—
Thembinkosi ^{1,2}	—	0.1
Ekapa Mining	0.2	0.1
	0.9	1.6
Finance expense		
Sedibeng Mining	—	0.7
Kago Diamonds	5.8	—
Senakha ²	—	3.9
Thembinkosi ^{1,2}	—	2.0
Ekapa Mining	0.2	0.1
	6.0	6.7

1. Umnotho weSizwe Group (Pty) Ltd ("Umnotho") holds a 36% interest in Thembinkosi. Mr Abery (a Group Director for FY 2016) is a director of Umnotho. Mr Pouroulis, Mr Dippenaar and Mr Abery are directly or indirectly beneficiaries of a trust that is a shareholder in Umnotho.

2. Included in non-current receivables and payables are amounts advanced during the Year of US\$nil (30 June 2016: US\$1.7 million) and an accrual of US\$nil (30 June 2016: US\$11 million). These accruals are now included under current trade and other payables as at 30 June 2017.

3. Also included in current trade and other receivables and current trade and other payables are amounts of US\$9.6 million (30 June 2016: US\$11.6 million) receivable from and US\$nil payable to Ekapa Mining relating to working capital loans with the Group.

Interest on the BEE loans and receivables is charged at the prevailing South African prime interest rate plus an interest margin ranging between 0% and 2%.

The BEE loans payable bear interest at the prevailing South African prime interest rate.

Further details on the BEE guarantees are in note 26.

Tolling agreement

In the prior year the Group entered into a tolling agreement for the period 18 January 2016 to 30 June 2016 with Ekapa Minerals (50.1% owned by Ekapa Mining (Pty) Ltd) and Super Stone (100% owned by Ekapa Mining (Pty) Ltd) to combine diamond production and sales. Under the agreement, the Group acquired tailings material from the parties and the combined run of mine and tailings material of the parties was processed by the parties in return for tolling fees. While the Group sold the resulting combined diamond production on behalf of the parties, the Group only received the economic benefit from 75.9% of the combined rough diamond sales under the agreement. Accordingly, the Group recognised 75.9% of the sales for which it acted as principal. No revenue was recognised for the remaining portion, for which the Group acted as an agent and receives no further income. The Group generated revenue of US\$42.2 million as part of the tolling agreement and incurred total costs of US\$23.4 million for the period 18 January 2016 to 30 June 2016. Effective 1 July 2016 the Group entered into the KEM JV (refer to note 31) and the tolling agreement ceased.

28. Related parties continued

Rental income receivable

The Group received US\$nil million (30 June 2016: US\$0.1 million) of rental income from Pella Resources Ltd and US\$0.3 million (30 June 2016: US\$0.1 million) from Alufer Mining Ltd. The Group has US\$0.3 million (30 June 2016: US\$0.2 million) receivable from Pella Resources Ltd and US\$0.1 million (30 June 2016: US\$0.1 million) receivable from Alufer Mining Ltd, both companies of which Mr Pouroulis is a director.

Group restructuring

Effective 1 July 2016, the Company completed the restructuring of the Group and its BEE Partner structures, allowing for a simplified Group structure. The IPDET now owns a 12% interest in each of the Group's South African operations, with Petra's commercial BEE Partners holding the remaining 14% interest through their respective shareholdings in Kago Diamonds, in which Petra has a 31.46% interest. The effect of the restructuring for shareholders at 1 July 2016 is an increase in the equity attributable to the shareholders of the Company as the non-controlling interest in the underlying net assets of the operations decreased by US\$1.4 million. This decrease reflects the non-controlling interest's increased share of cumulative profits at Finsch, a reduction in the share of the cumulative profits at Cullinan and an increased share of cumulative losses at Kimberley, Koffiefontein and Helam. The increase of US\$1.4 million, attributable to the Group's shareholders, excludes the effect of the KEM JV transaction in note 31. The effective interest percentages attributable to the Group's shareholders are disclosed in the table below:

Mine	Resultant Group's effective interest % – pre-restructuring	Resultant Group's effective interest % – post-restructuring
Finsch	82.38	78.4
Cullinan	77.03	78.4
Koffiefontein	81.39	78.4
Kimberley Underground/KEM JV	86.80	58.3 ¹
Helam	86.80	74.0

1. The 58.3% effective interest in KEM JV post-restructuring reflects both the Group's interest in KEM JV following the transaction in note 31 and the impact of the BEE restructuring.

Shareholders

The principal shareholders of the Company are detailed in Supplementary Information on page 173.

29. Significant non-cash transactions

US\$ million	2017	2016
Operating activities		
Depreciation of property, plant and equipment	79.6	51.8
Movement in provisions	(0.6)	(0.7)
Fair value uplift on Kimberley Ekapa Mining Joint Venture	(4.1)	—
Other finance expense – pension scheme	0.2	0.2
Other finance expense – unwinding of present value adjustment for rehabilitation costs	5.0	4.2
Other finance expense – post-retirement medical fund	1.1	0.9
Net unrealised foreign exchange gains	(9.9)	(3.2)
Profit on sale of property, plant and equipment	(0.3)	(0.1)
Share-based payment provision	0.2	4.1
	71.2	57.2
Investing activities		
Non-cash capital expenditure (capitalisation of borrowing costs and employee costs)	10.7	2.1
Non-cash rehabilitation asset adjustment – change in estimate	—	8.8
Non-cash interest receivable from BEE loans on investing activity	1.2	1.6
	11.9	12.5
Investing activities		
Non-cash interest payable on BEE loans on investing activity	10.8	6.7
	10.8	6.7

Notes to the Annual Financial Statements

For the Year ended 30 June 2017 continued

30. Subsidiaries and jointly controlled interests

Significant accounting policies relevant to subsidiaries

At 30 June 2017 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 2017	Direct percentage held 2016	Nature of business
Blue Diamond Mines (Pty) Ltd ^{1,4}	South Africa	Ordinary	74%	100%	Mining and exploration
Crown Resources (Pty) Ltd ⁴	South Africa	Ordinary	74%	100%	Mining and exploration
Cullinan Diamond Mine (Pty) Ltd	South Africa	Ordinary	74%	74%	Mining and exploration
Cullinan Investment Holdings Ltd ⁶	British Virgin Islands	Ordinary	100%	100%	Investment holding
Ealing Management Services (Pty) Ltd	South Africa	Ordinary	100%	100%	Treasury
Ekapa Minerals (Pty) Ltd ²	South Africa	Ordinary	49.9%	49.9%	Mining and exploration
Finsch Diamond Mine (Pty) Ltd	South Africa	Ordinary	74%	74%	Mining and exploration
Helam Mining (Pty) Ltd	South Africa	Ordinary	74%	74%	Mining and exploration
Kalahari Diamonds Ltd	United Kingdom	Ordinary	100%	100%	Investment holding
Kimberley Ekapa Mining JV ^{3,4}	Unincorporated JV	n/a	55.5%	—	Mining and exploration
Kimberley Underground Mines JV ⁴	Unincorporated JV	n/a	—	74%	Mining and exploration
Koffiefontein Empowerment JV ⁴	Unincorporated JV	n/a	—	70%	Mining and exploration
Luxanio Trading 105 (Pty) Ltd	South Africa	Ordinary	100%	100%	Investment holding
Petra Diamonds Botswana (Pty) Ltd	Botswana	Ordinary	100%	100%	Exploration
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 ⁶	South Africa	Ordinary	100%	100%	Treasury
Tarorite (Pty) Ltd ⁵	South Africa	Ordinary	74%	100%	Beneficiation
Willcroft Company Ltd	Bermuda	Ordinary	100%	100%	Investment holding
Williamson Diamonds Ltd	Tanzania	Ordinary	75%	75%	Mining and exploration

1. The Company disposed of its 13.33% share of Re Teng Diamonds, held through Blue Diamond Mines (Pty) Ltd, as part of the Group restructuring disclosed in note 15.

2. Ekapa Minerals (Pty) Ltd was acquired on 18 January 2016.

3. On 8 July 2016, Petra and Ekapa Mining entered into a joint venture agreement (effective 1 July 2016) to combine the operations they owned in the Kimberley area into an unincorporated joint venture named the KEM JV; refer to note 31 for further information.

4. As part of the Group restructuring, the Kimberley and Koffiefontein joint ventures were dissolved and the assets transferred back to Crown Resources (Pty) Ltd and Blue Diamond Mines (Pty) Ltd respectively.

5. As part of the Group restructuring, Kago acquired a 26% interest in Tarorite (Pty) Ltd.

6. As part of the Group restructuring, Cullinan Investment Holdings Ltd and Premier Rose Management Services (Pty) Ltd are to be deregistered.

31. Acquisition

Significant accounting policies relevant to acquisitions

Refer to note 1.2 for the Group's policy relevant to acquisition of joint operations.

Significant judgements and estimates relevant to acquisitions

Kimberley Mines – 30 June 2016

Judgement was applied in determining the fair value adjustments in respect of the Kimberley Mines acquisition. The fair value adjustments to property, plant and equipment and medical aid provisions were to ensure these amounts were reflected at fair value. The Group holds a 49.9% interest in Ekapa Minerals, which was used to acquire Kimberley Mines. The Group consolidates its share of the assets, liabilities, income and expenses of a jointly controlled operation, based on contractual agreements between the joint venture partners that provided for unanimous decision making on the relevant activities of the business. The accounting treatment involves consideration of the structure of the arrangement, the legal form and the contractual agreements between the parties.

Kimberley Ekapa Mining Joint Venture ("KEM JV") – 30 June 2017

In July 2016, Petra entered into a joint venture agreement to combine the operations they owned with those of Ekapa Mining to create the KEM JV. Subsequent to the transaction, Petra and its BEE Partners had a 75.9% jointly controlled interest in KEM JV, held through Crown Resources (Pty) Ltd and Ekapa Minerals, with Ekapa Mining owning the remaining 24.1%. Petra and its BEE Partners effectively contributed 24.1% of their interest in Kimberley Underground Mine in return for a 75.9% interest in the tailings operations (contributed by Super Stone and Kimberley Miners Forum (Pty) Ltd, subsidiaries of Ekapa Mining and a 26% increase in the interest in the Kimberley Mines tailings operation taking its interest to 75.9%. In line with IAS 28, gains and losses resulting from upstream and downstream transactions between an entity and its joint venture are recognised in the entity's financial statements only to the extent of unrelated investors' interest in the joint venture. As a result, Petra's incremental increase of 26% in Ekapa Minerals and its share (75.9%) of Super Stone have been recognised at fair value with the gain being recognised in the Consolidated Income Statement. Petra's remaining share of Kimberley Underground Mine (75.9%) continues to be recognised at book value whilst the 24.1% of the assets and liabilities classified as held for sale at 30 June 2016 have been derecognised and expensed in the Year and recorded as part of the net US\$4.1 million fair value gain.

31. Acquisition continued

Kimberley Ekapa Mining Joint Venture ("KEM JV") – 30 June 2017 continued

The Group accounts for its interest in the KEM JV as a joint arrangement. The Group is a party to a joint arrangement when there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to the Group and at least one other party. The Group classifies its interests in joint arrangements as jointly controlled operations where the Group has the rights to both assets and obligations for the liabilities of the joint arrangement. In assessing the classification of interests in joint arrangements, the Group considers the structure of the arrangement, the legal form and the contractual agreements between the parties.

The Group accounts for its interests in joint operations by recognising its share of assets, liabilities, revenues and expenses in accordance with its contractually conferred rights and obligations.

Judgement was applied in determining the fair value adjustments in respect of the KEM JV acquisition. The fair value adjustments to mineral properties were to ensure the asset values for Petra's incremental share in Ekapa Minerals and Petra's interest in Super Stone were reflected at fair value. The Group has joint control over the KEM JV and recognises its share of the assets, liabilities, income and expenses. The accounting treatment involved consideration of the structure of the arrangement, the legal form and the contractual agreements between the parties.

Effect of the transaction

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

Summary of net fair value gain recognised

US\$ million	Table	Fair values
Fair value uplift for 26% incremental interest in Ekapa Minerals	a)	2.2
Fair value uplift for 75.9% interest in Super Stone	b)	8.5
Derecognition of 24.1% net book value of Kimberley Underground Mines	c)	(6.6)
Net fair value gain recognised in the Consolidated Income Statement		4.1

(a) Ekapa Minerals

US\$ million	Book values	Fair value adjustments	Fair values
Mining property, plant and equipment	18.9	—	18.9
Mineral property	—	3.7	3.7
Cash and cash equivalents, inventory and trade and other receivables	6.9	—	6.9
Environmental liabilities and trade and other payables	(21.0)	—	(21.0)
Net assets at 1 July 2016	4.8	3.7	8.5
Recognition of Petra's 26% incremental interest in Ekapa Minerals	1.2	1.0	2.2

(b) Super Stone

US\$ million	Book values	Fair value adjustments	Fair values
Mining property, plant and equipment	7.4	—	7.4
Mineral property	2.0	0.9	2.9
Cash and cash equivalents, inventory and trade and other receivables	2.5	—	2.5
Environmental liabilities and trade and other payables	(1.6)	—	(1.6)
Net assets at 1 July 2016	10.3	0.9	11.2
Recognition of Petra's 75.9% interest in Super Stone	7.8	0.7	8.5

(c) Kimberley Underground mine

US\$ million	Book values
Partial disposal of 24.1% of Kimberley Underground mine (refer to note 36)	(6.6)

The US\$4.1 million gain recorded on the formation of KEM JV represents Petra's newly recognised incremental 26% share of the fair value of Ekapa Minerals' assets and liabilities and its 75.9% share of the fair value of Super Stone's assets and liabilities, less the 24.1% of the net book value assets and liabilities of Kimberley Underground mine relinquished by Petra as part of the transaction.

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For the Year ended 30 June 2017 continued

31. Acquisition continued

30 June 2016

Acquisition of 49.9% interest in Kimberley Mines

On 18 January 2016, Ekapa Minerals, owned by Petra (49.9%) and Ekapa Mining (50.1%), an established Kimberley-based diamond tailings producer, acquired from De Beers Consolidated Mines Proprietary Limited the Kimberley Mines assets and liabilities in South Africa as a going concern. The total consideration was circa US\$6.0 million (ZAR102 million) paid in cash, Petra's share being circa US\$3.0 million (ZAR50.9 million). The transaction comprised a number of tailings deposits in the Kimberley area, as well as the Central Treatment Plant, and provided the opportunity to ensure a sustainable future for the diamond mining industry in Kimberley. Petra jointly controlled the business based on contractual agreements between the parties. The Group recognised its share of the assets, liabilities, income and expenses based on an analysis of factors including the structure of the arrangement, the legal form and the contractual agreements between the shareholders.

It was not practical to obtain the turnover and operating results for the Kimberley Mines for the period from 1 July 2015 to the date of acquisition, as the Kimberley Mines turnover and operating results were treated as a branch within a larger corporate division by the vendor and were not available to the Group.

Effect of the acquisition

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

Kimberley Mines net assets at acquisition date

US\$ million	Book values	Fair value adjustments	Fair values
Mining property, plant and equipment	16.4	(1.2)	15.2
Land	2.2	—	2.2
Inventory consumables and stores	0.8	—	0.8
Environmental liabilities	(9.6)	—	(9.6)
Medical aid and provisions	(3.0)	1.2	(1.8)
Employee-related payables	(0.5)	—	(0.5)
Trade and other payables	(0.3)	—	(0.3)
Net assets acquired	6.0	—	6.0
Fair value of net assets acquired (49.9%)			3.0
Satisfied as follows:			
Cash consideration paid by the Group			3.0

32. Pension scheme

Significant accounting policies relevant to pensions

Defined contribution scheme

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

Defined benefit scheme

The defined benefit liability or asset recognised in the Consolidated Financial Statements represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduced by the fair value of plan assets. Any net asset recognised is limited to unrecognised actuarial losses, plus the present value of available refunds and any reduction in future contributions that the Company is entitled to in terms of Section 15E of the Pension Funds Act in South Africa. Changes in the defined benefit valuation are recorded in the Consolidated Income Statement when they refer to current service costs, past service costs or net interest calculated on the net deficit. All other changes in the defined benefit valuation are recorded within other comprehensive income. The actuarial calculation is performed by a qualified actuary using the projected unit credit method every second year unless the actuarial assumptions are considered to have materially changed since the previous external valuation, in which case the valuation is revisited earlier.

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 2017. 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.

32. 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 9.62% (30 June 2016: 9.83%), and that salaries will be increased at 7.95% (30 June 2016: 8.96%), based on the current South African consumer price index of 6.95% (30 June 2016: 7.96%). Estimated future benefit payments to members for the 12-month period ending 30 June 2018 are US\$1.2 million.

US\$ million	2017	2016
Defined benefit obligations		
Present value of funded obligations	(14.1)	(12.9)
Fair value of plan assets	13.4	11.9
Recognised deficit for defined benefit obligations	(0.7)	(1.0)
Expense recognised in the income statement		
Current service cost	(0.3)	(0.3)
Net interest on deficit	0.2	(0.2)
	(0.1)	(0.5)
Change in the fair value of the defined benefit assets		
At 1 July	11.9	14.3
Foreign exchange movement on opening balances	1.4	(2.5)
Return on plan assets	0.6	0.7
Benefits paid to members	(1.1)	(1.1)
Contributions by Group	0.6	0.5
At 30 June	13.4	11.9
Change in the present value of the defined benefit obligations		
At 1 July	(12.9)	(15.5)
Foreign exchange movement on opening balance	(1.4)	2.7
Benefits paid to members	1.1	1.1
Current service cost	(0.3)	(0.3)
Finance expense	(0.3)	(1.1)
Contributions by members	(0.1)	(0.1)
Net transfers (out)/in	(0.2)	0.3
At 30 June	(14.1)	(12.9)
Analysis of plan assets		
Cash	13.3%	13.3%
Equity	41.7%	41.7%
Bonds	22.4%	22.4%
Property	7.2%	7.2%
Other – offshore	15.4%	15.4%
	100.0%	100.0%

Notes to the Annual Financial Statements

For the Year ended 30 June 2017 continued

32. Pension scheme continued

Defined benefit scheme continued

US\$ million	2017	2016	2015	2014
Plan assets	13.4	11.9	14.3	15.5
Plan liabilities	(14.1)	(12.9)	(15.5)	(16.5)
Deficit	(0.7)	(1.0)	(1.2)	(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 2017 is as follows:

	2017	2016
Male	15.92	15.92
Female	20.02	20.02

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

The valuation is subject to risks. The key sensitivities are changes in discount rates and mortality assumptions. A 0.5% change in the discount rate changes the pension obligation by approximately US\$0.8 million (30 June 2016: US\$0.8 million). A two-year change in mortality changes the pension obligation by approximately US\$0.5 million (30 June 2016: US\$0.2 million).

33. 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 2016 in line with the Group's policy of obtaining an external valuation of the post-employment healthcare liability scheme every two years. The Group has assessed the key assumptions and no significant change in any of the key assumptions from the last external valuation at 30 June 2016 has been identified. 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 opposite.

The post-employment healthcare liability scheme was acquired as part of the acquisitions of the Cullinan, Finsch and Kimberley Mines and is closed to new members. All new employees will be responsible for funding their own post-employment healthcare liability costs.

The benefit liability for the post-employment healthcare liability scheme is regularly assessed in accordance with the advice of a qualified actuary using the projected unit credit method. The Group's post-employment healthcare liability consists of a commitment to pay a portion of the members' post-employment medical scheme contributions. This liability is also generated in respect of dependants who are offered continued membership of the medical scheme on the death of the primary member. The most important assumptions made in connection with the charge or income were that the healthcare cost of inflation will be 8.75% (30 June 2016: 8.75%), based on the average yield of relevant South African Government long-dated bonds of 9.75% (30 June 2016: 9.75%), and that salaries will be increased at 7.25% (30 June 2016: 7.25%).

33. Post-retirement medical fund continued**Significant judgements and estimates relevant to medical funds** continued

US\$ million	2017	2016		
Post-retirement medical fund				
Present value of post-employment medical care obligations	14.8	11.2		
Unfunded status at 30 June	14.8	11.2		
Movements in present value of the post-retirement medical fund obligations recognised in the Consolidated Statement of Financial Position				
Net liability for the post-retirement medical fund obligation as at 1 July	11.2	11.9		
Foreign exchange movement on opening balances	2.0	(2.0)		
Arising from acquisition	—	0.7		
Net expense recognised in the income statement	1.7	1.2		
Membership changes	—	(0.4)		
Benefit payments	(0.1)	(0.2)		
Net liability for post-employment medical care obligations at 30 June	14.8	11.2		
Expense recognised in the income statement				
Current service cost	0.6	0.3		
Finance expense	1.1	0.9		
	1.7	1.2		
The expense is recognised in the following line items in the income statement				
Mining and processing costs	0.6	0.3		
Finance expense	1.1	0.9		
	1.7	1.2		
Reconciliation of fair value of scheme liabilities				
At 1 July	11.2	11.9		
Foreign exchange movement on opening balances	2.0	(2.0)		
Arising from acquisition	—	0.7		
Net expense recognised in the income statement	1.7	1.2		
Membership changes	—	(0.4)		
Benefit payments	(0.1)	(0.2)		
Liabilities at fair market value at 30 June	14.8	11.2		
US\$ million	2017	2016		
Principal actuarial assumptions				
Discount rate	9.75%	9.75%		
Healthcare cost inflation	9.50%	9.50%		
Future salary increases	7.25%	7.25%		
Net replacement ratio	86%	86%		
Net discount rate	0.92%	0.92%		
Normal retirement age (years)	60.0	60.0		
Fully accrued age (years)	60.0	60.0		
US\$ million	2017	2016		
Determination of estimated post-retirement medical fund expense for the year ended 30 June 2018				
Current service cost	0.2	0.2		
Finance expense	0.8	0.8		
Benefit payments	(0.2)	(0.2)		
US\$ million	2017	2016	2015	2014
Actuarial accrued liability				
Funded status	14.8	11.2	11.9	12.1

Notes to the Annual Financial Statements

For the Year ended 30 June 2017 continued

33. Post-retirement medical fund continued

Sensitivity analysis

Healthcare inflation rate

The effect of a 1% increase or decrease in the healthcare inflation rate on the post-retirement medical fund accrued liability is as follows:

US\$ million	30 June 2017	1% increase	1% decrease
Accrued liability	14.8	15.3	13.1
% difference	—	3.4%	(11.5%)

US\$ million	30 June 2016	1% increase	1% decrease
Accrued liability	11.2	12.4	10.5
% difference	—	10.7%	(6.25%)

Average retirement age

The table below shows the impact of a one-year change in the expected average retirement age:

US\$ million	30 June 2017	Retirement one year earlier	Retirement one year later
Accrued liability	14.8	15.4	13.4
% difference	—	4.0%	(9.5%)

US\$ million	30 June 2016	Retirement one year earlier	Retirement one year later
Accrued liability	11.2	12.5	11.4
% difference	—	11.6%	(1.8%)

34. Financial instruments

Significant accounting policies relevant to financial instruments

The Group classifies its financial assets (excluding derivatives) into the following category and the Group's accounting policy for the category is as follows:

Loans and receivables

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

Impairment of financial assets

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cashflows associated with the impaired receivable.

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

US\$ million	Total 2017	Total 2016	Statement of Financial Position 2016	Non-current assets held for sale 2016
Current trade receivables	42.9	74.1	71.3	2.8
Other receivables (excluding VAT and prepayments)	19.5	18.8	18.8	—
Non-current receivables (excluding VAT)	37.0	31.5	31.5	—
	99.4	124.4	121.6	2.8

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

34. Financial instruments continued

Significant accounting policies relevant to financial instruments continued

Impairment of financial assets continued

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

US\$ million	Total 2017	Total 2016	Statement of Financial Position 2016	Non-current assets held for sale 2016
Euro	5.9	—	—	—
Pound Sterling	9.0	6.6	6.6	—
South African Rand	49.6	107.1	104.3	2.8
US Dollar	34.9	10.7	10.7	—
	99.4	124.4	121.6	2.8

The Group classifies its financial liabilities (excluding derivatives) into one category: other liabilities. The Group's accounting policy is as follows:

Substantial modification of financial liabilities

When the Group's borrowings are refinanced, and the refinancing is considered to be a substantial modification, the difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised as a charge in the income statement on an accelerated basis.

Other liabilities

Trade payables, other payables and long-term BEE liabilities

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

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

US\$ million	Total 2017	Total 2016	Statement of Financial Position 2016	Liabilities directly associated with non-current assets held for sale 2016
Trade payables	39.1	74.5	66.1	8.4
Other payables (excluding taxation, VAT and derivatives)	96.3	53.0	52.2	0.8
Non-current trade payables owing to BEE Partners	99.5	86.2	84.6	1.6
	234.9	213.7	202.9	10.8

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

US\$ million	Total 2017	Total 2016	Statement of Financial Position 2016	Liabilities directly associated with non-current assets held for sale 2016
Botswana Pula	0.7	0.9	0.9	—
Pound Sterling	6.8	4.6	4.6	—
South African Rand	208.6	181.9	171.1	10.8
US Dollar	18.8	26.3	26.3	—
	234.9	213.7	202.9	10.8

Interest-bearing borrowings

Refer to note 22 for the Group's policy on interest-bearing borrowings.

Notes to the Annual Financial Statements

For the Year ended 30 June 2017 continued

34. Financial instruments continued

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

US\$ million	Total 2017	Total 2016	Statement of Financial Position 2016	Non-current assets/liabilities held for sale 2016
Financial assets				
Loans and receivables:				
– Non-current trade and other receivables (excluding VAT)	37.0	31.5	31.5	—
– Trade receivables	42.9	74.1	71.3	2.8
– Other receivables (excluding prepayments and VAT)	19.5	18.8	18.8	—
– Cash and cash equivalents – restricted	13.5	12.0	12.0	—
– Cash and cash equivalents – unrestricted	190.2	36.7	36.7	—
	303.1	173.1	170.3	2.8
Financial liabilities				
Held at amortised cost:				
– Non-current amounts owing to BEE Partners	99.5	86.2	84.6	1.6
– Non-current loans and borrowings	598.5	3172	3172	—
– Current loans and borrowings	158.6	107.3	107.3	—
– Trade and other payables (excluding taxation, VAT and derivatives)	135.4	127.5	118.3	9.2
Cashflow hedge (ineffective): derivative financial liability (held in other payables)	—	7.2	7.2	—
	992.0	645.4	634.6	10.8

There is no significant difference between the fair value of financial assets and liabilities and the carrying values set out in the table above, noting that non-current loan receivables and payables bear interest.

The derivative financial liabilities were valued using Level 2 of the financial instrument valuation hierarchy. The valuation is provided by the Group's bankers, which act as the instrument's counterparty, and was prepared using a Black-Scholes model. The inputs include the strike price range, spot price at Year end, volatility and discount rate.

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

US\$ million	Total 2017	Total 2016	Statement of Financial Position 2016	Non-current assets/liabilities held for sale 2016
Financial assets				
Botswana Pula	0.1	0.2	0.2	—
Euro	8.3	—	—	—
Pound Sterling	11.0	15.4	15.4	—
South African Rand	132.8	110.8	108.0	2.8
US Dollar	150.9	46.7	46.7	—
	303.1	173.1	170.3	2.8
Financial liabilities				
Botswana Pula	0.7	0.9	0.9	—
Pound Sterling	6.8	4.6	4.6	—
South African Rand	321.0	269.6	258.8	10.8
US Dollar	663.5	370.3	370.3	—
	992.0	645.4	634.6	10.8

Further quantitative information in respect of these risks is presented throughout these Financial Statements.

34. Financial instruments continued

Exposures to currency, liquidity, market price, credit and interest rate risk arise in the normal course of the Group's business. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. The Group uses financial instruments, in particular forward currency option contracts, to help manage foreign exchange risk. The Directors review and agree policies for managing each of these risks.

Credit risk

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

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

Credit risk associated with loans to BEE Partners is mitigated by a contractual obligation for the loans to be repaid, prior to any payments to the BEE Partners, from future cashflows generated by the Group's operations in which the BEE Partners hold interests. The amounts due from the Group's principal BEE partner are recoverable either through cashflows from the mines against which the loans were originally made or through cashflows from other Group mines in which the BEE Partner has an interest, by virtue of a contractual agreement.

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\$5.6 million (30 June 2016: US\$110.0 million).

Derivatives

The fair values of derivatives are separately recorded on the Consolidated Statement of Financial Position within 'Trade and other receivables' or 'Trade and other payables'. Derivatives are classified as current or non-current depending on the date of expected settlement of the derivative.

The Group utilises derivative instruments to manage certain market risk exposures. The Group does not use derivative financial instruments for speculative purposes; however, it may choose not to designate certain derivatives as hedges for accounting purposes. Such derivatives are classified as 'non-hedges' and fair value movements are recorded in the Consolidated Income Statement.

The use of derivative instruments is subject to limits and the positions are regularly monitored and reported to the Board.

Cashflow hedges

Derivative financial instruments are initially measured at fair value on the contract date and are subsequently re-measured to fair value at each reporting date. On the date the derivative contract is entered into, the Group decides whether to designate the derivative for hedge accounting. During the Year the Group did not enter into any hedges of forecast transactions (cashflow hedges). Where market conditions dictate, certain hedges will be revised with the banks and their terms modified into a new hedge. The Group formally assesses, at inception and on an ongoing basis, whether the derivatives are highly effective in offsetting changes in the fair value or cashflows of the hedged item. Changes in the fair value of a derivative that is effective in offsetting changes in the cashflow of the hedged item, and that is designated and qualifies as a cashflow hedge, are recognised directly in equity. Changes in fair value of derivatives that do not qualify for hedge accounting, or which were not designated for hedge accounting, are recognised in the Consolidated Income Statement. Amounts recognised in equity are transferred to the income statement in the period during which the hedged forecast impacts net profit or loss. An ineffective element of a cashflow hedge, which has been designated for hedge accounting, is taken to the Consolidated Income Statement.

Notes to the Annual Financial Statements

For the Year ended 30 June 2017 continued

34. Financial instruments continued

Cashflow hedges continued

In certain cases the Group classifies its forward currency contracts, which hedge highly probable forecast transactions, as cashflow hedges. Where this designation is documented, changes in fair value are recognised in equity until the hedged transactions occur, at which time the respective gains or losses are transferred to the Consolidated Income Statement. The risk being hedged is the volatility in the South African Rand and US Dollar exchange rates affecting the proceeds in South African Rand of the Group's US Dollar denominated diamond tenders. There have been no material transfers from equity to the Consolidated Income Statement during the Year.

During the Year certain of the Group's cashflow hedges ceased to meet IFRS hedge effectiveness criteria. The Group recognised an amount of US\$nil in the Consolidated Income Statement (30 June 2016: US\$7.2 million) in respect of the intrinsic and time value of these derivative positions that remained open at Year end. During the Year the Company recognised a realised loss of US\$3.8 million (30 June 2016: US\$20.7 million) in the Consolidated Income Statement in respect of foreign exchange contracts closed during the Year.

The fair value of the Group's open derivative positions recorded within 'Trade and other payables' is as follows:

US\$ million	Liability	
	2017	2016
Other derivatives		
Cashflow hedge (effective):		
– Forward foreign currency contracts	—	—
Cashflow hedge (ineffective):		
– Forward foreign currency contracts	—	7.2
Total derivatives	—	7.2

Foreign exchange risk

Foreign exchange risk arises because the Group has operations located in parts of the world where the functional currency is not US Dollars. The Group's net assets arising from its foreign operations are exposed to currency risk resulting in gains and losses on translation into US Dollars.

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

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

34. Financial instruments continued

Foreign exchange risk continued

The sensitivity analysis to foreign currency rate changes is as follows:

US\$ million	30 June 2017			
	Year-end US\$ rate	Year-end amount	US\$ strengthens 10%	US\$ weakens 10%
Financial assets				
Botswana Pula	0.0965	0.1	0.1	0.1
Euro	0.8754	8.3	7.5	9.1
Pound Sterling	0.7678	11.0	9.9	12.1
South African Rand	0.0766	132.8	119.5	146.1
US Dollar	1.0000	150.9	150.9	150.9
		303.1	287.9	318.3
Financial liabilities				
Botswana Pula	0.0965	0.7	0.6	0.8
Pound Sterling	0.7678	6.8	6.1	7.5
South African Rand	0.0766	321.0	289.0	353.2
US Dollar	1.0000	663.5	663.5	663.5
		992.0	959.2	1,025.0

US\$ million	30 June 2016			
	Year-end US\$ rate	Year-end amount	US\$ strengthens 10%	US\$ weakens 10%
Financial assets				
Botswana Pula	0.0916	0.2	0.2	0.3
Pound Sterling	0.7515	15.4	13.8	16.9
South African Rand	0.0681	110.8	99.7	121.9
US Dollar	1.0000	46.7	46.7	46.7
		173.1	160.4	185.8
Financial liabilities				
Botswana Pula	0.0916	0.9	0.8	1.0
Pound Sterling	0.7515	4.6	4.1	5.0
South African Rand	0.0681	269.6	242.6	296.5
US Dollar	1.0000	370.3	370.3	370.3
		645.4	617.8	672.8

The tables above reflect the impact of a 10% cumulative currency movement over the next 12 months and are shown for illustrative purposes.

Liquidity risk

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

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

Cashflow is monitored on a regular basis. Projections reflected in the Group working capital model indicate that the Group will have sufficient liquid resources to meet its obligations as disclosed in note 11. However, the Group's forecast indicates it is likely to breach its banking facility covenants at 31 December 2017, refer to note 11. 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 23, as reflected under non-current.

Notes to the Annual Financial Statements

For the Year ended 30 June 2017 continued

34. Financial instruments continued

Maturity analysis

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

US\$ million	Notes	30 June 2017				
		Interest rate	Total	6 months or less	6-12 months	1-2 years
Cash						
Cash and cash equivalents – unrestricted	19	0.1-5.5%	190.2	190.2	—	—
Cash – restricted	19	0.1-5.5%	13.5	—	—	13.5
Total cash			203.7	190.2	—	—
Loans and borrowings						
Bank loan – secured	22	12.1%	76.7	76.7	—	—
Bank loan – secured	22	9.5%	32.3	32.3	—	—
Senior secured second lien notes	22	7.25%	888.1	26.1	23.4	47.1
Cashflow of loans and borrowings			997.1	135.1	23.4	47.1
						791.5

US\$ million	Notes	30 June 2016				
		Interest rate	Total	6 months or less	6-12 months	1-2 years
Cash						
Cash and cash equivalents – unrestricted	19	0.1-5.5%	36.7	36.7	—	—
Cash – restricted	19	0.1-5.5%	12.0	—	—	12.0
Total cash			48.7	36.7	—	—
Loans and borrowings						
Bank loan – secured	22	5.9-12.1%	99.9	3.9	3.9	26.2
Bank loan – secured	22	9.5%	—	—	—	—
Bank loan – secured	22	10.6%	—	—	—	—
Bank loan – secured	22	4.6%	38.8	0.8	0.8	13.2
Senior secured second lien notes	22	8.25%	399.0	12.4	12.4	24.8
Cashflow of loans and borrowings			537.7	17.1	17.1	64.2
						439.3

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\$109.0 million (30 June 2016: US\$53.9 million). In the current Year the impact of a 100 basis point increase/decrease would result in a financial loss/gain of US\$1.1 million (30 June 2016: US\$0.5 million).

Other market price risk

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

Capital disclosures

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

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

The Group monitors capital on the basis of the debt to equity ratio. This ratio is calculated as net debt to equity. Net debt is calculated as US\$ loan notes (less transaction costs) and bank loans and borrowings less restricted and unrestricted cash and cash equivalents. Equity comprises all components of equity attributable to equity holders of the parent company.

34. Financial instruments continued

Interest rate risk continued

Capital disclosures continued

The debt to equity ratios at 30 June 2017 and 30 June 2016 are as follows:

US\$ million	2017	2016
Total debt	757.1	424.5
Cash and cash equivalents	(203.7)	(48.7)
Net debt	553.4	375.8
Total equity attributable to equity holders of the parent company	593.7	504.4
Net debt to equity ratio	0.93:1	0.75:1

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

35. 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 and South Africa.

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

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

The Group's non-current assets are located in South Africa US\$1,345.1 million (30 June 2016: US\$991.8 million), Tanzania US\$153.8 million (30 June 2016: US\$125.0 million), Botswana US\$0.8 million (30 June 2016: US\$0.9 million) and United Kingdom US\$0.3 million (30 June 2016: US\$0.2 million).

The Group's property, plant and equipment included in non-current assets are located in South Africa US\$1,302.2 million (30 June 2016: US\$953.2 million), Tanzania US\$138.0 million (30 June 2016: US\$125.0 million), Botswana US\$0.8 million (30 June 2016: US\$0.9 million) and United Kingdom US\$0.3 million (30 June 2016: US\$0.2 million).

Notes to the Annual Financial Statements

For the Year ended 30 June 2017 continued

35. 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 ⁶	South Africa	Corporate	Beneficiation ⁴	Inter-segment	Consolidated
	Finsch 2017	Cullinan 2017	Koffiefontein 2017	KEM JV ⁵ 2017									
Revenue	216.7	91.3	28.4	82.3	—	58.4	—	—	0.3	(0.4)	477.0		
Segment result ¹	101.2	4.8	(11.0)	(2.7)	(2.5)	(3.4)	(0.8)	(11.2)	1.1	(0.6)	74.9		
Other direct income	0.5	—	0.1	1.1	0.3	0.5	—	—	—	0.4	2.8		
Operating profit/(loss) ²	101.7	4.8	(10.9)	(1.7)	(2.2)	(2.9)	(0.8)	(11.2)	1.1	(0.2)	77.7		
Fair value uplift on Kimberley Ekapa Mining Joint Venture ⁵												4.1	
Financial income												14.2	
Financial expense												(49.5)	
Income tax expense												(25.8)	
Non-controlling interest												(2.4)	
Profit attributable to equity holders of the parent company												18.3	
Segment assets ⁷	661.6	828.7	248.0	212.1	5.0	171.1	0.9	3,214.0	7.4 (3,494.0)	1,854.8			
Segment liabilities ⁷	394.6	694.3	265.6	220.7	50.9	277.8	44.2	2,178.8	8.0 (2,926.5)	1,208.4			
Capital expenditure	85.6	151.2	18.8	28.4	—	15.0	—	1.4	—	(0.3) ³	300.1		

1. Total depreciation of US\$79.6 million included in the segmental result, comprises depreciation incurred at Finsch US\$14.6 million, Cullinan US\$31.6 million, Koffiefontein US\$8.8 million, KEM JV US\$16.4 million, Williamson US\$6.6 million, Helam US\$0.6 million, Exploration US\$0.2 million and Corporate administration US\$0.8 million.

2. Operating profit is equivalent to revenue of US\$477.0 million less total costs of US\$399.3 million as disclosed in the Consolidated Income Statement.

3. Inter-segment capital expenditure represents work in progress at Helam of US\$0.3 million in respect of the manufacture of plant and equipment for other mines within the Group.

4. The beneficiation segment represents Tarorite, a cutting and polishing business in South Africa, which can on occasion cut and polish select rough diamonds.

5. KEM JV comprises the combined operations of Kimberley Underground, Super Stone and the Kimberley Mines tailings operations (refer to note 31).

6. With effect from 1 May 2017 the Company is domiciled in the United Kingdom.

7. Segment assets and liabilities include inter-company receivables and payables which are eliminated on consolidation.

35. 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	Jersey	South Africa	Beneficiation ⁶ 2016	Inter- segment 2016	Consolidated 2016
	Finsch 2016	Cullinan 2016	Koffiefontein 2016								
Revenue	186.4	83.3	25.7	57.7	0.1	78.9	—	—	0.2	(1.4)	430.9
Segment result ¹	98.0	3.7	(1.0)	7.1	(2.5)	18.6	(2.9)	(12.1)	(1.6)	(1.7)	105.6
Other direct income	0.2	—	0.2	1.5	0.3	0.5	—	—	—	0.1	2.8
Operating profit/(loss) ²	98.2	3.7	(0.8)	8.6	(2.2)	19.1	(2.9)	(12.1)	(1.6)	(1.6)	108.4
Financial income											7.0
Financial expense											(40.0)
Income tax expense											(8.6)
Non-controlling interest											(12.6)
Profit attributable to equity holders of the parent company											54.2
Segment assets	352.8	654.7	195.9	185.2	5.8	158.9	1.1	2,314.8	6.1	(2,516.1)	1,359.2
Segment liabilities	179.4	425.1	199.1	194.1	42.7	264.1	43.6	1,368.9	7.6	(1,912.2)	812.4
Capital expenditure	73.8	179.4	27.5	16.8	0.4 ⁵	24.4	—	1.8	—	—	324.1

1. Total depreciation of US\$51.8 million included in the segmental result comprises depreciation incurred at Finsch US\$11.8 million, Cullinan US\$18.4 million, Koffiefontein US\$4.5 million, Kimberley Underground US\$9.8 million, Williamson US\$5.9 million, Helam US\$0.6 million, Exploration US\$0.2 million and Corporate administration US\$0.6 million.

2. Operating profit is equivalent to revenue of US\$430.9 million less total costs of US\$322.5 million as disclosed in the Consolidated Income Statement.

3. Segment assets and liabilities include inter-company receivables and payables which are eliminated on consolidation.

4. The Kimberley Operations segment includes the trading results of 100% of Kimberley Underground from 1 July 2015 to 17 January 2016 and the Group's 75.9% attributable share of the Combined Kimberley Operations from 18 January 2016, following the acquisition of a jointly controlled interest in the Kimberley Mines and tolling agreement. Assets of US\$18.8 million and liabilities of US\$12.2 million in respect of Kimberley Underground have been classified as non-current assets held for sale (refer to note 36).

5. Capital expenditure at Helam includes work in progress of US\$0.3 million in respect of the manufacture of plant and equipment for other mines within the Group.

6. The beneficiation segment represents Tarorite, a cutting and polishing business in South Africa, which can on occasion cut and polish select rough diamonds.

36. Non-current assets held for sale – 30 June 2016

Significant accounting policies relevant to non-current assets held for sale

Non-current assets held for sale

Non-current assets or disposal groups are classified as held for sale when they are available for immediate sale. Management has committed to a plan to sell, it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn and that the sale will be completed within 12 months from the date of classification. The non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Significant judgements and estimates relevant to non-current assets held for sale

The carrying value of assets at Kimberley Underground, 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 less than fair value less costs to sell.

Notes to the Annual Financial Statements

For the Year ended 30 June 2017 continued

36. Non-current assets held for sale – 30 June 2016 continued

Significant accounting policies relevant to non-current assets held for sale continued

Kimberley Underground (24.1%)

As at 30 June 2016, the Company was negotiating with Ekapa Mining to combine their respective businesses in the Kimberley area, with Petra retaining a 75.9% interest in the newly formed joint venture. As a result of this transaction, 24.1% of the Kimberley Underground mining operation (being Ekapa Mining's effective interest in the newly formed joint venture) was classified as held for sale in the Statement of Financial Position at 30 June 2016, in accordance with IFRS 5. The Kimberley Underground mining operation formed a part of the Kimberley Operations operating segment for the purposes of the Group's segmental reporting, as disclosed in note 35. The 24.1% interest in net assets of the Kimberley Underground mining operation included in non-current assets held for sale in the Statement of Financial Position is set out below.

US\$ million	30 June 2016
Net assets:	
Property, plant and equipment	14.1
Trade and other receivables	3.0
Inventories	1.7
Non-current assets classified as held for sale	18.8
Non-current trade and other payables	(1.6)
Rehabilitation provision	(1.4)
Trade and other payables	(9.2)
Liabilities directly associated with non-current assets classified as held for sale	(12.2)
Net assets	6.6

37. Post balance sheet events

(i) Covenant ratios

On 9 September 2017, agreement was reached with Petra's lender group to waive the two EBITDA maintenance measurement covenant tests relating to its senior debt facilities for the 12-month period to, and as at, 30 June 2017. The lender group further agreed to revised covenant ratios relating to EBITDA for the 12-month measurement period to 31 December 2017 as follows:

- the interest cover ratio is changed to no less than 2.7x (previously 3.85x); and
- the net debt to EBITDA ratio is changed to no more than 4.0:1 (previously 2.80:1).

(ii) Operations in Tanzania

Post Year end, reports appeared in the media about the findings of an investigation into the Tanzanian diamond sector by a parliamentary committee in Tanzania. 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 from export to Petra's marketing office in Antwerp and certain key personnel from Williamson were being questioned by the authorities. Production was temporarily stopped for safety and security reasons, but recommenced on 14 September 2017 after a four-day shut-down following the return of the key personnel to the mine.

The grounds upon which these actions were taken have still not been formally made known to the Company; however, media reports suggested concern about the potential under-valuation of diamond parcels prior to export and the impact this could have on royalty payments to the GoT. Petra therefore published an announcement on 11 September 2017 confirming that all operations at Williamson, including the export and sales processes, are conducted in a transparent manner and in full compliance with legislation in Tanzania and the Kimberley Process. Furthermore, Petra confirmed that it is not responsible for the provisional valuation of diamond parcels from Williamson before they are exported to Antwerp; this is carried out by the Government's diamonds and gemstones valuation agency. Finally, Petra confirmed that all royalty payments to GoT are based on the actual sales proceeds for the diamonds, once sold in Antwerp, rather than the provisional value prior to export.

As of the date of this report, Petra had received authorisation from the GoT to resume diamond exports and sales from Williamson and a new parcel of diamonds is currently being prepared for export from Tanzania, for eventual sale at the Company's marketing office in Antwerp in October. However, a resolution has not yet been reached with regards to the parcel of diamonds that was blocked from export. The Board is hopeful that the willingness by the Company to facilitate continued full transparency around its diamond marketing will ensure a return to a normal sales cycle from Williamson shortly, with the Group being in a position to thereby tender its available diamond inventory as usual, including the blocked parcel, during H1 FY 2017; however, it should be noted that the outcome of this situation remains uncertain. Petra is committed to continued engagement with the GoT to resolve this matter.

37. Post balance sheet events continued

(ii) Operations in Tanzania continued

As previously announced, changes to the legislative framework governing the natural resources sector were also recently passed by the GoT and sales at Williamson are now subject to an additional 1% royalty (bringing the total royalty to 6%) and a 1% export clearing fee. Changes have also been enacted with regards to the offsetting of VAT, the impact of which on Williamson is still under discussion with GoT and yet to be determined, but could increase cash on-mine costs by circa 10%. The legislative change does

Further key legislative changes also encompass:

- ▶ the provision to the GoT of a non-dilutable, free-carried interest of no less than 16% in all mining projects (note that the GoT already holds 25% of the Williamson mine);
- ▶ the right for the GoT to acquire up to 50% of any mining asset commensurate with the value of tax benefits provided to the owner of that asset by the GoT; and
- ▶ companies with a Special Mining Licence to float 30% of their total issued shares on the Dar es Salaam Stock Exchange in Tanzania by 24 August 2017 (a waiver to the minimum local shareholding requirement may be granted under certain conditions).

The Company is committed to ongoing dialogue with the GoT with respect to the aforementioned matters. However, it should be noted that the situation with regards to operations at Williamson remains uncertain and should the mine be unable to carry out normal production and sales activities in the future, this may impact the Company's ability to meet its production guidance for the Year (Williamson is forecast to contribute circa 0.3 Mcts). In addition, lower sales than expected at Williamson in H1 FY 2018 would further impact the Company's two EBITDA-related covenant measurements related to its banking facilities – refer to note 11.

Should Petra be unable to resume sales and maintain normal operations at Williamson, this would have a material negative impact on the carrying value of assets at the Williamson mine – refer to note 8.

Five-year Summary of Consolidated Figures

For the Year ended 30 June 2017

US\$ million	2017	2016	2015	2014	2013
Income statement					
Revenue (gross) ¹	477.0	430.9	425.0	472.6	402.7
Adjusted mining and processing costs ²	(311.3)	(257.7)	(272.7)	(277.4)	(254.8)
Profit from mining activity ³	168.5	176.0	154.5	201.1	143.8
Adjusted EBITDA ⁴	157.2	164.3	139.3	187.7	127.6
Adjusted net profit after tax ⁵	29.0	63.6	62.8	93.7	53.6
Net profit after tax – Group	20.7	66.8	59.6	67.5	27.9
Statement of financial position					
Current assets	354.8	222.5	303.2	167.6	173.6
Non-current assets	1,500.0	1,117.9	1,004.7	931.3	827.0
Non-current assets held for sale	—	18.8	—	—	—
Total assets	1,854.8	1,359.2	1,307.9	1,098.9	1,000.6
Borrowings (short and long term)	757.1	424.5	327.1	158.9	147.0
Current liabilities (excluding borrowings)	136.7	125.4	79.3	72.1	69.5
Liabilities directly associated with non-current assets held for sale	—	12.2	—	—	—
Total equity	646.4	546.8	622.5	631.9	587.4
Movement in cash					
Net cash generated from operating activities	152.5	153.7	132.7	196.1	73.0
Net cash utilised in investing activities	(292.6)	(324.4)	(174.4)	(211.0)	(180.3)
Net cash generated by financing activities	291.1	82.6	179.0	22.0	94.0
Net increase/(decrease) in cash and cash equivalents	151.0	(98.1)	137.3	7.1	(13.3)
Ratios and other key information					
Basic earnings/(loss) per share attributable to the equity holders of the Company – US\$ cents	3.47	10.38	9.46	9.69	6.30
Adjusted basic earnings per share from continuing operations attributable to the equity holders of the Company – US\$ cents ⁵	5.04	9.76	10.09	14.82	11.34
Capex	300.1	324.1	274.1	211.2	191.2
Cash at bank (including restricted)	203.7	48.7	166.6	34.0	26.2

The Group uses several non-GAAP measures above and, as these are non-GAAP measures, they should not be considered as replacements for IFRS measures. The Company's definition of these non-GAAP measures may not be comparable to other similarly titled measures reported by other companies.

1. Revenue (gross) includes revenues for the Sedibeng JV and Star mines for FY 2014 and earlier. 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 stated before depreciation and share-based expense.

3. Profit from mining activities is revenue less adjusted mining and processing costs plus other direct income.

4. Adjusted EBITDA is net profit after tax stated before KEM JV fair value adjustment, bond redemption premium and acceleration of unamortised costs, depreciation, share-based expense, impairment charges, net finance expense, tax expense, net unrealised foreign exchange gains and losses and loss on discontinued operations, as applicable to relevant years.

5. Adjusted net profit after tax and adjusted (basic) earnings per share from continuing operations is net profit after tax and earnings per share from continuing operations stated before the KEM JV fair value adjustment, net unrealised foreign exchange gains and losses, and bond redemption and acceleration of unamortised costs, impairment charges and loss on discontinued operations, as applicable to relevant years.

FY 2017 Summary of Results and Non-GAAP Disclosures

US\$ million	2017	2016
Revenue	477.0	430.9
Adjusted mining and processing costs ¹	(311.3)	(257.7)
Other direct income	2.8	2.8
Profit from mining activities²	168.5	176.0
Exploration expense	(0.6)	(2.7)
Corporate overhead	(10.7)	(9.0)
Adjusted EBITDA³	157.2	164.3
Depreciation	(79.6)	(51.8)
Share-based expense	0.1	(4.1)
Net finance expense	(22.9)	(36.2)
Tax expense	(25.8)	(8.6)
Adjusted net profit after tax⁴	29.0	63.6
Kimberley Ekapa Mining JV fair value adjustment ⁵	4.1	—
Net unrealised foreign exchange gain	9.9	3.2
Bond redemption premium and unamortised costs ⁷	(22.3)	—
Net profit after tax	20.7	66.8
Earnings per share attributable to equity holders of the Company – US\$ cents		
Basic profit per share	3.47	10.38
Adjusted profit per share ⁶	5.04	9.76

Notes:

The Group uses several non-GAAP measures above and throughout this report to focus on actual trading activity by removing non-cash or non-recurring items. These measures include adjusted mining and processing costs, profit from mining activities, adjusted EBITDA, adjusted net profit after tax, adjusted earnings per share, adjusted US\$ loan notes and net debt. As these are non-GAAP measures, they should not be considered as replacements for IFRS measures. The Company's definition of these non-GAAP measures may not be comparable to other similarly titled measures reported by other companies.

1. Adjusted mining and processing costs are mining and processing costs stated before depreciation and share-based expense.
2. Profit from mining activities is revenue less adjusted mining and processing costs plus other direct income.
3. Adjusted EBITDA is net profit after tax stated before KEM JV fair value adjustment, bond redemption premium and acceleration of unamortised costs, depreciation, share-based expense, net finance expense, tax expense and net unrealised foreign exchange gains and losses.
4. Adjusted net profit after tax is net profit after tax stated before the KEM JV fair value adjustment, net unrealised foreign exchange gains and losses, and bond redemption and acceleration of unamortised costs.
5. The US\$4.1 million gain recorded on the formation of KEM JV represents Petra's newly recognised incremental 26% share of the fair value of Ekapa Minerals (Pty) Ltd's (being the entity through which Petra and Ekapa Mining own the Kimberley Mines) assets and liabilities and its 75.9% share of the fair value of Super Stone's assets and liabilities, less the 24.1% of the net book value assets and liabilities of the Kimberley Underground mine relinquished as part of the transaction. See notes 31 and 36 for further details.
6. Adjusted EPS is stated before the KEM JV fair value adjustment, net unrealised foreign exchange gains and losses and bond redemption premium and acceleration of unamortised costs.
7. Bond redemption premium and acceleration of unamortised costs represent those costs incurred as a result of the early redemption of the US\$300 million loan notes in April 2017.

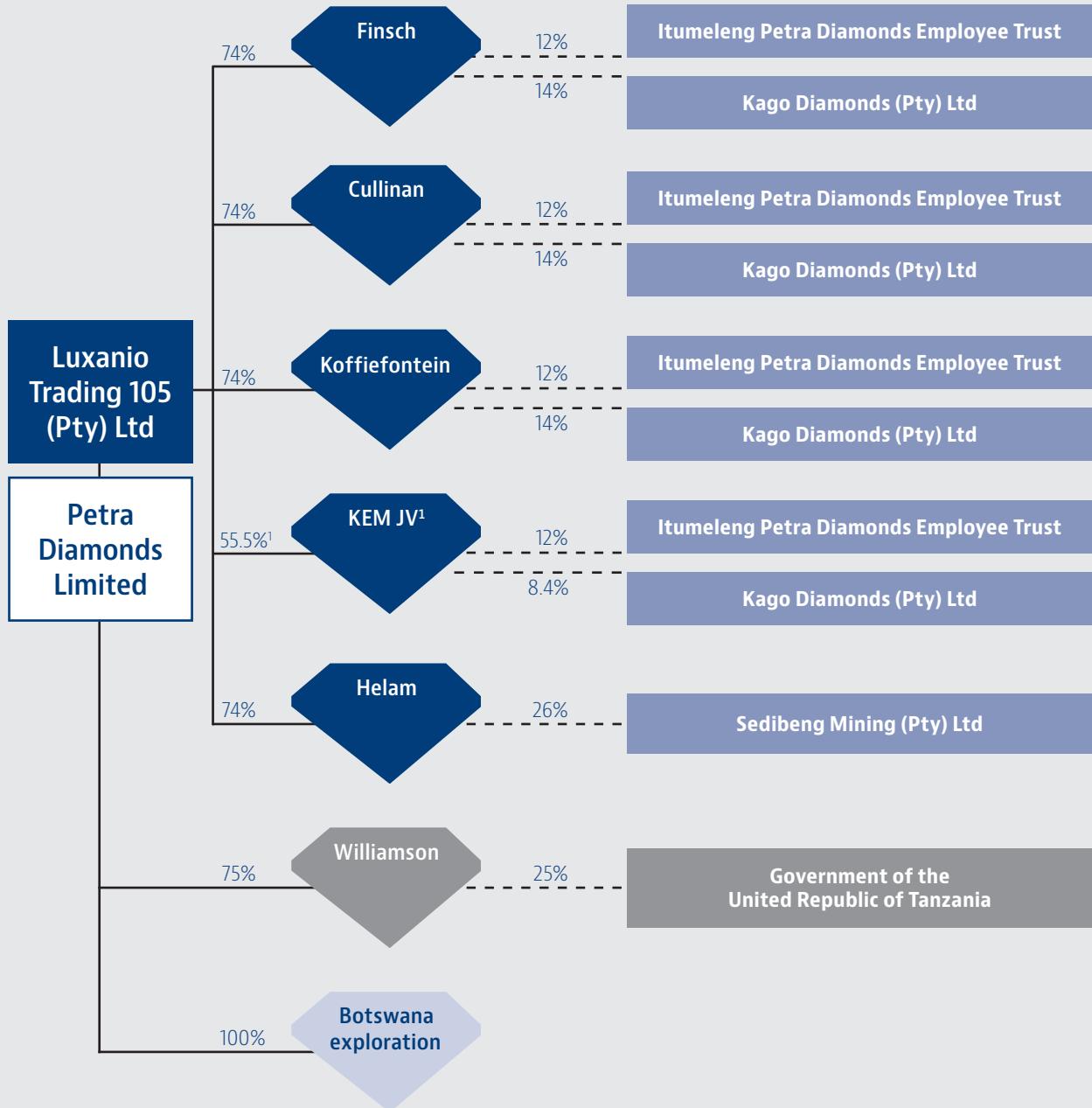
Petra's Partners

The Company's partnerships are key in terms of stakeholder sustainability and the long-term success of its operations.

In South Africa, the Company has partner shareholders in its operations who represent the interests of BEE shareholders. These BEE Partners include various commercial BEE entities (including women's groups), as well as, importantly, the Itumeleng Petra Diamonds Employee Trust.

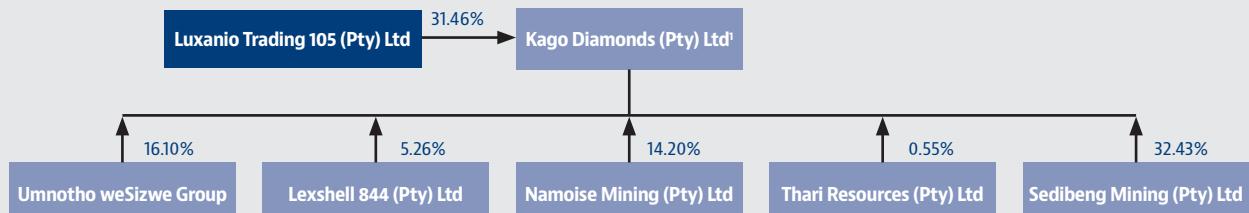
In Tanzania, Petra's partner is the Government of the United Republic of Tanzania at the Williamson mine, the country's most important diamond producer.

Summary of mine ownership (1 July 2017)

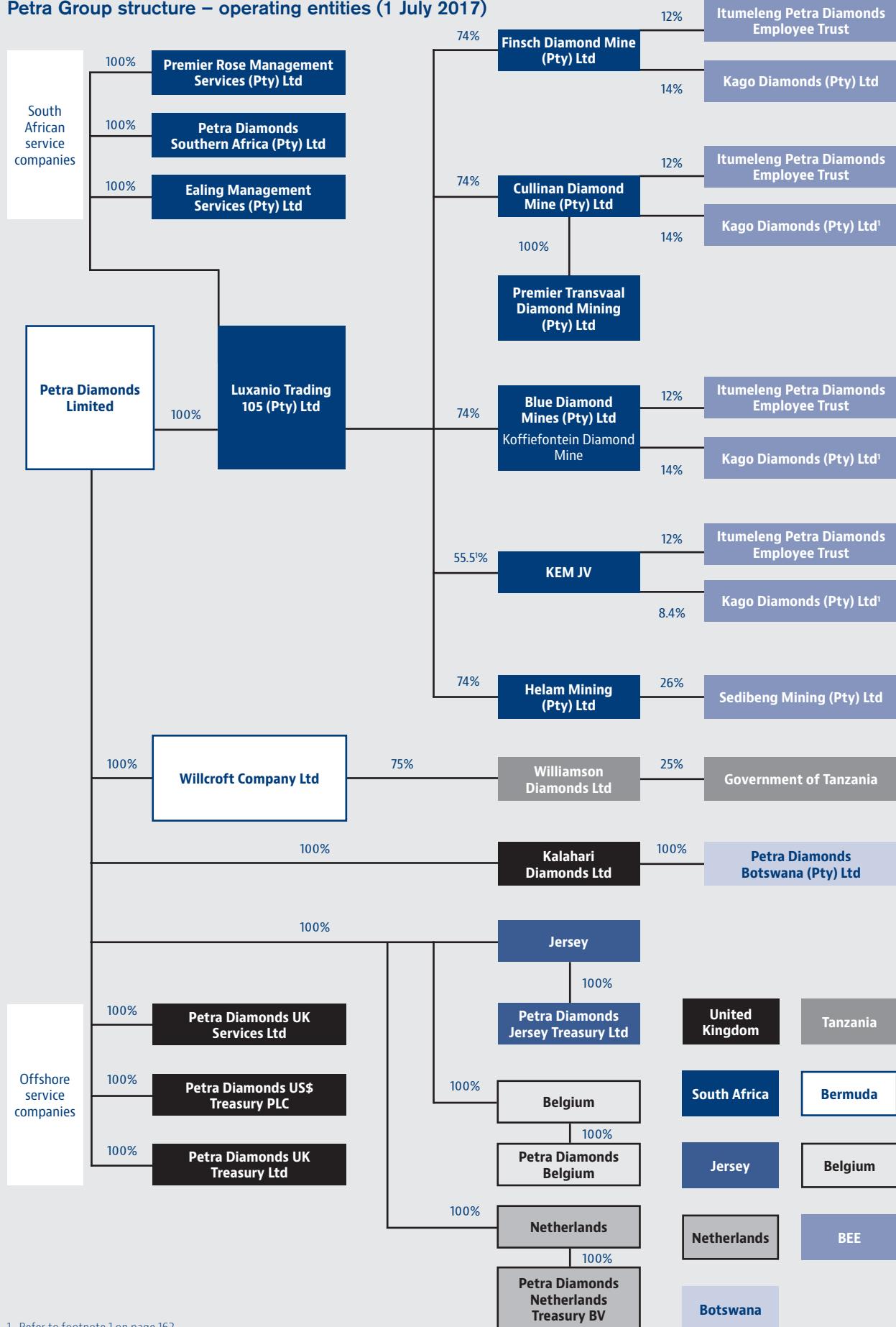


1. Petra and its BEE partners have a 75.9% interest in the KEM JV (55.5% Petra and 20.4% BEE partners). The BEE partners' interest is held indirectly through their 31.5% shareholding in Crown Resources (Pty) Limited, a company controlled and consolidated by Petra. As such, Petra consolidates its 75.9% interest in the results, assets and liabilities, with a non-controlling interest shown separately.

BEE partner structures



Petra Group structure – operating entities (1 July 2017)



1. Refer to footnote 1 on page 162.

FY 2017 Operations Results Tables

Finsch – South Africa

	Unit	FY 2017	FY 2016	Variance
Sales				
Revenue	US\$m	216.7	186.4	+16%
Diamonds sold	Carats	2,141,885	2,085,123	+3%
Average price per carat	US\$	101	89	+14%
ROM production				
Tonnes treated	Tonnes	3,212,169	3,547,798	-10%
Diamonds produced	Carats	1,818,454	1,572,725	+16%
Grade ¹	Cphf	56.6	44.3	+28%
Tailings production				
Tonnes treated	Tonnes	1,651,089	2,295,918	-28%
Diamonds produced	Carats	331,442	641,339	-48%
Grade ¹	Cphf	20.1	279	-28%
Total production				
Tonnes treated	Tonnes	4,863,258	5,843,716	-17%
Diamonds produced	Carats	2,149,896	2,214,064	-3%
Costs				
On-mine cash cost per tonne treated	ZAR	253	183	+38%
Capex				
Expansion Capex	US\$m	58.4	56.5	+3%
Sustaining Capex	US\$m	9.1	6.7	+36%
Borrowing costs capitalised	US\$m	18.1	10.6	+71%
Total Capex	US\$m	85.6	73.8	+16%

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 2017	FY 2016	Variance
Sales				
Revenue	US\$m	91.3	83.3	+10%
Diamonds sold	Carats	760,957	663,175	+15%
Average price per carat	US\$	120¹	126 ²	-5%
ROM production				
Tonnes treated	Tonnes	1,882,911	2,302,892	-18%
Diamonds produced	Carats	679,622	643,724	+6%
Grade	Cphf	36.1	28.0	+29%
Tailings production				
Tonnes treated	Tonnes	506,176	886,289	-43%
Diamonds produced	Carats	106,887	37,089	+188%
Grade	Cphf	21.1	4.2	+402%
Total production				
Tonnes treated	Tonnes	2,389,087	3,189,181	-25%
Diamonds produced	Carats	786,509	680,813	+16%
Costs				
On-mine cash cost per tonne treated	ZAR	316	257	+23%
Capex				
Expansion Capex	US\$m	120.9	156.2	-23%
Sustaining Capex	US\$m	4.3	7.3	-41%
Borrowing costs capitalised	US\$m	26.0	15.9	+64%
Total Capex	US\$m	151.2	179.4	-16%

1. Excluding Exceptional Diamonds, the average value for FY 2017 was US\$113 per carat.

2. Excluding Exceptional Diamonds, the average value for FY 2016 was US\$109 per carat.

Koffiefontein – South Africa

	Unit	FY 2017	FY 2016	Variance
Sales				
Revenue	US\$m	28.4	25.7	+11%
Diamonds sold	Carats	56,068	55,500	+1%
Average price per carat	US\$	506	462	+10%
ROM production				
Tonnes treated	Tonnes	667,821	681,344	-2%
Diamonds produced	Carats	51,173	50,825	+1%
Grade	Cph	7.7	7.5	+3%
Tailings/Ebenhaezer production				
Tonnes treated	Tonnes	—	446,854	—
Diamonds produced	Carats	—	11,365	—
Grade	Cph	—	2.5	—
Total production				
Tonnes treated	Tonnes	667,821	1,128,198	-41%
Diamonds produced	Carats	51,173	62,190	-18%
Costs				
On-mine cash cost per tonne treated	ZAR	532	317	+68%
Capex				
Expansion Capex	US\$m	13.3	24.6	-46%
Sustaining Capex	US\$m	5.5	2.9	+90%
Total Capex	US\$m	18.8	27.5	-32%

KEM JV – South Africa

	Unit	FY 2017 ¹	FY 2016 ²	Variance
Sales				
Revenue	US\$m	82.3	57.7	+43%
Diamonds sold	Carats	821,963	438,680	+87%
Average price per carat	US\$	100	132	-24%
Kimberley Underground Mine production¹				
Tonnes treated	Tonnes	597,025	721,513	-17%
Diamonds produced	Carats	87,783	88,572	-1%
Grade	Cph	14.7	12.3	+20%
Combined Kimberley Operations production – attributable to Petra²				
Tonnes treated	Tonnes	6,153,657	3,583,758	+72%
Diamonds produced	Carats	712,651	442,897	+61%
Grade	Cph	11.6	12.4	-7%
Total production				
Tonnes treated	Tonnes	6,750,682	4,305,271	+57%
Diamonds produced	Carats	800,434	531,469	+51%
Costs				
On-mine cash cost per tonne treated	ZAR	133	140	-5%
Capex				
Expansion Capex	US\$m	23.9	14.7	+63%
Sustaining Capex	US\$m	4.5	2.1	+114%
Total Capex	US\$m	28.4	16.8	+69%

1. Data represent Petra's 75.9% attributable share (including both ROM production from Kimberley Underground and tailings production).

2. Data for FY 2016 in the table above represent production from Kimberley Underground ROM and tailings production for the period 1 July 2015 to 17 January 2016 and Petra's 75.9% attributable production from the Combined Kimberley Operations for the period 18 January 2016 to 30 June 2016.

FY 2017 Operations Results Tables continued

Williamson – Tanzania

	Unit	FY 2017	FY 2016	Variance
Sales				
Revenue	US\$m	58.4	78.9	-26%
Diamonds sold	Carats	226,110	205,548	+10%
Average price per carat	US\$	258	384	-33%
ROM production				
Tonnes treated	Tonnes	3,667,781	4,003,180	-8%
Diamonds produced	Carats	212,215	199,796	+6%
Grade	Cphf	5.8	5.0	+16%
Alluvial production				
Tonnes treated	Tonnes	403,811	417,452	-3%
Diamonds produced	Carats	12,987	13,073	-1%
Grade	Cphf	3.2	3.1	+3%
Total production				
Tonnes treated	Tonnes	4,071,592	4,420,632	-8%
Diamonds produced	Carats	225,202	212,869	+6%
Costs				
On-mine cash cost per tonne treated	US\$	11.60	10.90	+7%
Capex				
Expansion Capex	US\$m	14.1	23.0	-39%
Sustaining Capex	US\$m	0.9	1.4	-36%
Total Capex	US\$m	15.0	24.4	-39%

Debt Facilities Information

Petra bank facilities

Petra had bank facilities (excluding foreign exchange lines) as at 30 June 2017 of circa US\$115.0 million (ZAR1.5 billion) with Absa, RMB and Nedbank.

Of these, the Group had bank facilities undrawn and available to the Group as at 30 June 2017 of circa US\$5.6 million (ZAR73 million), in addition to cash at bank of US\$203.7 million.

Lender	Type	Size ZARm	Size US\$m	Utilised at 30 June 2017 ZARm	Interest rate	Repayment
Absa, Nedbank, RMB	ZAR revolving credit facility	1,000	77	1,000	1 month JIBAR + 5.0%	October 2021
Absa, RMB	ZAR working capital facility	500	38	422	South African Prime – 1.0%	Subject to annual renewal

Bank facility covenants

Covenant	Maintenance covenants			Distribution covenants
	12 months to 30 June 2017 Required Ratio	12 months to 31 December 2017 Required Ratio	12 months to 30 June 2018 Required Ratio	All periods Required Ratio
Consolidated Net Debt ³ to Consolidated EBITDA ⁴	n/a ¹	≤4.0x (Revised from ≤2.8x) ²	≤2.5x	≤2.0x
Consolidated EBITDA to Consolidated Net Finance Charges ⁵	n/a ¹	≥2.7x (Revised from ≥3.85x) ²	≥4.0x	≥6.0x
Consolidated Net Senior Debt ⁶ to Book Equity ⁷	≤0.4x	≤0.4x	≤0.4x	≤0.3x

Notes:

- On 8 September 2017, a waiver was obtained for the two EBITDA related covenants for the 30 June 2017 measurement period.
- On 8 September 2017, the two EBITDA related covenants for the 31 December 2017 measurement period were revised, as shown.
- Consolidated net debt is IFRS net debt, less diamond debtors; plus the BEE guarantees of US\$105 million as at 30 June 2017, issued by Petra to the lenders as part of the BEE financing concluded in December 2014.
- Consolidated EBITDA is adjusted EBITDA, which is net profit after tax stated before the KEM JV fair value adjustment, bond redemption premium and acceleration of unamortised costs, depreciation, share-based expense, net finance expense, tax expense and net unrealised foreign exchange gains and losses.
- Refer to note 6 in leverage ratios table below for definition.
- Consolidated Net Senior Debt means at any time the consolidated net debt (excluding any second lien and other subordinated debt, i.e. the US\$650 million loan notes).
- Book equity is equity excluding the foreign exchange translation reserve, share-based payment and other reserves.

Leverage ratios

	30 June 2017	30 June 2016
IFRS net debt	US\$m 553.4	375.8
Consolidated net debt ¹	US\$m 616.8	464.6
Gearing ²	% 93	75
Adjusted EBITDA ³	US\$m 157.2	164.3
EBITDA margin ⁴	% 33	38
Consolidated net debt: EBITDA ⁵	X 3.9	2.8
EBITDA: net interest cover ⁶	X 2.8	4.3

Notes:

- Consolidated net debt is as defined in note 3 to the Bank facility covenants table above.
- Gearing is calculated as IFRS net debt divided by total equity attributable to equity holders of the parent company.
- Adjusted EBITDA is as defined in note 4 to the Bank facility covenants table above.
- EBITDA margin is adjusted EBITDA divided by revenue.
- Consolidated net debt: EBITDA is consolidated net debt divided by adjusted EBITDA.
- EBITDA: net interest cover is EBITDA divided by IFRS net finance costs (excluding exchange gains or losses and unwinding of present value adjustment for rehabilitation costs) plus capitalised interest.

2017 Resource Statement

Petra manages one of the world's largest diamond resources of over 300 Mcts. This major resource implies that the potential mine lives of Petra's core assets could be considerably longer than the current mine plans in place at each operation, or could support significantly higher production rates.

Gross Resources

As at 30 June 2017, the Group's gross Diamond Resources (inclusive of Reserves) decreased 2% to 305.0 Mcts (30 June 2016: 312.2 Mcts), due to depletion by mining activity at all operations and Resource re-estimations at Finsch, Koffiefontein and Williamson.

Gross Reserves

The Group's gross Diamond Reserves increased 7% to 51.1 Mcts (30 June 2016: 47.9 Mcts) due to an increase of Reserves at Cullinan and Finsch due to the inclusion of additional tonnages from the CC1E and the SLC Phase 2 respectively in the current mine plans to 2030.

The following table summarises the gross Reserves and Resources status of the combined Petra Group operations as at 30 June 2017.

Group

Category	Gross		
	Tonnes millions	Grade cph	Contained diamonds Mcts
Reserves			
Proved	—	—	—
Probable	103.8	49.3	51.13
Sub-total	103.8	49.3	51.13
Resources			
Measured	0.2	263.9	0.60
Indicated	412.6	52.1	215.03
Inferred	1,453.6	6.1	89.34
Sub-total	1,866.5	16.3	304.97

Finsch

Category	Gross		
	Tonnes millions	Grade cph	Contained diamonds Mcts
Reserves			
Proved	—	—	—
Probable	43.0	60.2	25.89
Sub-total	43.0	60.2	25.89
Resources			
Measured	—	—	—
Indicated	36.6	69.1	25.31
Inferred	35.6	55.2	19.67
Sub-total	72.2	62.3	44.98

Notes:

1. Resource bottom cut-off: 1.0mm.
2. Reserve bottom cut-off: 1.0mm.
3. The Block 4 Resource tonnes and grade are based on block cave depletion modelling and include external waste. The Block 4 PCBC Model was recalibrated to June 2017 pit scans.
4. Block 5 Resource stated as in situ.
5. Re-estimation of Block 5 SWPC Resource based on recent bulk sampling and diamond drilling.
6. Block 5 Reserves are based on PCSLC and PCBC simulations, depleted for SLC development tonnes.
7. US\$/ct values of 105-110 for ROM and 55-60 for tailings guided for FY 2018, based on sales values and production size frequency distributions.

Cullinan

Category	Gross		
	Tonnes millions	Grade cpht	Contained diamonds Mcts
Reserves			
Proved	—	—	—
Probable	51.1	47.4	24.25
Sub-total	51.1	47.4	24.25
Resources			
Measured	—	—	—
Indicated	249.4	70.4	175.46
Inferred	170.9	10.1	17.28
Sub-total	420.3	45.9	192.74

Notes:

1. Resource bottom cut-off: 1.0mm.
2. Reserve bottom cut-off: 1.15mm.
3. B-Cut resource tonnes and grade are based on block cave depletion modelling and include external waste.
4. C-Cut Resource stated as in-situ.
5. Reserves based on PCBC simulations on C-Cutph1, BB1E, AUC, and Mine2-4D schedules for CCIE and other remaining pillar retreats.
6. Factorised grades and carats are derived from a calculated Plant Recovery Factor ("PRF") for the new mill plant. These factors account for the efficiency of sieving (bottom cut-off), diamond liberation and recovery in the ore treatment process. The mill plant is in a commissioning phase as of June 2017, and the PRF will be refined based on production data.
7. US\$/ct values of 115-120 for ROM and 60-65 for tailings guided for FY 2018, based on sales values and production size frequency distributions.

Koffiefontein

Category	Gross		
	Tonnes millions	Grade cpht	Contained diamonds Mcts
Reserves			
Proved	—	—	—
Probable	6.7	8.5	0.57
Sub-total	6.7	8.5	0.57
Resources			
Measured	—	—	—
Indicated	28.1	5.5	1.53
Inferred	126.6	3.3	4.22
Sub-total	154.7	3.7	5.75

Notes:

1. Resource bottom cut-off (Koffiefontein underground and Ebenhaezer) lifted to 1.15mm (previously 0.5mm).
2. Resource bottom cut-off (Eskom tailings): 1.0mm.
3. Reserve bottom cut-off: 1.15mm.
4. Changes in Resource figures due to mining depletions and re-estimation of the main pipe below 49L to 74L, incorporating new bulk sampling from SLC ring blasting and development.
5. Ebenhaezer removed from Reserve – no plans to re-start production.
6. US\$/ct values of 525-550 for ROM guided for FY 2018, based on sales values and production size frequency distributions.

2017 Resource Statement continued

Kimberley Ekapa Mining JV (“KEM JV”)

Category	Gross		
	Tonnes millions	Grade cpht	Contained diamonds Mcts
Reserves			
Proved	—	—	—
Probable	2.9	14.6	0.42
Sub-total	2.9	14.6	0.42
Resources			
Measured	—	—	—
Indicated	6.7	18.4	1.22
Inferred	144.3	5.8	8.43
Sub-total	150.9	6.4	9.65

Notes:

1. Resource bottom cut-off (Dutoitspan West Extension): 1.0mm.
2. Resource bottom cut-off (all other underground blocks): 0.5mm.
3. Resource bottom cut-off (surface tailings mineral resources): 1.15mm
4. Reserve bottom cut-off: 1.15mm.
5. Changes in Reserve and Resource figures due to mining depletions, adjustment to Bultfontein 865/885 and Dutoitspan NW Corner Mining Plans, re-estimation of Wesselton rim loading, and Bultfontein 760L removed from Reserve.
6. All KEM JV Reserves and Resources changed to 75.9% attributable to Petra from 1 July 2016 due to the formation of the KEM JV on that date.
7. US\$/ct values of 260-275 for ROM and 85-90 for tailings guided for FY 2018, based on sales values and production size frequency distributions.

Williamson

Category	Gross		
	Tonnes millions	Grade cpht	Contained diamonds Mcts
Reserves			
Proved	—	—	—
Probable	—	—	—
Subtotal	—	—	—
Resources			
Measured	—	—	—
Indicated	73.5	5.3	3.86
Inferred	968.7	3.6	35.16
Sub-total	1,042.2	3.7	39.02

Notes:

1. Resource bottom cut-off: 1.15mm.
2. Changes to Resource figures due to mining depletions and the removal of shale and mudstone from Resource.
3. US\$/ct values of 215-225 for ROM guided for FY 2018, based on sales values and production size frequency distributions.

Helam

Category	Gross		
	Tonnes millions	Grade cpht	Contained diamonds Mcts
Reserves			
Proved	—	—	—
Probable	—	—	—
Sub-total	—	—	—
Resources			
Measured	0.2	263.9	0.60
Indicated	0.5	266.4	1.32
Inferred	0.8	268.8	2.17
Sub-total	1.5	267.3	4.09

Notes:

1. Resource bottom cut-off: 1.0mm.
2. Measured Resources are classified as one level below current workings, or where a block is bounded above and below by current workings.
3. Indicated Resources are classified as two levels below measured Resources.
4. Inferred Resources are classified as three levels below Indicated Resources or inaccessible mined out areas, or as extensions along strike from existing Resource blocks where exploration information allows.
5. The Helam mine is currently on care and maintenance; no Resource changes noted above and no Reserves declared as there are no plans to restart production in the short term.
6. US\$/ct values of 115-120 for ROM, based on sales values and production size frequency distributions for FY 2014 adjusted to current pricing.

KX36

Category	Gross		
	Tonnes millions	Grade cpht	Contained diamonds Mcts
Reserves			
Proved	—	—	—
Probable	—	—	—
Sub-total	—	—	—
Resources			
Measured	—	—	—
Indicated	17.9	35.3	6.32
Inferred	6.8	35.7	2.41
Sub-total	24.7	35.4	8.73

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 Petra 2017 Resource Statement as shown above is based on information compiled internally within the Group under the guidance and supervision of Jim Davidson, Pr. Sci. Nat. (reg. No.400031/06). Jim Davidson has 45 years' relevant experience in the diamond industry and is a full-time employee of Petra.
8. All Reserves and Resources have been independently reviewed and verified by John Kilham, Pr. Sci. Nat. (reg. No. 400018/07), a competent person with 37 years' relevant experience in the diamond mining industry, who was appointed as an independent consultant by the Company for this purpose.

Shareholder and Corporate Information

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Capita Registrars (Jersey) Limited
12 Castle Street
St. Helier
Jersey JE2 3RT
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.capitaassetservices.com
Email: shareholderenquiries@capita.co.uk

Transfer agent

Capita Asset Services
The Registry
34 Beckenham Road
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Kent BR3 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.capitaassetservices.com
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Auditors

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London W1U 7EU
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Financial calendar

Accounting period end	30 June
Annual Report published	October
Annual General Meeting	November
Interim accounting period end	31 December
Interim results announced	February

Stock exchange listing

The Company's shares are admitted to the premium segment of the Official List and are traded on the Main Market of the London Stock Exchange. The Ordinary Shares (as defined below) themselves are not admitted to CREST, but dematerialised depositary interests representing the underlying Ordinary Shares issued by Capita IRG Trustees Limited can be held and transferred through the CREST system. The rights attached to the Ordinary Shares are governed by the Companies Act 1981 (Bermuda) (as amended) (the "Act") and the Company's Bye-Laws as adopted 28 November 2011 (the "Bye-Laws").

The Company is a constituent of the FTSE4Good Index.

Dividend

Distribution covenants were not met for the measurement period to 30 June 2017 and the Company will therefore not declare a dividend for FY 2017.

Substantial shareholdings

The interests as indicated in the table below in the Ordinary Shares of the Company represented more than 3% of the issued share capital as at 3 October 2017.

	Number of voting rights	Percentage of issued share capital
BlackRock Investment (UK) Limited	81,421,777	15.3%
T. Rowe Price	51,958,815	9.8%
Standard Life Aberdeen plc	31,535,532	5.9%
Prudential plc (incorporating M&G Group Limited)	28,175,972	5.3%
Directors	20,009,953	3.8%

Company Bye-Laws

The Company is incorporated in Bermuda and the City Code therefore does not apply to the Company; however, the Company's Bye-Laws incorporate material City Code protections appropriate for a company to which the City Code does not apply.

The Bye-Laws also require that all Directors stand for re-election annually at the Company's Annual General Meeting.

The Bye-Laws of the Company may only be amended by a resolution of the Board and by a resolution of the shareholders. The Bye-Laws of the Company can be accessed here: www.petradiamonds.com/about-us/corporate-governance.

Share capital

The Company has one class of shares of 10 pence each (the "Ordinary Shares"). Details of the Company's authorised and issued Ordinary Share capital together with any changes to the share capital during the Year are set out in note 20 to the Financial Statements.

Power to issue shares

At the AGM held on 28 November 2016 ("the 2016 AGM"), authority was given to the Directors to allot:

- i) Relevant Securities (as defined in the Bye-Laws) up to a maximum aggregate nominal amount of £17,666,332.30 (being 176,663,323 Ordinary Shares which represents approximately one-third of the Company's issued share capital as at 17 October 2016; and
- ii) equity securities (as defined in the Bye-Laws) for cash on (a) a non-pre-emptive basis pursuant to a rights issue or other offer to shareholders and (b) in any case up to aggregate maximum nominal amount of £2,649,949.80, representing approximately 5% of the issued share capital of the Company as at 17 October 2016.

Shareholder and Corporate Information continued

Share rights

Shareholders have the right to receive notice of and attend any general meeting of the Company. Each shareholder who is present in person (or, being a corporation, by representative) or by proxy at a general meeting on a show of hands has one vote and, on a poll, every such holder present in person (or, being a corporation, by representative) or by proxy shall have one vote in respect of every Ordinary Share held by them.

There are no shareholders who carry any special rights with regards to the control of the Company.

Shareholder voting

In advance of the AGM in November 2017, the Company would like to inform shareholders that the Company has decided to move to a more digital approach to voting and therefore requests that all shareholders submit their form of proxy electronically via the internet. The Company will not be sending paper proxy forms and instead, shareholders can either complete and submit their form of proxy via the shareholder portal (www.signalshares.com) or, for CREST holders, via the CREST Network. Voting in this way is cost effective, efficient and mitigates the risk of lost items via postal systems thus ensuring your vote is received and recorded. Shareholders who still wish to receive a hard copy proxy card should contact Capita Asset Services to obtain this.

Restriction on transfer of shares

The Board may at its absolute discretion refuse to register any transfer of Ordinary Shares over which the Company has a lien or which are not fully paid up provided it does not prevent dealings in the Ordinary Shares on an open and proper basis. During the Year, the Board did not place a lien on any shares nor did it refuse to transfer any Ordinary Shares.

The Board shall refuse to register a transfer if it is not satisfied that all the applicable consents, authorisations and permissions of any governmental body or agency in Bermuda have been obtained.

The Board may also refuse to register a transfer if:

- ▶ certain restrictions on transfer from time to time are imposed by laws and regulations;
- ▶ pursuant to the Company's share dealing code whereby the Directors and employees of the Company require approval to deal in the Company's Ordinary Shares; and
- ▶ where a person who holds default shares (as defined in the Bye-Laws) which represent at least 0.25% of the issued shares of the Company has been served with a disclosure notice and has failed to provide the Company with the requested information in connection with the shares.

Repurchase of shares

The Company may purchase its own shares for cancellation or to acquire them as Treasury Shares (as defined in the Bye-Laws) in accordance with the Act on such terms as the Board shall think fit. The Board may exercise all the powers of the Company to purchase or acquire all or any part of its own shares in accordance with the Act, provided, however, that such purchase may not be made if the Board determines in its sole discretion that it may result in a non de minimis adverse tax, legal or regulatory consequence to the Company, any of its subsidiaries or any direct or indirect holder of shares or its affiliates.

Appointment of Directors to fill a vacancy

The Directors shall have power at any time to appoint any person as a director to fill a vacancy on the Board occurring as a result of the death, disability, removal, disqualification or resignation of any Director or to fill any deemed vacancy arising as a result of the number of directors on the Board being less than the minimum number of directors that may be appointed to the Board from time to time.

Removal of Directors

The Company may by resolution at any special general meeting remove any Director before the expiry of his or her term of office. Notice of such meeting convened for the purpose of removing a Director shall contain a statement of the intention to do so and be served on such Director not less than 14 clear days before the meeting and at such meeting the Director shall be entitled to be heard on the motion for such Director's removal.

A Director may be removed (with or without cause) by notice in writing by all of their co-directors, provided such notice is delivered to the Secretary and such Director.

Financial instruments

The Group makes use of financial instruments in its operations as described in note 34 of the financial statements.

Creditors' payment policy

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

Website publication

The Directors are responsible for ensuring the Annual Report and the Financial Statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions.

The Company operates a website which can be found at www.petradiamonds.com. This site is regularly updated to provide relevant information about the Group. In particular all of the Company's regulatory announcements and public presentations are made available and there is a dedicated Investors section at www.petradiamonds.com/investors.

The maintenance and integrity of the Company's website (as well as the integrity of the financial statements contained therein) is the responsibility of the Directors.

Shareholder enquiries

Any enquiries concerning your shareholding should be addressed to the Company's registrar. The registrar should be notified promptly of any change in a shareholder's address or other details.

The Company also has a frequently asked questions section available on its website at: www.petradiamonds.com/investors/shareholders/faqs.

Shareholder Portal

The Company has set up an online Shareholder Portal, www.capitashareportal.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.

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 Capita IRG Trustees Limited or by logging into the Shareholder Portal.

Shares in issue

There was a total of 531,986,218 ordinary shares in issue at 30 June 2017.

Share price information

The latest information on the ordinary share price is available in the Investors section of the corporate website at www.petradiamonds.com/investors/share-price. Closing share prices for the previous business day are quoted in most daily newspapers and, throughout the working day, time delayed share prices are broadcast on the text pages of the principal UK television channels.

Share dealing services

The sale or purchase of shares must be done through a stockbroker or share dealing service provider. The London Stock Exchange provides a "Locate a broker" facility on its website which gives details of a number of companies offering share dealing services. For more information, please visit the Private investors section at www.londonstockexchange.com. Please note that the Directors of the Company are not seeking to encourage shareholders to either buy or sell shares. Shareholders in any doubt about what action to take are recommended to seek financial advice from an independent financial adviser authorised pursuant to the Financial Services and Markets Act 2000.

Shareholder security

Shareholders are advised to be wary of any unsolicited advice, offers to buy shares at a discount, or offers of free reports about the Company. Details of any share dealing facilities that the Company endorses will be included in Company mailings or on our website. More detailed information can be found at www.fca.org.uk/consumers/scams/investment-scams.

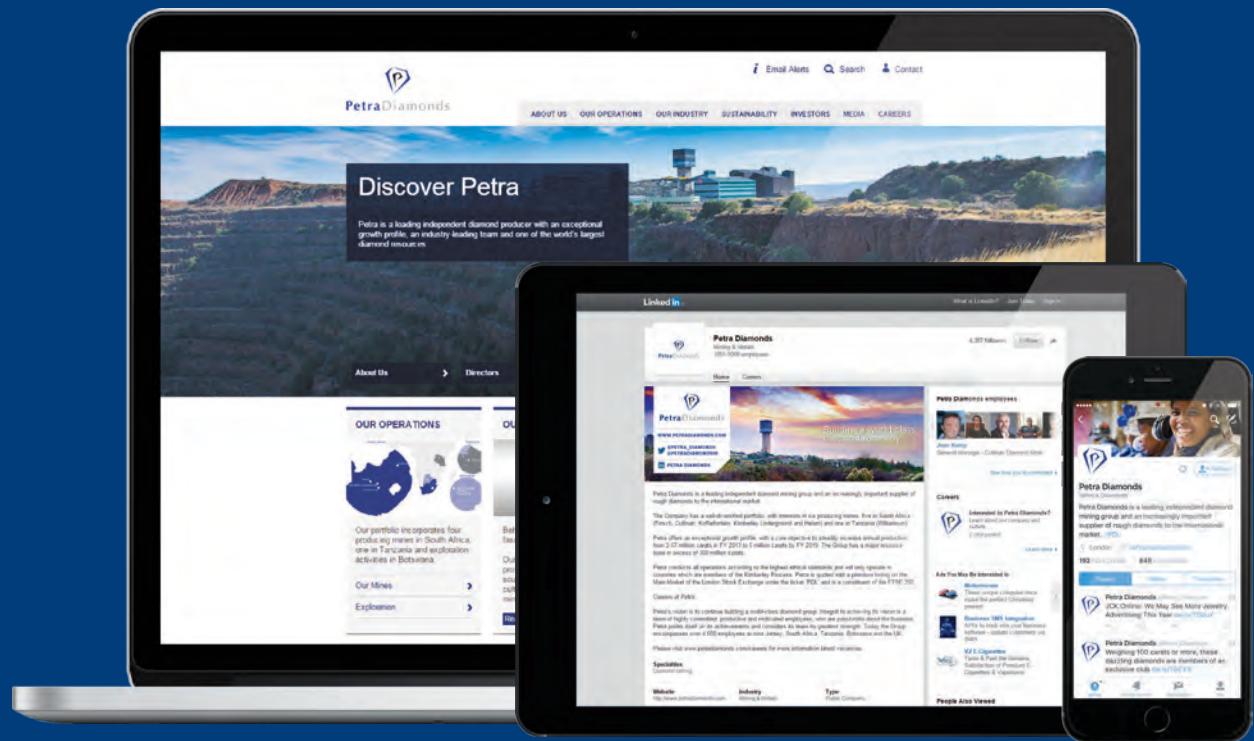
Glossary

"AGM"	Annual General Meeting	"cut-off grade"	the lowest grade of mineralised material considered economic to extract; used in the calculation of the ore reserves in a given deposit
"AG mill"	autogenous mill, so called due to the self-grinding of the ore	"diamondiferous"	containing diamonds
"alluvial"	deposits of diamonds which have been removed from the primary source by natural erosive action over millions of years and eventually deposited in a new environment such as a river bed, an ocean floor or a shoreline	"Diamond stability field"	the area with the right conditions for the formation of diamonds in the Earth's mantle
"BBBEE"	broad based black economic empowerment, a policy of the South African Government to redress past economic imbalances	"DMR"	the South African Department of Minerals Resources
"BEE"	black economic empowerment, a policy of the South African Government to redress past economic imbalances	"DPA"	Diamond Producers Association
"Beneficiation"	the refining of a commodity; in the case of diamonds, refers to the cutting and polishing of a rough stone	"drawpoint"	an opening through which ore from a higher level can fall and subsequently be loaded
"block caving"	a method of mining in which large blocks of ore are undercut so that the ore breaks and caves under its own weight. The undercut zone is initially drilled and blasted and some broken ore is drawn down to create a void into which initial caving of the overlying ore can take place. As more broken ore is drawn progressively following cave initiation, the cave propagates upwards through the orebody or block until the overlying rock also caves and surface subsidence occurs. The broken ore is removed through the production or extraction level developed below the undercut level. Once the caves have been propagated, it is a low cost mining method which is capable of automation to produce an underground 'rock factory'	"DTC sieve size"	the Diamond Trading Company ("DTC") uses sieve sizes to grade diamonds by size fraction
"bulk sample"	a large sample for the purpose of estimating the grade of a diamond deposit and to produce a large enough quantity of diamonds to enable an evaluation of diamond quality	"EBITDA"	earnings before interest, tax, depreciation and amortisation
"C-Cut"	the 'Centenary Cut' a major resource of 133 million carats located beneath the B block of the Cullinan orebody	"EPS"	earnings per share
"CAGR"	compound average growth rate	"ESG"	environmental, social and governance
"Capex"	capital expenditure	"Exceptional Diamonds"	Petra classifies 'exceptional' diamonds as stones that sell for US\$5 million or more each
"carat" or "ct"	a measure of weight used for diamonds, equivalent to 0.2 grams	"fissure"	informal term for a narrow, vertical, vein-like kimberlite dyke
"CDP"	Carbon Disclosure Project, a global disclosure system that enables companies, cities, states and regions to measure and manage their environmental impacts	"Fourth Industrial Revolution"	the digital revolution that has been occurring since the middle of the last century
"CEO"	Chief Executive Officer	"FRC"	the UK's Financial Reporting Council
"Cph"	carats per hundred tonnes	"Freeboard"	vertical distance from the normal water surface to the top of a confining wall
"CTP"	Central Treatment Plant	"FY"	Petra's financial year (1 July to 30 June)
"ctpa"	carats per annum	"Garnet"	various different types of garnet are unique to kimberlites (kimberlite indicator minerals) and can be analysed to assess the diamond-bearing potential of a kimberlite
		"GHG"	greenhouse gases
		"GM"	General Manager (i.e. the Mine Manager)
		"GoT"	Government of the United Republic of Tanzania
		"grade"	the content of diamonds, measured in carats, within a volume or mass of rock
		"GRI"	the Global Reporting Initiative provides an internationally recognised sustainability reporting framework
		"H1" or "H2"	first half, or second half, of the financial year
		"ha"	hectares
		"HDSA"	historically disadvantaged South African
		"HSE"	health, safety, environment
		"HSEQ"	health, safety, environmental and quality
		"HSSE"	health, safety, social and environment
		"iNED"	independent Non-Executive Director

"Indicated Resource"	that part of a diamond resource for which tonnage, densities, shape, physical characteristics, grade and average diamond value can be estimated with a reasonable level of confidence. It is based on exploration sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed and sufficient diamonds have been recovered to allow a confident estimate of average diamond value (SAMREC Code)	"Measured Resource"	that part of a diamond resource for which tonnage, densities, shape, physical characteristics, grade and average diamond value can be estimated with a high level of confidence. It is based on detailed and reliable exploration sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and grade continuity and sufficient diamonds have been recovered to allow a confident estimate of average diamond value
"Inferred Resource"	that part of a diamond resource for which tonnage, grade and average diamond value can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified by geological and/or grade continuity and a sufficiently large diamond parcel is not available to ensure reasonable representation of the diamond assortment. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that may be limited or of uncertain quality and reliability (SAMREC Code)	"microdiamond"	diamonds small enough to pass through a 0.5mm screen
"IPDET"	Itumeleng Petra Diamonds Employee Trust	"mini bulk sample"	a large sample, commonly in the order of 50 tonnes to 100 tonnes, for the purpose of determining the exploration potential of a diamond prospect
"KEM JV"	Kimberley Ekapa Mining Joint Venture	"mL"	metre level
"kimberlite"	a brecciated ultrabasic igneous rock containing phlogopite mica, bronzite pyroxene and ilmenite; kimberlites may or may not contain diamonds	"MSCI"	MSCI is an independent provider of research-driven insights and tools for institutional investors
"kimberlite indicator minerals" or "Kim"	minerals that can help locate the presence and establish the diamond-bearing potential of kimberlite	"Mt"	million tonnes
"Kt"	thousand tonnes	"Mtpa"	million tonnes per annum
"LDD"	large diameter drilling	"NED"	Non-Executive Director
"LED"	local economic development	"NGOs"	non-governmental organisations
"LOM"	life of mine	"NPAT"	net profit after tax
"LTI"	lost time injury; a work-related injury resulting in the employee/contractor being unable to attend work on the day following the injury	"NUM"	National Union of Mine Workers in South Africa
"LTIFR"	lost time injury frequency rate; the number of LTIs multiplied by 200,000 and divided by the number of hours worked	"open pit"	mining in which ore that occurs close to the Earth's surface is extracted from a pit or quarry
"macrodiamond"	diamonds too large to pass through a 0.5mm screen	"Opex"	operating costs
"Mctpa"	million carats per annum	"orebody"	a continuous well-defined mass of material of sufficient ore content to make extraction feasible
"Mcts"	million carats	"pa"	per annum
		"PAT"	profit after tax
		"PCBC"	GEOVIA PCBC™ is a highly sophisticated software package designed specifically for the planning and scheduling of block cave mines.
		"Probable Reserves"	the economically mineable material derived from a Measured and/or Indicated Resource. It is estimated with a lower level of confidence than a proven reserve. It is inclusive of diluting materials and allows for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, including consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction is reasonably justified

Glossary continued

"Proved Reserves"	the economically mineable material derived from a Measured Resource. It is estimated with a high level of confidence. It is inclusive of diluting materials and allows for losses that may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out, including consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction is reasonably justified	"tailings"	material of -6mm in size that has already been processed through a plant, otherwise known as coarse residue deposit; this material can be reprocessed again in order to extract any remaining diamonds that were missed the first time around, however the diamonds remaining tend to be significantly smaller and of lower quality than those found in the original ROM ore	
"raiseboring"	a method of developing vertical or inclined excavations by drilling a pilot hole, then reaming the pilot hole to the required dimensions	"tailings dump"	dumps created of waste material from processed ore after the economically recoverable metal or mineral has been extracted	
"rehabilitation"	the process of restoring mined land to a condition approximating to a greater or lesser degree its original state	"Tier 1 diamond resource"	a diamond resource estimated to host a contained value of US\$20 billion+ 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	
"re-crush system"	processes oversized material from the primary crushers, further reducing it in size run-of-mine, i.e. relating to production from the primary orebody	"tonnage"	tonnes per annum	
"ROM"	South African Code for Reporting of Exploration Results, Mineral Resources and Mineral Reserves	"tpa"	tonnes per month	
"SAMREC"		"tpm"	equipment that does not operate on tracks (rails)	
"shaft"	a vertical or inclined excavation in rock for the purpose of providing access to an orebody. Usually equipped with a hoist at the top, which lowers and raises a conveyance for handling workers and materials	"trackless equipment"	"TSR"	total shareholder return
"SHE"	safety, health and environment	"U/G"	underground	
"SLC"	sub level cave	"Undiluted ore"	the purpose of Petra's capital expansion projects over the past number of years has been to create access to 'undiluted ore' by opening up new areas where mining hasn't taken place before. This means that there remains solid blocks of ore available to be extracted, unlike the old areas of Petra's mines where the majority of the ore has already been removed and which have since become heavily diluted with waste rock. Accessing 'undiluted ore' will see Petra's ROM grades go up, as the Company will be able to extract more diamonds per hundred tonnes due to mining ore which is undiluted with waste rock	
"slimes"	the fine fraction of tailings discharged from a processing plant without being treated; in the case of diamonds, usually that fraction which is less than 1mm in size			
"SMMEs"	small, medium and micro enterprises			
"stockpile"	a store of unprocessed ore			
"sub level caving"	follows the same basic principles as the block caving mining method; however, work is carried out on intermediate levels and the caves are smaller in size and not as long lasting. This method of mining is quicker to bring into production than block caving, as the related infrastructure does not require the level of permanence needed for a long-term block cave. This method is used to supplement block caving in order to provide production flexibility			



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