Directors' Remuneration Report continued

Directors' Remuneration Policy Report

Directors' Remuneration Policy Report

The following section sets out the Group's Remuneration Policy (the "Policy Report"). As a Bermuda-incorporated company, Petra is not subject to the UK disclosure regulations. However, the Remuneration Committee continues to recognise the importance of good governance and therefore we are resubmitting our Policy Report to shareholders in accordance with the three-year renewal timeframe. It is intended that this Policy Report will be put forward to shareholders for approval at the 2020 AGM and will thereafter come into immediate effect following the AGM.

Remuneration principles

Petra's culture is performance driven. We have a management team that is highly experienced within the specialist world of diamond mining, which therefore brings unique skills to bear. Against this background, our approach to remuneration is guided by the following overarching principles:

- The employment terms for Executive Directors and Senior Management are designed to attract, motivate and retain high calibre individuals who will drive the performance of the business. The Group competes for talent with major mining companies and we aim for packages to be competitive in this market.
- Remuneration packages should be weighted towards performance-related pay.
- Performance measures should be tailored to Petra's strategic goals, and targets should be demanding.
- Share-based reward should be meaningful – the Committee believes long-term share awards provide alignment with the long-term interests of shareholders and the Company.
- Remuneration structures should take into account best practice developments, but these should be applied in a manner that is appropriate for Petra's industry and specific circumstances.
- Remuneration alignment with equitable culture throughout the workforce.

Review process and changes to the Policy Report

Taking into account the impact of COVID-19 as well as the current position of the business, the Remuneration Committee decided that it was not an appropriate time to undertake a full-scale review of the Policy Report. We are therefore proposing to roll forward our existing Policy Report, making some minor amendments to reflect good governance practice.

During the review the Committee took into account the latest governance developments, in particular the 2018 UK Corporate Governance Code and the evolving views of shareholders. Input was received from the Chairman and the Committee's independent advisers. Input was also received from the Company's management, whilst ensuring that any conflicts of interest were suitably mitigated.

The key changes between this Policy Report and the policy report which was approved by shareholders at the AGM in November 2017 are as follows:

- Executive Directors are eligible to use a portion of their benefit allowance to participate in the Company's pension plan on the same basis as the Group's South African workforce. This alignment with the workforce is now formalised in the Policy Report.
- The post-vesting holding period that was introduced to the Performance Share Plan ("PSP") in FY 2020 will now form part of the Policy Report.
- Post-employment shareholding requirements have been introduced.

Fixed remuneration

Salary	
Purpose and link to strategy	• To attract and retain Executive Directors of the calibre required by the business. • This is a core element of the remuneration package.

Operation	• The base salaries for Executive Directors are determined by the Committee taking into account a range of factors including:
	  • the scope of the role;
	  • the individual's performance and experience; and
	  • positioning against comparable roles in other mining companies of similar size and complexity.
	• Base salaries are normally reviewed annually with changes effective from the start of the financial Year on 1 July.
	Current implementation
	• With effect from 1 July 2020, Executive Director salaries were unchanged from 1 July 2019:
	  • Richard Duffy, CEO – £370,800; and
	  • Jacques Breytenbach, CFO – £265,200.

Maximum opportunity	• In determining salary increases, the Committee is mindful of general economic conditions and salary increases for the broader Company employee population.
	• More significant increases may be made at the discretion of the Committee in certain circumstances, including (but not limited to):
	  • where an individual's scope of responsibilities has increased;
	  • where, in the case of a new Executive Director who is positioned initially on a lower starting salary, an individual has gained appropriate experience in the role; and
	  • where the positioning is out of step with salary for comparable roles in the market.

Benefits	
Purpose and link to strategy	• To provide market competitive benefits.

Operation	• Benefit policy is to provide an appropriate level of benefit for the role taking into account relevant market practice.
	• Under the current arrangements, Executive Directors receive:
	  • a benefits allowance of 10% of salary in respect of both benefits and pension; and
	  • Group life, disability and critical illness insurance.
	• Executive Directors may use a portion of their benefit allowance to contribute to the Company's defined contribution pension plan up to the maximum contribution in line with the wider workforce, funded from the benefits allowance.
	• The Committee retains the discretion to provide reasonable additional benefits based on individual circumstances (e.g. travel allowance and relocation expenses for new hires, or pension arrangements).

Maximum opportunity	• The benefit provision will be set at an appropriate level taking into account the cost to the Company and the individual's circumstances.

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Variable remuneration

Annual bonus	
Purpose and link to strategy	• To motivate and reward performance measured against annual key financial, operational and strategic goals of the Company, which reflect critical factors of success. • Deferred element of the annual bonus ensures that part of the value of payments earned remains aligned to the Company's share price, thus creating alignment with the shareholder experience.
Operation	• Short-term annual incentive based on performance during the financial year. • A proportion of the award earned for a financial year will normally be deferred into shares. • Deferred shares may accrue dividend equivalents. • In exceptional circumstances, where delivery of the deferred element of the bonus in shares is deemed by the Company to be impractical for any reason (e.g. due to exchange control or other regulatory restrictions) cash equivalents linked to the share price provide alignment with shareholders. In the event that awards are, exceptionally, delivered as cash the amount would normally be used to purchase shares. • Awards will be subject to malus and clawback provisions.
Maximum opportunity	• Maximum award of up to 150% of base salary.
Performance measures	• The amount of bonus earned is based on performance against financial, operational, strategic and personal measures. • The Committee reviews the performance measures annually and sets targets to ensure that they are linked to corporate priorities and are appropriately stretching in the context of the business plan. • Prior to determining bonus outcomes, the Committee considers performance in the round to ensure that actual bonuses are appropriate. The Committee retains the discretion to amend the formulaic outcome if considered appropriate and to ensure fairness to both shareholders and participants. • Any amounts deferred into shares, normally for a period of two years, will be subject to continuing employment, but not to any further performance measures.
Performance Share Plan	
Purpose and link to strategy	• To motivate and reward for the delivery of long-term objectives in line with the business strategy. • To create alignment with the shareholder experience and motivate long-term objectives.
Operation	• Awards of conditional shares (or equivalent) which will normally vest based on performance over a period of three years. • Awards granted from FY 2020 are normally subject to a two-year post-vesting holding period. • Awards may accrue dividend equivalents. • Where delivery in shares is deemed by the Company to be impractical for any reason (e.g. due to exchange control regulations) cash equivalents linked to the share price provide alignment with shareholders. • Awards will be subject to malus and clawback provisions.
Maximum opportunity	• Maximum award of up to 200% of salary and a normal award of 150% of salary.
Performance measures	• Vesting is normally based on performance against financial, operational and strategic measures. • The Committee determines targets each year to ensure that targets are stretching and represent value creation for shareholders, while remaining motivational for management. • The Committee retains the discretion to amend the formulaic outcome if considered appropriate and to ensure fairness to both shareholders and participants. • The Committee has additional discretion to make downward adjustments in the event that a significant increase in the share price leads to potentially excessive rewards.

Shareholding guidelines

It is the Company's policy that each of the Executive Directors holds a meaningful number of Petra shares. The guideline is to build and maintain a minimum of two years' basic salary for the applicable Director. Newly appointed Executive Directors will normally have five years from the date of appointment to reach this guideline.

Post-employment shareholding guidelines

Executive Directors will normally be expected to maintain a minimum shareholding for two years following ceasing to be an Executive Director.

Notes to the Remuneration Policy table

Performance measures for incentives

The performance measures and targets for the annual bonus and PSP awards to Executive Directors are intended to be closely aligned with the Company's short-term and long-term objectives. The intention is to provide a direct link between reward levels, performance and the shareholder experience. While the Committee has flexibility to adjust the performance measures used over the course of the Policy, the following broadly summarises the performance measures currently used:

Cashflow generation	• Given Petra's current level of debt, one of the key performance measures for Executive Directors is the generation of cashflow and the resultant deleveraging of the Group.
Costs and Capex control	• Petra remains focused on managing costs and profitability. Cost management and capital expenditure measures form part of the annual bonus and PSP metrics.
Production and revenue	• Carat production and product mix are at the core of Petra's strategy. These measures are therefore embedded in the performance measurement framework.
Corporate and ESG	• Corporate and strategic priorities including health, safety and ESG measures are explicitly included as part of the annual bonus and PSP framework, reflecting Petra's commitment to corporate responsibility.
Total shareholder return	• Share awards are linked to value created for shareholders by measuring both relative and absolute total shareholder return ("TSR").

Malus and clawback provisions

In line with best practice, the vesting of deferred bonus and PSP awards is subject to malus and clawback provisions. The malus provision enables the Committee to exercise discretion to reduce, cancel or impose further conditions on an award prior to vesting or exercise (as the case may be). The clawback provision enables the Committee to require participants to return some or all of an award after payment or vesting. Both provisions may be applied in circumstances including:

- a serious misstatement of the Company's audited results;
- gross misconduct;
- payments based on erroneous data; or
- a serious failure of risk management.

Directors' Remuneration Report continued

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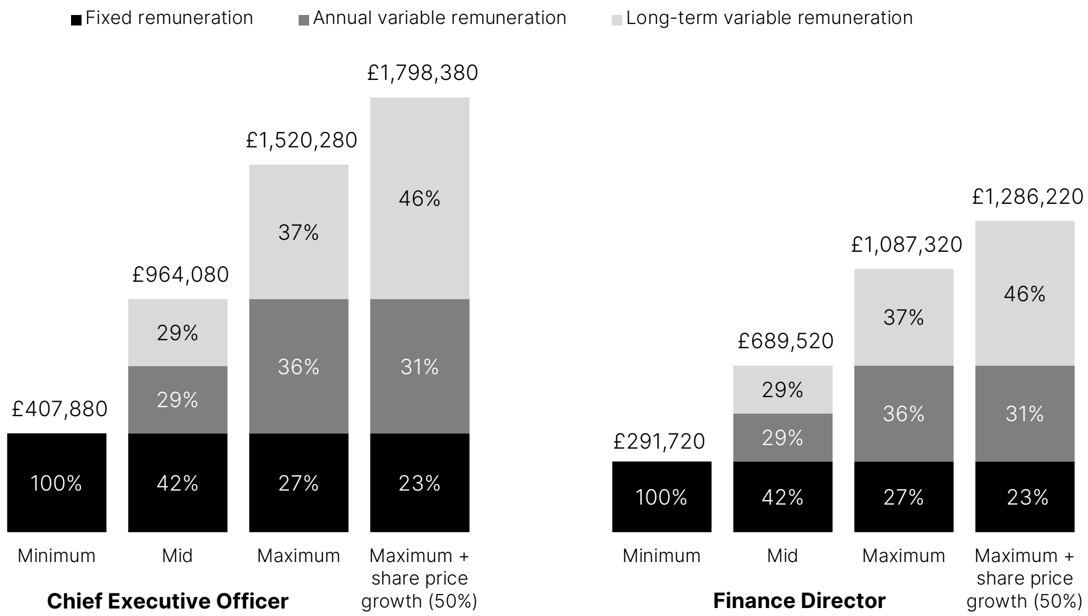
Illustration of application of the Remuneration Policy



The charts above have been compiled using the following assumptions:

Fixed remuneration	Fixed remuneration (salary and benefits allowance) as at 1 July 2020.
Variable remuneration	• **Annual bonus:** maximum award of up to 150% of salary. • **PSP:** FY 2021 conditional awards will be determined once the ongoing capital restructuring has been finalised. The normal award size of 150% of annual salary is shown for reference. • The amounts shown in the minimum, mid and maximum scenarios do not take into account share price growth. The amounts in all scenarios do not take into account receipt of dividend equivalents.

Performance scenarios	
Minimum	Fixed remuneration only.
Mid	Fixed remuneration plus variable pay for the purpose of illustration as follows: • **Annual bonus:** assumes a bonus pay-out of 50% of maximum. • **PSP:** assumes vesting of 50% of maximum.
Maximum	Fixed remuneration plus variable pay for the purpose of illustration as follows: • **Annual bonus:** assumes a bonus pay-out of 100% of maximum. • **PSP:** assumes vesting of 100% of maximum.
Maximum + share price growth (50%)	Fixed remuneration plus variable pay for the purpose of illustration as follows: • **Annual bonus:** assumes a bonus pay-out of 100% of maximum. • **PSP:** assumes vesting of 100% of maximum plus 50% share price growth.

Recruitment policy

The Committee's key principle when determining appropriate remuneration arrangements for a new Executive Director (appointed from within the organisation or externally) is to ensure that arrangements are in the best interests of both Petra and its shareholders, without paying more than is considered necessary by the Committee to recruit an executive of the required calibre to develop and deliver the business strategy.

Fixed pay	Salary and benefits would be determined within the bounds of the future policy table above.
Variable pay	The UK regulations require the identification of a maximum level of variable pay which may be granted on recruitment (excluding any buy-out arrangements). The maximum level of variable pay (bonus and long-term incentives) for a new recruit will be consistent with the Policy table on page 122. Within these limits and where appropriate the Committee may tailor the incentives (e.g. timeframe, form and performance criteria) based on the commercial circumstances at the time of recruitment.
Buy-outs	The Committee may need to buy out remuneration forfeited on joining Petra. In such circumstances, the Committee will seek to ensure any buy-out is of comparable commercial value and is capped as appropriate. The quantum, form and structure of any buy-out arrangement will be determined by the Committee taking into account the terms of the forfeited arrangements (e.g. form of award, timeframe, performance criteria, likelihood of vesting, etc.). The buy-out may be structured as an award of cash or shares; however, where appropriate, the Committee will normally seek to make awards under the existing incentive plans.
Non-Executive Directors	On the appointment of a new Non-Executive Chairman or Non-Executive Director, the fees will be consistent with the policy set out on page 126. Fees to Non-Executive Directors will not include share options or other performance-related elements.

Executive Director service contracts and policy on payment for loss of office

When determining leaving arrangements for an Executive Director, the Committee takes into account any contractual agreements including the provisions of any incentive arrangements, typical market practice and conduct of the individual. The Committee may also make any payments by way of compromise or settlement of any claim arising in connection with an Executive Director's cessation. Any such payments may include amounts in respect of accrued leave and any other professional or legal fees in connection with the cessation.

Notice period	The Executive Director service contracts are terminable by 12 months' written notice on either side and contain non-compete and non-solicitation clauses (dealing with customers/clients and non-solicitation of Directors or senior employees restrictions following termination).
Payment in lieu of notice	In the event of termination by the Company of an Executive Director's employment, the contractual remuneration package (incorporating base salary and benefits including any legal and professional fees), reflecting the 12-month notice period, would normally be payable.
Annual bonus	The Executive Director may, at the discretion of the Committee, remain eligible to receive an annual bonus for the financial year in which they ceased employment. Such a bonus will be determined by the Committee taking into account time in employment and performance.
Share awards	**'Good leavers' (e.g. ill health or retirement)** If a participant is deemed to be a good leaver, unvested awards will usually continue until the normal vesting date, unless the Board determines that the award will vest sooner (e.g. at the time of departure). For PSP awards any vesting will normally take account of any performance targets and, unless the Board determines otherwise, the time elapsed since the award was granted. The Board will determine the extent to which any post-vesting holding period will continue to apply. **'Bad leavers'** If a participant is deemed to be a bad leaver, unvested awards will lapse.

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Future Remuneration Policy for Non-Executive Directors

The remuneration of the independent Non-Executive Directors, with the exception of the Chairman, is determined by the Chairman and the Executive Directors; the remuneration of the Chairman is determined by the Committee. Directors are not involved in any decisions as to their own remuneration.

The table below sets out the Remuneration Policy with respect to the Non-Executive Directors. Independent Non-Executive Directors do not participate in the Company's bonus arrangements, share schemes or pension benefit plans. Any new independent Non-Executive Director will be treated in accordance with this Policy.

Approach to setting fees	Opportunity
The fees for Non-Executive Directors are set at a level which is considered appropriate to attract individuals with the necessary experience and ability to oversee the business. Fees are reviewed periodically, typically annually. Judgement is used and consideration is given to a number of internal and external factors including responsibilities, market positioning, inflation and pay increases for the broader Company employee population. Travel and other reasonable expenses (including fees incurred in obtaining professional advice in the furtherance of their duties and any associated taxes) incurred in the course of performing their duties may be reimbursed to Non-Executive Directors.	The fee opportunity reflects responsibility and time commitment. Additional fees are paid for further responsibilities, such as chairmanship of Committees. The value of benefits provided will be reasonable in the market context and take account of the individual circumstances and benefits provided to comparable roles.

Legacy arrangements

The Committee may approve payments outside of the Remuneration Policy in order to satisfy any legacy arrangements agreed prior to the adoption of this Policy Report or made to a Director prior to (but not in contemplation of) appointment to the Board.

Incentive plan discretions

All incentive awards are subject to the terms of the relevant plan rules under which the award was granted. The Committee may adjust or amend awards in accordance with the provisions of the plan rules. This includes making adjustments to awards to reflect corporate events, such as a change in the Company's capital structure.

The Committee may adjust the weightings and measures under the annual bonus and PSP. The Committee retains the discretion to exclude operational, strategic or personal measures.

The Committee may adjust the calibration of performance measures and vesting outcomes, or substitute or amend any vesting condition. The Committee retains the discretion to amend the formulaic outcome if considered appropriate and to ensure fairness to both shareholders and participants, including both upwards and downwards discretion.

In the event of a change of control of the Company, the Committee may determine the extent to which any PSP award will vest, taking into account the extent that any performance target has been satisfied, the period of time that has elapsed since the award was granted, and such other factors the Board deems relevant. Deferred awards will normally vest in full on a change of control, unless the Committee determines otherwise. PSP and deferred bonus awards may be exchanged for an equivalent award in the acquiring company.

Minor changes

The Committee may make minor amendments to the Remuneration Policy to aid its operation or implementation without seeking shareholder approvals (e.g. for regulatory, exchange control, tax or administrative purposes).

Remuneration elsewhere in the Company

When assessing remuneration, the Committee takes care to ensure that pay levels reflect roles and responsibilities. The Committee also takes care to ensure that packages for senior individuals are appropriate in comparison to the remuneration of other employees within the Company, whilst still supporting delivery of Petra's corporate objectives. Remuneration arrangements throughout the organisation are based on similar reward principles.

Shareholder engagement

The Committee believes that it is very important to maintain open dialogue with shareholders on remuneration matters. The Committee consulted with the Company's major shareholders in the development of the Remuneration Policy.