

Risks Overview

Principal risks and uncertainties

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

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

Petra's operational management and Internal Audit teams reviewed and updated the Group's principal risks with reference to the Group's internal risk registers in FY 2018. Post Year end, and in line with the Board's decision to enhance the role of the Audit Committee to that of an Audit & Risk Committee, an operational-level Governance and Risk Committee was established to oversee the operation and enhancement of risk management processes and systems across the Group's operations.

The rating of 'financing risks' decreased following the circa US\$ 170 million Rights Issue, completed in June 2018. 'Country and political risks' as well 'licence to operate risks' have increased due to ongoing political and regulatory uncertainty, both in South Africa and Tanzania. 'Currency risk' has increased following a period of extreme volatility in the ZAR/USD exchange rate as a result of concerns primarily related to the international 'trade war' and its impact on emerging market currencies.

1 FY 2018 1 FY 2017



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

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

Risk management framework



1. Post Year end the establishment of the Social, Ethics & Diversity Committee was approved and the HSSE Committee was restructured to form the HSE Committee.

Risks Overview continued

Principal risks

A summary of the risks identified as the Group's principal external, operational, strategic and HSSE risks (in no order of priority) is listed below – refer to pages 80 to 87 for the full risk management commentary.

Risk	Risk appetite	Risk rating	Nature of risk	Change in FY 2018
External risks				
Diamond price	High	High	Long term	No change – continued supply discipline from major producers is expected to lead to ongoing pricing stability. The DPA continues to expand its marketing activities to support consumer demand and appropriately position natural diamonds in the market.
Currency	High	Medium	Long term	Higher – ongoing ZAR/USD volatility expected following international 'trade war' and emerging market impact, as well as upcoming national elections in South Africa during 2019.
Country and political	High	High (FY 2017: medium)	Long term	Higher – potential adverse mining legislative changes in South Africa, coupled with upcoming 2019 national elections, further increasing regulatory uncertainty. Tanzanian legislative changes still not fully resolved; ambiguity remains, especially around local shareholding and potential refund of input VAT incurred by mining companies.
Access to energy	Medium	Low	Long term	No change – stable power supply was experienced throughout FY 2018; impact of possible Eskom strikes may result in intermittent disruptions of supply in FY 2019, but no material impact expected.
Access to water	Medium	Low	Long term	No change – no significant impact of water scarcity in FY 2018.
Synthetic diamonds	High	Low	Long term	No change – synthetic diamond production techniques continue to advance, but natural diamonds are expected to remain the premium product.
Operational risks				
Safety	Low	Medium	Long term	No change – FY 2018 saw no fatalities recorded across Petra's operations, compared to six fatalities in FY 2017. Group LTIFR improved further.
Mining and production	Medium	Medium	Long term	No change – H1 FY 2018 impacted by challenges relating to the new Cullinan plant ramp-up (throughput and recovery). Operational stability was achieved during H2 FY 2018, with production largely in line with expectations.
ROM grade and product mix volatility	Medium	Medium	Short term	No change – recovered ROM grades achieved some stability during H2 FY 2018, particularly at Cullinan following a period of volatility during commissioning of the new plant. Pricing variability is still evident at Cullinan – this is expected to be mitigated as the footprint of the new C-Cut Block Cave expands to access a larger portion of the orebody.
Expansion and project delivery	Medium	Medium	Medium term	Lower – although expansion programmes ramped up slower than expected, Finsch's SLC is now fully operational delivering all underground production from the mine; Cullinan's C-Cut Phase 1 project progressed significantly and doubled its contribution of undiluted ore for the Year, while its new plant was fully commissioned during H1 FY 2018.
Labour relations	Medium	Medium	Short to medium term	No change – the Company's three-year wage agreement relating to its South African operations (signed September 2017) is conducive to a stable labour relations environment.
Strategic risks				
Financing	Medium	Medium	Medium term	Lower – Petra strengthened its balance sheet via the circa US\$170 million Rights Issue and the resultant reduction of banking debt drawn under its South African banking facilities shortly after Year end.
Cost control and capital discipline	Medium	Medium	Long term	No change – operating costs and corporate overheads remained well controlled and in line with expectations in local currency terms. The Company's strategic priorities for FY 2019 onwards include 'Driving operational efficiencies with emphasis on value over volume' with a close focus on operational costs and capital efficiencies.
Retention of key personnel	Medium	Medium	Long term	No change – Petra's approach to retention has proven successful throughout the duration of the expansion programmes.
Licence to operate	Low	Medium	Long term	Higher – proposed legislative changes in both South Africa and Tanzania are placing additional financial and social burdens on Petra's operations.
Community relations	Medium	Medium	Long term	No change – Petra's KEM JV entered into a multi-stakeholder agreement with regards to the formalisation of artisanal mining activities.