

Risk Management

Identifying, managing and mitigating risk

Risk management is the overall responsibility of the Board at Petra, but the Board Committees, Exco and Senior Management also play important roles in terms of the identification, management and ongoing mitigation of risks, including emerging risks, within their realm of responsibilities. Please refer to pages 65 to 67 for further details on how Petra manages risks.

EXTERNAL RISKS

1. Rough diamond prices

Long term

Risk change in FY 2022

Lower

Strategic objectives

Continued improvement of our balance sheet health; positioning Petra to enable it to pay dividends to shareholders.

KPIs

Revenue; Adjusted EBITDA; Operational free cashflow; TSR

Responsibility

Exco

Description and impact

The Company's financial performance is closely linked to rough diamond prices, which are influenced by numerous factors beyond the Company's control, including international economic conditions, world production levels and consumer trends.

Growth in the laboratory-grown diamonds (LGD) market also impacts diamond prices. The Company is closely monitoring the war in Ukraine and sanctions on Russian companies and its impact on the global diamond market. Whilst the long-term fundamentals of the diamond market remain positive, some volatility in rough diamond pricing may be experienced whilst macroeconomic uncertainties remain.

Low diamond prices may have a negative impact on cashflow, profitability, the overall performance of the business and the Company's ability to meet its financial obligations when they fall due as well as the viability of capital programmes going forward.

Mitigation

Petra undertakes a robust, market-driven tender process and aims to achieve full realisable value. The Company participates in profit sharing agreements with the aim of realising additional value from selected diamonds.

Petra continues to maintain regular dialogue with its client base to keep abreast of diamond market demand fundamentals and to be able to react in a timely manner to changes in rough diamond prices. The Company also continues to monitor the global diamond market through external publications such as, among others, the Global Diamond Industry Report by Bain & Co.

Petra is a founding member of the NDC which aims to maintain and enhance consumer demand for, and confidence in, diamonds by a range of methods, including via advertising campaigns across multiple digital channels. The Company continues to monitor LGD developments and its impact on the diamond market. The diversified nature of the Group's production profile also acts as a mitigant in that Petra produces the full spectrum of diamond sizes and qualities, to minimise reliance on the price performance of any one diamond category.

FY 2022 risk developments and management

Despite significant global economic uncertainties resulting from the war in Ukraine, like-for-like rough diamond prices increased 41.5% for the full year to 30 June 2022, driven in particular by record jewellery retail demand in the US. The tender in June 2022 highlighted the strength of demand across Petra's product mix, both in white and coloured gem-quality stones, with some increased demand for smaller diamonds. This growth in demand is driven by mid-stream inventory restocking and continued strong jewellery retail sales associated with a delayed wedding boom and a growing trend in diamonds being given as meaningful gifts post COVID-19.

Lower global production is also resulting in a more positive outlook for the diamond market. While the diamond market remained strong, further macroeconomic uncertainties caused by rising interest rates and inflation are potential dampeners of demand. The sale of a high number of Exceptional Stones recovered from Cullinan Mine and one from Williamson contributed a record US\$89.1 million compared to US\$62.0 million in FY 2021; this compares to an average contribution from Exceptional Stones from the Cullinan Mine of US\$50.7 million and US\$39.2 million over 3 and 5 years, respectively.

During Q4 FY 2022, polished stones cut from the 18.30ct Type II blue partnership stone were sold, with the most notable stone being a 7.09ct radiant cut stone which sold for US\$5.8 million. Petra sold the 18.30ct rough diamond in August 2021 into a partnership for US\$3.5 million, while retaining a 50% share of profits. The final polished stones realised a net profit to the partnership of US\$2.13 million, contributing additional revenue of US\$1.065 million for Petra's 50% profit share recognised in FY 2022. Post Year end and as reported in September 2022, Petra achieved strong sales in the first tender of FY 2023.

Petra continues to work with the NDC in its activities to support rough diamond demand.

Read more



Our Markets pages 22 to 29

2. Currency

Long term

Risk change in FY 2022

No change

Strategic objectives

Continued improvement of our balance sheet health

KPIs

Revenue; Adjusted EBITDA; Operational free cashflow; TSR

Responsibility

Exco

Risk Management continued

Identifying, managing and mitigating risk continued

EXTERNAL RISKS CONTINUED

2. Currency continued

Long term

Description and impact

Currency fluctuations may have a significant impact on the Group's performance.

With Petra's operations mainly in South Africa, but diamond sales based in US Dollars, the volatility and movement in the Rand can have a significant impact on the Group.

Mitigation

The Group continually monitors the movement of the Rand against the US Dollar and takes expert advice from its bankers in this regard. It is the Group's policy to hedge a portion of future diamond sales when weakness in the Rand indicates it is appropriate. Such contracts are generally short term in nature.

The Company looks to actively manage its exposure to the ZAR:USD rate in order to safeguard Group cashflow against a volatile currency outlook.

FY 2022 risk developments and management

The ZAR/USD exchange rate saw significant volatility in FY 2022, with the Rand averaging ZAR15.22/USD1 for the 12-month period to 30 June 2022 and closing the Year at ZAR16.27/USD1, compared to ZAR14.27/USD1 on 30 June 2021.

The initial impact of the war in Ukraine benefitted the ZAR, with South Africa and Brazil being seen as safe havens by developed economies for Foreign Direct Investment.

Although SA's inflation is currently lower than the US and most European countries, over the longer term the Rand is expected to continue to weaken as long as SA's inflation rate remains significantly higher than that of its main trading partners which is further compounded by the international economic environment.

To mitigate volatility, the Company continued with its approach to focus on short-dated hedge positions. Management was mandated by the Board to cover up to 50% of expected 12-month forward looking USD sales proceeds.

Read more

Financial Review pages 61 to 64



Note 8 to the Financial Statements page 160

3. Country and political

Long term

Risk change in FY 2022

Lower

Strategic objectives

Continued improvement of our balance sheet health

KPIs

Profitability; Adjusted EBITDA; TSR

Responsibility

Exco; HSE Committee; SED Committee

Description and impact

Petra's mining operations are located in South Africa and Tanzania. Emerging market economies are generally subject to greater risks, including legal, regulatory, tax, economic and political risks, and these risks are potentially subject to rapid change.

Mitigation

The Petra team is highly experienced at operating in Africa. Petra routinely monitors political, regulatory and legal developments in its countries of operation at both regional and local level and through continuous engagement with the local authorities, including in South Africa with the Minerals Council acting on behalf of the mining sector.

FY 2022 risk developments and management

Whilst the risk of political instability remains in South Africa, as evidenced by the civil unrest experienced at the beginning of the Year, the outcomes of the ruling party's policy conference were positive and markets were encouraged by party support for the President's proposals which bodes well for his re-election in December 2022. It is hoped that the adoption of market-friendly policies benefits the domestic currency and creates some stability.

Regulatory uncertainty has reduced in South Africa due to the publication of the 2018 Mining Charter, although certain aspects of the new Mining Charter were subject to judicial review. In FY 2022, the High Court of South Africa handed down its judgement on this judicial review, finding in favour of the Minerals Council SA. Whilst the DMRE have decided not to appeal this judgement, they have indicated that they will seek to introduce a legislative amendment of the Mineral and Petroleum Resources Development Act to Parliament which would have the effect of reversing certain aspects of the judicial review, in particular the legal status of the Mining Charter. The timing and outcome for such a legislative amendment is unclear and if pursued is likely to take years to implement.

Since the appointment of the new Tanzanian President in 2021, pledges to encourage economic growth and promote foreign investment in Tanzania have been well received by the market.

4. COVID-19 pandemic (operational impact)

Short to medium term

Risk change in FY 2022

Lower

Strategic objectives

Safe and reliable production from our operations with continuous business improvement

KPIs

Rough diamond production; Revenue; Adjusted EBITDA; Operational free cashflow

Responsibility

Exco; HSE Committee; SED Committee

Description and impact

The COVID-19 pandemic continued throughout FY 2022 with new variants such as Omicron surfacing during the Year. The impact of COVID-19 infections on our operations was minimal. The mass roll-out of vaccinations has played an important role in reducing the rate of serious illness and fatalities caused by the disease.

Mitigation

Petra supported the Governments of South Africa and Tanzania by installing vaccination stations and campaigns at each operation which has resulted in 64% of Petra's South African workforce being fully or partially vaccinated and 16% of the Williamson workforce being vaccinated.

During the Year, Petra ran campaigns at each operation and various employee engagement campaigns to encourage vaccination uptake.

Petra also continued to implement comprehensive systems and strategies to help prevent and/or contain the spread of the virus at our operations in South Africa and Tanzania.

Areas of focus included awareness and training, identification of those employees with underlying health conditions who may be at greater risk and whilst restrictions applied, wearing of masks, regular sanitising and screening, testing, ensuring adequate ventilation and the handling of suspected positive cases identified.

Petra's mitigation activities extend beyond its workforce to help support its local communities in a number of ways. Petra has also adopted a flexible sales approach in order to bring its goods to market at the optimal time and location based on prevailing market conditions.

FY 2022 risk developments and management

COVID-19 restrictions in South Africa and Tanzania have been gradually lifted during the Year due to the decreasing numbers of individuals contracting the virus which led, in South Africa, to the termination of national state of emergency.

The emphasis then shifted to continuing the promotion of the administration of vaccinations, including booster shots as this remains the best protection against COVID-19.

Initially, Petra maintained a flexible sales approach during the Year to maximise client attendance at its sales by continuing to hold rough diamond tenders for the South African goods in Antwerp (having fulfilled its regulatory obligation to offer a portion of goods for sale to the State Diamond Trader and local beneficiation groups in South Africa), rather than in Johannesburg. However, as travel restrictions have been lifted, rough diamond tenders for the South African goods have resumed in Johannesburg.

Read more

 [Operational Review pages 46 to 57](#)

 [Employee health and wellness page 47 to 50 of the Sustainability Report](#)

STRATEGIC RISKS

5. Group Liquidity

Short to medium term

Risk change in FY 2022

Lower

Strategic objectives

Continued improvement of our balance sheet health; assessment of options to refinance Second Lien Notes to more favourable terms and tenure

KPIs

Rough diamond production; Adjusted EBITDA; Operational capex

Responsibility

Exco, Investment Committee

Description and impact

Whilst the Restructuring that was completed in FY 2021 significantly reduced Petra's third party debt, the Group's gross debt position as at 30 June 2022 was US\$366.2 million. Petra is subject to interest payments on this debt and a set of covenants in relation to both its first lien and second lien debt. Failure by Petra to deliver on its business plan could have a material negative impact on cashflow and Petra's ability to further reduce its debt and to continue strengthening its balance sheet, which may affect its ability to meet its financial obligations when they fall due.

The Group's strategic, self-funded capital projects at Cullinan Mine and Finsch may create additional pressure in funding working capital requirements and meeting the Group's capital and interest repayment commitments. In addition, significant global economic uncertainties resulting from the war in Ukraine have resulted in a significant rise in inflation which has the potential to impact Petra's cost base.

Whilst Management prepares detailed projections based on operational plans and sales estimates, actual cashflow results may differ from these projections. The Group's financial position will remain sensitive to operational performance, operating cost inflation and the diamond pricing environment and product mix available for sale.

Risk Management continued

Identifying, managing and mitigating risk continued

STRATEGIC RISKS CONTINUED

5. Group Liquidity continued

Short to medium term

Mitigation

The Company closely monitors and manages its liquidity risk, including regularly reviewing its covenant levels and cashflow forecasting to ensure operational plans are adequately financed. The Group also explored options to reduce its gross debt through a tender offer to bondholders to purchase up to US\$175 million of the Senior Secured Second Lien Notes due in 2026.

Petra's enhanced Operating Model, brought about by Project 2022, provides a platform for greater stability and resilience, enabling further cash generation to fund our capex requirements and support further deleveraging.

Available levers to manage working capital are considered and employed to manage short-term cashflow requirements. The Company also has some flexibility in the roll-out of its future capital spend. The Company's Investment Committee makes recommendations to the Board on capex and investment proposals and monitors progress of major capital investments.

The Company initiated Business Re-Engineering Projects at Finsch and Koffiefontein with the aim of reducing costs. This resulted in a labour reduction process at Koffiefontein to align the operation with the reduced tonnage profile. Separately and independent of this labour reduction process, the Company announced a potential exit from its investment in Koffiefontein which is nearing the end of its life of mine. While this sales process has been unsuccessful in identifying a potential buyer, Petra is now evaluating other options and will continue to operate the mine responsibly.

The Company is monitoring cost increases across the Group's operations very closely, but Petra's relatively low fuel consumption, disciplined cost management, three-year labour agreements to June 2024, and exposure to a weaker South African Rand will assist the Company in better absorbing these cost pressures.

FY 2022 risk developments and management

A combination of higher diamond prices, robust production levels in line with guidance, and record proceeds from the sale of Exceptional Stones contributed to increased revenue of US\$585.2 million (FY 2021: US\$406.9 million), strong free cashflow generation and a reduction in net debt to US\$40.6 million as at 30 June 2022 (US\$228.2 million as at 30 June 2021), thereby significantly strengthening the balance sheet.

The Company also completed a refinancing of its First Lien debt facility which will deliver some US\$5 million in savings over the next two years as a result of more favourable terms than the previous facility. The new First Lien facility with ABSA comprises a ZAR1 billion (US\$61.5 million) Revolving Credit Facility which remains undrawn and available at 30 June 2022.

During the Year, the previous first lien facility, comprising a Revolving Credit Facility of ZAR404.6 million (US\$24.9 million) and a term loan of ZAR893.2 million (US\$54.9 million) was fully settled reducing the Group's gross debt. Post Year end, the Company launched a tender offer to bondholders to purchase up to US\$175 million of the Senior Secured Second Lien Notes due in 2026. As at the date of this Report, Petra has, through this tender offer, reduced gross debt by US\$144 million and with the extension of the tender offer, may reduce its gross debt further by up to US\$29 million. This transaction will see Petra saving at least US\$ 14 million (and up to US\$ 17 million) per annum in interest expenses. As per our stated strategy, Petra will continue to consider opportunities to further optimise its debt structure.

The Group's strong balance sheet has resulted in a credit ratings upgrade by Moody's and S&P Global to Stable and Positive, respectively.

Read more

 [Financial Review pages 61 to 64](#)

 [Going Concern Statement page 64](#)

6. Licence to operate: regulatory and social impact & community relations

Long term

Risk change in FY 2022

No change

Strategic objectives

Safe and reliable production from our operations with continuous business improvement; continue to mine Koffiefontein responsibly while considering other options for the remaining short period of its mine plan

KPIs

Rough diamond production; Revenue; Adjusted EBITDA; Social spend

Responsibility

Exco; Audit and Risk Committee; SED Committee

Description and impact

In order to maintain our mining licences, Petra must comply with stringent legislation. Failure to comply with relevant legislation in our countries of operation could lead to litigation proceedings, sanctions, delays or suspension of our mining activities.

Petra's licence to operate is dependent on the retention and support of its employees and its continued acceptance in the communities in which it operates. Factors influencing this risk include:

- ▶ Historical allegations of human rights abuses relating to security operations at Williamson pertaining to illegal mining activities
- ▶ The announcement of the potential sale of Koffiefontein that has raised community concerns and tensions regarding the Group's ability to continue meeting its obligations in relation to SLP projects
- ▶ The lack of a focused and prioritised stakeholder engagement strategy addressing the social transformation agenda preventing stakeholder expectations and transformation objectives from being met. This is exacerbated by the widening socio-economic inequalities in South Africa following the COVID-19 pandemic
- ▶ Non-compliance with the Group's SLP and Mining Charter targets
- ▶ Non-compliance with mine community development and employment equity targets and partial compliance with procurement, enterprise development and human resource development targets

Mitigation

At Williamson, the implementation of the IGM will provide a mechanism for complainants who have suffered severe human rights impacts in connection with security operations at the mine. Various community projects are underway or being assessed, with the potential to provide sustainable benefits to the communities located close to the mine.

The Stakeholder Engagement and Management Policy is in the process of being implemented, having been approved by the SED Committee. Social Impact Assessments (SIA) finalised for Finsch and Koffiefontein will provide the Company with a greater insight of relevant and fit for purpose community projects to address social imbalances.

Social and Labour Plans with Mine community Development Projects that takes into consideration the outcomes of the SIA and Integrated Development Plans requirements. Increased focus on stakeholder engagement strategies, embracing stakeholder capitalism and responsible business practices.

FY 2022 risk developments and management

Petra continued to comply in all material aspects with relevant laws and regulations in the countries in which it operates. We strive to establish partnerships with our employees, communities, Governments, local business forums, NGOs and educational institutions to optimise the impact of our initiatives. The structure of our community engagement and development programmes is guided by the Company's stakeholder engagement and management approach. In addition to the above, each mine also considers the following when developing their engagement programmes:

- ▶ Initial SIAs based on participatory processes prior to drafting SLPs
- ▶ Stakeholder engagements and committee feedback
- ▶ Internal and external grievances registered
- ▶ Applicable legislation relating to diversity/employment equity
- ▶ Environmental impact assessments and ongoing monitoring
- ▶ Local community development programmes based on local communities' needs
- ▶ SEPs based on stakeholder mapping
- ▶ Local municipality's integrated development plans (IDPs)
- ▶ Broad-based local community consultation committees and processes that include vulnerable groups
- ▶ Worker representation bodies that provide input to our initiatives and projects

Our local operations continue to review their SEPs, to increase value-add engagements at Government and community levels. In FY 2022, local operations conducted 451 (FY 21: 658) social engagements which included internal (employees and committees) and external (Government, communities, forums and SMMEs) engagements. Considering the length of the potential mine lives of our operations, we focus on investing in long-term projects, which will have a lasting positive impact and address the socio-economic needs of the communities where we operate. Our approach to social investment is therefore developmental in nature and aimed at creating sustainability in communities beyond the life of active diamond mining and to ensure we are adhering to our SLP commitments. Further information on the Company's community programmes for the Year can be found on pages 33 to 34 and 88 to 92 of the Sustainability Report.

Following the Company's May 2021 announcement on the alleged human rights breaches in Tanzania, Petra has continued to progress the design and implementation of the IGM. This has involved extensive stakeholder engagements with all levels of Government and the local community to create awareness of the IGM process and to obtain initial feedback on how the IGM is envisaged to operate. The current target is for the IGM to become operational by the end of this calendar year. The Company has also progressed a number of projects to provide sustainable benefits to the communities located close to the mine. These projects are being funded by £1 million which was paid into an escrow account established by Petra. The projects include (1) a medical services project, (2) an artisanal and small-scale mining project (at the feasibility stage), (3) an agribusiness development initiative (at the feasibility stage), (4) improved delineation of the Williamson mine boundaries, including access to the mine lease area for the collection of firewood and (5) an awareness initiative in respect of sexual and gender-based violence.

The risk of illegal mining at Williamson is ongoing, although the number of illegal incursions has reduced significantly during FY 2022. During FY 2022, there was a total of 429 reported incidents of illegal incursions onto the Williamson mine lease area, with 55 illegal miners and 13 security officers sustaining minor injuries and 161 illegal miners being apprehended. WDL is also continuing its extensive engagements with communities around the mine to highlight the dangers of illegal mining, thereby seeking to reduce illegal incursions onto the mine lease area, with a particular focus on seeking to reduce or eliminate the involvement of minors in illegal mining.

Furthermore, WDL continues its engagement with local authorities to actively target those individuals that are known to be providing economic support to disaffected youth and the wider community to trespass onto the mining area. WDL is also continuing its extensive engagements with communities around the mine to highlight the dangers of illegal mining, thereby seeking to reduce illegal incursions onto the mine lease area, with a particular focus on seeking to reduce or eliminate the involvement of minors in illegal mining.

Furthermore, WDL continues its engagement with local authorities to actively target those individuals that are known to be providing economic support to disaffected youth and the wider community to trespass onto the mining area.

Read more

 [Our response to human rights abuse allegations in Tanzania pages 33 to 34 of the Sustainability Report](#)

 [Our response to human rights abuse allegations in Tanzania \[petradiamonds.com/our-operations/our-mines/williamson/allegations-of-human-rights-abuses-at-the-williamson-mine/\]\(https://www.petradiamonds.com/our-operations/our-mines/williamson/allegations-of-human-rights-abuses-at-the-williamson-mine/\)](https://www.petradiamonds.com/our-operations/our-mines/williamson/allegations-of-human-rights-abuses-at-the-williamson-mine/)

 [ESG and Sustainability pages 15 to 22, 55 to 62 and 82 to 96 of the Sustainability Report](#)

Risk Management continued

Identifying, managing and mitigating risk continued

OPERATING RISKS

7. Mining and production

Long term

Risk change in FY 2022

No change

Strategic objectives

Safe and reliable production from our operations with continuous business improvement; maintenance of operational stability of our mines; disciplined execution of approved capital expansion projects

KPIs

Rough diamond production; Revenue; Adjusted EBITDA; Operational free cashflow; TSR; Training

Responsibility

Exco, Investment Committee

Description and impact

The mining of diamonds from kimberlite deposits involves an intrinsic degree of risk from various factors, including geological, geotechnical and seismic factors, industrial and mechanical accidents, unscheduled plant shutdowns, technical failures, ground or water conditions, access to energy and inclement or hazardous weather conditions.

Mitigation

Petra's work to extend the lives of its assets is classified as resource extension and brownfields exploration, meaning that the existing knowledge of the deposits, which have long histories of production, allows management to eliminate some of the risk associated with developing a new diamond mine.

The Group's Management team is comprised of key personnel with a substantial and specialist knowledge of kimberlite mining and diamond recovery, and this skills base enables the Company to manage mining and production risks, including through geotechnical modelling, planned maintenance and regular inspections.

Whilst waste ingress issues at Finsch is being managed through the implementation of drill, blast and draw controls, ongoing monitoring and mitigation plans are required to address these issues.

FY 2022 risk developments and management

Production for the Year increased 3% to 3,353,670 carats, in line with guidance, largely owing to the resumption of mining at Williamson. Production for Q4 FY 2022 was down 6% to 745,790 carats largely due to lower tons treated at the Cullinan Mine following depletion of the current CC1E mining area and a difference compared to Q4 FY 2021 in the makeup of kimberlite in the G-Cut. However, production guidance for FY 2023 to FY 2025 remains unchanged at this stage.

When compared with FY 2021, production at the Finsch Mine stabilised in the second half of FY 2022, although ROM grade was 13% lower as a result of waste dilution despite the implementation of controls which were continuously monitored.

The Board has also approved two major projects which are (i) the CC1E SLC at the Cullinan Mine which involves estimated capex of US\$173 million and extends the mine plan to 2031 and (ii) Lower Block 5 3 level SLC at Finsch which involves estimated capex of US\$216 million and extends the mine plan to 2030.

Read more

Operational Review pages 46 to 57

8. ROM grade and product mix volatility

Short term

Risk change in FY 2022

No change

Strategic objectives

Safe and reliable production from our operations with continuous business improvement; maintenance of operational stability of our mines; disciplined execution of approved capital expansion projects

KPIs

Rough diamond production; Revenue; Adjusted EBITDA; Operational free cashflow; TSR

Responsibility

Exco

Description and impact

Current mining blocks at all South African operations are reaching maturity or moving towards the end of life. While the current orebody footprints are still large enough to deliver relative consistency and product mix, increasing levels of variability in terms of ROM grade and product mix can be expected going forwards which will be mitigated by the ramp up of the new mining blocks at the Cullinan Mine and the Finsch Mine.

Some level of variability in terms of ROM grade and product mix occurs depending on the mix of ore produced from the current mining areas at each operation and the level of dilution experienced from waste rock ingress. It can also be impacted by the inclusion of production from surface resources at some of the mines.

Mitigation

Petra's work to extend the lives of its assets is classified as resource extension and brownfields exploration, meaning that the existing knowledge of the deposits, which have long histories of production, allows management to eliminate some of the risk associated with grade and product mix. Technical teams are developing plans to address recent lower grades seen at the Cullinan and Finsch Mines.

FY 2022 risk developments and management

At CDM, the C-Cut has been established across the orebody. The closure of Tunnel 41 (T41) has had some impact on grade and product mix. Whilst the Q4 FY 2022 ROM production at the Cullinan Mine was largely in line with the previous quarter, diamonds produced were 22% below the very strong Q4 FY 2021. This is attributable to a lower ROM grade resulting from the higher grade CC1E not contributing to Q4 FY 2022 production and a change in the ore make-up of the C-Cut block cave footprint as the production progresses from SW to NE due to cave maturity. Production guidance for FY 2023 to FY 2025 remains unchanged. However, recent early waste ingress on the C-Cut related to the temporary closure of T41, probable permanent closure of some drawpoints (16 maximum) and the subsequent smaller production footprint is currently being evaluated, together with mitigation measures.

At Finsch Diamond Mine, some grade and mix volatility is expected as the current SLC nears its end of life with mining concentrated on 78L. There was a 24% reduction in Q4 FY 2022 ROM grade against Q4 FY 2021 which is largely attributable to the significantly lower levels of ROM tons mined in Q4 FY 2021 to manage the waste ingress and improve grade.

Read more

 [Operational Review pages 46 to 57](#)

9. Labour relations

Short to medium term

Risk change in FY 2022

No change

Strategic objectives

Safe and reliable production from our operations with continuous business improvement; maintenance of operational stability of our mines; disciplined execution of approved capital expansion projects

KPIs

Rough diamond production; Staff turnover; training

Responsibility

Exco; SED Committee

Description and impact

The Group's production, and to a lesser extent its project development activities, is dependent on a stable and productive labour workforce. The mining labour relations environment in South Africa has been volatile over the years, but much less so specifically in the diamond sector, where there is a higher incidence of mechanisation and skilled workers.

Mitigation

Petra remains highly focused on managing labour relations, and on maintaining open and effective communication channels with its employees and the appropriate trade union representatives at its operations, as well as local communities.

A key part of Petra's labour relations strategy is the IPDET, which is one of the Company's core BEE Partners, and owns a 12% interest in each of the South African operations.

FY 2022 risk developments and management

Stable labour relations were experienced throughout the Year. The Company announced that it had reached agreement with NUM on a new three-year wage agreement for employees in the Paterson A and B Bands at the South African operations. The Company also concluded a three-year wage agreement for employees on the Paterson C-Lower Band with both NUM and UASA.

Review of the Collective Bargaining Agreement (CBA) at Williamson Diamonds Limited (WDL) is ongoing with the majority union (TAMICO).

Read more

 [Labour relations pages 52 to 54 of the Sustainability Report](#)

Risk Management continued

Identifying, managing and mitigating risk continued

OPERATING RISKS CONTINUED

10. Safety

Short to Medium term

Risk change in FY 2022

Lower

Strategic objectives

Safe and reliable production from our operations with continuous improvement

KPIs

LTIFR

Responsibility

Exco; HSE Committee

Description and Impact

The impact of safety-related incidents directly affects the wellbeing of Petra's staff and given the inherent risk in any mining operations, the Group is exposed to various safety-related risks across all its operations. Petra seeks to make its commitment to a zero harm working environment visible throughout its operations and Petra seeks to remain vigilant, proactive and act timeously to matters that contribute to a safe working environment. Significant safety-related incidents could cause Petra's operations to shut down and directly impact production.

Mitigation

Petra conducts regular self-assessments on its compliance with safety laws, regulations, policies and procedures, and undertakes remedial action where areas of non-compliance are noted. The Group's safety policies and procedures are well established, and implemented with employees and contractors receiving regular training and updates on safety protocols and requirements. Regular updates to these policies and procedures are conducted as a result of gaps identified during the risk identification and mitigation processes.

Petra plays an active role in providing oversight, monitoring and reporting of safety compliance, and regularly engages external service providers to conduct independent and objective reviews and inspections.

FY 2022 developments and management

Petra's safety performance saw a 40% reduction in LTIs to 15 for the Year and a corresponding 50% reduction in the LTIFR for the Year. The only metric on which Petra's performance deteriorated was in respect of NLTIs which saw an increase of 11%, but this was against a backdrop of an increased number of shifts worked in FY 2022 which meant that Petra's NLTIR decreased by 7%. The Cullinan Mine in particular, had an exceptional year, celebrating a LTI-free year on 25 April 2022.

Whilst LTIs were of low severity and mostly behavioural in nature, Petra continues to target a zero harm working environment.

In contrast to the safety improvement at the Cullinan Mine, the Finsch Mine's safety performance remained somewhat static between FY 2021 and 2022 with a similar number of injuries. Given this performance, the Finsch Mine now accounts for the majority of injuries Group wide and will require further attention in FY 2023.

Read more



Safety pages 42 to 46 of the Sustainability Report

11. Environment

Long term

Risk change in FY 2022

No change

Strategic objectives

Safe and reliable production from our operations with continuous improvement

KPIs

Water efficiency

Responsibility

Exco; HSE Committee

Description and Impact

The impact of our mining and processing operations have a significant impact on our environment, including local communities if not managed appropriately. Key environmental risks identified include the following:

- ▶ Water resources, both through inefficient use and potential contamination of natural water sources
- ▶ Inappropriate waste management activities may cause water and soil contamination
- ▶ Permanent changes in topography, land use and land capability due to the final disposal of mining waste on surface
- ▶ Depletion of non-renewable sources due to inefficient consumption
- ▶ Biodiversity loss due to the spread of invasive vegetation, as well as increasing mining footprints
- ▶ Legacy from previous mine owners effecting perception of current management (sub-standard environmental management practices)
- ▶ Non-compliance with rehabilitation schedules and closure commitments
- ▶ Non-compliance with material environmental legislation

Mitigation

Our mitigation initiatives pertaining to the environmental risk consist of various strategies that include:

- ▶ Conditions attached to the Cullinan and Finsch Mines' water use licences are under review. The Koffiefontein water use license has already been amended
- ▶ Performance reviews, legal inspections as well as audits conducted on an ongoing basis
- ▶ Concurrent rehabilitation taking place
- ▶ Annual waste audits conducted at the Cullinan, Finsch and Koffiefontein Mines
- ▶ Environmental Management Programme Reports for all operations contain management options for mining waste disposal
- ▶ The Finsch Mine has an updated tailings deposition plan with an update planned for the Cullinan Mine in FY 2023
- ▶ The setting of water efficiency KPIs for each of the Cullinan, Finsch and Koffiefontein Mines, all of which were achieved in FY 2022
- ▶ The Cullinan, Koffiefontein and Finsch Mines have annual schedules to remove invasive plants while Williamson removes invasive plants as part of their concurrent rehabilitation plan
- ▶ Implementation of Water Conservation and Water Demand Management Plans at all local mines

FY 2022 developments and management

Petra uses external water resources for diamond processing. This removes water that may be used by agriculture or the community. In the processing circuit, minerals are liberated from the host rock that has the potential to contaminate the water impacting on the downstream ecosystem.

Depending on the specific operation, as each kimberlite has its own unique signature, the minerals that are liberated are salt-forming e.g. fluoride, sodium and nitrate. All see page and effluent from Petra's operations has a pH of 7 or above, thus it is not acid forming. Petra does not cause acid mine drainage.

The implementation of Waste Management Procedures and the setting of annual objectives to improve waste management practices has resulted in higher waste recycling figures and lowered the risk caused by landfilling. 25% more (per volume) waste was recycled in FY 2022 than in the previous year. The change in topography and land capability is an expected impact of mining. The implementation of annual rehabilitation schedules and mine closure plans address this by increasing the production potential of mining affected land, so creating a positive legacy. Petra has positively transformed 120 hectares of previously disturbed land during FY 2022.

Electricity and water are the key material non-renewable resources consumed. Their consumption is not efficient in all instances due to the age of operational technology and infrastructure. The introduction of Energy Management Plans at all operations bodes well for future electricity and diesel efficiency improvements. The implementation of annual objectives for improved water efficiency already saw Petra reaching internal water recycling figures averaging 80% for the last four years.

Alien and invader plant species are strong competitors for resources that push indigenous vegetation out, thus leading to a loss of indigenous biodiversity. The implementation of alien vegetation eradication programmes reduced the impact on our natural resources. All operations have Ecological Management Plans for their game farms and open areas.

Read more



Environment pages 72 to 81 of the Sustainability Report

12. Climate change

Long term

Risk change in FY 2022

No change

Strategic objectives

Development of execution roadmaps for sustainability targets, specifically the 2030 greenhouse gas (GHG) reduction target in line with our target to be net zero by 2050, aspiring to reach this goal by 2040

KPIs

Carbon emissions

Responsibility

Exco; HSE Committee; Audit and Risk Committee; Remuneration Committee

Description and Impact

The key climate change risks the Group is exposed to include the following:

- ▶ Increased financial burden due to legislative changes aimed at water use efficiency or redistribution of natural resources
- ▶ High cost to construct additional water storage facilities at South African operations
- ▶ Changing emissions reporting obligations may increase costs due to potential fines and judgements
- ▶ Catastrophic dam wall failure at our tailings storage facilities (TSF)
- ▶ Increased financial costs of meeting new standards (e.g. new global tailings standard) and escalating insurance costs related to climate change events
- ▶ Escalating carbon tax

Mitigation

The Group Climate Change Adaption Policy and strategy is being implemented. We are currently in Year three of five of the implementation plan. Further to this, the strategy is set for review in FY 2023 to include firmer references to transitional risks and the financial impact to the Company.

Continuous monitoring against annual targets set for on-mine water and electricity consumption and efficiency.

Petra's membership with the Environmental Policy Committee (Minerals Councils SA) aides in proving advance knowledge of upcoming changes to environmental legislation, including climate change and emissions reporting standards.

Risk Management continued

Identifying, managing and mitigating risk continued

OPERATING RISKS CONTINUED

12. Climate change continued

Long term

FY 2022 developments and management

Petra uses the World Bank Climate Change Knowledge Portal (CCKP) to estimate physical climate change impacts on, and opportunities for, our operations. The Company has initiated various climate change projections and scenarios analysis to determine the impact on its operations in the short, medium and long term. During FY 2022, Petra started to develop mitigating action plans for the top rated climate change risks that have been identified.

Climate related disclosures were further aligned to the Taskforce on Climate Related Financial Disclosures (TCFD) recommendations. This process is set to continue in FY 2023. Petra has reported on how it has disclosed against the TCFD Recommendations and Recommended Disclosures for the second time in FY 2022, as detailed on page 41 and as set out in the Sustainability Report.

Read more



Climate change pages 67 to 71 of the Sustainability Report

13. Supply chain governance

Short to medium term

Risk change in FY 2022

Higher

Strategic objectives

Safe and reliable production from our operations with continuous improvement

KPIs

Rough diamond production; Revenue; Adjusted EBITDA

Responsibility

Exco; Audit and Risk Committee; SED Committee

Description and Impact

Petra's new Operating Model has resulted in the centralisation of the Group Supply Chain Function with a greater focus on the function. This centralisation, which has also resulted in a revision of our organisational structures within the function, has resulted in the identification of certain internal control shortcomings which include, among others, non-adherence to procurement policies and procedures. Other key risks identified include:

- ▶ Lack of adequate Supply Chain procurement policies and procedures and inadequate management of conflicts of interest
- ▶ Insufficient due diligence and vetting performed on suppliers during their initial on-boarding and then during the term of their contracts, leading to increased potential legal, financial and reputational risks
- ▶ Inadequate segregation of duties between roles and inappropriate audit trails contributing to weaknesses in the internal control environment
- ▶ Ineffective and unclear functioning of a tender committee for awarding contracts to suppliers contributing to a lack of segregation of duties and possible conflicts of interest
- ▶ Ineffective systems and data transparency on procurement processes with instances of stock outages and subsequent material shortages for projects, potentially impacting standing time claims

Mitigation

A new Conflicts of Interest Policy has been approved by the SED Committee which will be rolled out as part of a comprehensive anti-bribery and corruption implementation plan. Online Registers are being developed to enable staff to lodge and record conflicts of interests, including appropriate approvals by line management.

The Group's Supply Chain policy is being reviewed to align to the revised operating model and with a view to improving compliance, governance and risk management within the Supply Chain function. In addition, improved procurement, tender and supplier registration procedures are being developed to address other risks noted. The new Supply Chain structure is being filled with critical roles identified for execution.

A review of stockholding levels at the operations' stores is currently underway and the intention is to build lead times into Material Requisition Process runs, including visible reporting of Supply Chain performance metrics to all operations.

An external service provider has been engaged to provide an improved due diligence platform for contracting with third parties, including the Group's suppliers, and for carrying out periodic screening of suppliers.

FY 2022 developments and management

The appointment of the new Group Supply Chain Manager was recruited in FY2022 who has a direct reporting line to the CFO, elevating the function to this level in the organisation. This appointment has resulted in a comprehensive review of the operating structure and people competencies in line with the business strategy. Processes and systems across the Supply Chain function with the aim of improving internal controls and governance are to be enhanced.

A new Third Party Due Diligence Policy and Procedure is currently being finalised which will then be approved and implemented. The purpose of this policy is to ensure that risks relating to bribery and corruption, sanctions, trade restrictions and human rights violations are adequately identified and mitigated accordingly. The Group's stance is that it does not do business with any entity or organisation that is subject to trade restrictions or sanctions.

Read more



Supply chain governance pages 31 and 94 to 96 of the Sustainability Report and Modern Slavery Statement at petradiamonds.com/about-us/corporate-governance/modern-slavery-act-statement/

14. Capital Projects

Short to Medium term

Risk change in FY 2022

Higher

Strategic objectives

Safe and reliable production from our operations with continuous business improvement; disciplined execution of approved expansion capital projects

KPIs

Rough diamond production; Revenue; Adjusted EBITDA; Operational free cashflow; Operational capex; TSR

Responsibility

► Exco; Investment Committee; Audit and Risk Committee

Description and Impact

The CC1E SLC and Lower Block 5 3-level SLC expansion projects at the Cullinan and Finsch Mines respectively, involve significant capex commitments which makes the Group more exposed to other principal risks, particularly diamond prices, Group liquidity and currency fluctuations.

Other risks associated with these projects include, amongst others:

- Cost overruns and delayed execution due to inadequate governance and controls, procurement (including excess reliance on particular contractor(s)) and contract management, which includes delays in procuring trackless mining equipment (TME) and critical spares, including shortage of skills to maintain and operate TME
- Unanticipated price increases resulting from macroeconomic conditions Inadequate management of geotechnical and mining risks such as fall of ground and flooding
- The mine being operated whilst the project is being built and the management of interface between mine operations and project development, including, for example kimberlite production taking priority over project when underground materials handling infrastructure is under strain

Mitigation

Petra's enhanced Operating Model provides a platform for greater stability and resilience, enabling further cash generation to fund our capex requirements and support further deleveraging. A Project Management Framework incorporating governance requirements/controls is under consideration for effective management of projects. The continual tracking of project spend against approved project budgets is performed by an external service provider, to assist management in timeously identifying major deviations from budget. The project budgets include a 6% escalation to cater for price fluctuations, while supply chain are working closely with the project team to implement a long-term demand plan to ensure better pricing for longer off-take agreements.

Overall projects risks are identified, assessed and mitigated with support from external service provider. The Exco, Investment Committee and Board continue to monitor progress of both projects, including tracking of spend against budgets and progress against the approved baseline schedule.

Over-reliance on particular contractors has been mitigated through contract tenders and through additional initiatives.

FY 2022 developments and management

These projects are now managed through the appointment of a dedicated Project Lead. Various governance initiatives have been launched, such as the development of the Project Management Framework comprising initiation, planning, execution, management and review, including the identification and management of key project risks.

A prolonged conflict in the Ukraine may result in protracted inflationary pressures impacting the costs of goods and services for the projects, although Petra's relatively low fuel consumption, disciplined cost managed, three-year labour agreements to June 2024 and exposed to a weaker Rand should assist it in absorbing some of these cost pressures. This risk is monitored closely.

The delivery of certain capital items planned for FY 2022 was deferred largely due to increased lead times. As a result, around US\$12 million of capex that was due to be incurred in FY 2022 is now expected to be incurred in FY 2023. A corresponding adjustment has been made to expansion and sustaining capex guidance for FY 2023, with no expected impact on the anticipated project timing or overall capex spend.

Read more



Capital projects [pages 48 to 49](#) and [120 to 121](#)