Petra Diamonds — **Ref: G2**
FY 2018 Analyst Guidance - Explanatory Notes
Published 24 July 2017

G 2.1 Cost of Sales breakdown

	(A)	(B)	(C)	(D)	(E)	(F)	(G) =(C)+(D)+(E)+(F)		
	Cash on mine cost			**Other costs (million)**					
	Weighted average cost / total tonne treated	**Tonnes treated**	**Total on-mine cash cost (million)**	**Diamond royalties (Refer G2.3)**	**Diamond sorting fee**	**Diamond inventory and stockpile movements**	**Subtotal**	**Total Mining and processing costs ($m)**	
Finsch	R345 / t	3.9	R 1 340	R xx	R xx	R xx	R xx	$ xx	= (C)/Average R/$ exchange rate + (G)
Cullinan	R250 / t	4.2	R 1 050	R xx	R xx	R xx	R xx	$ xx	= (C)/Average R/$ exchange rate + (G)
Koffiefontein	R360 / t	1.0	R 360	R xx	R xx	R xx	R xx	$ xx	= (C)/Average R/$ exchange rate + (G)
KEM JV	R110 / t	7.6	R 840	R xx	R xx	R xx	R xx	$ xx	= (C)/Average R/$ exchange rate + (G)
Williamson	$11 / t	5.0	$57	$ xx	$ xx	$ xx	$ xx	$ xx	= (C) + (G)
			Centralised Cost of Sales (ca. R300m)					$23	
			Mining and Processing Costs (EBITDA purposes)					**$ xx**	
			Exploration					$1	
			Corporate overheads					$10	
			Total Cost of Sales (EBITDA purposes)					**$ xx**	

G2.2 Break-down of high-level income tax calculation for PDL Group Operations:

Indicative example on treatment of capital allowances/tax losses (using Cullinan as an example):

			FY2018 ZARm	**FY2019 ZARm**	**FY2020 ZARm**
	(A) Profit before tax (PBT)	A	2500	3000	3500
Add back:	(B) Depreciation	B	500	500	500
Less:	(C) Capital expenditure - current year	C	-550	-550	-550
	(D) Taxable income for the year	A + B - C = D	2450	2950	3450
Less:	(E) Capital allowances/assessed losses brought forward	E	-5800	-3350	-400
	(F) Assessed Total	D - E = F	**-3350**	**-400**	**3050**
Thus:	- If "Assessed Total (F)" >0; income tax due and payable at applicable tax rate				
	- If "Assessed Total (F)" <0; income tax capital allowances/assessed losses carried forward for set-off against future profits				
	Taxation payable		**0**	**0**	**854**

Note:
[1] In South Africa, the acquisition cost of mining assets is included in capital allowances which is why Cullinan and Finsch have such high brought forward capital allowances.
[2] Each mine's capital allowance / assessed loss is ring fenced to that specific mine.
Refer to guidance doc: G1 for mine-by-mine capital allowances / assessed losses (tax shields).
[3] For Williamson, a 0.3 % tax on revenue should be catered for until the tax losses have been utilised.

G2.3 Royalty Guidance

Diamond royalties in South Africa

The royalty payable is derived from a formula based on the profitability of an operation, as follows:

- Royalty payable = gross sales x royalty rate
- Royalty rate = 0.5% + EBIT / (gross sales x 9)
- Minimum royalty payable = 0.5% / Maximum royalty payable = 7% of gross sales
- Unredeemed capex may be off-set against a positive EBIT balance and any unused balances can be carried forward for future calculations
- Tailings production (and all associated cost and revenue) are exempt from royalty

Example:

Revenue	ZARm	3 000
Operating costs	ZARm	(1 000)
Operating profit	ZARm	2 000
Unredeemed Capex b/forward	ZARm	(1 500)
Capex this year	ZARm	(550)
Adjusted EBIT (as defined in Royalty Act)	ZARm	(50)
Royalty rate = 0.5% + EBIT / (gross sales x 9)		0.5%
Royalty payable = royalty rate x revenue	ZARm	15

Diamond royalties in Tanzania (Williamson)

6% of Gross Revenue

G2.4 Effective Interest in South African Mines

Mine	Kago Diamonds interest in mines (%)	Increase in Petra's effective interest (via Kago holding) (%)	Petra's total effective interest (%)
Cullinan	14.0	4.4	78.4
Finsch	14.0	4.4	78.4
Koffiefontein	14.0	4.4	78.4
KEM JV	8.4	2.6	58.1

Petra's interest in Kago Diamonds = 31.46%