

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.

External risks

1. Rough diamond prices

Long term

Risk change in FY 2021

Lower

Strategic objectives

Consistent delivery

KPIs

Revenue; Profitability; 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 could also impact diamond prices.

Low diamond prices may have a negative impact on cashflow, profitability and the overall performance of the business as well as the viability of capital programmes going forward.

Whilst the long-term fundamentals of the diamond market remain positive, some volatility in rough diamond pricing may be experienced.

Mitigation

Petra maintains regular dialogue with its client base and closely monitors developments across the pipeline in order to assess the overall health of the diamond market and to be able to react in a timely manner to changes in rough diamond prices and demand.

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. Disclosure and detection remain key; equipment exists which can detect LGDs with 100% accuracy.

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 2021 risk developments and management

After the severe impact of the COVID-19 pandemic on all aspects of the diamond market in FY 2020, market conditions improved in FY 2021 driven by robust consumer demand for jewellery, as major economies reopened (particularly the US and China), despite ongoing waves of COVID-19 and changing levels of restrictions. At the opposite end of the pipeline, upstream demand contracted severely in CY 2020, including the wind down of the high-volume Argyle mine in Australia. A combination of lower supply and better demand led to strong purchasing by the midstream and the clearing of inventories in the pipeline, which led to shortages of certain polished goods. These factors led to an improvement in rough diamond pricing, with the pricing achieved by Petra rising ca. 9% in FY 2021.

According to Bain & Company, the number of gem-quality LGDs on the market continued to rise during the Year, and was estimated at between 6 to 7 million carats in 2020. However, the retail price discount for LGDs versus natural diamonds also slightly increased. Bain & Company also estimates that LGD substitution may stay within 5%–15% in value terms when compared to natural diamonds through to 2030, based on lessons learned from the natural versus synthetic sapphires markets.

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

Read more

Our Market – pages 18 to 22

External risks continued	
2. Currency	Long term
Risk change in FY 2021	
No change	
Strategic objectives	
Consistent delivery; Drive optimisation	
KPIs	
Revenue; Profitability; Operational free cashflow; TSR	
Responsibility	
Exco	
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 2021 risk developments and management	
The ZAR/USD exchange rate saw significant volatility in FY 2021, with the Rand averaging ZAR15.41/USD1 for the 12-month period to 30 June 2021 and closing the Year at ZAR14.27/USD1, compared to ZAR17.32/USD1 on 30 June 2020, amidst weak national economic fundamentals and continued global uncertainties compounded by the COVID-19 pandemic.	
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 FY 2021 USD sales proceeds during the Year.	
Read more	
Financial Review – pages 28 to 33	
Note 9 to the Financial Statements	
3. Country and political	Long term
Risk change in FY 2021	
No change	
Strategic objectives	
Work responsibly; Consistent delivery	
KPIs	
Profitability; Operational free cashflow; 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.	
FY 2021 risk developments and management	
The risk of political instability remains in South Africa, exacerbated by upcoming local elections in November 2021. Civil unrest was experienced post Year end due to issues relating to certain service delivery systems in the South African provinces where Petra operates, plus a steep rise in the cost of living. 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. The High Court of South Africa recently handed down its judgement on this judicial review, finding in favour of the Minerals Council SA. It is yet to be seen whether the DMRE will appeal this judgement.	
Petra is in ongoing dialogue with the GoT and local advisers on various issues, including in relation to legislative developments, overdue VAT receivables and the blocked parcel of diamonds from Williamson. However, this engagement has been impacted by the COVID-19 pandemic, as well as the death of the former Tanzanian President John Magufuli in March 2021.	
Read more	
N/A	

Risk Management continued

Identifying, managing and mitigating risk continued

External risks continued

4. COVID-19 pandemic (operational impact)

Short to medium term

Risk change in FY 2021

No change

Strategic objectives

Work responsibly; Consistent delivery

KPIs

Production; Revenue; Profitability; Operational free cashflow

Responsibility

Exco; HSE Committee; SED Committee

Description and impact

The COVID-19 pandemic continued throughout FY 2021 and up to the date of this report. While the majority of those who contract it may be asymptomatic or may only experience mild symptoms, a number of people (especially those with comorbidities) may become seriously ill or the disease may prove fatal. Most countries around the world have a strategy to implement or ease restrictions on social interaction in order to control the spread of the disease, based on the levels of infections experienced at that point in time. The mass roll-out of vaccinations is now playing an important role in reducing the rate of serious illness and fatalities caused by the disease which in turn is helping countries around the world to reduce their COVID-19 restrictions.

Mitigation

Petra implemented 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, wearing of PPE, regular sanitising, maintaining social distance, identification of those employees with underlying health conditions who may be at greater risk, employee transportation and screening, testing and the handling of suspected positive cases identified. Petra is supporting the Governments of South Africa and Tanzania by installing vaccination stations and campaigns at each operation and running various employee engagement campaigns to encourage their uptake.

Petra's mitigation activity extends 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 2021 risk developments and management

The comprehensive systems and strategies put in place by Petra are helping to mitigate the spread of the virus. A significant challenge to maintaining production rates is managing employees physically in the workplace while complying with the measures vital to the effective implementation of the Mandatory Codes of Practice in place at each South African operation. Petra therefore took the decision, following extensive consultation with organised labour, to move to Contops at the Finsch mine and a similar Contops-like configuration at the Cullinan mine in order to maximise the number of shifts available and thereby optimise production levels while the COVID-19 pandemic remains a significant business threat. This was achieved during August 2020 but during September and October 2020 production at the Finsch mine was impacted by the arrangements to maintain Contops coming to an end. In late October 2020, agreement was reached with organised labour to reinstate Contops for the remainder of FY 2021. The ability to maintain Contops could be impacted by potentially rising numbers of COVID-19 infections or the need to quarantine healthy employees, a potential further wave of COVID-19, which could see South Africa revert to stricter lockdown measures, and the continued acceptance of organised labour to the revised shift configurations.

Petra maintained its flexible sales approach during the Year in order to maximise client attendance at its sales. The Company therefore continued 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, where travel restrictions have severely limited participation by international diamond buyers. Petra will continue to review this approach and reinstate sales in South Africa when conditions are right.

As at 30 September 2021, the Company was screening 4,251 individuals a day and a total of 2,261 possible cases were referred to medical practitioners to be tested. To date, the total number of employees confirmed COVID-19 positive at the South African operations is 766; of these, so far 748 have recovered in full, six cases are still active and 12 have sadly lost their lives. There have been two confirmed positive cases of COVID-19 at the Williamson mine in Tanzania to date, however COVID-19 statistics in Tanzania are not as reliable as in South Africa. Very sadly, both employees passed away. This brings the total number of those who have tragically lost their lives to COVID-19 or related complications to 14.

Up to the date of this report, there have been no negative impacts on the Company's supply chain, with all of Petra's suppliers delivering in line with their commitments.

Read more

Operational Review – pages 34 to 39

Employee health and wellness – page 48

Operational risks**5. Mining and production**

Long term

Risk change in FY 2021

Higher

Strategic objectives

Consistent delivery; Drive optimisation

KPIs

Production; Revenue; Profitability; Operational free cashflow; TSR

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.

FY 2021 risk developments and management

Project 2022 has resulted in the implementation of various initiatives which have eliminated or mitigated the impact of bottlenecks in the production processes of the various mines. Cullinan benefitted from these throughput initiatives and delivered record throughput of 5.06 Mt and production of 1.94 Mcts. However, production at Finsch was impacted by unexpected levels of waste ingress during Q2 FY 2021, with subsequent mitigating measures reducing throughput during the second half of the Year. In addition, production at both Finsch and Koffiefontein was impacted by the high level of rainfall during the third quarter. Re-engineering projects were therefore initiated in July 2021 at Finsch and Koffiefontein to comprehensively review and improve the mines' cost bases and enhance operating efficiencies and margins.

With Williamson on care and maintenance (albeit preparations are currently underway to resume production in H1 FY 2022), low production levels at Koffiefontein and lower production at Finsch, the Group now has a greater dependency on production at Cullinan, which accounted for 60% of gross Group carat production and 62% of gross Group revenue in FY 2021 (including Williamson).

Petra is guiding for an increased level of Capex in FY 2022 of US\$78 to 92 million (including Williamson at US\$8 to 10 million), with the majority allocated to the CCIE project at Cullinan and the extension of the Finsch SLC. The Company's Investment Committee is responsible for reviewing and recommending significant Capex investments to the Board, as well as monitoring their progress.

Read more

Operational Review – pages 34 to 39

Risk Management continued

Identifying, managing and mitigating risk continued

Operational risks continued	
6. ROM grade and product mix volatility	Short term
Risk change in FY 2021 No change	
Strategic objectives Drive optimisation	
KPIs Production; Revenue; Profitability; Operational free cashflow; TSR	
Responsibility Exco	
Description and impact With Petra's underground expansion projects mostly complete, the Company is now mining the majority of its ore from the newly created mining areas. The ramp-up of underground tonnages involves gaining access across a larger footprint of the orebody which is expected to deliver a greater consistency in grade and product mix. 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.	
FY 2021 risk developments and management Cullinan ROM grades were generally in line and slightly above expectation, whilst both Finsch and Koffiefontein were below guidance. Finsch's production was impacted by unexpected waste ingress and the medium- to longer-term impact on the mine's LOM planning is being reviewed. The mines recovered the full range of diamonds in FY 2021, with a higher recovery of Exceptional Stones at Cullinan.	
Read more Operational Review – pages 34 to 39	
7. Labour relations	Short to medium term
Risk change in FY 2021 Lower	
Strategic objectives Work responsibly; Consistent delivery; Drive optimisation	
KPIs Production; Staff turnover	
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 2021 risk developments and management Stable labour relations were experienced throughout the Year. Post Year end, 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.	
Read more Labour relations – page 51	

Strategic risks**8. Financing**

Medium to long term

Risk change in FY 2021

Lower

Strategic objectives

Consistent delivery; Drive optimisation

KPIs

Production; Revenue; Profitability; Operational Capex

Responsibility

Exco, Investment Committee

Description and impact

Following a phase of significant capital investment funded by a combination of equity, operational cashflow and third-party debt, coupled with certain project and operational delays and business challenges in preceding years, Petra's debt level became higher than originally anticipated. One of the objectives behind the launch of Project 2022 was to address this and while excellent progress was made in terms of optimising throughput, the delivery of significant free cashflow was impacted by a weak diamond market in CY 2019, followed by the outbreak of the COVID-19 pandemic in 2020. Petra's Board subsequently launched a strategic review in order to evaluate an optimal long-term capital structure for the Group, which resulted in the Restructuring being completed in FY 2021. This has provided a more stable capital structure going forward.

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, the ability to hold sales tenders (bearing in mind COVID-19 disruptions) and the diamond pricing environment and product mix available for sale.

Mitigation

The Company closely monitors and manages its liquidity risk, including regularly reviewing its cashflow forecasting to ensure operational plans are adequately financed, and regularly monitors its position with regards to its forecast covenant outlook. Regular updates are provided to the South African Lender Group.

Available levers to manage working capital are considered and employed to manage short-term cashflow requirements. Efficiencies and improvements across all aspects of the business associated with Project 2022 aim to maximise the Company's cashflow generation. 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.

FY 2021 risk developments and management

The COVID-19 pandemic had a significant impact on the Company's financial position and required Petra to take steps to manage its liquidity through the crisis period. In March 2020, Petra launched a strategic review, in conjunction with a set of independent advisers, to evaluate an optimal long-term capital structure for the Group. The key focus of this review was to bring down the Company's leverage to a manageable level and it therefore involved extensive consultations with the AHG of the Company's US\$650 million 7.25% senior secured second lien notes due in May 2022, as well as with the South African Lender Group. The review also aimed to assess all strategic options available to maximise value to stakeholders and included a formal sale process, whereby interested parties could submit bids either for Petra or for any parts of the business or assets of the Group.

In October 2020, the Company announced that it had reached agreement in principle with the AHG and the South African Lender Group on a common set of commercial terms with respect to the Restructuring, which completed in March 2021. The key terms of the Restructuring are set out on page 32.

Progress with Project 2022 initiatives, strong production at Cullinan, curtailed Capex and increased diamond pricing led to an improvement in free cashflow for the Year. These factors, combined with the aforementioned Restructuring and the sale of Exceptional Stones, saw the Company's Consolidated net debt (excluding Williamson), reduce by nearly two thirds to US\$228.2 million at 30 June 2021, from US\$693.2 million at 30 June 2020.

As noted in the Group's Going Concern Statement, the Board carefully considered risks associated with COVID-19 which were considered to focus primarily on the potential for further production disruption, deferral of tenders due to travel restrictions and adverse impacts on diamond pricing. Under the base case, the forecasts indicate that the Company will be able to operate within covenants set out in the financing agreements and maintain sufficient liquidity. However, the covenants associated with the Company's first lien debt facilities were set with limited headroom to the Company's base case. As such, results of the Company's stress testing indicate that in the event of a combination of all tested scenarios, possible covenant breaches associated with the South African banking facilities may occur at June 2022, while a breach is also projected in December 2022 on an individual stress test basis. At the time of possible covenant breaches under these scenarios, projected cash balances exceed outstanding debt under these facilities, which would allow the Group to fully pay down the drawn facilities prior to the breach occurring while maintaining adequate liquidity. The forecasts indicate that under the stress-tested scenarios, the Group is not reliant on the facilities. Based on its assessment of the forecasts, principal risks and uncertainties and mitigating actions considered available to the Group in the event of downside scenarios, the Board confirms that it is satisfied that the Group will be able to continue to operate and meet its liabilities as they fall due over the review period.

Read more

Financial Review – pages 28 to 33

Going Concern Statement – pages 146 and 147

Risk Management continued

Identifying, managing and mitigating risk continued

Strategic risks continued

9. Licence to operate

Long term

Risk change in FY 2021

No change

Strategic objectives

Work responsibly; Drive optimisation

KPIs

Production; Revenue; Profitability; Responsible business

Responsibility

Exco; Audit and Risk Committee; HSE 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 also dependent on the safety, retention and support of its employees, and its continued acceptance in the communities in which it operates. This encompasses Petra's ESG practices.

The continued demand for natural diamonds by consumers is reliant on ethical business practices by the industry as a whole.

Mitigation

Mining is an inherently long-term business and therefore the Company's operations are planned and structured with their sustainability in mind, to the benefit of all our stakeholders. Management of ESG matters is integrated into how the Company operates, with formal oversight provided by the Company's HSE, SED and Audit and Risk Committees.

The Company continually monitors developments and changes in laws and regulations and has systems to ensure it meets all the requirements of its mining rights and related matters.

Our community relations efforts continue to be focused on effective engagement, sustainable job creation, skills transfer (education and training), enterprise development and infrastructure development.

Managing and monitoring our environmental impacts remain priorities for Petra and the Company has a tailings management programme in place. See <https://www.petradiamonds.com/sustainability/> for additional detail.

FY 2021 risk developments and management

Petra continued to comply in all material aspects with relevant laws and regulations in the countries in which it operates.

The Company again recorded a fatality-free year. While our LTIFR increased to 0.44 from 0.29, the number of total injuries, including those that did not result in a lost shift, reduced by 7%.

Community support is ongoing during the COVID-19 pandemic and aims to address the most pressing needs, with funding supplied by the Petra Hardship Fund.

A number of community projects in South Africa were completed in FY 2021, including the refurbishment of pump stations in Daniëlskuil, the construction and installation of public lighting in partnership with Eskom and Kgatelopele municipality and the completion of electrification of households and upgrading of bulk infrastructure for informal dwellings in Kgatelopele. Further information on the Company's community programmes for the Year can be found on pages 58 and 59.

For the 11th year running, there were no 'major' or 'high' environmental incidents to report during the Year.

In May 2021, Petra announced the findings of the Tunajali Committee into the alleged human rights breaches in Tanzania, as well as setting out the mitigating and preventative actions the Company had taken or was putting in place to address the findings. This comprehensive suite of measures includes the design and implementation of a non-judicial IGM to address allegations of severe human rights impacts, involving multi-stakeholder input and support from Synergy. The Company also reached a settlement, on a no admission of liability basis, in relation to claims of alleged human rights breaches. The settlement figure includes funds committed to community programmes dedicated to providing sustainable support to the communities living around the mine. A further settlement was reached in relation to 25 additional claims post Year end. Further information can be found on pages 45 and 46.

The risk of illegal mining at Williamson is ongoing. During Q1 FY 2022, there were a total of 143 incidents of illegal incursions onto the Williamson mine lease area, resulting in six security officials belonging to the third-party security provider and two belonging to the TPF suffering minor injuries, and in 15 arrests being made WDL is continuing to engage extensively with local stakeholders, including with surrounding village leaders and community forums, as well as with local and regional Government and police officials, to get their support in order to reduce these incursions.

Petra acknowledges that climate change continues to grow in importance, both to the Company and its stakeholders, as a business risk and opportunity. Significant progress was made in terms of the Group's environmental strategy in FY 2021 with the Board approving the Group's Climate Change Adaptation Strategy, which will assist Petra in staying on top of rapidly changing legislation and in meeting stakeholder expectations.

The previously reported pit scaling at Cullinan requires consistent and proactive engagement with the communities residing closest to the pit, as well as with the DMRE in order to keep the regulator up-to-date on all developments as per the agreed SEP.

Read more

Our response to human rights abuse allegations in Tanzania – pages 45 and 46

ESG and Sustainability – pages 42 to 59