

## Our Market

### Uncertain global economic backdrop

- The world economy was already on an uncertain footing before the severe impact of the COVID-19 pandemic hit in 2020, with global real GDP slowing throughout the Year to 2.9% in 2019 from 3.6% in 2018, due to the combined impact of increasing trade tensions between the US and China, uncertainty regarding Brexit and heightened geopolitical tensions. However, there was a positive rebound in the financial markets, with global stock markets advancing 28% in 2019 after a decline of 9% in 2018, according to the MSCI World Index.
- The picture for 2020 is very different, with global growth, according to International Monetary Fund (“IMF”) forecasts, expected to contract at 4.4% in 2020 with the brunt being felt in the first half and more in the advanced economies due to the impact of the COVID-19 pandemic.
- Latest IMF projections suggest 2021 global growth could rebound to ca. 5.2%, but “the uncertainty surrounding the baseline projection is unusually large” and rests on “public health and economic factors that are inherently difficult to predict”.
- The IMF notes that “the risk of worse growth outcomes than projected remains sizeable”. Much will depend on the success of the containment measures to control the virus in the world’s major economies, as well as the ability to develop an effective vaccine to enable the resumption of free-flowing economic activity.
- The OECD Consumer Confidence Index saw a sharp fall in early 2020 due to the coronavirus but rebounded in Q3, though it remains below levels of the past five years.

### The major diamond consumer markets

- Real GDP growth of 2.2% was recorded in the US in 2019 with the IMF projecting a sharp downturn of -4.3% in 2020 before a rebound to 3.1% in 2021. The US has recorded the largest outbreak of COVID-19 worldwide, with a resultant far-reaching impact on the local economy, and a knock-on impact to the global economy given the US remains the world’s largest economy.
- Growth in China slowed to 6.1% in 2019 from 6.6% in 2018. Despite the impact of the COVID-19 outbreak, the IMF is still forecasting positive growth in 2020 but at a much lower rate of 1.9%, reflecting China’s position further along the path to recovery following a better containment of COVID-19 in-country. After seven months of decline, China saw positive retail sales growth of 0.5% in August and 3.3% in September 2020, and China is expected to grow by 8.2% in 2021.
- The IMF records Indian GDP growth in 2019 at 4.2%, below initial projections of ca. 7%. For 2020 the Indian economy is projected to contract -10.3% in 2020, with a rebound post the COVID-19 impact to growth of 8.8% in 2021.

### The luxury market

- The luxury market grew 4% to EUR1.3 trillion in constant exchange rates in 2019 after 5% growth in 2018 to ca. EUR1.2 trillion, according to Bain & Co.
- Chinese demand for luxury goods is projected to grow as much as 30% this year, according to Boston Consulting Group, but the wider luxury industry is otherwise expected to contract between 25% and 45% in 2020, as Europe and the US continue to battle second wave infections of COVID-19.

### Why is this relevant?

Global diamond demand growth is highly correlated to global GDP growth and consumer confidence. While there has been some rebound in consumer confidence and the global economy is starting to recover, uncertainty is likely to continue to impact diamond markets. However, a certain element of diamond purchasing is underpinned by the engagement and wedding sectors, which provides some level of immunity to economic cycles.

Sources of information used for the data provided in this section:

- ALROSA
- Bain & Co
- Bloomberg
- Boston Consulting Group
- De Beers Diamond Insight Report
- Financial Times
- International Monetary Fund
- Kimberley Process Statistics
- Organisation for Economic Co-operation and Development

# The long-term fundamentals of the market remain intact

## Supply

Supply is forecast to decline in the coming years as a result of the depletion of resources

### Supply in 2019<sup>1</sup>

- Diamond supply by volume fell 7% to 138.2 Mcts (2018: 148.4 Mcts) and supply by value fell 6% to US\$13.6 billion (2018: US\$14.5 billion).
- Supply remains significantly below the highest year of diamond production in 2005, where 177 Mcts was considered to have represented 'peak supply'.
- Reductions in rough diamond supply came in Australia, Canada, South Africa, Namibia, Zimbabwe and the DRC, due to a combination of pending exhaustion of resources, mine closures, operations transitioning from open pit to underground and falling alluvial output.

1. Source: Kimberley Process Statistics.

### Impact of COVID-19 in 2020

- COVID-19 had an immediate impact on the upstream end of the diamond pipeline, with some diamond mining operations needing to scale back significantly to comply with local lockdowns or restrictions, and all needing to put in place strict protocols to mitigate the spread of COVID-19.
- In some instances, mines were placed on care and maintenance, including Petra's Williamson mine in Tanzania. Other mines which were temporarily halted in 2020 included operations in Russia, Canada, South Africa and Lesotho. Some of these mines returned to production in Q3 2020.
- The major producers, De Beers and ALROSA, both cut production guidance significantly in 2020 in response to the disruptions, as well as in response to market conditions.
- Due to the impact of COVID-19 and the closure of the Argyle mine in Australia in 2020 (which accounted for ca. 13 Mcts in 2019), rough diamond production is forecast to contract significantly in 2020, with market analyst Paul Ziminsky projecting that 2020 production will be at the lowest levels since the late 1990s.

### Outlook

- In 2021, various sources project rough supply to increase as mines temporarily shut due to COVID-19 are returned to production.
- Longer term, there are forecast to be few material additions to production over the next decade, with rough diamond supply forecast to decrease 8%–15% by 2021 (Bain & Co) with the range of output by 2030 ranging between an optimistic ca. 140 Mcts and a conservative total of under 120 Mcts (Bain & Co).

### Petra's strategy

Petra aims to deliver sustainable, long-term production from its diversified portfolio and is focused on optimising its business and operations to maximise its profitability. The Group's orebodies are of significant size and collectively contain the third largest resource in the world, suggesting the potential to extend the lives of our mining operations, at a time when the overall outlook for world diamond supply is expected to be constrained. As a result of poor success rates in global diamond exploration, the Company has chosen to divest of its exploration assets in Botswana.

## Our Market continued

### Demand

Global demographic shifts increasing purchasing power are expected to support diamond demand over the long term

#### Demand in 2019

- According to the De Beers Diamond Insight Report 2020, the global consumer market for diamond jewellery grew slightly in 2019, up by 0.5% to US\$79 billion, with sales of polished diamonds up 0.5% at \$26.7 billion measured in wholesale prices. Although growth was strong in the US and Japan, demand in the other main markets was impacted by currency exchange rate effects and trade tensions between the US and China, which affected consumer confidence and Chinese tourism.
- In terms of performance in some of the key diamond markets: the major US market, which accounts for ca 48% of demand, grew ca. 4%; the Chinese market fell ca. 3%; the Indian market grew ca. 1%; the Gulf market fell ca. 5% and the Japanese market grew ca. 3%.

#### Impact of COVID-19 in 2020

- The COVID-19 pandemic has had a pervasive negative impact on both the high street and shopping malls, with physical shopping for goods often restricted or deemed unsafe by consumers.
- Sales have therefore had to move online, driving brands to either initiate or significantly expand their digital presence, both via their websites and social media.
- The inability to spend on competing luxury goods categories, such as holidays, may lead higher income shoppers to treat themselves with jewellery instead, as evidenced by positive results of online sales by the major auction houses.
- The lack of tourist travel has severely impacted purchases by wealthy travellers abroad. Prior to the COVID-19 pandemic, two-thirds of Chinese luxury purchases were made abroad; this could shift to see more than half made domestically by 2025, according to Bain & Co.

#### Outlook

- The continued impact of COVID-19 on retailers and consumers will depend on the length and severity of the pandemic in the world's major economies, and the ability to regain economic activity, particularly in the US.
- Longer term, increasing levels of global wealth are expected to underpin demand for later-cycle products such as diamonds.
- Continuing strong underlying fundamentals in the major US market and growth in middle classes in China and India, albeit with some downside risk on account of GDP growth rates.
- Continued generic marketing to stimulate consumer demand.
- Sustained upsurge in 'self-purchasing', especially by women who choose to gift themselves with diamond jewellery as a way of marking important personal milestones.
- Growing demand from online channels.
- Spending power increases amongst Millennials and Gen Z supporting diamond demand, albeit with different consumer preferences to previous generations.
- Demand is expected to continue to rise, with Bain & Co forecasting an average annual growth rate between 0% and 2% in real value terms through to 2030.

#### Petra's strategy

As a founder member of the NDC, Petra commits annual funding towards generic diamond marketing to support demand. Given the highly diversified nature of Petra's portfolio, it is capable of producing the full spectrum of diamond sizes and categories, from mass market goods to highly sought after special stones in a range of fancy colours.

## Our place in the market

Petra accounts for ca. 2% of supply by value and ca. 3% by volume<sup>1</sup>

### Global diamond production by volume<sup>2</sup>

Producer	% by volume
ALROSA	28
De Beers	22
Democratic Republic of Congo (predominantly informal sector)	10
Rio Tinto	14
Catoca (Angola)	7
Petra	3
Others	16

1. Based on FY 2020 production set against Kimberley Process 2019 world production figures.

2. Based on 2019 production results set against Kimberley Process 2019 world production figures.

### One of the world's largest diamond resources

Petra has the third largest resources of global, listed diamond producers which, combined with the significant size of our orebodies, suggests the potential to extend the lives of our mining operations, with organic growth opportunities well beyond 2030.

#### Reserves and resources (Mcts)

	Resources (inclusive of reserves) (Mcts)	Reserves (Mcts)
ALROSA	1,064.0	628.0
De Beers	1,353.7	448.2
Petra Diamonds	243.5	38.9
Rio Tinto	28.5	24.4

### Market performance in FY 2020

The 2019 calendar year was very challenging for the rough diamond market, driven by the wider economic backdrop, higher than normal polished inventories and the sustained tightening of liquidity in the midstream, as well as unrest in Hong Kong and its impact on the retail sector. Q2 FY 2020 saw growing stability in pricing as the Year closed and in early Q3 FY 2020 demand and pricing continued to improve as the midstream looked to replenish inventory after robust holiday season retail sales.

The market optimism came to an abrupt end with the outbreak of the COVID-19 pandemic, which served to significantly reduce activity throughout the pipeline, from production, rough sales, trading, cutting and polishing right through to consumer sales. Towards the end of FY 2020, limited sales of rough diamonds took place due to restrictions on clients travelling to view goods and a voluntary ban on importing rough diamonds into the cutting and polishing factories of India during June and most of July 2020. In addition, many factories remained closed or operated at a much reduced capacity.

Conditions started improving in September 2020 as inventory started clearing in the midstream and diamantaires began buying rough ahead of the seasonally busier year-end holiday period. Prices were impacted positively by the continued restriction of supply of rough diamonds by the major producers.

#### Petra's strategy

Petra adopted a flexible approach to diamond sales in order to achieve the best possible route to market, subject to prevailing market conditions and any COVID-19-related regulations or restrictions. Measures included the export of rough from South Africa to Antwerp, where the lockdown and travel restrictions were less onerous, as well as limiting sales in Q4 FY 2020, with the majority taking place through agreements with some of its long-standing customers. With the stabilisation of market conditions towards the end of Q1 FY 2021, Petra restarted larger tender sales in Antwerp.

## Our Market continued

### Market performance in FY 2020 continued

#### Petra sales and prices

- FY 2020 revenue decreased 36% to US\$295.8 million (FY 2019: US\$463.6 million) due to the number of carats sold for the Year decreasing 23% to 2,895,497 carats (FY 2019: 3,736,847 carats) and a weaker diamond market. Pricing was severely impacted by the COVID-19 pandemic and was down ca. 27% in the Company's combined March/April tenders in comparison to prices achieved in February 2020. Overall for the full financial Year, Petra's realised diamond prices reduced by ca. 18%.
- Only limited sales were possible in Q4 FY 2020 due to the lockdown measures in place globally. The Company realised some US\$10.5 million sales in Q4, following the partial sale of goods not sold during the March tender, coupled with relatively low levels of sales in June, mainly to the local South African cutting and polishing market.
- Since the Year end, Q1 FY 2021 revenue increased 33% to US\$82.0 million (Q1 FY 2020: US\$61.6 million) due to the number of carats sold during the period increasing 55% to 936,749 carats (Q1 FY 2020: 603,626 carats) further to the release of excess inventory built up at Year end, offset by a weaker diamond market.
- The Group's tender sale in September 2020 saw pricing on a like-for-like basis strengthen ca. 21% in comparison to prices achieved in the March and June 2020 sales cycles and the tender sale in October 2020 saw a further ca. 2% like-for-like price increase; however, prices were still around 10% below pre-COVID-19 levels (pricing achieved in January and February 2020).

#### Diamond prices achieved per operation

Mine	Q1 FY 2021 <sup>1</sup> US\$/ct	FY 2020 <sup>2</sup> US\$/ct	FY 2019 US\$/ct
Cullinan	72	98 <sup>3</sup>	110
Finsch	81	75	99
Koffiefontein	790	387	480
Williamson	150 <sup>4</sup>	177	231

1. Pricing achieved in Q1 FY 2021 was impacted by the carry-over of certain, mostly lower-value, parcels from FY 2020, which were subsequently sold during July 2020, while the September 2020 tender benefited from a higher proportion of coarse material (larger diamonds) in the product mix, specifically at Finsch and Koffiefontein. Like-for-like prices at the September 2020 tender were still around 12% below pre-COVID-19 prices.
2. Prices achieved in FY 2020 do not reflect true run-of-mine averages as the Company had to withhold certain goods for sale in Q4 due to the depressed pricing environment; these goods were sold shortly after Year end.
3. The average price achieved at Cullinan in FY 2020 was influenced by the sale in November 2019 of a 20.08 carat blue diamond which sold for US\$14.9 million.
4. Despite the Williamson mine being on care and maintenance, it was possible to include ca. 30,000 carats for sale in Q1 FY 2021 due to these diamonds being withheld for sale in Q4 FY 2020.

#### The Letlapa Tala Collection

In September 2020, Petra recovered five blue diamonds of significant colour, clarity, size and heritage, all sourced from the famed Cullinan mine in South Africa. Letlapa Tala means 'blue rock' in Northern Sotho (commonly known as Pedi), the predominant language spoken in the Cullinan area.

The Cullinan mine is known as the world's most important source of blue diamonds, as well as being the source of many other historic and magnificent stones, including the 3,106 carat Cullinan diamond which was cut to form the 530 carat Great Star of Africa and the 317 carat Second Star of Africa, being the two largest diamonds in the British Crown Jewels.

The Letlapa Tala Collection consists of five Type IIb blue diamonds of 25.75, 21.25, 17.57, 11.42 and 9.61 carats in size. Type II diamonds contain no detectable nitrogen in their chemical structure and tend to display exceptional transparency. Type IIb stones contain a small amount of boron which is what determines their blue colour.

Petra will be offering the collection for sale at a special sales tender, with the diamonds being available for viewings in the key diamond centres of Antwerp, Hong Kong and New York before eventual sale around 24 November 2020. This is likely to be the first time that five blue rough diamonds have ever been offered for sale at one time, with buyers being offered the chance to bid either on individual stones, more than one, or for the entire collection. See photos of the Letlapa Tala Collection at <https://www.petradiamonds.com/media/image-library/diamonds/>.

#### Outlook

Conditions in the diamond industry began improving as lockdown measures around the world were eased and retail outlets reopened. Since the outbreak of COVID-19, a period of sustained low supply, particularly from the majors, De Beers and ALROSA, has allowed for a better equilibrium in the market and there is now improved demand from the downstream as retailers look to put orders in place in time for the festive retail season. The cutting and polishing factories of India have ramped up to ca. 60% capacity under COVID-19 guidelines, but are looking at how to maximise working hours in order to meet demand, including observing a much shorter holiday period for Diwali than usual. Many producers have reinstated their usual sales tender pattern in order to match demand. However, all participants in the industry recognise that risks to a sustained recovery remain, particularly in light of the current resurgence of COVID-19 in key diamond markets, and much will depend on the level of consumer activity in the coming months, especially in the major US market.

### Case study: The NDC launches its first major advertising campaign

In September 2020 the Natural Diamonds Council announced Hollywood actor Ana de Armas as its Global Ambassador and successfully launched their its global advertising campaign, 'For Moments Like No Other'.

Ana de Armas is a rising Hollywood star, having been nominated for a Golden Globe for her performance in Knives Out, and has a leading role in the latest James Bond film, No Time to Die. She leads the multipart campaign that celebrates beautiful natural diamond jewellery and its significance across different relationships: love, freedom, friendship and family, for meaningful moments like no other, whether big or small. The campaign ushers in the next chapter for natural diamonds, one that is exciting, energetic, and driven by connection and experience.

The campaign film was debuted at the Emmy Awards and was complemented by a robust media plan, launched with a feature article in Vogue US. The campaign has also been featured at other prime broadcast events including Good Morning America, the American Music Awards and more.

The campaign materials were also distributed through the NDC's own channels, including its campaign website, which features behind-the-scenes footage and an interview element with Ana, as well as comprehensive information about the brands and designers featured in the campaign.

The campaign was timed to support the industry at the start of the retail buying season and marked a number of firsts for the NDC. Not only was it the first celebrity-fronted campaign for the diamond category, but it was also the first dedicated to its 'Only Natural Diamonds' platform. The campaign is also the first marketing initiative by the NDC to showcase a diverse roster of jewellery designers that work with natural diamonds in innovative and modern ways.

**Visit the campaign website: [www.moments.naturaldiamonds.com](http://www.moments.naturaldiamonds.com)**