

## Our Market

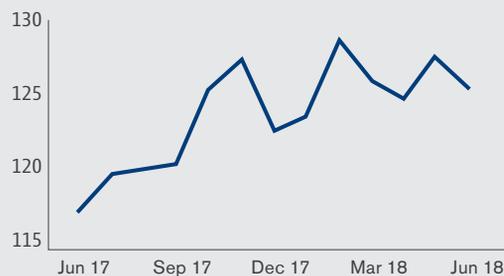
# The global economic backdrop

- ▶ Global GDP growth started to pick up in mid-2016 and strengthened in 2017 to 3.8%, with global stock markets ending 2017 on record highs and the MSCI all-country world index gaining 22% in 2017.
- ▶ The outlook remains generally positive, with the IMF upgrading its world growth forecasts in April 2018 to 3.9% per annum for 2018 and 2019 (previously expected to be 3.7%). This was reiterated in July 2018; however, the IMF noted that the rate of expansion appears to have peaked in some major economies and growth has become less synchronised.
- ▶ The US economic outlook is positive, with real GDP growth of 4.2% in Q2 and 2.2% in Q1 of calendar year 2018. Unemployment remained near a 17-year low at 3.9%, as at the end of August 2018. Consumer confidence is now at historically high levels and disposable income is expected to be boosted by the Republican \$1.5 trillion tax-cutting package, with tax gains expected to be spent rather than saved.
- ▶ Chinese economic data remain robust, with GDP growth of 6.7% in Q2 calendar year 2018 (above the Government's target of 6.5%). Real estate investment continues to remain strong and consumer confidence reached the highest point in ten years in Q1 calendar year 2018.
- ▶ India has seen strong GDP growth in 2018, with an 8.2% increase year on year in Q2 calendar year 2018 – the strongest growth rate since Q1 calendar year 2016. Whilst consumer demand decreased in Q2 calendar year 2018, consumer sentiment is still relatively high.
- ▶ The luxury market reached annual sales of nearly US\$1 trillion at the end of 2017. The outlook for 2018 is quite positive although volatility could threaten market expansion.
- ▶ However, risks remain surrounding potential trade war developments, which could impact global growth estimates with a knock-on effect to consumer confidence and behaviour.

All figures above are as at 30 September 2018, unless stated otherwise.

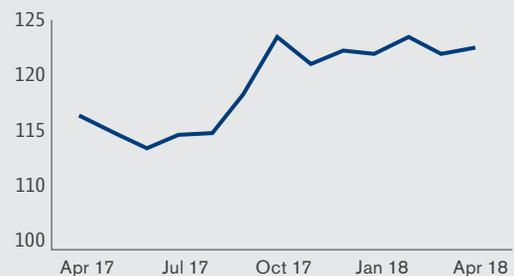
Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, Nielsen survey, Trading Economics, Deloitte.

### US CONSUMER CONFIDENCE



Conference Board Consumer Confidence Index: Tracks sentiment among householders or consumers in the US. The results are based on surveys conducted among a random sample of circa 3,000 U.S. households.

### CHINA CONSUMER CONFIDENCE



Tracks sentiment among households or consumers. The results are based on surveys conducted among a random sample of households.

## Relevance to the diamond market

- ▶ Global diamond demand growth is highly correlated to global GDP growth and consumer confidence.
- ▶ The outlook for 2018 demand growth remains positive in most of the main diamond consuming countries, based on solid world economic prospects, positive consumer sentiment and continued investment from the diamond industry in category marketing.

## Industry developments

### De Beers moves into synthetic gem diamonds

While De Beers has long been one of the leading producers of synthetic diamonds for industrial purposes, in May 2018 it surprised the market with the launch of Lightbox, a synthetic gem diamond brand which aims to offer consumers "high-quality fashion jewellery designs at lower prices than existing lab-grown diamond offerings".

Lightbox diamonds will be available in white, pink and blue but will not be graded and will be priced at a fixed rate of US\$800 per carat, with sizes ranging from 0.25 carats to 1 carat, meaning they will be valued as much as 75% less than other synthetic gem producers. Lightbox will not enter the engagement ring market; rather, it will offer consumers "affordable fashion jewellery that may not be forever, but is perfect for right now".

**DPA and Petra view:** It is clear from the Lightbox positioning that they will market synthetic diamonds for what they are,

low-cost, pretty stones, and not for what they are not – real diamonds, rare, precious, and inherently valuable.

### Blockchain to assist with ethical supply chain

A number of companies are evaluating the use of blockchain, which provides an immutable ledger of chronological transactions, as a way to enhance transparency throughout the diamond pipeline, from mine to retail.

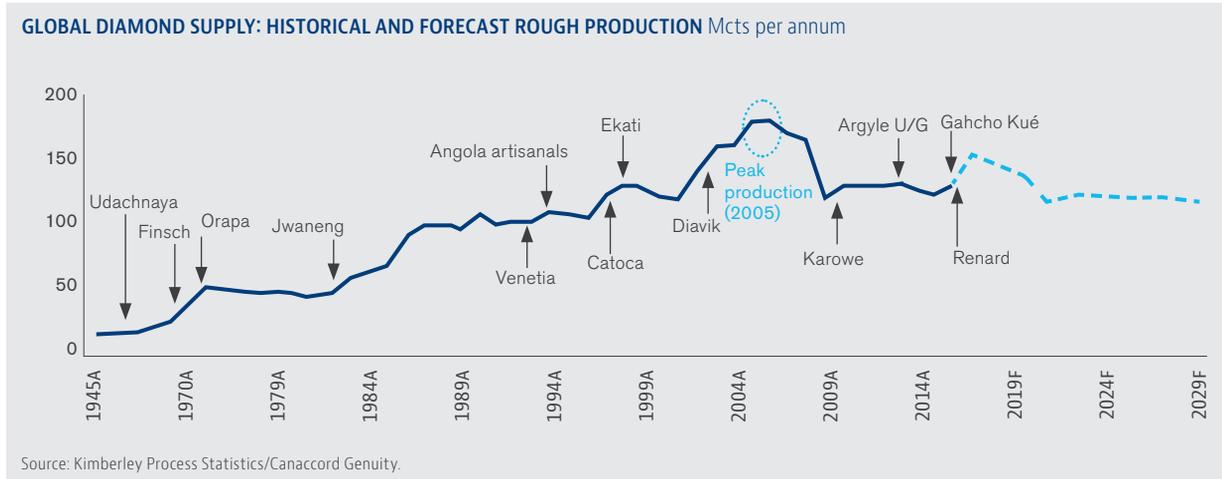
This could help to underpin consumer confidence in diamonds by demonstrating the ethical provenance of tracked stones.

**Petra view:** We believe that it is a matter of time before a technology such as blockchain is applied to supply chain management in diamond, gemstone and other precious metal industries, and that it could have great benefits in terms of consumer confidence. However, it will require collaboration between all the participants of the pipeline.

Our Market continued

# Supply

## Supply is expected to have already reached peak production in 2005



- ▶ Diamond supply by value increased by 15% to US\$14.1 billion (2016: US\$12.3 billion) due to the higher volumes mined.
- ▶ Diamond supply by volume increased 19% in 2017 to 150.9 Mcts (2016: 126.4 Mcts).
- NB The Kimberley Process Statistics for 2016 were revised down from 134.1 Mcts due to a downgrade of production figures from the Democratic Republic of Congo.
- Source: Kimberley Process Statistics.
- ▶ While a significant increase, it remains substantially below the high of 177 Mcts reached in 2005, which is believed to represent world 'peak diamond' supply.
- ▶ The rise in production was driven by new mines coming into production (Gahcho Kué and Renard in Canada, and Lihobong in Lesotho), as well as increases from Russia, Botswana, South Africa, the DRC and Australia.

## Supply is now on a downward trend

- ▶ The world's largest diamond mines are maturing and past their peak production levels, particularly as some open pit producers have to transition to be underground operations.
- ▶ The success rate in diamond exploration is estimated to be <1% – no significant finds this century, plus exploration expenditure cut worldwide.
- ▶ While three new mines came on stream in late 2016, they are not large enough to impact the overall constrained supply picture.
- ▶ Supply is therefore forecast to decrease to circa 145 Mcts in 2018, before declining to circa 115 Mcts by 2030.

Source: Canaccord Genuity.

### New developments in FY 2018

- ▶ Rio Tinto announced a reduction in Argyle reserves from 29 Mt to 16 Mt, meaning that the mine may cease production as early as 2020 (removing 17 Mctpa from the market).
- ▶ ALROSA closed the Mir mine (circa 5 Mctpa producer, 11% of ALROSA's production) further to a flooding accident; it is uncertain at this point when or if this mine will be brought back on stream.
- ▶ ALROSA announced that it will cut 0.5–0.8 Mcts from the International mine starting from 2019 further to a revised mine plan related to safety considerations.



### Our strategy

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

Growth opportunities in the diamond mining sector are limited due to the small number of economic diamond deposits worldwide; Petra is focused on optimising its portfolio in order to maximise the profitability of its assets.

# Demand

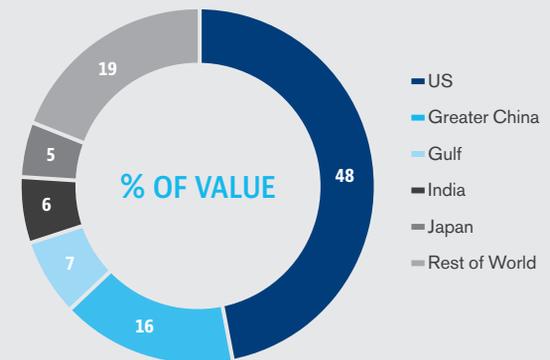
## The global diamond jewellery market reached a record high of US\$82 billion in 2017

### Demand in 2017

- ▶ Global consumer market for diamond jewellery increased 2% in USD to US\$82 billion (2016: US\$80 billion).
- ▶ The major United States ("US") market grew 4% to US\$43 billion for the first time, supported by job creation, wage growth and positive consumer confidence and spending.
- ▶ Demand from Mainland China grew 3% in local currency and returned to positive growth in USD terms, rising +1% in USD to US\$10 billion, with growth supported by an improving economic outlook and a 20-year high in consumer confidence. A revival in the Hong Kong market was driven by stronger local demand as well as a resurgence in Mainland visitor shopping.

Source: De Beers Diamond Insight – September 2018.

### GLOBAL POLISHED DIAMOND DEMAND SHARE BY GEOGRAPHY



Source: De Beers Diamond Insight Report – September 2018.

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

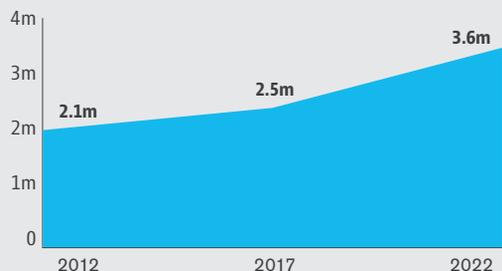
### MASS MARKET GOODS Growth in middle classes



160 million people projected to join the global middle class over the next five years.

Source: The Unprecedented Expansion of the Global Middle Class (Brookings, February 2017).

### HIGH END GOODS Growth in HNWI (+US\$5m)



HNWI population projected to increase 43% by 2022.

Source: Knight Frank, The Wealth Report 2018.

- ▶ Continued steady growth in the major US market.
- ▶ Strong desire for diamonds in China; continued economic strength and consumer confidence.
- ▶ Increasing wealth globally and an escalation in the number of HNWI.
- ▶ Rise in generic diamond marketing to consumers funded by the Diamond Producers Association – focused initially on the US, India and China.
- ▶ The widening appeal of gifting diamonds from traditional milestones (engagements, anniversaries) to multiple moments (e.g. self-reward, work breakthrough, memory of trip/experience).
- ▶ Rise in omnichannel and online retail markets.
- ▶ Mass luxury (i.e. affordable jewellery items priced from US\$200 to US\$2,000+) expected to drive the market.
- ▶ Strong demand from millennials.



### Our strategy

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

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

## Our Market continued

## Market performance in FY 2018

A stable market was experienced during FY 2018 with rough prices up circa 2%

**THE DIAMOND MARKET WAS STABLE THROUGHOUT FY 2018, IN LINE WITH THE STEADY RETAIL DEMAND FOR DIAMONDS EXPERIENCED OVER THE SAME PERIOD.**

Throughout the financial Year, the market saw seasonal weakness in July to October 2017, with Petra prices on a like-for-like basis down approximately 5% before recovering approximately 1.5% in December 2017, and since increasing by approximately 5% in H2 FY 2018. Such fluctuations in part reflect the seasonal nature of the rough market, due to the fact that retailers are ready to restock after the festive selling season, which includes Thanksgiving in the US, Christmas, Chinese New Year and Valentine's Day, thereby serving to introduce fresh liquidity into the diamond pipeline and draw down inventory levels of polished diamonds.

Overall rough diamond prices on a like-for-like basis were up circa 2% for the Year, compared to FY 2017.

## DIAMOND PRICES BY OPERATION

Mine	Actual US\$/ct FY 2018	Actual US\$/ct FY 2017
Finsch	108 <sup>1</sup>	101
Cullinan	125 <sup>2</sup>	120
Koffiefontein	525 <sup>1</sup>	506
KEM JV	108 <sup>1</sup>	100
Williamson	270 <sup>3</sup>	258

1. In line with expectations.
2. Below historical averages due to lower incidence of higher value stones.
3. Higher average value achieved due to higher incidence of high value stones.

The DPA increased its marketing budget to circa US\$70 million for 2018



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

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

Since launching its 'Real is Rare – Real is a Diamond' marketing platform in the US, the campaign generated more than 5.5 billion positive diamond impressions and conversations in the US in 2017. Further to precision targeting to US millennials aged 18 to 34, via the use of PR, influencers and social media, the campaign was assessed to have reached 98% of the target consumers who on average would have seen the ads 20 times across multiple media touch-points.

In 2018, the DPA announced its highest marketing budget yet of circa US\$70 million for 2018, which will enable it to expand upon its US marketing efforts, as well as supporting its first full year of investment in India (where it launched in November 2017), as well as its commencement of marketing in China in July 2018.

The majority of the DPA's funding is being directed at the major US market and in September 2018, focusing on female self-purchasers. This follows on from DPA research which revealed that self-purchase currently accounts for about one-third of purchases in the US and is growing, with the majority of female respondents surveyed viewing diamond jewellery as a long-term investment in themselves and as a way to feel more confident.