



PetraDiamonds

28 October 2015

LSE: PDL

Petra Diamonds Limited ("Petra" or the "Company" or the "Group")

Trading Update – Q1 FY 2016 Production and Sales Report

Petra Diamonds Limited announces the following trading update (unaudited) for the period from 1 July 2015 to 27 October 2015, covering production and sales from 1 July 2015 to 30 September ("Q1 FY 2016" or "Q1" or the "Period").

HIGHLIGHTS

- Q1 production up 1% to 842,796 carats (Q1 FY 2015: 833,744 carats), representing record quarterly production for the Group and a solid start to the year measured against the H1 FY 2016 production guidance of 1.5 Mcts. Petra remains on track for its full year production guidance of 3.3 – 3.4 Mcts for FY 2016 and ca. 5 Mcts for FY 2019.
- Q1 FY 2016 revenue: nil (Q1 FY 2015: US\$100.8 million). Petra's first tender of FY 2016 was held in October and yielded US\$68.9 million. Diamond prices on a like for like basis were down 8.8% vs Q4 FY 2015 in US Dollar terms.
- The significant weakening of the South African Rand ("ZAR") since the start of FY 2016 has mitigated the cashflow impact of lower US Dollar prices.
- Expansion programmes, including the Cullinan plant project, remain on track and in line with expectations.
- Cash at bank at Period end of US\$57.2 million (30 June 2015: US\$166.6 million) and diamond inventories of ca. US\$103.4 million (30 June 2015: ca. US\$33.5 million).
- Net debt at Period end of US\$306.2 million (30 June 2015: US\$171.7 million). The Company has bank facilities undrawn and available of US\$208.4 million (30 June 2015: US\$255.1 million).

Q1 Production and Sales – Summary

	Unit	Q1 FY 2016	Q1 FY 2015	Variance	FY 2015
Sales					
Diamonds sold	Carats	n/a	532,250	n/a	3,168,650
Gross revenue	US\$M	n/a	100.8	n/a	425.0
Production					
ROM diamonds	Carats	646,051	600,499	+8%	2,276,168
Tailings and other diamonds	Carats	196,745	233,245	-16%	910,307
Total diamonds	Carats	842,796	833,744	+1%	3,186,475

Johan Dippenaar, Chief Executive Officer, commented:

“We are pleased to have made a strong start to the year, with record quarterly production for the Group, boding well for H1 FY 2016 production measured against guidance of 1.5 Mcts.

“Petra’s focus remains on the maintenance of a healthy balance sheet, the tight control of costs, and the successful roll-out of our expansion plans, which will deliver the first significant input from the higher quality production areas from H2 FY 2016 onwards. These measures will assist the Company to withstand uncertain market conditions.”

CONFERENCE CALL

Petra’s CEO, Johan Dippenaar, and Finance Director, David Aberly, will host a conference call at 9:30am GMT today to discuss the Trading Update with investors and analysts. Participants may join the call by dialling one of the following three numbers shortly before the call:

From the UK (toll free): 0808 237 0040
From South Africa (toll free): 0800 222 290
From the rest of the world: +44 203 428 1542
Participant passcode: 99728992#

A replay of the conference call will be available on the following numbers from 12:00pm GMT today:

From UK (toll free): 0808 237 0026
From South Africa and the rest of the world: +44 203 426 2807
Playback passcode: 663085#

An additional conference call to cater for North American and other international investors will be held at 4:00pm GMT today.

Participants are advised to listen to the replay of the first conference call in advance of this call, as the main management commentary on the results will not be repeated.

From the United States (toll free): 1866 928 7517
From the rest of the world: +44 203 428 1542
From the UK (toll free): 0808 237 0040
From South Africa (toll free): 0800 222 290
Participant passcode: 48065861#

COMMENTARY

Production

- Q1 production increased 1% to 842,796 carats (Q1 FY 2015: 833,744 carats) primarily due to increased production at Finsch, Koffiefontein and Kimberley Underground offset by reductions at Cullinan and Williamson.
- Finsch production increased 14% to 590,799 carats (Q1 FY 2015: 517,998 carats). Improvements were recorded in the ROM grade of 46.6 cpht (Q1 FY 2015: 42.9 cpht) while the tailings grade marginally reduced to 30.6 cpht (Q1 FY 2015: 31.3 cpht). The bulk sampling plant, constructed and commissioned in FY 2015, has contributed 66,334 carats to ROM production through the treatment of the overburden dumps.
- Cullinan’s production decreased 31% to 145,385 carats (Q1 FY 2015: 209,632 carats) in line with FY 2016 guidance that ROM throughput will be reduced to focus on grade control as opposed to maximising volumes. As a result 555,748 ROM tonnes were treated (Q1 FY 2015: 673,099 tonnes) delivering a grade of 23.6 cpht (Q1 FY 2015: 27.2 cpht), which is in line with management expectations for Q1 and demonstrates that the turnaround in the grade from the low of 20.9 cpht reached in Q3 FY 2015 is continuing according to plan.

- Koffiefontein's production increased 35% to 14,350 carats (Q1 FY 2015: 10,618 carats), further to the ramp up of production from the SLC production area. As previously reported, production from the new SLC production area has been delayed, but the production and recoveries achieved in recent weeks illustrate the steady improvement which should see production achieving guided levels towards the end of H1 FY 2016.
- Kimberley Underground production increased 36% to 49,107 carats (Q1 FY 2015: 36,036 carats), due to the increased ROM grade of 18.4 cpht (Q1 FY 2015: 12.3 cpht), coupled with the treatment of tailings resources to utilise available plant capacity. The finer diamond population recovered from these tailings resources has contributed to the lower average value per carat achieved during the first tender held in October.
- Williamson's production decreased 20% to 43,155 carats (Q1 FY 2015: 53,880 carats), due to a planned shutdown associated with the installation and commissioning of a crusher in the plant.

Diamond market and sales

- The diamond market continues to be impacted by excess polished inventory in the pipeline, a slowdown in demand (particularly from China, representing ca. 16% of the consumer market), as well as financing / profitability issues in the midstream. However steps have been taken by the major diamond producers to reduce supply to the market, via production cuts and reduced sales volumes. Encouragingly, retail demand remains stable in the US (which represents ca. 42% of the consumer market) and the core retail festive season (running from November to February) should see diminished polished inventories and improved trading conditions in H2 FY 2016 (January to June 2016).
- Expectations of a positive longer-term outlook for the rough diamond market are underpinned by the continued growth in demand from developed and emerging markets, set against constrained supply due to the limited number of significant diamond mines worldwide.

Petra's first tender of FY 2016

- Petra did not record any revenue in Q1 FY 2016, with its first tender held in October 2015. Petra will hold one additional tender in Q2 FY 2016, closing early December, with a further four tenders scheduled for H2 FY 2016.
- Diamond inventory as at 30 September 2015 was 1,181,822 carats (30 September 2014: 622,910 carats), with 696,801 carats sold in the October tender yielding US\$68.9 million in revenues.
- In excess of ca. 96% by volume and ca. 90% by value of the goods on the tender were sold. The balance of unsold parcels will either be offered to clients for sale at negotiated prices or will be rolled into the second tender. A small number of individual stones at current market value of US\$2.5 million were extracted for cutting and polishing utilising either Petra's in-house facility or by way of partnership.

Diamond Prices

- The first tender of FY 2016 saw prices on a like for like basis down 8.8% versus Q4 FY 2015 actual prices achieved, with a range of between 5.0% (Cullinan) and 10.8% (Finsch) across Petra's operations.
- A finer, lower value product mix at Finsch, Koffiefontein and Kimberley Underground further impacted prices per carat achieved, although the general lower quality compared to guidance was mitigated by above-plan production at both Finsch and Kimberley Underground. The product mix at each of these operations is expected to improve from H2 FY 2016 onwards.
- As previously noted in the Company's FY 2016 Guidance Update announcement of 27 July 2015, Petra is expecting a better product mix in H2 FY 2016 further to the first significant input of undiluted ore from the new mining areas, and the higher proportion of ROM versus tailings carats. For this reason, there are no changes to FY 2016 diamond price guidance at this point in time, however Petra will continue to assess market conditions throughout FY 2016 and will provide an update on its pricing guidance should this be necessary.

- The table below indicates the results of Petra's first tender for FY 2016. In order to arrive at a 'calculated average value' for each operation (due to not all goods being sold), Petra incorporated the actual pricing results of all parcels sold, the value of as yet unsold parcels offered to the State Diamond Trader at pre-tender valuation less 10%, and the value of parcels withheld at the highest bids received (but not accepted). Refer Appendix B for a pricing breakdown per operation.

Mine	Calculated average value	Management guidance	Actual	Actual Ranges of Individual Tender Results ¹
	First tender of FY 2016 (US\$/ct)	FY 2016 (US\$/ct)	FY 2015 (US\$/ct)	FY 2015 (US\$/ct)
Finsch	77	94	90	82 – 112
Cullinan	109	126 ²	119 ³	106 – 135 ⁴
Koffiefontein	320	570	386	226 – 536
Kimberley Underground	230	327	302	246 – 376
Williamson (ROM only)	237	303	298	217 – 354

Notes:

- Petra has previously flagged that there can be variability witnessed from tender to tender, as evidenced by the actual ranges of individual tender results for FY 2015. This pricing is impacted by both the market and product mix, including higher value single stones and ROM versus tailings carat contributions.
- Excludes guidance for exceptional diamonds.
- Including exceptional diamonds, the average value for FY 2015 was US\$174 per carat.
- Excluding exceptional diamonds.

Post-tender observations indicated the following significant trends across various size and quality sales categories measured against Petra's results in Q4 FY 2015:

- prices for gem quality stones in the 2 to 5 carat range remained fairly stable;
- prices of gem quality stones in both the 3 to 6 grainer (0.75 carat to 1.5 carat) and the 5 to 10 carat size ranges were significantly softer with prices decreasing by ca. 12% to 15% in both categories; and
- prices in the 2nd and 3rd tier quality goods remained fairly stable, whilst prices in the lowest quality assortments were weak.

Corporate and Financial:

- A summary of the Group's current cash, diamond inventories, debtors, borrowings and net debt is set out below.

	Unit	30 September 2015	30 June 2015	30 September 2014
<i>Closing exchange rate used for conversion</i>		<i>R13.84/US\$1</i>	<i>R12.16/US\$1</i>	<i>R11.28/US\$1</i>
Cash at bank	US\$m	57.2	166.6	45.2
Diamond inventories ¹	US\$m	103.4	33.5	48.4
	Carats	1,181,822	339,489	622,910
Diamond debtors	US\$m	0.0	57.6	3.6
US\$ loan notes (including US\$9.5 million accrued interest)	US\$m	309.5	303.3	n/a

Bank loans and borrowings	US\$m	53.9	35.0	152.5
Net debt ²	US\$m	306.2	171.7	107.3
Bank facilities undrawn and available	US\$m	208.4	255.1	36.1

Notes:

1. Recorded at the lower of cost and net realisable value.
 2. Net debt is the US\$ loan notes and bank loans and borrowing net of cash at bank; it excludes diamond debtors and diamond inventories.
- The negative impact of lower USD diamond prices has been mitigated by the significant weakening of the ZAR against the USD of ca. 13% over the Period.
 - Net debt of US\$306.2 million as at 30 September 2015 was in line with expectations and does not reflect the October 2015 tender proceeds. The Company maintains a healthy balance sheet, with at Period end, cash of US\$57million, diamond inventories of US\$103 million and bank facilities undrawn and available of US\$208 million.
 - Petra has initiated discussions with its bankers to ensure that its senior lender covenants are appropriate for the business and will update shareholders in that regard in the near future.
 - Shares vested with Directors and Management in October 2015 following awards previously made under the Company's 2012 Performance Share Plan and the 2011 Longer Term Share Plan; 3,597,450 of these shares have been retained by Directors (the full amount of shares vesting with them) and Management, clearly illustrating senior management's support and belief in the Group's prospects.
 - As previously reported, Mr Tony Lowrie (Senior Independent Director) purchased 1,300,000 shares and Mr Gordon Hamilton (Non-Executive Director) purchased 32,000 shares during the Period.

Health and safety:

- The Group's lost time injury frequency rate ("LTIFR") for Q1 FY 2016 was 0.40 (Q1 FY 2015: 0.34); a fatal accident was recorded during July 2015 as reported in the Trading Update for the year ended 30 June 2015.

Notes:

1. The following definitions have been used in this announcement:
 - a. cpht: carats per hundred tonnes
 - b. exceptional diamonds: stones that sell for +US\$5 million
 - c. Mcts: million carats
 - d. mL: metre level
 - e. Mt: million tonnes
 - f. Q: quarter of the financial year
 - g. ROM: run-of-mine (i.e. production from the primary orebody)

~ Ends ~

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About Petra Diamonds Limited

Petra Diamonds is a leading independent diamond mining group and an increasingly important supplier of rough diamonds to the international market. The Company has interests in five producing mines: four in South Africa (Finsch, Cullinan, Koffiefontein and Kimberley Underground) and one in Tanzania (Williamson). It also maintains an exploration programme in Botswana.

Petra has a core objective to steadily increase annual production to ca. 5 million carats by FY 2019. The Group has a significant resource base of ca. 300 million carats.

Petra conducts all operations according to the highest ethical standards and will only operate in countries which are members of the Kimberley Process. Petra is quoted with a premium listing on the Main Market of the London Stock Exchange under the ticker 'PDL' and is a member of the FTSE 250. For more information, visit the Company's website at www.petradiamonds.com.

APPENDIX A – MINE BY MINE PRODUCTION TABLES

Finsch – South Africa

	Unit	Q1 FY 2016	Q1 FY 2015	Variance	FY 2015
Sales					
Diamonds sold	Carats	n/a	295,488	n/a	2,067,933
Average price per carat	US\$	n/a	90	n/a	90
Revenue	US\$M	n/a	26.7	n/a	185.4
ROM Production					
Tonnes treated	Tonnes	900,560	744,397	+21%	3,016,385
Diamonds produced	Carats	419,451	319,037	+31%	1,298,914
Grade ¹	cpht	46.6	42.9	+9%	43.1
Tailings Production					
Tonnes treated	Tonnes	560,477	634,740	-12%	2,656,471
Diamonds produced	Carats	171,349	198,961	-14%	766,960
Grade ¹	cpht	30.6	31.3	-2%	28.9
Total Production					
Tonnes treated	Tonnes	1,461,037	1,379,137	+6%	5,672,856
Diamonds produced	Carats	590,799	517,998	+14%	2,065,875

Note:

1. The ROM / tailings grade split is theoretical and based on the resource grades as ore from both sources is processed through the same plant.

Cullinan – South Africa

	Unit	Q1 FY 2016	Q1 FY 2015	Variance	FY 2015
Sales					
Diamonds sold	Carats	n/a	147,388	n/a	700,896
Average price per carat	US\$	n/a	134 ¹	n/a	119 ²
Revenue	US\$M	n/a	43.2	n/a	122.2
ROM Production					
Tonnes treated	Tonnes	555,748	673,099	-17%	2,513,004
Diamonds produced	Carats	131,153	182,870	-28%	611,993
Grade	cpht	23.6	27.2	-13%	24.4
Tailings Production					
Tonnes treated	Tonnes	355,492	533,602	-33%	2,458,306
Diamonds produced	Carats	14,232	26,762	-47%	117,503
Grade	cpht	4.0	5.0	-20%	4.8
Total Production					
Tonnes treated	Tonnes	911,240	1,206,701	-24%	4,971,310
Diamonds produced	Carats	145,385	209,632	-31%	729,496

Notes:

1. Including exceptional diamonds, the average value was US\$293 per carat.
2. Including exceptional diamonds, the average value was US\$174 per carat.

Koffiefontein – South Africa

	Unit	Q1 FY 2016	Q1 FY 2015	Variance	FY 2015
Sales					
Diamonds sold	Carats	n/a	7,321	n/a	46,033
Average price per carat	US\$	n/a	503	n/a	386

Revenue	US\$M	n/a	3.7	n/a	17.8
<u>ROM Production</u>					
Tonnes treated	Tonnes	143,198	65,088	+120%	341,783
Diamonds produced	Carats	10,920	4,658	+134%	27,756
Grade	cpht	7.6	7.2	+6%	8.1
<u>Tailings / Ebenhaezer Production</u>					
Tonnes treated	Tonnes	137,380	175,173	-22%	524,244
Diamonds produced	Carats	3,430	5,960	-42%	17,628
Grade	cpht	2.5	3.4	-26%	3.4
<u>Total Production</u>					
Tonnes treated	Tonnes	280,578	240,261	+17%	866,027
Diamonds produced	Carats	14,350	10,618	+35%	45,384

Kimberley Underground – South Africa

	Unit	Q1 FY 2016	Q1 FY 2015	Variance	FY 2015
<u>Sales</u>					
Diamonds sold	Carats	n/a	23,897	n/a	138,052
Average price per carat	US\$	n/a	327	n/a	302
Revenue	US\$M	n/a	7.8	n/a	41.8
<u>ROM Production</u>					
Tonnes treated	Tonnes	241,867	292,681	-17%	1,196,269
Diamonds produced	Carats	44,425	36,036	+23%	137,226
Grade	cpht	18.4	12.3	+50%	11.5
<u>Tailings Production</u>					
Tonnes treated	Tonnes	115,366	n/a	n/a	n/a
Diamonds produced	Carats	4,682	n/a	n/a	n/a
Grade	cpht	4.1	n/a	n/a	n/a
<u>Total Production</u>					
Tonnes treated	Tonnes	357,233	292,681	+22%	1,196,269
Diamonds produced	Carats	49,107	36,036	+36%	137,226

Williamson – Tanzania

	Unit	Q1 FY 2016	Q1 FY 2015	Variance	FY 2015
<u>Sales</u>					
Diamonds sold ¹	Carats	n/a	53,719	n/a	208,351
Average price per carat	US\$	n/a	350	n/a	298
Revenue	US\$M	n/a	18.8	n/a	62.1
<u>ROM Production</u>					
Tonnes treated	Tonnes	751,963	989,204	-24%	4,056,638
Diamonds produced	Carats	40,102	52,319	-23%	194,048
Grade	cpht	5.3	5.3	0%	4.8
<u>Alluvial Production</u>					
Tonnes treated	Tonnes	94,107	74,274	+27%	369,406
Diamonds produced	Carats	3,052	1,561	+96%	8,216
Grade	cpht	3.2	2.1	+52%	2.2
<u>Total Production</u>					
Tonnes treated	Tonnes	846,070	1,063,478	-20%	4,426,044
Diamonds produced	Carats	43,155	53,880	-20%	202,265

APPENDIX B – DIAMOND SALE RESULTS – TENDER CYCLE 1 OF FY 2016

Petra Diamonds – Aggregated

	Carats	Percentage by Volume	US\$	Percentage by Value	US\$/ct
Diamonds sold	696,801	96.1%	68,889,132	89.7%	99
Tendered goods withheld ¹ (at highest prices offered but not accepted)	25,364	3.5%	5,694,121	7.4%	224
State Diamond Trader (“SDT”) parcels not sold (stated at pre-tender valuation less 10%)	2,739	0.4%	2,197,935	2.9%	802
Tender 1 FY 2016 Total	724,904	100%	76,781,189	100%	106

Note:

1. These goods were offered to clients during Petra’s first tender of FY 2016; all of these parcels attracted bids from clients, although these bids were not accepted. The values shown in the table indicate the total of the highest bids received for each individual parcel.

Finsch – South Africa

	Carats	Percentage by Volume	US\$	Percentage by Value	US\$/ct
Diamonds sold	472,160	95.9%	33,521,803	88.1%	70
Tendered goods withheld (at highest prices offered but not accepted)	18,301	3.7%	3,086,657	8.1%	169
SDT parcels not sold (stated at pre-tender valuation less 10%)	1,973	0.4%	1,460,592	3.8%	740
Tender 1 FY 2016 Total	492,434	100%	38,069,052	100%	77

Cullinan – South Africa

	Carats	Percentage by Volume	US\$	Percentage by Value	US\$/ct
Diamonds sold	134,017	99.8%	14,415,678	98.4%	108
Tendered goods withheld (at highest prices offered but not accepted)	4	0.1%	29,565	0.2%	8,100
SDT parcels not sold (stated at pre-tender valuation less 10%)	229	0.1%	210,622	1.4%	918
Tender 1 FY 2016 Total	134,250	100%	14,655,865	100%	109

Koffiefontein – South Africa

	Carats	Percentage by Volume	US\$	Percentage by Value	US\$/ct
Diamonds sold	10,354	85.7%	3,549,932	91.8%	343
Tendered goods withheld (at highest prices offered but not accepted)	1,587	13.1%	91,863	2.4%	58
SDT parcels not sold (stated at pre-tender valuation less 10%)	140	1.2%	227,183	5.9%	1,626
Tender 1 FY 2016 Total	12,080	100%	3,868,978	100%	320

Kimberley Underground – South Africa

	Carats	Percentage by Volume	US\$	Percentage by Value	US\$/ct
Diamonds sold	33,280	98.3%	7,191,306	92.4%	216
Tendered goods withheld (at highest prices offered but not accepted)	169	0.5%	297,736	3.8%	1,767
SDT parcels not sold (stated at pre-tender valuation less 10%)	396	1.2%	299,539	3.8%	756
Tender 1 FY 2016 Total	33,845	100%	7,788,580	100%	230

Williamson – Tanzania

	Carats	Percentage by Volume	US\$	Percentage by Value	US\$/ct
Diamonds sold	46,991	89.9%	10,210,413	82.4%	217
Tendered goods withheld (at highest prices offered but not accepted)	5,304	10.1%	2,188,301	17.6%	413
Tender 1 FY 2016 Total	52,294	100%	12,398,714	100%	237