This announcement contains inside information

20 February 2017 **LSE: PDL**

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

Interim results for the six months to 31 December 2016

Petra Diamonds Limited announces its interim results (unaudited) for the six months to 31 December 2016 ("the Period" or "H1 FY 2017" or "H1").

SUMMARY

Financial

- Revenue up 48% to US$228.5 million (H1 FY 2016: US$154.0 million).
- Adjusted EBITDA[3] up 80% to US$87.1 million (H1 FY 2016: US$48.5 million).
- Adjusted net profit after tax[5] up 348% to US$28.2 million (H1 FY 2016: US$6.3 million).
- Net profit after tax: US$35.2 million (H1 FY 2016: US$2.2 million loss).
- Operating cashflow up 89% to US$86.4 million (H1 FY 2016: US$45.6 million).
- Basic earnings per share: 5.27 US$ cents (H1 FY 2016: basic loss per share of 0.72 US$ cents).
- Net debt[7] of US$463.6 million (30 June 2016: US$384.8 million); unrestricted cash and bank facilities of US$94.0 million (30 June 2016: US$146.7 million).

Operations

- Production up 24% to 2,015,087 carats (H1 FY 2016: 1,629,403 carats).
- Improving ROM grade profiles achieved as a results of accessing undiluted ore: +20% to 54.5 cpht (H1 FY 2016: 45.3 cpht) at Finsch and +34% to 34.5 cpht (H1 FY 2016: 25.7 cpht) at Cullinan.
- Costs remain well controlled despite inflationary pressures.
- Capex of US$134.9 million (H1 FY 2016: US$139.8 million) excluding capitalised borrowing costs of US$ 21.5 million (H1 FY 2016: US$11.5 million), in accordance with the roll out of the Group's expansion programmes.
- Safety: as previously announced, it is with deep regret that the Group experienced five fatalities during H1 FY 2017, despite excellent safety records historically and a leading Lost Time Injury Frequency Rate ("LTIFR") of 0.25 achieved during the Period (H1 FY 2016: 0.37).
- Completion of joint venture agreement with Ekapa Mining (Pty) Ltd ("Ekapa Mining") to combine the operations of Kimberley Underground, Kimberley Mines (owned jointly by Petra and Ekapa Mining through Ekapa Minerals (Pty) Ltd ("Ekapa Minerals")) and Super Stone Mining (Pty) Ltd ("Super Stone") to form an unincorporated joint venture named Kimberley Ekapa Mining Joint Venture ("KEM JV") with effect from 1 July 2016.

Outlook

- The execution of the Group's underground expansion projects at Finsch and Cullinan continues as expected; both Finsch's Block 5 SLC and Cullinan's C-Cut Phase 1 projects delivered initial production during the Period, in line with earlier guidance, and both projects remain on track to deliver ca. 1 Mt each in FY 2017.

- As announced in the H1 FY 2017 Trading Update, construction work on the new Cullinan plant was disrupted by contract labour stoppages; these issues have since been resolved and construction work resumed at the end of January 2017. Commissioning is expected to commence towards the end of March 2017, ca. 8 weeks later than originally planned, and ramp-up to full production during Q4 FY 2017; it is also envisaged that the old plant at Cullinan will continue to operate until the end of March / early April 2017 (previously planned to be decommissioned at the end of February 2017).
- The Group remains on track to deliver full year production of ca. 4.4 – 4.6 Mcts but is mindful of the potential to be towards the bottom end of this range, due to the above influencing factors associated with the new Cullinan plant, and will monitor this situation as commissioning progresses.
- The Group's forecasts show that Petra has sufficient banking facilities to meet its working capital and capital development requirements and that the Company maintains headroom against its financial covenants going forward.
- Signs of stabilisation in the rough diamond market are evident and Petra expects conditions to remain stable in H2 FY 2017 (January to June 2017).

Johan Dippenaar, CEO of Petra, commented:
"Petra has achieved strong operational and financial results for H1 FY 2017, owing to the increased contribution of undiluted ore and continued stabilisation in market conditions.

We are now reaching an exciting inflection point in the Company's development and are on track to start benefitting from a declining Capex profile, a significant increase in ROM grades and product mix, and the associated improvement in margins and cashflow.

The team is highly committed to maintaining momentum and continuing to achieve operating efficiencies throughout the ramp up of each project in order to accomplish our stated goal of ca. 5.3 million carats by FY 2019, whilst upholding safety as our number one priority."

Analyst presentation and webcast
A presentation for analysts will be held at 9:30am GMT on 20 February 2017 at the offices of Buchanan, 107 Cheapside, London EC2V 6DN. A live webcast of the analyst presentation will be available on Petra's website at www.petradiamonds.com and on the following link: http://www.investis-live.com/petra-diamonds/5882414b9d33cc1d00763940/y5a5h.

A conference call line will also be available to allow participants to listen to the webcast by dialling one of the following numbers shortly before 9:30am GMT:

From the UK (toll free): 0800 368 0649
From South Africa (toll free): 0800 999 282
From the rest of the world: + 44 20 3059 8125
Participant passcode: Petra Diamonds

A recording of the webcast will be available from 1:00pm GMT on 20 February 2017 on the website and on the link above.

Second Call – 4:00pm GMT / 11:00am EST
This will be a Q&A call only to cater for international investors. Participants are therefore advised to listen to the replay of the earlier webcast in advance, as the main management commentary 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
Participant passcode: 43561187#

SUMMARY OF RESULTS (unaudited)

	6 months to 31 December 2016 ("H1 FY 2017") US$ million	6 months to 31 December 2015 ("H1 FY 2016") US$ million	Year ended 30 June 2016 ("FY 2016") US$ million
Revenue	228.5	154.0	430.9
Adjusted mining and processing costs[1]	(137.7)	(99.6)	(257.7)
Other direct income	1.4	0.7	2.8
Profit from mining activity[2]	**92.2**	**55.1**	**176.0**
Exploration expense	(0.3)	(1.9)	(2.7)
Corporate overhead	(4.8)	(4.7)	(9.0)
Adjusted EBITDA[3]	**87.1**	**48.5**	**164.3**
Kimberley Ekapa Mining JV fair value adjustment[4]	4.1	—	—
Depreciation	(28.6)	(24.2)	(51.8)
Share-based expense	(2.1)	(2.4)	(4.1)
Net finance expense	(15.9)	(13.3)	(36.2)
Tax expense	(16.4)	(2.3)	(8.6)
Adjusted net profit after tax[5]	**28.2**	**6.3**	**63.6**
Net unrealised foreign exchange gain / (losses)	7.0	(8.5)	3.2
Net profit / (loss) after tax	**35.2**	**(2.2)**	**66.8**
Earnings per share attributable to equity holders of the Company – US$ cents			
Basic profit / (loss) per share – from continuing operations	**5.27**	**(0.72)**	**10.38**

	Unit	As at 31 December 2016 (US$ million)	As at 31 December 2015 (US$ million)	As at 30 June 2016 (US$ million)
Cash at bank (including restricted amounts)	US$M	49.0	42.1	48.7
Diamond debtors	US$M	1.9	1.4	63.4
Diamond inventories	US$M	56.6	57.4	43.6
Diamond inventories	Carats	673,031	666,357	549,620
US$300 million loan notes (issued May 2015) (including accrued interest)[6]	US$M	302.1	302.1	302.0
Bank loans and borrowings	US$M	210.5	63.9	131.5
Net debt[7]	US$M	463.6	323.9	384.8
Total bank facilities undrawn and available	US$M	57.1	177.1	110.0

***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 note and net debt. As these are non-GAAP measures, they should not be considered as replacements for IFRS measures. The Company's definition of these non-GAAP measures may not be comparable to other similarly titled measures reported by other companies.

1. *Adjusted mining and processing costs are mining and processing costs stated before depreciation and share-based expense.*

2. *Profit from mining activities is revenue less adjusted mining and processing costs plus other direct income.*
3. *Adjusted EBITDA is stated before KEM JV fair value adjustment, depreciation, share-based expense, net finance expense, tax expense and net unrealised foreign exchange gains and losses.*
4. *The US$4.1 million gain recorded on the formation of KEM JV represents Petra's newly recognised incremental 26% share of the fair value of Ekapa Minerals (Pty) Ltd's (being the entity through which Petra and Ekapa Mining own the Kimberley Mines) assets and liabilities and its 75.9% share of the fair value of Super Stone's assets and liabilities, less the 24.1% of the net book value assets and liabilities of Kimberley Underground mine relinquished as part of the transaction. See notes 2 and 16 for further details.*
5. *Adjusted net profit after tax is net profit after tax stated before net unrealised foreign exchange gains and losses.*
6. *The US$ loan note represents the gross capital of US$300 million and accrued interest of US$2.1 million (30 June 2016: US$2.0 million and 31 December 2015: US$2.1 million), excluding transaction costs.*
7. *Net debt is the US$ loan notes and bank loans and borrowings net of cash at bank.*

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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 operations: three underground mines in South Africa (Finsch, Cullinan and Koffiefontein), the Kimberley Ekapa Mining joint venture (including the Kimberley Underground mine and extensive tailings retreatment operations) and one open pit mine in Tanzania (Williamson). It also maintains an exploration programme in Botswana.

Petra has a core objective to steadily increase annual production to ca. 5.3 million carats by FY 2019. The Group has a significant resource base in excess of 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 constituent of the FTSE4Good Index. For more information, visit www.petradiamonds.com.

CEO'S REVIEW

Petra has achieved strong operational results in H1 FY 2017, recording production of 2,015,087 carats, a 24% increase on H1 FY 2016, and remains on track to deliver full year production of ca. 4.4 – 4.6 Mcts, whilst being mindful of the potential to be towards the bottom end of this range, due to influencing factors associated with the new Cullinan plant.

Due to increased sales volumes for the Period, the Company reported revenue of US$228.5 million, a 48% increase on the US$154.0 million delivered in H1 FY 2016. Despite ongoing inflationary pressures, operating costs remained well controlled, leading to a 4% increase in profit margin from mining activities of 40% for H1 FY 2017 when compared to H1 FY 2016. With adjusted EBITDA of US$87.1 million, the Company recorded an adjusted EBITDA margin of 38%, 7% higher than that achieved in H1 FY 2016, mainly as a result of improved grades following the increasing contribution of undiluted ore to overall production.

Petra's underground expansion projects remain on track, with both Finsch's Block 5 SLC and Cullinan's C-Cut Phase 1 delivering initial production during the Period. This can be evidenced by the improving ROM grade profiles seen at each mine, up 20% and 34% respectively to 54.5 cpht at Finsch and 34.5 cpht at Cullinan. Whilst we are still in the early stages of accessing undiluted ore, it is encouraging to see this upwards trend, which will continue as we ramp up these projects.

Commissioning of the newly installed mill section at Williamson commenced in H1 and is already showing very positive results. This is particularly encouraging when viewed in relation to similar technology at the new Cullinan plant, due to commence commissioning towards the end of the current quarter, Q3 FY 2017. The new plant at Cullinan will not only optimise production but will also afford processing flexibility, owing to its significant capacity of 6 Mtpa of ROM material.

Capex of US$134.9 million (excluding capitalised borrowing costs and corporate Capex) represents ca. 60% of the total forecasted spend for FY 2017 and demonstrates the declining trend that has previously been guided by the Company. Having passed peak spend in H2 FY 2016, we will see a further significant reduction in Capex from this point onwards, falling to ca. US$130 million in FY 2018 and ca. US$85 million in FY 2019 (both amounts based on July 2016 USD/ZAR FX rates and excluding inflation).

The Group therefore expects to become free cashflow positive by the end of Q4 FY 2017, and strongly cashflow generative from FY 2018 onwards.

Petra's diversified portfolio of long-life operations has significant potential to maximise value beyond the stated plans and we therefore intend to update the market on plans post FY 2019 when our annual guidance is issued later this year.

We achieved a leading LTIFR of 0.25 in H1 FY 2017 and are pleased with the improving trend in this key indicator of safety performance (H1 FY 2016: 0.37). However, in spite of our historically excellent safety records, we experienced five fatalities during the Period. As a result, we have intensified our safety initiatives, which target all levels of the organisation, serving to reiterate our zero-tolerance approach to unsafe acts and working conditions and to reinforce safety as the single most important personal and organisational value. This will remain a key area of focus for the Company and is our highest priority.

DIVIDEND

Returns to shareholders remain a priority for the Board and its intention is to resume dividend payments as the Company becomes increasingly cash generative and distribution covenants are met. The resumption of dividends is regularly reviewed by the Board and the market will be updated on this when appropriate.

DIAMOND MARKET

We are seeing some evidence of improving retail demand, with certain jewellery retailers reporting slight growth in sales for the 2016 festive period and at least narrowing declines being noted by others. It was encouraging to see that, whilst Chinese retailers continued to record some declines in Hong Kong and Macau, some are now seeing positive trends in Mainland China.

Signs of stabilisation in the rough diamond market are evident with steady demand across the majority of size ranges, except in the smaller, lower value categories which have been experiencing some pressure due to the Indian government's demonetisation of high value banknotes and the subsequent impact of smaller midstream players on liquidity in the Indian diamond market.

Since the Period end, the Company has held one further tender which closed in early February 2017, with firm prices achieved and all parcels sold. The prices of smaller, lower value goods, which came under pressure in our December 2016 tender, have shown an encouraging recovery in the recent tender.

A further three tenders will be held during the remainder of H2 and Petra expects market conditions to remain stable during this time (February to June 2017).

Diamond Pricing

Rough diamond prices remained flat during H1 FY 2017 on a like-for-like basis, in comparison to H2 FY 2016, although some weakness was observed in the smaller, lower value size categories during Petra's December tender, following the Indian government's actions, as mentioned above.

The table below summarises diamond pricing achieved in H1 FY 2017 set against the Company's guidance and the last financial year.

Mine	**Actual[1] H1 FY 2017 US$ per Carat**	**Guidance[2] FY 2017 US$ per Carat**	**Actual FY 2016 US$ per Carat**
Finsch	98	100-105	89
Cullinan[3]	127	105-115	126
Koffiefontein	495	520-550	462
Kimberley Ekapa Mining	93[4]	125-130	132[6]
Williamson[5]	305	220-230	384

Notes:

1. *Includes sales to Petra's in-house cutting and polishing subsidiary Tarorite (Pty) Ltd, totalling 206.3 carats, valued at US$0.3 million across the operations; excludes sales by Tarorite totalling 25.0 carats, US$0.1m.*
2. *Excluding Exceptional Diamonds.*
3. *Excluding Exceptional Diamonds, the average value per carat for H1 FY 2017 was US$111 (FY 2016: US$109).*
4. *The average value per carat for H1 FY 2017 is below full year guidance due to the parcel make-up weighted towards tailings carats as explained in 'Production' commentary below.*
5. *Excluding Exceptional Diamonds, the average value per carat for H1 FY 2017 was US$253 (FY 2016: US$238).*
6. *The average value per carat for FY 2016 reflects the dilutive impact of combining tailings and ROM sales from H2 FY 2016 onwards.*

FINANCIAL RESULTS

Revenue

Revenue increased 48% to US$228.5 million in the Period (H1 FY 2016: US$154.0 million) in line with carats sold which were up 47% to 1,910,113 carats (H1 FY 2016: 1,303,051); volumes sold were slightly lower than carats produced of 2,015,087 carats (H1 FY 2016: 1,629,403 carats) due to the seasonal timing of Petra's tenders; as usual, Petra held three tenders in H1 and holds four tenders in H2.

Diamond inventory as at 31 December 2016 was 673,031 carats valued at US$56.6 million (31 December 2015: 666,357 carats valued at US$57.4 million).

Mining and processing costs

The mining and processing costs for H1 FY 2017 were, as in past periods, comprised of on-mine cash costs as well as other operational expenses. A breakdown of the total mining and processing costs for the Period is set out below.

	On-mine cash operating costs[1] US$m	Diamond royalties US$m	Diamond inventory and stockpile movement[2] US$m	Group technical, support and marketing costs[3] US$m	Adjusted mining and processing costs US$m	Depreciation [4] US$m	Share based expense[4] US$m	Total mining and processing costs (IFRS) US$m
H1 FY 2017	138.0	2.6	(13.4)	10.5	137.7	28.1	0.2	166.0
H1 FY 2016	118.1	2.3	(29.6)	8.8	99.6	23.9	1.2	124.7
FY 2016	246.4	5.4	(14.1)	20.0	257.7	51.0	1.6	310.3

Notes:

1. *Includes all direct cash operating expenditure at operational level, i.e. labour, consumables, utilities and on-mine overheads.*
2. *Diamond and stockpile inventories increased by US$13.4 million, down from H1 FY 2016 US$29.6 million, due to larger proportion of goods sold relative to production during the Period when compared to H1 FY 2016.*
3. *Certain technical, support and marketing activities are conducted on a centralised basis.*
4. *Excludes exploration and corporate / administration.*

On-mine cash operating costs in H1 FY 2017 remained in line with expectations, despite the ongoing inflationary pressures. On-mine cash costs increased by 17% compared to H1 FY 2016, mainly due to:

- Increased volumes treated, predominantly due to the establishment of the KEM JV and the associated increase in tailings production (12% increase); and
- inflationary increases, including the impact of electricity and labour costs (7% increase); positively offset by:
- the effect of translating South African operations' ZAR denominated costs at weaker ZAR/USD exchange rates (2% decrease).

Unit costs on a mine by mine basis are covered in the 'Operational Review' below.

Profit from mining activities

Profit from mining activities was up 67% to US$92.2 million (H1 FY 2016: US$55.1 million), due to the increased revenue and maintaining of costs which resulted in an improved profit margin from mining activities of 40% (H1 FY 2016: 36%) during the Period.

Exploration

Petra incurred US$0.3 million of exploration expenditure during the Period (H1 FY 2016: US$1.9 million). Refer to the 'Exploration' section below for further information.

Corporate overhead – General and Administration

Corporate overhead of US$4.8 million for the Period remains in line with H1 FY 2016 (US$4.7 million). Tight control of these costs is of key importance to management, in line with the broader cost control procedures in place across the Group.

Adjusted EBITDA

Adjusted EBITDA, being profit from mining activities less exploration and corporate overhead, increased by 80% to US$87.1 million (H1 FY 2016: US$48.5 million), due to the increase in revenue.

Kimberley Ekapa Mining 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 Kimberley Underground mine relinquished by Petra as part of the transaction. Refer to notes 2 and 16 for further details.

Depreciation
Depreciation for the Period was US$28.6 million (H1 FY 2016: US$24.2 million). Included within depreciation is an amount of US$5.0 million, in respect of the accelerated depreciation on the remaining old Cullinan plant to reflect the remaining useful economic life of the old plant which will cease production during H2 FY 2017 as the new plant is commissioned, and has been previously highlighted within Petra's analyst guidance.

Net financial expense
Net financial expense of US$8.9 million (H1 FY 2016: US$21.8 million) is mainly comprised of:

- interest received on bank deposits of US$0.3 million; and
- net unrealised foreign exchange gains of US$6.9 million, representing (i) unrealised losses on forward exchange contracts and (ii) the unrealised foreign exchange gains on the foreign currency retranslation of cross border loans considered to be repayable in the foreseeable future;

offset by:

- net interest payable to the BEE partners' loans of US$5.3 million;
- net realised foreign exchange losses of US$5.3 million on the settlement of forward exchange contracts, significantly down as a result of closing out numerous forward exchange contracts in the prior Period;
- a charge for the unwinding of the present value adjustment for Group rehabilitation costs of US$3.1 million; and
- interest on the Group's debt and working capital facilities of US$2.4 million (stated after the capitalisation of interest of US$21.5 million associated with the funding of assets under development).

Tax charge
The tax charge of US$16.4 million (H1 FY 2016: US$2.3 million; FY 2016 $8.6 million), gives rise to an effective Group tax rate of 32%. The current period effective tax rate is higher than the South Africa tax rate of 28% (the Group's primary tax paying jurisdiction) primarily due to loss making companies (within the Group) based in tax jurisdictions with a 0% tax rate which when consolidated reduces the Group's overall net profit resulting in an increased effective tax rate. The tax charge for H1 FY 2017 arises due to deferred tax (net of charges and credits), reflecting principally the utilisation of certain capital allowances predominately at Cullinan and Finsch during the Period. The effective tax rate for FY 2016 was 11%. This was lower than the South African tax rate of 28% due to tax losses not previously recognised being utilised.

Net Profit
A net profit after tax of US$35.2 million was recorded for the Period (H1 FY 2016: US$2.2 million loss).

Earnings per share
Basic earnings per share was 5.27 US$ cents (H1 FY 2016: loss of 0.72 US$ cents).

Operating Cashflow
Operating cashflow for the Period increased 89% to US$86.4 million (H1 FY 2016: US$45.6 million) in line with increased EBITDA.

Cash, diamond inventories, diamond debtors and net debt
Key financial disclosures are set out in the table below. The Company's bank facilities undrawn and available of US$57.1 million, combined with cash at bank and diamond inventories at 31 December 2016 and expected cashflow from operations, give the Group a sufficient headroom for the remainder of the Capex programme.

	Unit	31 December 2016	30 June 2016	31 December 2015
Closing exchange rate used for conversion		*R13.73:US$1*	*R14.68:US$1*	*R15.46/US$1*
Cash at bank	US$m	49.0	48.7	42.1
Diamond inventories	US$m Carats	56.6 673,031	43.6 549,620	57.4 666,357
Diamond debtors	US$m	1.9	63.4	1.4
US$ loan notes (including accrued interest)	US$m	302.1	302.0	302.1
Bank loans and borrowings	US$m	210.5	131.5	63.9
Net debt	US$m	463.6	384.8	323.9
Bank facilities undrawn and available	US$m	57.1	110.0	177.1

Cash

As at 31 December 2016 the Group had cash at bank of US$49.0 million (H1 FY 2016: US$42.1 million) and of these cash balances, US$36.9 million was held as unrestricted cash (H1 FY 2016: US$30.7 million), US$11.1 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) (H1 FY 2016: US$10.2 million) and US$1.0 million was held by Petra's bankers as security for other environmental rehabilitation bonds lodged with the Department of Mineral Resources in South Africa (H1 FY 2016: US$1.2 million).

Loans and Borrowings

Bank loans and borrowings at 31 December 2016 were US$210.5 million (H1 FY 2016: US$63.9 million). Bank debt facilities undrawn and available to the Group at 31 December 2016 were US$57.1 million (H1 FY 2016: US$177.1 million).

Net debt at 31 December 2016 was US$463.6 million (H1 FY 2016: US$323.9 million). Net debt has increased from 30 June 2016 by US$78.8 million largely due to Capex spend of US$156.4 million, in line with expectations.

Covenant Measurements attached to banking facilities

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

Covenant ratios are measured bi-annually on a rolling twelve month period to 30 June and 31 December respectively. Petra is within the required debt maintenance covenant ratios for the measurement period as at 31 December 2016.

The Group closely monitors and manages its liquidity risk. The Group's forecasts show that Petra has sufficient banking facilities to meet its working capital and capital development requirements and that the Company maintains headroom against its financial covenants going forward.

BEE loans receivable and payable

BEE loans receivable of US$34.3 million (H1 FY 2016: US$26.2 million) relate to the acquisition and financing at Koffiefontein and Kimberley Underground mines by Petra on behalf of its BEE partners, post the refinancing of the BEE Partner's loans at Cullinan and Finsch during FY 2015.

The BEE loans payable of US$96.5 million (H1 FY 2016: US$77.3 million) relate to the initial acquisition loan funding advanced by the Group's BEE partners to the operations to acquire their investments in the Cullinan, Finsch, Koffiefontein and Kimberley Underground mines. 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$90.1 million (comprising US$37.6 million trade creditors, US$20.6 million employee related accruals, and US$31.9 million other payables) (H1 FY 2016: US$35.8 million), the remaining liabilities on the balance sheet mainly comprise provisions for rehabilitation liabilities, post retirement employee related provisions and deferred tax.

Capex
H1 FY 2017 Capex was in line with the Group's overall budgets for FY 2017 and the roll out of the Group's expansion programmes. Capex in H1 FY 2017 represented ca. 60% of expected full year 2017 Capex spend, confirming the declining trend of Capex for the Group, with peak Capex spend having passed in H2 FY 2016.

Capex (excluding corporate capex and capitalised borrowing costs) for H1 FY 2017 was US$134.9 million (H1 FY 2016: US$139.8 million), with US$124.7 million attributed to expansion Capex (H1 FY 2016: US$127.0 million) and US$10.2 million to sustaining Capex (H1 FY 2016: US$12.8 million).

Capex	**Unit**	**H1 FY 2017**	**H1 FY 2016**	**Variance**	**FY 2016**
Finsch	US$m	38.9	32.6	+19%	73.8
Cullinan	US$m	80.2	84.5	-5%	179.4
Koffiefontein	US$m	8.2	15.3	-46%	27.5
Kimberley Ekapa Mining	US$m	15.6	7.8	+100%	16.8
Williamson	US$m	12.6	9.7	+30%	24.4
Helam	US$m	0.0	0.0	0%	0.1
Subtotal – Capex incurred by operations	**US$m**	**155.5**	**149.9**	**+4%**	**322.0**
Corporate / exploration	US$m	1.3	2.2	-41%	1.8
Petra internal projects division – Capex under construction / invoiced to operations	US$m	(0.2)	0.1	-300%	0.3
Other Corporate – Capex under construction / invoiced to operations	US$m	(0.2)	(0.9)	-78%	-
Total Group Capex	**US$m**	**156.4**	**151.3**	+3%	**324.1**

Notes:

1. *Capex for the Period includes US$21.5 million (H1 FY 2016: US$11.5 million) of capitalised borrowing costs, which is also included in the applicable mine by mine tables above.*
2. *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 phase and not expensed through the income statement.*
3. *The Group (Petra internal projects 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$0.4 million for the Period (H1 FY 2016: US$0.8 million), which was incurred and invoiced by the Group's internal projects facility and Corporate division. Therefore, the mine by mine tables plus the internal projects and other corporate Capex will add together to make the Capex total in the relevant sections above.*

OPERATIONAL REVIEW

Combined operations:

	Unit	6 months to 31 Dec 2016 ("H1 FY 2017")	6 months to 31 Dec 2015 ("H1 FY 2016")	Variance	12 months to 30 Jun 2016 ("FY 2016")
Sales					
Revenue	US$m	228.5	154.0	+48%	430.9
Diamonds sold	Carats	1,910,113	1,303,051	+47%	3,448,084
Production					
ROM tonnes	Mt	5.1	5.4	-6%	11.3
Tailings & other[1] tonnes	Mt	4.8	2.3	+109%	7.7
Total tonnes treated	**Mt**	**9.9**	**7.7**	**+29%**	**19.0**
ROM diamonds	Carats	1,331,615	1,243,706	+7%	2,582,135
Tailings & other[1] diamonds	Carats	683,472	385,697	+77%	1,119,270
Total diamonds	**Carats**	**2,015,087**	**1,629,403**	**+24%**	**3,701,405**
Capex					
Expansion	US$m	124.7	127.0	-2%	275.2
Sustaining	US$m	10.2	12.8	-20%	20.6
Subtotal	**US$m**	**134.9**	**139.8**	**-4%**	**295.8**
Borrowing costs capitalised	US$m	21.5	11.5	+87%	26.5
Total	**US$m**	**156.4**	**151.3**	**+3%**	**322.3**

Note:
1. *'Other' includes mining of the Ebenhaezer satellite kimberlite pipe at Koffiefontein, KEM JV tailings and alluvial diamond mining at Williamson. There was no production from Ebenhaezer in H1 2017.*

Petra achieved production growth of 24% to 2,015,087 carats (H1 FY 2016: 1,629,403 carats) due to increased contribution from undiluted ROM ore leading to improved ROM grades, and additional tailings production from Kimberley Ekapa Mining.

Finsch – South Africa

	Unit	H1 FY 2017	H1 FY 2016	Variance	FY 2016
Sales					
Revenue	US$m	99.3	75.2	+32%	186.4
Diamonds sold	Carats	1,010,015	912,069	+11%	2,085,123
Average price per carat	US$	98	82	+20%	89
ROM Production					
Tonnes treated	Tonnes	1,498,449	1,656,256	-10%	3,547,798
Diamonds produced	Carats	816,001	749,954	+9%	1,572,725
Grade[1]	Cpht	54.5	45.3	+20%	44.3
Tailings Production					
Tonnes treated	Tonnes	1,041,758	1,236,328	-16%	2,295,918
Diamonds produced	Carats	215,559	345,124	-38%	641,339
Grade[1]	Cpht	20.7	27.9	-26%	27.9
Total Production					
Tonnes treated	Tonnes	2,540,207	2,892,584	-12%	5,843,716
Diamonds produced	Carats	1,031,560	1,095,078	-6%	2,214,064

Costs					
On-mine cash cost per total tonne treated	ZAR	229	182	+26%	183
Capex					
Expansion Capex	US$m	27.9	25.4	+10%	56.5
Sustaining Capex	US$m	2.3	2.6	-12%	6.7
Borrowing costs capitalised	US$m	8.7	4.6	+89%	10.6
Total Capex	US$m	38.9	32.6	+19%	73.8

Note:

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.*

Production:
Finsch's ROM carat production increased 9% to 816,001 carats (H1 FY 2016: 749,954 carats), driven by improved ROM grades of 54.5 cpht (H1 FY 2016: 45.3 cpht) due to continued pillar mining in Block 4 and the increasing contribution from the newly established Block 5 SLC, partially offset by lower ROM tonnes. Overall production reduced by 6% to 1,031,560 carats (H1 FY 2016: 1,095,078 carats), due to the planned reduction in tailings production.

Treatment of the Pre 79 Tailings was in line with expectations, with a target of 1.3 Mt at a grade of 17 cpht for FY 2017, which will be the last year of production from these tailings.

Sales:
Sales increased 32% to US$99.3 million (H1 FY 2016: US$75.2 million), largely due to higher prices realised (owing to an increase in the proportion of higher value ROM carats as well as an improvement in the diamond market) and increase in diamonds sold.

Costs:
The on-mine unit cash cost per total tonne treated was ZAR229, an increase of 26% from H1 FY 2016 (ZAR182), mainly due to the planned reduction in lower cost tailings tonnes being treated during the Period, in line with guidance.

Capex:
Capex of US$38.9 million for the Period (H1 FY 2016: US$32.6 million) was in line with guidance and the progression of the expansion project and associated underground development.

Development Programme:
Mining is currently transitioning from the block cave on the 630 metre level ("mL") to an SLC over four levels from 700mL to 780mL. Production from the first level of the SLC, which commenced in FY 2016, is due to deliver in excess of 1 Mt in FY 2017, leading the ROM grade to rise to 53 – 55 cpht for FY 2017. Total ROM throughput of 3.6 Mt is planned in FY 2017, which is expected to rise to 3.8 Mtpa for FY 2018 and FY 2019. As the mine's underground production profile gradually changes from mostly diluted to mostly undiluted ore, the ROM grade is expected to increase to steady state 55 – 58 cpht from FY 2018. Finsch's steady state ROM production will be at 3.5 Mtpa from FY 2020 onwards.

Cullinan – South Africa

	Unit	H1 FY 2017	H1 FY 2016	Variance	FY 2016
Sales					
Revenue	US$m	46.0	25.0	+84%	83.3
Diamonds sold	Carats	363,113	227,759	+59%	663,175
Average price per carat[1]	US$	127	110	+16%	126
ROM Production					
Tonnes treated	Tonnes	1,039,417	1,180,399	-12%	2,302,892

Diamonds produced	Carats	358,821	303,400	+18%	643,724
Grade	Cpht	34.5	25.7	+34%	28.0
Tailings Production					
Tonnes treated	Tonnes	259,831	397,158	-35%	886,289
Diamonds produced	Carats	60,932	18,966	+221%	37,089
Grade	Cpht	23.5	4.8	+390%	4.2
Total Production					
Tonnes treated	Tonnes	1,299,248	1,577,557	-18%	3,189,181
Diamonds produced	Carats	419,754	322,366	+30%	680,813
Costs					
On-mine cash cost per total tonne treated	ZAR	319	254	+26%	257
Capex					
Expansion Capex	US$m	64.8	73.2	-11%	156.2
Sustaining Capex	US$m	2.6	4.4	-41%	7.3
Borrowing costs capitalised	US$m	12.8	6.9	+86%	15.9
Total Capex	US$m	80.2	84.5	-5%	179.4

Note:

1. *Excluding Exceptional Diamonds, the average value for H1 FY 2017 was US$111 per carat; H1 FY2016 US$110 per carat and FY 2016 US$109 per carat.*

Production:
Cullinan's diamond production increased 30% to 419,754 carats (H1 FY 2016: 322,366 carats), in line with the Company's guidance. Initial production from the C-Cut phase 1 Block Cave, coupled with continued pillar and reclamation mining, resulted in a ROM grade of 34.5 cpht for the Period, an increase of ca. 15% on ROM grades achieved in H2 FY 2016, and in line with Company guidance of 33 to 35 cpht for H1 FY 2017.

Sales:
Cullinan's revenue increased by 84% to US$46.0 million (H1 FY 2016: US$25.0 million), as a result of increased sales volumes (due to improved grade from production resulting in increased diamonds available for sale) as well as an increase in the average prices realised (due to an improved product mix coupled with a strengthening diamond market compared to H1 FY 2016, and the sale of a 138.57ct white stone for $5.7m during Q1 FY 2017).

Costs:
The on-mine unit cash cost per total tonne treated was ZAR319, an increase of 26% from H1 FY 2016 (ZAR254), mainly due to the decrease in total tonnes being treated, following a planned reduction of tailings treatment to optimise diamond recoveries through the old plant, in line with guidance.

Capex:
Capex of US$80.2 million (H1 FY 2016: US$84.5 million) was in line with guidance.

Development Programme:
The C-Cut Phase 1 project is progressing well and in line with expectations, with initial production having commenced towards the end of FY 2016. The C-Cut Phase 1 Block Cave production continues to ramp up and is expected to contribute ca. 1 Mt of fresh undiluted ore during FY 2017.

New Cullinan Plant
The commissioning of the new Cullinan plant is now due to commence towards the end of the current quarter (Q3 FY 2017), impacted by labour disruptions as noted above, with production from the old plant ceasing by the end of March / early April 2017, allowing for tie-ins between the new and existing

infrastructure and the commencement of sectional commissioning of the new plant. Ramp up to full production is expected in Q4 FY 2017.

The revised commissioning schedule is expected to result in ROM tonnages treated for H2 FY 2017 being between 1 Mt and 1.5 Mt (compared with the earlier plan of ca. 1.6 Mt). However, due to the 6Mtpa ROM treatment capacity of the new plant once fully commissioned, any remaining stockpiled ROM material will be processed during H1 FY 2018, in addition to tonnages given for FY 2018 production guidance. This will ensure that any potential production shortfall in FY 2017 can be recouped during H1 FY 2018.

Koffiefontein – South Africa

	Unit	H1 FY 2017	H1 FY 2016	Variance	FY 2016
Sales					
Revenue	US$m	14.8	9.9	+50%	25.7
Diamonds sold	Carats	29,788	21,568	+38%	55,500
Average price per carat	US$	495	457	+8%	462
ROM Production					
Tonnes treated	Tonnes	359,044	289,217	+24%	681,344
Diamonds produced	Carats	24,770	24,840	0%	50,825
Grade	Cpht	6.9	8.6	-20%	7.5
Tailings / Ebenhaezer Production					
Tonnes treated	Tonnes	-	262,542	-100%	446,854
Diamonds produced	Carats	-	6,920	-100%	11,365
Grade	Cpht	-	2.6	-100%	2.5
Total Production					
Tonnes treated	Tonnes	359,044	551,759	-35%	1,128,198
Diamonds produced	Carats	24,770	31,760	-22%	62,190
Costs					
On-mine cash cost per total tonne treated	ZAR	534	317	+68%	317
Capex					
Expansion Capex	US$m	6.3	14.0	-55%	24.6
Sustaining Capex	US$m	1.9	1.3	+46%	2.9
Total Capex	US$m	8.2	15.3	-46%	27.5

Production:
Production at Koffiefontein in H1 of 24,770 carats (H1 FY 2016: 31,760 carats) was hampered by downtime required to resolve issues encountered in the SLC ore handling infrastructure. The mine is now set to deliver planned levels of production from H2 FY 2017 onwards. Grades were negatively impacted by production from the lower-grade 52 Level as production from the SLC was hampered by various issues encountered in the SLC ore handling infrastructure.

Sales:
Koffiefontein's revenue increased by 50% to US$14.8 (H1 FY 2016: US$9.9 million), mainly due to increased sales volumes with a net reduction of inventories following the production downtime referred to above.

Costs:
Unit cash cost per total tonne treated at Koffiefontein was ZAR534, above guidance due to lower than expected tonnes treated, associated with the downtime and resultant costs required to resolve issues encountered in the SLC ore handling system.

Capex:
Capex for the Period of US$8.2 million (H1 FY 2016: US$15.3 million) remained primarily focused on underground development associated with the new SLC.

Development Programme:
As at Finsch, the SLC mining method is being used at Koffiefontein, before putting in place a new block cave. The SLC will be mined over three levels from 560 mL to 600 mL. Production on 560mL has continued throughout the Period, while the first tunnels on 580mL have now been commissioned and are ready for production, which will see Koffiefontein achieving planned levels of ROM production during H2 FY 2017.

The SLC will continue to ramp up during H2 FY 2017, with annualised ROM throughput planned at 1.1 Mtpa at an average grade of ca. 8 cpht from then onwards.

Kimberley Ekapa Mining – South Africa

	Unit	H1 FY 2017[1]	H1 FY 2016[2]	Variance	FY 2016[3]
Sales					
Revenue	US$m	38.0	15.5	n/a	57.7
Diamonds sold	Carats	406,667	61,113	n/a	438,680
Average price per carat	US$	93	253	n/a	132
ROM Production					
Tonnes treated	Tonnes	209,297	483,110	n/a	721,513
Diamonds produced	Carats	30,347	76,240	n/a	88,572
Grade	Cpht	14.5	15.8	n/a	12.3
Tailings Production					
Tonnes treated	Tonnes	3,320,376	198,203	n/a	3,583,758
Diamonds produced	Carats	401,827	8,118	n/a	442,897
Grade	Cpht	12.1	4.1	n/a	12.4
Total Production					
Tonnes treated	Tonnes	3,529,673	681,313	n/a	4,305,271
Diamonds produced	Carats	432,174	84,358	n/a	531,469
Costs					
On-mine cash cost per total tonne treated	ZAR	115	253	n/a	140
Capex					
Expansion Capex	US$m	13.8	6.0	n/a	14.7
Sustaining Capex	US$m	1.8	1.8	n/a	2.1
Total Capex	US$m	15.6	7.8	n/a	16.8

Notes:
1. *Data for H1 FY 2017 in the table above represent Petra's 75.9% attributable share (including both ROM production from Kimberley Underground and Tailings production).*
2. *Data for H1 FY 2016 in the table above represent Kimberley Underground ROM and Tailings production (pre the establishment of the Combined Kimberley Operations).*
3. *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.*

Production:
Kimberley Ekapa Mining's attributable production delivered 432,174 carats (H1 FY 2016: 84,358 carats, Kimberley Underground only) further to the commencement of the joint venture agreement between Petra and Ekapa Mining. Underground mining production continued as expected, however treatment of ROM tonnes was restricted due to the planned installation of a crushing circuit at the

Central Treatment Plant to process fresh ROM ore. ROM stockpiles of ca. 200,000 tonnes were built up during the Period and these will be processed during H2 FY 2017 utilising available treatment capacity. Tailings grades of 12.1 cpht were achieved, above the 9-10 cpht grades previously guided, due to increased recovery of diamonds in the smaller size categories.

Sales:
The average value per carat of US$93 was below guidance of US$125-130 due to the treatment and sale of predominantly tailings carats during the Period, as explained in the 'Production' section above, offset by an increased recovery of diamonds in the smaller size categories. Tailings grades of 12.1 cpht achieved were above the 9-10 cpht grades previously guided.

Costs:
The on-mine unit cash cost per total tonne treated of ZAR115 is in line with guidance. Unit costs decreased compared to H1 FY 2015 (ZAR253) due to higher volumes of lower cost tailings tonnes treated during the Period, following the acquisition of the Kimberley Mines.

Capex:
Capex for the Period of US$15.6 million was in line with guidance.

Williamson – Tanzania

	Unit	H1 FY 2017	H1 FY 2016	Variance	FY 2016
Sales					
Revenue	US$m	31.0	29.5	+5%	78.9
Diamonds sold	Carats	100,712	80,359	+25%	205,548
Average price per carat	US$	305	366	-17%	384
ROM Production					
Tonnes treated	Tonnes	2,014,099	1,824,915	+10%	4,003,180
Diamonds produced	Carats	101,677	89,272	+14%	199,796
Grade	Cpht	5.0	4.9	+2%	5.0
Alluvial Production					
Tonnes treated	Tonnes	191,362	207,221	-8%	417,452
Diamonds produced	Carats	5,154	6,569	-22%	13,073
Grade	Cpht	2.7	3.2	-16%	3.1
Total Production					
Tonnes treated	Tonnes	2,205,461	2,032,136	+9%	4,420,632
Diamonds produced	Carats	106,831	95,841	+11%	212,869
Costs					
On-mine cash cost per total tonne treated	US$	11	11	0%	11
Capex					
Expansion Capex	US$m	12.1	8.7	+39%	23.0
Sustaining Capex	US$m	0.5	1.0	-50%	1.4
Total Capex	US$m	12.6	9.7	+30%	24.4

Production:
Williamson's diamond production increased 11% to 106,831 carats (H1 FY 2016: 95,841 carats), mainly due to an increase in ROM tonnes treated.

Sales:
Williamson's revenue increased by 5% to US$31.0 million (H1 FY 2016 US$29.5 million), as a result of increased sales volumes (due to increase in production), partially offset by lower revenues from exceptional diamonds, which amounted to US$5.2 million for the Period (H1 FY 2016: US$10.1

million). The average price per carat excluding Exceptional Diamonds, was US$253 (H1 FY 2016: US$238).

Costs:
The on-mine unit cash cost per total tonne treated was US$11 (H1 FY 2016: US$11), which remains in line with guidance.

Capex:
Capex for the Period was US$12.6 million due to accelerating capital expenditure to complete the Mill project and increased waste stripping.

Development Plan:
Petra's expansion plan at Williamson will see tonnage throughput ramp up to ca. 5 Mtpa from FY 2018, which, at a grade of ca. 7 cpht, is expected to deliver ca. 350,000 ctpa. Commissioning of the newly installed mill section commenced in H1 and is expected to be completed during Q3 FY 2017. Once fully commissioned, both ROM grades and throughput will improve and therefore the Company maintains its full year production guidance.

EXPLORATION

Botswana
Petra has focused on evaluating all exploration information relating to the KX36 project and to the other licences currently held by the Company.

38 diamond drill holes and 15 large diameter fluid reverse circulation holes have been drilled under the KX36 licence into the kimberlite pipe to establish the internal geology and estimate diamond grade. Microdiamond analysis (MiDA) on drill core has recovered 837 stones from 1,088 kg. Processing of the LDD samples at Kimberley (Phase 1) and at KX36 (Phase 2), including 24 tonnes of representative diamond drill core sample in Phase 2, has recovered 1,130 carats from 3,093 tonnes.

A resource estimate of 24.6Mt at 35.8cpht and $65/carat at a +3 DTC diamond sieve bottom cut, to a depth of 445m below surface has been generated for KX36.

The processing of 24 tonnes of diamond drill core gave a recovered grade of 48 cpht at a 1mm bottom cut, and indicated a significantly coarser diamond size frequency distribution than that obtained from the 2 phases of LDD sampling.

Recent modelling of all diamond sampling data, in conjunction with an analysis of the drilling and processing methods and procedures, suggest that the current KX36 grade and value derived from LDD samples may be underestimated due to diamond breakage.

A prefeasibility study into the development of KX36 is currently underway, comparing conventional and innovative underwater flooded open pit mining methods. First pass conceptual economic assessments indicate favourable key economic NPV/IRR indicators, based on the recent grade and diamond price modelling.

The excavation and processing of a minimum 10,000 tonne representative bulk sample is being investigated, with the aim of providing a confident estimate of grade and value, which will be used in a definitive feasibility study into the development of KX36.

Petra holds nine additional prospecting licences in the Orapa south west area and surrounding KX36 in the CKGR, where a number of high interest geophysical targets have been identified. Ground follow-up work programmes have been compiled and a budget generated to assess the targets identified. Work is planned to be done on a low key basis so as to fit in with the revised budget constraints

South Africa
Petra's focus in South Africa is on the investigation of the Reivilo kimberlite, situated approximately 110 kilometres north-east of Finsch. Drilling of the kimberlite bodies delineated by surface

geophysics in 2016 commenced during November 2016, and finished in January 2017. Drilling confirmed the downward continuation of the kimberlites, as well as verifying the thickness of calcrete cover. Core from the kimberlite intersections will now be assessed and sampled for kimberlite indicator minerals ("KIM") to confirm the highly encouraging KIM signature obtained from surface soil sampling over the kimberlite bodies. This will be followed by microdiamond sampling for a preliminary grade estimate, should the KIM sampling of the drillcore prove to be positive.

SAFETY

The Group's LTIFR for H1 FY 2017 was 0.25 (H1 FY 2016: 0.37); this important indicator, which is the best gauge of safety performance, is showing an improving trend.

However, the Company had a tragic start to FY 2017, with a total of five fatalities in H1 FY 2017, despite historically excellent safety records. As a result, we have intensified our safety initiatives, which target all levels of the organisation, serving to reiterate our zero-tolerance approach to unsafe acts and working conditions and to reinforce safety as the single most important personal and organisational value. This will remain a key area of focus for the Company and is our highest priority.

While Petra's mining methods and operations are inherently safe, there is an ever present risk of accidents. For this reason, Petra aims 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.

CORPORATE AND GOVERNANCE

Effective 1 July 2016, the Company completed the restructuring of the Group and its BEE Partner structures, allowing for a simplified Group structure. The Itumeleng Petra Diamonds Employee Trust ("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 (Pty) Ltd, 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.

The revised Group structure can be viewed at the following page on the Company's website: www.petradiamonds.com/about-us/who-we-are/group-structure.

PRINCIPAL BUSINESS RISKS

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

An overview of the key risks which could affect the Group's operational and financial performance was included in the Company's 2016 Annual Report, which can be accessed at www.petradiamonds.com. These may impact the Group over the medium to long term; however the following key risks have been identified which may impact the Group over the next six months.

Short term demand and prices
The stability of financial markets and the corresponding effect on consumer demand impacts the Group and the diamond industry as a whole. Whilst the medium to long term fundamentals of the diamond market remain intact, with demand forecast to significantly outpace supply, in the short term the prevailing climate of global economic uncertainty may cause some volatility in rough diamond pricing.

Although diamond prices are influenced by numerous factors beyond the Company's control, the Group's management closely monitors developments in the international diamond market (across the pipeline from the rough market to the retail consumer market) to be in a position to react in a timely manner to changes in rough diamond prices and demand.

In order to withstand periods of softer diamond pricing, the Company focuses on:

- stringent cost control at its operations and at a corporate level;
- maintaining a robust balance sheet via prudent capital management and allocation; and
- maximising the value of its production via optimal plant recovery processes.

Financing and liquidity

Petra has a significant Capex programme over the years to FY 2019. The Company plans to continue to finance this Capex from treasury, operating cashflows and debt finance.

The Group closely monitors and manages its liquidity risk. Cash forecasts are regularly produced and sensitivities run for different scenarios including, but not limited to, changes in rough diamond prices, different production rates from the Group's producing assets and delays to development projects.

The Group's forecast, taking into account the risks described above and the covenants as discussed on page 9, show that the Group will be able to operate within its current debt facilities and have sufficient financial headroom for the remainder of the Group's Capex programme to FY 2019, although headroom remains sensitive to diamond prices, foreign exchange rates and production (including any further unforeseen delays with the new Cullinan plant project). There remains a risk, given the volatility of the diamond price environment and its impact on operating cashflows, that the Group's liquidity position could deteriorate and the resulting lack of adequate available cashflows, potential breach of covenants and restricted access to its debt facilities could delay development work.

ROM grade volatility

The management of ROM grades, specifically at Finsch and Cullinan, remains a challenge due to the mature nature and dilution of the current mining areas. As a result, volatility in recovered ROM grades at these two operations can be expected until such time as new mining areas have been accessed and deliver significant contributions of undiluted ore to the production profile.

Petra is highly focused on managing this issue. At Finsch, grade volatility has been alleviated further to the changes to the plant bottom-cut which have seen ROM and tailings grades increase significantly. At Cullinan, the Company has taken a number of steps to mitigate this challenge and these initiatives have achieved positive results to date, with an improvement in Cullinan's ROM grade achieved over the last three quarters.

Exchange rates

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, including Tanzanian Shillings, GBP and Euro. Fluctuations in these currencies can have an impact on the Group's performance, albeit less significant than the impact of fluctuations in the ZAR/USD exchange rate.

In order to mitigate currency risk, the Group continually monitors the movement of the Rand against the US Dollar, the maturity dates and the level of the hedge book and takes expert advice from its bankers in this regard. It is the Group's policy to hedge a portion of future US Dollar sales revenue when weakness in the Rand deems it appropriate.

Labour unrest in South Africa

The Group's production, and to a lesser extent its project development activities, are dependent on a stable and productive labour workforce. Petra's three year wage negotiation agreement with the National Union of Mineworkers effectively comes to an end on 30 June 2017, with negotiations for the period post June 2017 to commence during Q4 FY 2017. Whilst labour relations are currently stable, there remains the potential for labour action in South Africa. Petra therefore remains highly focused on managing labour relations and on maintaining open and effective communication channels with its employees and the appropriate union representatives at its operations.

Power in South Africa
South Africa's power issues have been well publicised. Eskom's approach is to consult with industry before implementing load shedding, with advanced notice giving customers time to react appropriately. Petra responds to such requests by temporarily halting tailings production at the applicable South African mines, so as to minimise disruption of the higher value underground ROM production. While this strategy has ensured that there has been no material impact on production, Petra decided to install back-up power generation at its South African mines in calendar 2015 in order to minimise disruption.

OUTLOOK

Petra's underground expansion projects remain on track, with Finsch's Block 5 SLC and Cullinan's C-Cut Phase 1 reporting initial production during the Period, as evidenced by the improving ROM grade profiles, and expected to deliver ca. 1 Mt for the full year. The improving grades and product mix of the new, undiluted mining areas will continue to have an increasingly positive impact on Group margins going forward. The rising contribution from undiluted ore in H1 FY 2017 is expected to ramp up significantly from H2 onwards, enabling us to reach full year guidance of 4.4 – 4.6 Mcts, however the Company is mindful of the potential to be towards the bottom end of this range, due to the influencing factors associated with the new Cullinan plant, and will monitor this situation as commissioning progresses.

As a result of the Group's declining Capex profile and increased production from Finsch and Cullinan, the Company expects to become free cashflow positive by the end of FY 2017, with cashflows expected to rise strongly from FY 2018 onwards.

Johan Dippenaar
Chief Executive Officer
20 February 2017

Notes:
1. *The following exchange rates have been used for this announcement:*
    a. *closing rate as at 31 December 2016 US$1:ZAR13.73 (31 December 2015 US$1:ZAR15.46)*
    b. *average rate H1 FY2017 US$1:ZAR13.98 (H1 FY2016 US$1:ZAR13.61)*
2. *The following definitions have been used in this announcement:*
    a. *ct: carat*
    b. *cpht: carats per hundred tonnes*
    c. *Exceptional Diamonds: stones that sell for more than US$5 million each*
    d. *LTIFR: lost time injury frequency rate*
    e. *Mcts: million carats*
    f. *mL: metre level*
    g. *Mt: million tonnes*
    h. *ROM: run-of-mine, i.e. relating to production from the primary orebody*
    i. *SLC: sub-level cave, a variation of block caving*
3. *Diamond inventory carrying values are stated at the lower of cost of production on the weighted average basis or estimated net realisable value.*

PETRA DIAMONDS LIMITED
CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTH PERIOD ENDED 31 DECEMBER 2016

US$ million	Notes	**(Unaudited) 1 July 2016- 31 December 2016**	(Unaudited) 1 July 2015- 31 December 2015	(Audited) Year ended 30 June 2016
Revenue		**228.5**	154.0	430.9
Mining and processing costs		**(166.0)**	(124.7)	(310.3)
Other direct income		**1.4**	0.7	2.8
Exploration expenditure		**(0.4)**	(2.0)	(2.9)
Corporate expenditure	5	**(7.1)**	(6.1)	(12.1)
Total operating costs		**(172.1)**	(132.1)	(322.5)
Fair value uplift on Kimberley Ekapa Mining Joint Venture	16	**4.1**	—	—
Financial income	6	**8.2**	1.2	7.0
Financial expense	6	**(17.1)**	(23.0)	(40.0)
Profit before tax		**51.6**	0.1	75.4
Income tax charge		**(16.4)**	(2.3)	(8.6)
Profit / (loss) for the Period		**35.2**	(2.2)	66.8
Attributable to:				
Equity holders of the parent company		**27.8**	(3.7)	54.2
Non-controlling interest		**7.4**	1.5	12.6
		35.2	(2.2)	66.8
Profit per share attributable to the equity holders of the parent during the Period:				
From continuing operations:				
Basic profit / (loss) per share – US$ cents	14	**5.27**	(0.72)	10.38
Diluted profit / (loss) per share – US$ cents	14	**5.20**	(0.72)	10.14

PETRA DIAMONDS LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTH PERIOD ENDED 31 DECEMBER 2016

US$ million	**(Unaudited) 1 July 2016- 31 December 2016**	(Unaudited) 1 July 2015- 31 December 2015	(Audited) Year ended 30 June 2016
Profit / (loss) for the Period	**35.2**	(2.2)	66.8
Exchange differences on translation of the share-based payment reserve	**(1.1)**	1.3	(2.9)
Exchange differences on translation of foreign operations[1]	**30.8**	(152.1)	(121.4)
Exchange differences on non-controlling interest[1]	**6.0**	(11.8)	(9.6)
Unrealised loss on foreign exchange hedges transferred directly to equity[1]	**—**	(16.8)	—
Total comprehensive income / (expense) for the Period	**70.9**	(181.6)	(67.1)

Total comprehensive income and expense attributable to:			
Equity holders of the parent company	**57.5**	(171.3)	(70.1)
Non-controlling interest	**13.4**	(10.3)	3.0
	70.9	(181.6)	(67.1)

[1] These items will be reclassified to the consolidated income statement if specific future conditions are met. The US$16.8 million unrealised loss on foreign exchange hedges transferred directly to equity was recorded in the consolidated income statement in H2 FY 2016.

PETRA DIAMONDS LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE SIX MONTH PERIOD ENDED 31 DECEMBER 2016

US$ million		**(Unaudited) 31 December 2016**	(Unaudited) 31 December 2015	(Audited) 30 June 2016
ASSETS				
Non-current assets				
Property, plant and equipment	7	**1 286.7**	912.5	1 079.3
Deferred tax asset		**7.5**	5.8	7.1
BEE loans and receivables	13	**34.3**	26.2	28.8
Other receivables		**—**	—	2.7
Total non-current assets		**1 328.5**	944.5	1 117.9
Current assets				
Trade and other receivables		**50.4**	34.9	115.9
Inventories		**78.5**	66.9	57.9
Cash and cash equivalents (including restricted amounts)		**49.0**	42.1	48.7
Total current assets		**177.9**	143.9	222.5
Non-current assets classified as held for sale	15	**—**	—	18.8
Total assets		**1 506.4**	1 088.4	1 359.2
EQUITY AND LIABILITIES				
Equity				
Share capital	8	**89.3**	88.3	88.6
Share premium account	8	**665.3**	664.0	665.2
Foreign currency translation reserve		**(341.3)**	(402.8)	(372.1)
Share-based payment reserve		**13.0**	16.8	14.4
Hedging and other reserves	9	**(0.8)**	(17.6)	(0.8)
Retained earnings		**138.7**	50.6	109.1
Attributable to equity holders of the parent company		**564.2**	399.3	504.4
Non-controlling interest	12	**54.4**	29.1	42.4
Total equity		**618.6**	428.4	546.8
Liabilities				
Non-current liabilities				
Loans and borrowings	10	**376.7**	317.0	317.2
BEE loans payable	13	**96.5**	77.3	84.6
Provisions		**66.7**	63.2	59.7
Deferred tax liabilities		**129.8**	96.5	106.0
Total non-current liabilities		**669.7**	554.0	567.5
Current liabilities				
Loans and borrowings	10	**128.0**	37.5	107.3
Derivative liability	9	**—**	32.7	—
Trade and other payables		**90.1**	35.8	125.4
Total current liabilities		**218.1**	106.0	232.7
Liabilities directly associated with non-current assets classified as held for sale	15	**—**	—	12.2
Total liabilities		**887.8**	660.0	812.4
Total equity and liabilities		**1 506.4**	1 088.4	1 359.2

PETRA DIAMONDS LIMITED
CONSOLIDATED STATEMENT OF CASHFLOWS
FOR THE SIX MONTH PERIOD ENDED 31 DECEMBER 2016

US$ million	**(Unaudited) 1 July 2016- 31 December 2016**	(Unaudited) 1 July 2015- 31 December 2015	(Audited) 1 July 2015- 30 June 2016
Profit before taxation for the Period	**51.6**	0.1	75.4
Depreciation of property plant and equipment	**28.6**	24.2	51.8
Movement in provisions	**1.0**	0.5	(0.7)
Fair value uplift on Kimberley Ekapa Mining Joint Venture	**(4.1)**	—	—
Financial income	**(8.2)**	(1.2)	(7.0)
Financial expense	**17.1**	23.0	40.0
Profit on disposal of property, plant and equipment	**(0.4)**	(0.1)	(0.1)
Share based payment provision	**0.7**	2.4	4.1
Operating profit before working capital changes	**86.3**	48.9	163.5
Decrease / (increase) in trade and other receivables	**44.4**	39.5	(46.8)
(Decrease) / increase in trade and other payables	**(29.0)**	(13.3)	64.9
Increase in inventories	**(15.3)**	(29.5)	(4.3)
Cash generated from operations	**86.4**	45.6	177.3
Realised losses on foreign exchange contracts	**(5.2)**	(4.6)	(20.7)
Finance expense	**(2.4)**	(1.5)	(2.6)
Income tax refund	—	—	(0.3)
Net cash generated from operating activities	**78.8**	39.5	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$20.0 million (31 December 2015 US$11.5 million; 30 June 2016 US$24.3 million))	**(150.7)**	(149.1)	(327.9)
Loans advanced to BEE partners	**(4.9)**	(3.2)	(6.8)
Repayment from BEE partners	**0.5**	0.5	3.4
Finance income	**0.3**	0.2	0.4
Transfer from restricted cash deposits	—	—	(0.5)
Net cash utilised in investing activities	**(154.8)**	(151.6)	(334.4)
Cashflows from financing activities			
Proceeds from the issuance of share capital	**0.1**	—	1.4
Increase in borrowings	**126.8**	63.3	137.0
Dividends paid	—	(15.4)	(15.4)
Repayment of borrowings	**(53.7)**	(33.1)	(40.4)
Net cash generated from financing activities	**73.2**	14.8	82.6
Net decrease in cash and cash equivalents	**(2.8)**	(97.3)	(98.1)
Cash and cash equivalents at beginning of the Period	**36.7**	153.5	153.5
Effect of exchange rate fluctuations on cash held	**3.0**	(25.5)	(18.7)
Cash and cash equivalents at end of the Period[1]	**36.9**	30.7	36.7

[1] Cash and cash equivalents in the Consolidated Statement of Financial Position includes restricted cash of US$12.1 million (30 June 2016: US$12.0 million and 31 December 2015: US$11.4 million) and unrestricted cash of US$36.9 million (30 June 2015: US$36.7 million and 31 December 2015: US$30.7 million).

PETRA DIAMONDS LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTH PERIOD ENDED 31 DECEMBER 2016

(Unaudited) 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
Six month Period ending 31 December 2016:									
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 Period	—	—	—	—	—	27.8	27.8	7.4	35.2
Non-controlling interest acquired	—	—	—	—	—	1.4	1.4	(1.4)	—
Other comprehensive expense	—	—	30.8	(1.1)	—	—	29.7	6.0	35.7
Transfer between reserves for exercise of employee options and warrants	—	—	—	(0.4)	—	0.4	—	—	—
Equity settled share based payments	—	—	—	0.8	—	—	0.8	—	0.8
Allotments during the Period:									
- Share options exercised	—	0.1	—	—	—	—	0.1	—	0.1
- LTSP share grants	0.7	—	—	(0.7)	—	—	—	—	—
At 31 December 2016	89.3	665.3	(341.3)	13.0	(0.8)	138.7	564.2	54.4	618.6

PETRA DIAMONDS LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTH PERIOD ENDED 31 DECEMBER 2016

(Unaudited) 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
Six month Period ending 31 December 2015:									
At 1 July 2015	87.6	664.0	(250.7)	21.7	(0.8)	61.3	583.1	39.4	622.5
(Loss) / profit for the Period	—	—	—	—	—	(3.7)	(3.7)	1.5	(2.2)
Other comprehensive expense	—	—	(152.1)	1.3	(16.8)	—	(167.6)	(11.8)	(179.4)
Dividends paid	—	—	—	—	—	(15.4)	(15.4)	—	(15.4)
Transfer between reserves for exercise of employee options and warrants	—	—	—	(8.4)	—	8.4	—	—	—
Equity settled share based payments	—	—	—	2.9	—	—	2.9	—	2.9
Allotments during the Period:									
- LTSP share grants	0.7	—	—	(0.7)	—	—	—	—	—
At 31 December 2015	88.3	664.0	(402.8)	16.8	(17.6)	50.6	399.3	29.1	428.4

PETRA DIAMONDS LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTH PERIOD ENDED 31 DECEMBER 2016

(Audited) 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
12 month Period ending 30 June 2016:									
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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 31 DECEMBER 2016

1. GENERAL INFORMATION

Petra Diamonds Limited (the "Company"), a limited liability company listed on the Main Market of the London Stock Exchange, is registered in Bermuda with its Group management office domiciled in Jersey. The Condensed Consolidated Interim Financial Statements of the Company for the six month period ended 31 December 2016 comprise the Company and its subsidiaries, joint operations and associates (together referred to as the "Group").

2. ACCOUNTING POLICIES

The interim results, which are unaudited, have been prepared in accordance with the requirements of International Accounting Standard 34. This condensed interim report does not include all the notes of the type normally included in an annual financial report. This condensed report is to be read in conjunction with the Annual Report for the year ended 30 June 2016, and any public announcements made by the Group during the interim reporting period. The annual financial report for the year ended 30 June 2016 was prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS's") and the accounting policies applied in this condensed interim report are consistent with the polices applied in the annual financial report for the year ended 30 June 2016 unless otherwise noted.

Accounting policy for the Kimberley Ekapa Mining Joint Venture

As discussed in note 16, Petra entered into a joint venture agreement to combine the operations they owned with those of Ekapa Mining to create the Kimberley Ekapa Mining 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 (Pty) Ltd, with Ekapa Mining owning the remaining 24.1%. Petra and its BEE Partners effectively contributed 24.1% of their interest in Kimberley Underground mines in return for a 75.9% interest in the tailings operations (contributed by Super Stone and Kimberley Miners Forum (Pty) Ltd) 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 mines (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 Period and recorded as part of the net $4.1 million fair value gain.

The Group accounts for its interest in the Kimberley Ekapa Mining Joint Venture 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.

Basis of preparation

After a review of the Group's operations, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the unaudited condensed interim financial statements. Further details of the Group's funding position are included on page 9 of the financial review and in note 10.

The unaudited condensed consolidated interim financial statements for the six months ended 31 December 2016 do not constitute statutory accounts and have been drawn up using accounting policies and presentation expected to be adopted in the Group's full financial statements for the year ended 30 June 2017, which are not expected to be significantly different to those set out in notes 1 - 37 of the Group's audited financial statements for the year ended 30 June 2016, together with the accounting policy for the Kimberley Ekapa Mining JV above.

The financial information for the year ended 30 June 2016 has been extracted from the statutory accounts for that period. The auditors' report for the year ended 30 June 2016 was unqualified and did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their report.

The financial information for the six months ended 31 December 2015 has been extracted from the unaudited interim results released to 31 December 2015.

New standards and interpretations applied

The IASB has issued no new standards, amendments to published standards and 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 later periods, which the Group has decided not to adopt early or which are yet to be European Union endorsed.

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 currently assessing both its sales contracts and rough diamond sales under IFRS 15. It does not currently foresee any significant change to the timing of revenue recognition on sales contracts under IFRS 15. Rough diamond sales contracts will continue to be assessed on a contract by contract basis to determine their appropriate timing of revenue recognition.

IFRS 16 Leases
The Group does not expect the adoption of IFRS 16 to have a significant impact as the right of use assets and lease liabilities which will come onto the consolidated statement of financial position for the first time in respect of its current operating leases are expected to be immaterial.

IFRS 9 Financial Instruments
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.

Significant assumptions and judgements:

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

Key estimates and judgements:

Life of mine and ore reserves and resources

There are numerous risks inherent in estimating ore reserves and resources and the associated current life of mine plan. The life of mine plan is the current approved management plan for ore extraction that considers specific resources and associated capital expenditure. The life of mine plan frequently includes less tonnes than the total reserves and resources that are set out in the Group's Reserves and Resources 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, recovery and production rates. Any such estimates and assumptions may change as new information becomes available. Changes in exchange rates, commodity prices, extraction costs, recovery 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 life of mine plans.

The current life of mine plans are used to determine the ore tonnes and capital expenditure in the impairment tests. Ore reserves and resources, both those included in the life of mine and certain additional tonnes 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 unit of production basis. Ore reserves and resources further impact the estimated date of decommissioning and rehabilitation.

Impairment reviews

While conducting an impairment review of its assets using value in use impairment models, the Group exercised judgement in making assumptions about future rough diamond prices, foreign exchange rates, volumes of production, ore reserves and resources included in the current life of mine plans, future development and production costs and macroeconomic factors such as inflation and discount rates. Changes in estimates used can result in significant changes to the 'Consolidated Income Statement' and 'Statement of Financial Position'. The Group prepares value in use impairment models and assesses mining assets for impairment.

Capitalisation of borrowing costs

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. Bank borrowings were utilised to fund the underground expansion projects. The US$300 million bond raised in FY 2015 is being used to fund the construction of the new processing plant at Cullinan and will fund the completion of the underground expansion projects.

Provision for rehabilitation

Significant estimates and assumptions are made in determining the amount attributable to rehabilitation provisions. These deal with uncertainties such as the legal and regulatory framework, timing and future costs. In determining the amount attributable to rehabilitation provisions, management used a discount rate range of 8.1%–9.6%, estimated rehabilitation timing of 11 to 48 years and an inflation rate range of 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.

Inventory and inventory stockpile

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.

Depreciation

Judgement is applied in making assumptions about the depreciation charge for mining assets. The Group depreciates its assets using units of production or straight-line basis depending on its assessment of the most appropriate method for each individual asset. 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 which are extractable using existing assets. The relevant reserves and resources include those included in current approved life of mine 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 of the current approved life of mine plan. 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 Life of Mine plans and structure of the orebody and the nature of the assets. The assessment is determined by the Group’s capital project teams and geologists.

Pension and post-retirement medical fund schemes

The Company operates a defined benefit pension scheme and a post-employment health care liability scheme. The pension charge or income for the defined benefit scheme and benefit liability for the post-employment health care 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. The most important assumptions made in connection with the pension 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 most important assumptions made in connection with the post-employment health care liability scheme valuation and charge or income are the health care cost of inflation, the average yield of South African Government long dated bonds and salary increases, withdrawal rates and life expectancies.

Net investments in foreign operations

Management assess 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 plans, cashflow forecasts and strategic plans. The foreign exchange on permanent equity loans are recorded in 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.

Kimberley Mines acquisition during FY 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. As detailed in note 16 of the FY 2016 annual report, the Group holds a 49.9% interest in Ekapa Minerals, which was used to acquire Kimberley Mines. The Group consolidated its share of the assets, liabilities, income and expenses of Kimberley Mines as 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 involved consideration of the structure of the arrangement, the legal form and the contractual agreements between the parties.

Non-current assets held for sale – Kimberley Underground

At 30 June 2016, the carrying value of assets at Kimberley Underground, considered on the basis of classification as non-current assets held for sale and were carried at the lower of carrying value and fair value less cost to sell, as detailed in note 15 and in the Group’s FY 2016 Annual Report. 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.

Kimberley Ekapa Mining Joint Venture

Judgement was applied in determining the fair value adjustments in respect of the Kimberley Ekapa Mining Joint Venture ("KEM JV") acquisition. The fair value adjustments to mineral properties were to ensure the asset values for Petra's incremental share in Ekapa Minerals (Pty) Ltd ("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.

3. DIVIDENDS

No dividends have been declared in respect of the current period under review (30 June 2016: US$15.4 million, 31 December 2015: US$nil).

4. SEGMENTAL INFORMATION

Segment information is presented in respect of the Group's operating and geographical segments:
Mining – the extraction and sale of rough diamonds from mining operations in South Africa and Tanzania.
Exploration – exploration activities in Botswana.
Corporate – administrative activities in Jersey.

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 reviewing the corporate administration expenses in Jersey. Each segment derives, or aims to derive, its revenue from diamond mining and diamond sales, except for the corporate and administration cost centre.

Segment results, assets and liabilities include items directly attributable to a segment, as well as those that can be allocated on a reasonable basis. Segment results are calculated after charging direct mining costs, 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.

4. SEGMENTAL INFORMATION (continued)

Operating segments	South Africa – Mining activities				Care and maintenance	Tanzania - Mining activities	Botswana	Jersey	South Africa		
US$ million	**Cullinan**	**Finsch**	**Koffiefontein**	**KEM JV**[5]	**Helam**	**Williamson**	**Exploration**	**Corporate and treasury**	**Beneficiation**[4]	**Inter-segment**	**Consolidated**
(6 month period ended 31 December 2016)	1 July 2016 - 31 December 2016	1 July 2016 - 31 December 2016	1 July 2016 - 31 December 2016	1 July 2016 - 31 December 2016	1 July 2016 - 31 December 2016	1 July 2016 - 31 December 2016	1 July 2016 - 31 December 2016	1 July 2016 - 31 December 2016	1 July 2016 - 31 December 2016	1 July 2016 - 31 December 2016	1 July 2016 - 31 December 2016
Revenue	46.0	99.3	14.8	38.0	—	31.0	—	—	0.1	(0.7)	228.5
Segment result[1]	9.2	48.4	(5.5)	9.7	(1.5)	1.9	(0.4)	(7.1)	(0.2)	0.5	55.0
Other direct income	—	0.1	0.2	0.4	0.4	0.2	—	—	—	0.1	1.4
Operating profit / (loss)[2]	9.2	48.5	(5.3)	10.1	(1.1)	2.1	(0.4)	(7.1)	(0.2)	0.6	56.4
Fair value uplift on Kimberley Ekapa Mining Joint Venture[5]											4.1
Financial income											8.2
Financial expense											(17.1)
Income tax expense											(16.4)
Non-controlling interest											(7.4)
Profit attributable to equity holders of the parent company											27.8
Segment assets	674.0	473.6	222.5	150.5	5.1	172.2	0.9	2 318.4	5.7	(2 516.5)	1 506.4
Segment liabilities	539.6	251.6	230.9	151.1	48.1	270.1	43.7	1 297.2	7.6	(1 952.1)	887.8
Capital expenditure	80.2	38.9	8.2	15.6	—	12.6	—	1.3	—	(0.4)	156.4

[1] Total depreciation of US$28.6 million included in the segmental result, comprises depreciation incurred at Finsch US$6.1 million, Cullinan US$12.5 million, Koffiefontein US$3.2 million, KEM JV US$2.1 million, Williamson US$3.7 million, Helam US$0.5 million, Exploration US$0.1 million and Corporate administration US$0.4 million.

[2] Operating profit is equivalent to revenue of US$228.5 million less total costs of US$172.1 million as disclosed in the Consolidated Income Statement.

[3] Capital expenditure at Helam includes work-in-progress of US$0.2 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 16).

4. SEGMENTAL INFORMATION (continued)

Operating segments	**South Africa – Mining activities**				**Care and maintenance**	**Tanzania - Mining activities**	**Botswana**	**Jersey**	**South Africa**		
US$ million	**Cullinan**	**Finsch**	**Koffiefontein**	**Kimberley Underground**	**Helam**	**Williamson**	**Exploration**	**Corporate and treasury**	**Beneficiation[4]**	**Inter-segment**	**Consolidated**
(6 month period ended 31 December 2015)	1 July 2015 - 31 December 2015	1 July 2015 - 31 December 2015	1 July 2015 - 31 December 2015	1 July 2015 - 31 December 2015	1 July 2015 - 31 December 2015	1 July 2015 - 31 December 2015	1 July 2015 - 31 December 2015	1 July 2015 - 31 December 2015	1 July 2015 - 31 December 2015	1 July 2015 - 31 December 2015	1 July 2015 - 31 December 2015
Revenue	25.0	75.2	9.9	15.5	0.1	29.5	—	—	0.2	(1.4)	154.0
Segment result[1]	(7.6)	34.1	(0.3)	1.3	(1.3)	4.8	(2.0)	(6.1)	(0.2)	(1.5)	21.2
Other direct income	0.1	—	0.1	—	(0.1)	0.2	—	—	—	0.3	0.7
Operating profit / (loss)[2]	(7.5)	34.1	(0.2)	1.3	(1.4)	5.0	(2.0)	(6.1)	(0.2)	(1.1)	21.9
Financial income											1.2
Financial expense											(23.0)
Income tax expense											(2.3)
Non-controlling interest											(1.5)
Loss attributable to equity holders of the parent company											(3.7)
Segment assets	473.9	271.3	170.1	76.4	7.3	158.9	1.7	2 396.8	6.2	(2 474.2)	1 088.4
Segment liabilities	331.4	217.5	171.3	90.3	41.7	267.8	43.3	1 290.7	6.4	(1 800.4)	660.0
Capital expenditure	84.5	32.6	15.3	7.8	—	9.7	—	2.2	—	(0.8)[3]	151.3

[1] Total depreciation of US$24.2 million included in the segmental result, comprises depreciation incurred at Finsch US$5.9 million, Cullinan US$10.7 million, Koffiefontein US$1.8 million, Kimberley Underground US$2.3 million, Williamson US$2.7 million, Helam US$0.4 million, Exploration US$0.1 million and Corporate administration US$0.3 million.

[2] Operating profit is equivalent to revenue of US$154.0 million less total costs of US$132.1 million as disclosed in the Consolidated Income Statement.

[3] Inter-segment capital expenditure represents work-in-progress at Helam 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.

4. SEGMENTAL INFORMATION (continued)

Operating segments	South Africa – Mining activities				Care and maintenance	Tanzania - Mining activities	Botswana	Jersey	South Africa		
US$ million	Cullinan	Finsch	Koffiefontein	Kimberley Operations[3]	Helam	Williamson	Exploration	Corporate and treasury	Beneficiation[5]	Inter-segment	Consolidated
(12 months 1 July 2015 – 30 June 2016)	**2016**	**2016**	**2016**	**2016**	**2016**	**2016**	**2016**	**2016**	**2016**	**2016**	**2016**
Revenue	83.3	186.4	25.7	57.7	0.1	78.9	—	—	0.2	(1.4)	430.9
Segment result[1]	3.7	98.0	(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]	3.7	98.2	(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	654.7	352.8	195.9	185.2	5.8	158.9	1.1	2 314.8	6.1	(2 516.1)	1 359.2
Segment liabilities	425.1	179.4	199.1	194.1	42.7	264.1	43.6	1 368.9	7.6	(1 912.2)	812.4
Capital expenditure	179.4	73.8	27.5	16.8	0.1	24.4	—	1.8	—	0,3[4]	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] 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 15 of the FY16 annual report).

[4] 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.

[5] The beneficiation segment represents Tarorite, a cutting and polishing business in South Africa, which can on occasion cut and polish select rough diamonds.

US$ million	**1 July 2016 - 31 December 2016**	1 July 2015 - 31 December 2015	1 July 2015 - 30 June 2016
5. CORPORATE EXPENDITURE			
Auditors' remuneration			
- Audit services[1]	**0.5**	0.6	0.6
- Audit related services[2]	**—**	—	0.1
Depreciation of property, plant and equipment	**0.4**	0.3	0.6
London Stock Exchange and other regulatory expenses	**0.5**	0.6	1.4
Other charges	**2.2**	1.4	3.1
Share-based expense - Directors	**0.5**	1.0	2.3
Share-based expense – Senior Management	**—**	0.2	0.3
Other staff costs	**3.0**	2.0	3.7
Total staff costs	**3.5**	3.2	6.3
	7.1	6.1	12.1

[1] Audit fees for the period ended 31 December 2016 stated above refer to fees for the FY 2016 audit.

[2] Audit-related services of US$0.1 million for the FY 2016 are in respect of the interim review.

6. FINANCING EXPENSE

US$ million	**1 July 2016 - 31 December 2016**	1 July 2015 - 31 December 2015	1 July 2015 - 30 June 2016
Net unrealised foreign exchange gains	**6.9**	—	3.2
Interest received on BEE loans and other receivables	**1.0**	1.0	3.4
Interest received bank deposits	**0.3**	0.2	0.4
Financial income	**8.2**	1.2	7.0
Gross interest on bank loans and overdrafts	**(23.9)**	(13.0)	(29.1)
Interest on bank loans and overdrafts capitalised	**21.5**	11.5	26.5
Net interest expense on bank loans and overdrafts	**(2.4)**	(1.5)	(2.6)
Other debt finance costs, including BEE loan interest and facility fees	**(6.3)**	(6.0)	(12.5)
Unwinding of present value adjustment for rehabilitation costs	**(3.1)**	(2.4)	(4.2)
Net unrealised foreign exchange (losses)	**—**	(8.5)	—
Realised foreign exchange losses on the settlement of foreign loans and forward exchange contracts	**(5.3)**	(4.6)	(20.7)
Financial expense	**(17.1)**	(23.0)	(40.0)
Net financial expense	**(8.9)**	(21.8)	(33.0)

7. PROPERTY, PLANT AND EQUIPMENT

The net movement in property, plant and equipment for the Period is an increase of US$207.4 million (30 June 2016: US$110.5 million, excluding the portion held in non-current assets held for sale of US$14.1 million and 31 December 2015: US$56.3 million). This is primarily as a result of an increase in property, plant and equipment from capital expenditure of US$156.4 million (30 June 2016: US$324.1 million and 31 December 2015: US$151.3 million), the recognition of the incremental assets attributable to the Group from the KEM JV of US$14.3 million and the movement in the US$/ZAR foreign exchange rate resulting in a foreign exchange increase on Rand based assets of US$65.6 million (30 June 2016 US$147.4 million decrease and 31 December 2015: US$183.9

million decrease), which is off-set by depreciation of US$28.6 million (30 June 2016: US$51.8 million and 31 December 2015: US$24.2 million), increase in rehabilitation asset of US$nil million (30 June 2016: US$8.8 million decrease and 31 December 2015: US$0.7million) and assets of US$0.3 million (30 June 2016: US$0.2 million and 31 December 2015: US$0.2 million) disposed of during the Period.

8. SHARES ISSUED

Allotments during the Period were in respect of:

(i) the award to the Executive Directors of 646,398 ordinary shares granted under the 2012 Performance Share Plan, in receipt of performance measured over the period 1 July 2013 to 30 June 2016;

(ii) the award to the Executive Directors of 507,600 ordinary shares granted under the 2011 Long-Term Share Plan, in receipt of performance measured over the period 1 July 2013 to 30 June 2016;

(iii) the award to the Executive Directors of 156,233 ordinary shares granted under the 2014 deferred share awards based on the annual performance bonus plan;

(iv) the award to the Senior Management of 4,371,770 ordinary shares granted under the 2011 Long-Term Share Plan, in receipt of performance measured over the period 1 July 2013 to 30 June 2016 and

(v) the exercise of 255,000 share options under the 2005 Executive Share Option Scheme by Directors and Senior Management.

Further details with regards to the Group's share plans are provided in the Group's 2016 Annual Report.

9. Hedging and other reserves

In prior periods, the Group classified its forward currency contracts, which hedge highly probable forecast transactions, as cashflow hedges. Where this designation was documented and the hedges were effective, changes in fair value were recognised in equity until the hedged transactions occur, at which time the respective gains or losses were transferred to the Consolidated Income Statement. The risk being hedged was 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. A loss of US$nil million (30 June 2016: US$nil million and 31 December 2015: US$16.8 million) has been recorded in other comprehensive income in respect of the intrinsic value of the effective hedge contracts. An amount of US$nil million (30 June 2016: US$nil million and 31 December 2015: US$15.8 million) has been included in the Consolidated Income Statement in respect of time value of money that was excluded from the hedge designation under IAS 39. There have been no material transfers from equity to the Consolidated Income Statement during the Period.

During the Period the Group ceased to classify its forward currency contracts as cashflow hedges. The Group recognised an amount of US$1.7 million (30 June 2016: US$7.2 million and 31 December 2015: US$32.7 million) in the Consolidated Income Statement in respect of the intrinsic and time value of these derivative positions that remained open at 30 June 2016. The Company recognised a realised loss of US$5.2 million (30 June 2016: US$20.7 million and 31 December 2015: US$4.6 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. LOANS AND BORROWINGS

US$ million	**31 December 2016**	31 December 2015	30 June 2016
Non-current liabilities			
Loans and borrowings – Senior secured lender debt facilities	**109.5**	51.2	51.2
Loans and borrowings – Senior secured second lien notes	**267.2**	265.8	266.0
	376.7	317.0	317.2
Current liabilities			
Loans and borrowings – Senior secured lender debt facilities	**101.0**	12.7	80.3

Loans and borrowings – Senior secured second lien notes	**27.0**	24.8	27.0
	128.0	37.5	107.3
Total loans and borrowings - bank facilities	**504.7**	354.5	424.5

a) Senior Secured Lender Debt Facilities

Effective 1 July 2016 the Group amended its lending group (Absa Corporate and Investment Banking ("Absa"), FirstRand Bank Limited (acting through its Rand Merchant Bank division) ("RMB"), IFC, Nedbank Limited) to facilitate the exit of Bank of China Limited from its Amortising term facility.

The Group's debt and hedging facilities are detailed in the table below:

Amended Senior Lender Debt Facilities	**01 July 2016[1]** **Facility amount**	**30 June 2016** **Facility amount**
ZAR Debt Facilities:		
ZAR Lenders Amortising term facility (ATF)	ZAR900 million	ZAR665 million
ZAR Lenders Revolving credit facility (RCF)	ZAR1,250 million	ZAR1,500 million
ZAR Lenders Working capital facility (WCF)	ZAR700 million	ZAR500 million
Absa/RMB – FX Hedging facilities	ZAR300 million	ZAR400 million
US$ Debt Facilities:		
IFC – Amortising term facility (ATF)	US$35 million	US$35 million
IFC – Revolving credit facility (RCF)	US$25 million	US$25 million

[1] Effective 1 July 2016, Bank of China Limited exited the Petra Group Lenders.

The repayment terms and interest rates remained unchanged. The terms and conditions are detailed in the Group's FY 2016 Annual Report.

The facilities are secured on the Group's interests in Finsch, Cullinan, Koffiefontein, and Williamson.

Refer to the Finance Results section within the CEO's Review for discussion with regards to covenants.

b) US$300 million Senior Secured Second Lien Notes

In May 2015, a wholly owned subsidiary of the Company, Petra Diamonds US$ Treasury Plc, issued debt securities consisting of US$300 million five-year senior secured second lien loan notes ("the Notes"), with a maturity date of 31 May 2020. The Notes carry a coupon of 8.25% per annum, which is payable semi-annually in arrears on 31 May and 30 November of each year, beginning on 30 November 2015. 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 31 May 2017, the Company has the right to redeem all or part of the Notes, details of which are included in the 2016 Annual Report.

Proceeds from the Notes were used to repay (without cancelling) amounts outstanding under certain of the Company's existing bank loan facilities 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 fund the construction of the modern processing plant at Cullinan and to further the Group's expansion projects.

Further details about the Notes (including security) is included in the FY 2016 Annual Report.

11. COMMITMENTS

As at 31 December 2016, the Company has committed to future capital expenditure totalling US$49.0 million (30 June 2016: US$63.3 million and 31 December 2015: US$102.8 million), mainly comprising Cullinan US$21.5 million (30 June 2016: US$36.1 million and 31 December 2015: US$71.2 million), Finsch US$18.3 million (30 June 2016: US$14.1 million and 31 December 2015: US$11.8 million), Koffiefontein US$1.0 million (30 June 2016: US$4.4 million and 31 December 2015: US$8.1 million), KEM JV US$7.2 million (30 June 2016: Kimberley Underground US$4.1 million and 31 December 2015: Kimberley Underground US$1.9 million) and Williamson US$1.0 million (30 June 2016: US$4.3 million and 31 December 2015: US$9.8 million).

12. RELATED PARTY TRANSACTIONS

The Group's related party BEE partners, Kago Diamonds (Pty) Ltd ("Kago Diamonds"), 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 31 December 2016 (%)	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%)
Kimberley Ekapa Mining JV[1]	Kago Diamonds (8.4%) Ekapa Mining (17.6%)	n/a
Helam	Sedibeng Mining (26%)	Sedibeng Mining (26%)

[1] The Kimberley Ekapa Mining JV was formed effective 1 July 2016 (refer note 16).

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	**1 July 2016 - 31 December 2016**	1 July 2015 - 31 December 2015	1 July 2015 - 30 June 2016
Non-current receivable			
Re-Teng Diamonds	**0.7**	0.6	0.6
Sedibeng Mining	**15.2**	15.5	14.1
Kago Diamonds	**3.8**	—	—
Senakha[2]	**—**	2.0	2.1
Thembinkosi[1&2]	**—**	2.3	2.4
Ekapa Mining[3]	**—**	—	2.7
	19.7	20.4	21.9
Non-current payable			
Re Teng Diamonds	**—**	—	—
Sedibeng Mining	**3.2**	2.3	1.1
Kago Diamonds	**50.2**	—	—
Senakha[2]	**—**	31.5	35.2
Thembinkosi[1&2]	**—**	19.7	21.8
	53.4	53.5	58.1
Finance income			

Re-Teng Diamonds	**—**	—	—
Sedibeng Mining	**0.1**	0.8	1.3
Kago Diamonds	**0.2**	—	—
Senakha[2]	**—**	0.1	0.1
Thembinkosi[1&2]	**—**	0.1	0.1
Ekapa Mining	**0.7**	—	0.1
	1.0	1.0	1.6
Finance expense			
Re-Teng Diamonds	**—**	—	—
Sedibeng Mining	**—**	—	0.7
Kago Diamonds	**3.2**	—	—
Senakha[2]	**—**	2.0	3.9
Thembinkosi[1&2]	**—**	1.0	2.0
Ekapa Mining	**0.3**	—	0.1
	3.5	3.0	6.7

[1] Umnotho weSizwe Group (Pty) Ltd ("Umnotho"), holds a 36% interest in Thembinkosi. Mr Abery (a Group director for the periods ending 31 December 2015 and 30 June 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 Period of US$nil million (30 June 2016: US$1.7 million and 31 December: 2015 US$3.2 million) and an accrual of US$nil million (30 June 2016: US$1.1 million and 31 December: 2015: US$1.1 million). These accruals are now included under current trade and other payables for the period ending 31 December 2016.

[3] Additionally, included in current trade and other receivables and current trade and other payables are amounts of:

- US$5.9 million (30 June 2016: US$11.6 million and 31 December 2015: US$nil) receivable from and US$9.8 million (30 June 2016: US$1.9 million and 31 December 2015: US$nil) payable to Ekapa Mining (Pty) Ltd relating to working capital loans with the Group.

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 16) and the tolling agreement ceased.

Rental income receivable

The Group received US$0.1 million (30 June 2016: US$0.1 million and 31 December 2015: US$0.1million) of rental income from Pella Resources Ltd and US$0.2 million (30 June 2016: US$0.1 million and 31 December 2015: US$nil million) from Alufer Mining Ltd. The Group has US$0.2 million (30 June 2016: US$0.2 million and 31 December 2015: US$0.2 million) receivable from Pella Resources Ltd and US$0.1 million (30 June 2016: US$0.1 million and 31 December 2015: US$nil 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 16. 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	58.1[1]
Helam	86.80	74.0

[1] The 58.1% effective interest in KEM JV post restructuring reflects both the Group's interest in KEM JV following the transaction in note 16 and the impact of the BEE restructuring.

Mr Abery stepped down as Petra's Finance Director, effective 30 June 2016, in order to pursue other opportunities. Mr Abery 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 provided in the Company's 2016 Annual Report.

13. BEE LOANS RECEIVABLE AND PAYABLE

US$ million	**1 July 2016 - 31 December 2016**	1 July 2015 - 31 December 2015	1 July 2015 - 30 June 2016
Non-current assets			
Loans and other receivables	**34.3**	26.2	28.8[1]
Non-current liabilities			
Trade and other payables	**96.5**	77.3	84.6[1]

[1] The non-current BEE loans and receivables and BEE payables exclude the portion held in liabilities directly associated with non-current assets held for sale of US$1.6 million.

The non-current BEE loans and receivables and BEE payables, represent those amounts receivable from and payable to the Group's BEE partners (Kago Diamonds, Thembinkosi, Senakha, Re Teng Diamonds, Sedibeng Mining and the IPDET) in respect of financing their interests in the Finsch, Cullinan, Koffiefontein and Kimberley Underground mines.

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.

14. EARNINGS PER SHARE

	Total 1 July 2016 - 31 December 2016 US$	Total 1 July 2015 - 31 December 2015 US$	Total 1 July 2015 - 30 June 2016 US$
Numerator			
Profit / (loss) for the Period	**27,766,575**	(3,744,424)	54,173,140
Denominator			
	Shares	Shares	Shares
Weighted average number of ordinary shares used in basic EPS			
As at 1 July	**524,172,967**	518,138,799	518,138,799
Effect of shares issued during the Period	**2,569,891**	2,137,531	3,592,017
As at 31 December	**526,742,858**	520,276,330	521,730,816
	Shares	Shares	Shares
Dilutive effect of potential ordinary shares	**7,135,594**	—	12,547,315
Weighted average number of ordinary shares in issue used in diluted EPS	**533,878,452**	520,276,330	534,278,131
	US$ cents	US$ cents	US$ cents
Basic profit / (loss) per share – US$ cents	**5.27**	(0.72)	10.38
Diluted profit / (loss) per share – US$ cents	**5.20**	(0.72)	10.14

In the current period, the number of potentially dilutive ordinary shares, in respect of employee share options, Executive Director and Senior Management share award schemes is 7,135,594 (30 June 2016: 12,547,315 and 31 December 2015: 12,838,321). 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 to impact the dilutive number of ordinary shares.

15. NON-CURRENT ASSETS HELD FOR SALE

Partial disposal of Kimberley Underground (24.1%)

As at 30 June 2016, the Company was in negotiations with Ekapa Mining to combine their respective businesses in the Kimberley area (refer note 16), with Petra retaining a 75.9% interest in the planned KEM JV. As a result of this transaction, 24.1% of the Kimberley Underground mining operation (being Ekapa Mining's effective interest in the planned KEM JV) 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 4. The 24.1% interest in net assets of the Kimberly Underground mining operation included in the Statement of Financial Position are 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

16. ACQUISITION

Kimberley Ekapa Mining Joint Venture

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 Kimberley Ekapa Mining Joint Venture ("KEM JV "). The operations contributed by the joint venture partners are detailed below. Petra has joint control of the KEM JV under the terms of the shareholders' agreements and recognise its share of revenue, costs, assets and liabilities.

The operations owned and operated by the joint venture partners comprise:

- Kimberley Underground mines (via Petra's subsidiary Crown Resources (Pty) Ltd) ("Crown Resources"). At 30 June 2016, 24.1% of the Kimberley Underground mines (being Ekapa Mining's effective interest in the newly formed joint venture) were classified as held for sale in the Statement of Financial Position in accordance with IFRS 5;
- Tailings operations (via Ekapa Mining's subsidiaries, Super Stone and Kimberley Miners Forum (Pty) Ltd); and
- Kimberley Mines tailings operations (via Ekapa Minerals, owned 50.1% Ekapa Mining and 49.9% Petra).

Prior to the transaction, Petra controlled and consolidated Kimberley Underground mines with a non-controlling interest shown separately and Petra also held a 49.9% jointly controlled interest in the Kimberley Mines tailings operations.

Subsequent to the transaction, Petra and its BEE Partners have a 75.9% jointly controlled interest in KEM JV, held through Crown Resources 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 mines in return for a 75.9% interest in the tailings operations contributed by Super Stone and Kimberley Miners Forum (Pty) Ltd and a 26% increase in the interest in the Kimberley Mines tailings operation.

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 Mines

US$ million	Book values
Partial disposal of 24.1% of Kimberley Underground Mines (refer to note 15)	(6.6)

The $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 Stones 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.

RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

(a) the Condensed Financial Statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*, and give a true and fair view of the assets, liabilities, financial position and profit of the Group; and

(b) the Interim Management Report includes a fair review of the information required by FCA's Disclosure and Transparency Rules (DTR 4.2.7 R and 4.2.8 R).

By order of the Board

Johan Dippenaar
Chief Executive Officer
20 February 2017

INDEPENDENT REVIEW REPORT TO PETRA DIAMONDS LIMITED

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 December 2016 which comprises the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of financial position, the consolidated statement of cashflows and the related notes.

We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The half-yearly financial report is the responsibility of and has been approved by the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, ''Interim Financial Reporting'', as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Our report has been prepared in accordance with the terms of our engagement to assist the Company in meeting its responsibilities in respect of half-yearly financial reporting in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, ''Review of Interim Financial Information Performed by the Independent Auditor of the Entity'', issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 December 2016 is not prepared, in all material respects, in accordance with International Accounting Standard 34, as adopted by the European Union, and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

BDO LLP
Chartered Accountants
Location: United Kingdom
Date: 20 February 2017

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