

This announcement contains inside information

28 January 2019

LSE: PDL

Petra Diamonds Limited
 ("Petra" or the "Company" or the "Group")

Trading Update for the Six Months ended 31 December 2018

Petra Diamonds Limited announces the following trading update (unaudited) for the six months ended 31 December 2018 (the "Period", "H1 FY 2019" or "H1"), ahead of the publication of the Company's Interim Results for the Period on 18 February 2019.

Further to the sale of Petra's interest in the Kimberley Ekapa Mining Joint Venture ("KEM JV"), which completed on 05 December 2018, all figures below are stated excluding the KEM JV, unless otherwise specified.

SUMMARY

- Lost Time Injury Frequency Rate ("LTIFR") improved to 0.16 (H1 FY 2018: 0.24).
- H1 production up 10% to 2,019,147 carats (H1 FY 2018: 1,843,956 carats); full year production guidance of ca. 3.8 - 4.0 Mcts maintained.
- H1 revenue up 8% to US\$207.1 million (H1 FY 2018: US\$191.7 million); diamonds sold increased 15% to 1,736,357 carats (H1 FY 2018: 1,510,361 carats).
- Rough diamond prices on a like-for-like basis reduced by ca. 4% compared to H2 FY 2018 due to usual seasonal weakness. The product mix during H1, especially at Cullinan, yielded prices at the lower end of historical ranges.
- Capex (excluding capitalised borrowing costs) of US\$40.6 million for the Period (H1 FY 2018: US\$69.4 million) was in line with Petra's declining capex profile.
- Positive operational cash flow for the Period was offset by:
 - US\$21.2 million of advances to BEE partners, largely related to the servicing of the BEE bank debt in line with the Group's stated intent of reducing its consolidated net debt (which includes BEE bank debt); these advances are recoverable against future BEE-partner distributions;
 - US\$8.6 million funding advanced to the KEM JV, recoverable during H2 FY 2019; and
 - ca. US\$25 million revenue shortfall due to the volatility in Cullinan's product mix, a 4% downward movement in like-for-like pricing and the Koffiefontein disruptions detailed below;
 resulting in Net debt of US\$557.2 million (30 June 2018: US\$520.7 million and 30 September 2018: US\$538.9 million).
- Continued strong operational performance at Williamson with two good quality pink stones recovered post Period end which are expected to be sold in February 2019.

H1 FY 2019 Sales, Production and Capex - Summary

	Unit	H1 FY 2019	H1 FY 2018	Variance	FY 2018 ¹
Sales					
Revenue	US\$m	207.1	191.7	+8%	495.3
Diamonds sold	Carats	1,736,357	1,510,361	+15%	3,793,799
Production					
ROM tonnes	Mt	6.4	6.0	+7%	12.1
	Mt	1.0	0.7	+43%	1.6

Tailings & other ¹ tonnes					
Total tonnes treated	Mt	7.4	6.8	+9%	13.7
ROM diamonds	Carats	1,946,717	1,728,626	+13%	3,649,337
Tailings & other ¹ diamonds	Carats	72,430	115,330	-37%	186,130
Total diamonds	Carats	2,019,147	1,843,956	+10%	3,835,467
Capex					
Expansion	US\$m	28.5	60.2	-53%	110.7
Sustaining	US\$m	12.1	9.2	+32%	19.6
Subtotal	US\$m	40.6	69.4	-41%	130.3
Borrowing costs capitalized	US\$m	3.7	16.2	-77%	15.2
Total	US\$m	44.3	85.6	-48%	145.5

Note:

1. 'Other' includes alluvial diamond mining at Williamson.

Johan Dippenaar, Chief Executive Officer, commented:

"Petra has delivered solid production in the first half of FY 2019 underpinned by a continued improvement in safety performance. We are seeing production reaching consistent levels while our focus remains on the delivery of operational and capex efficiencies in order to generate positive free cashflow and subsequent debt reduction."

CONFERENCE CALL

Petra's Chief Executive Officer, Johan Dippenaar, Chief Financial Officer, Jacques Breytenbach, and Chief Operating Officer, Luctor Roode, will host two conference calls at 9.30am and 4.00pm GMT today to discuss the H1 FY 2019 Trading Update with investors and analysts. Participants may join the calls by dialling one of the following numbers shortly before the call:

9:30am GMT call:

From the UK (toll free): 0800 358 9473
From South Africa (toll free): 0800 111 446
From South Africa (toll): +27 (0)21 672 4118
From the rest of the world: +44 (0)333 300 0804
Participant passcode: 92942174#

A replay of the conference call will be available on the following numbers from 12:00pm GMT today:

From UK (toll free): 0800 358 2049
From South Africa and the rest of the world: +44 (0)333 300 0819

Playback passcode: 301258503#

4:00pm GMT call:

Participants are advised to listen to the replay of the first conference call in advance of this call, as the full management commentary on the results will not be repeated.

From the United States (toll free): 1 855 857 0686
From the rest of the world: +44 (0)333 300 0804
From the UK (toll free): 0800 358 9473
From South Africa (toll free): 0800 111 446
Participant passcode: 79693159#

COMMENTARY

Health and safety:

- The Group recorded an LTIFR of 0.16 (H1 FY 2018: 0.24), with zero fatalities incurred during the Period. The health and safety of our employees remains our key priority and the Company is committed to achieving a zero harm work environment.

Production

- H1 production increased 10% to 2,019,147 carats (H1 FY 2018: 1,843,956 carats), mainly due to a 30% increase in Cullinan ROM production. Total ROM production increased 13% to 1.9 Mcts versus 1.7 Mcts in H1 FY 2018).
- Finsch's ROM carat production was flat at 927,934 carats (H1 FY 2018: 931,859 carats). A planned winder upgrade was successfully completed, which necessitated a planned shut down from 21 December 2018 to 4 January 2019. Overall, Finsch production decreased by 9% to 947,424 carats (H1 FY 2018: 1,036,596 carats), due to the planned reduction in tailings production as the tailings resource nears depletion.
- Cullinan's ROM diamond production increased 30% to 785,444 carats (H1 FY 2018: 602,594 carats), due to a 12% increase in ROM treated to 1.996Mt (H1 FY 2018: 1.783Mt) as well as an increase in the ROM grade of 16% to 39.3cpht (H1 FY 2018: 33.8cpht). This increase in volume and grade is due to the continued ramp up of production from the C-Cut phase 1 and a reduction in ore mined from old areas with higher waste dilution. During the Period, production from the C-Cut phase 1 was largely concentrated in the south-western part of the footprint and therefore not representative of expected production associated with the full extent of the C-Cut phase 1 block cave. The third and final underground crusher was commissioned during December, delivering increased operational flexibility as mining progresses across the footprint of the cave. The new Cullinan plant is fully operational and is meeting design parameters while normal optimisation is ongoing. Overall, Cullinan production increased by 37% to 832,026 carats (H1 FY 2018: 607,235 carats) with increased ROM production supplemented by the ramp-up of tailings production.
- Koffiefontein's ROM production remained flat at 25,275 carats (H1 FY 2018: 25,292 carats). Production was negatively impacted during the Period due to community unrest relating to municipal service delivery, operational challenges experienced relating to plant availability and a lower than planned grade recovered. As mentioned in the Q1 FY 2019 update, community-related protest actions against local government structures commenced during September. The situation worsened and severely disrupted operations at Koffiefontein throughout Q2 FY 2019 due to high absenteeism as a result of the protest actions. In spite of these challenges, ROM tonnes mined increased 40% to 434Kt (H1 FY 2018: 311Kt) and ROM tonnes treated increased 30% to 377Kt (H1 FY 2018: 289Kt). The differential between hoisted and treated ROM tonnes was stockpiled on the surface stockpile, resulting in a ca. 90Kt ROM stockpile available for treatment. The recovered grade was negatively impacted by the stockpiling of partially treated coarse ROM material as well as delayed production from higher grade areas on 60L and 58L West given the impact of the protest actions on the operation. Since the start of January 2019, additional crushing capacity has been introduced to the plant, employee attendance has normalised and monthly production is expected to ramp up over January to levels observed in Q1 FY 2019.
- Williamson's diamond production increased 23% to 214,421 carats (H1 FY 2018: 174,834 carats), mainly due to an 18% increase in the ROM grade recovered as well as a 4% increase in tonnes treated to 2.7Mt (H1 FY 2018: 2.6Mt).
The Company remains in discussions with the Government of Tanzania and local advisers in relation to the overdue VAT receivables and the blocked parcel.

Sales and Diamond Market

- Revenue increased 8% to US\$207.1 million (H1 FY 2018: US\$191.7 million) driven by increased sales volumes of 1,736,357 carats (H1 FY 2018: 1,510,361 carats). As usual, Petra held three tenders in H1 2019 and will hold four tenders in H2.
- Diamond inventory as at 31 December 2018 was 811,718 carats valued at US\$76.3 million (31 December 2017: 820,937 carats valued at US\$73.5 million).
- Post Period end, Williamson recovered two good quality pink stones (21ct and 10ct respectively) which are expected to be sold during the February 2019 tender.

Diamond Market

- The diamond market started the first half of FY 2019 in line with expectations, as seasonally the slowest time of the year in the rough diamond sales calendar. During September and October 2018, whilst demand for higher value stones remained strong, the rough diamond market experienced a softening in demand for lower value small diamonds impacting overall sales prices. This softening in demand was driven by a weakening in global markets and by seasonal destocking at a number of Indian midstream companies. During November and December demand for the lower value small stones saw some recovery due to renewed seasonal demand and the replenishment of stocks by companies in the cutting sector. In retail markets, generally the commentary referred to stable sales over the festive period in constant US\$-terms, with marginal declines in absolute terms.
- The Company continues to expect the diamond market to remain stable for the remainder of FY 2019.

Diamond Prices

- Rough diamond prices on a like-for-like basis fell ca. 4% compared to H2 FY 2018 results due to the usual seasonal weakness in the rough diamond market.
- The table below summarises diamond pricing achieved in H1 FY 2019 set against the last financial year.

Mine	Actual H1 FY 2019 US\$/carat	Actual H1 FY 2018 US\$/carat	Actual FY 2018 US\$/carat
Finsch	105	104	108
Cullinan ¹	96	140	125
Koffiefontein	447	511	525
Williamson	223	233	270

- Cullinan prices achieved during the Period are below historical annual averages. Historically, Cullinan averaged US\$140/ct from the sale of over 8.5Mcts for the 9.5 year period July 2009 to December 2018, and recorded:
 - on an annual basis: high of US\$185/ct and low of US\$120/ct;
 - on an half yearly basis: high of US\$247/ct and low of US\$87/ct; and
 - on an quarterly basis: high of US\$293/ct and low of US\$63/ct.

Succession Planning

- The Nomination Committee is in the final year of its three year Succession Plan. During the Period, the Company announced the appointment of two new Independent Non-Executive Directors, Mrs. Varda Shine and Mr. Bernard Pryor to Petra's Board effective 1 January 2019. As previously announced, the Nomination Committee expects to make further changes to the composition of the Board during this calendar year.
- The process to find a successor for the CEO position is progressing and the Company expects to make an announcement in this regard during H2 FY 2019.

Corporate

- A summary of the Group's cash, diamond inventories, debtors, borrowings and net debt is set out below.

	Unit	31 December 2018	30 September 2018	30 June 2018	31 December 2017
<i>Closing exchange rate used for conversion</i>		<i>R14.35:US\$1</i>	<i>R14.14:US\$1</i>	<i>R13.73:US\$1</i>	<i>R12.38:US\$1</i>
Cash at bank	US\$m	92.8	111.1	236.0	119.1
Diamond inventories (excluding KEM JV)	Carats US\$m	811,718 76.3	970,620 91.6	529,054 54.0	820,937 73.5
Diamond debtors	US\$m	4.4	14.4	75.0	7.5
US\$ loan notes (including accrued interest)	US\$m	650.0	650.0	650.0	650.0
Bank loans and borrowings	US\$m	0.0	0.0	106.7	113.8
Net debt	US\$m	557.2	538.9	520.7	644.7
Consolidated net debt for covenant purposes ¹	US\$m	625.3	610.6	531.6	746.5
Outstanding balances in respect of BEE bank debt guaranteed by Petra	US\$m	72.5	86.1	85.9	109.3

Note: Consolidated Net Debt is bank loans and borrowings plus loan notes, less cash, less diamond debtors and includes the BEE guarantees of ca. US\$81.9 million (ZAR1,175 million) issued by Petra to the lenders as part of the BEE financing concluded in December 2014.

- Net debt of US\$557.2 million (30 June 2018: US\$520.7 million), with positive operational cash flows during H1 offset by:
 - US\$21.2 million advances to BEE partners, largely related to servicing of BEE bank debt in line with the

Group's stated intent of reducing Consolidated net debt (which includes BEE banking facilities) and recoverable against future BEE partner distributions;

- US\$8.6 million funding advanced to the KEM JV, recoverable during H2 FY 2019;
 - US\$10 million shortfall in revenues due to ongoing volatility in Cullinan's product mix;
 - US\$9 million due to a 4% downward movement in like-for-like pricing; and
 - US\$7 million due to the Koffiefontein disruptions detailed above.
- The Company's forecasts indicate that the Group continues to retain sufficient liquidity from existing cash resources, operating cashflows and existing facilities to meet its liabilities as they fall due under the forecasts and reasonably possible sensitivities.
 - Following the completion of the sale of the Company's interest in the KEM JV on adjusted terms, as announced on 5 December 2018, a further non-cash impairment charge of up to US\$15 million is likely to be recognized in the Company's preliminary results to 31 December 2018.

Notes

1. *The following exchange rates have been used for this announcement:*
 - a. *closing rate as at 31 December 2018 US\$1:ZAR14.35 (31 December 2017 US\$1:ZAR12.38)*
 - b. *average rate H1 FY 2019 US\$1:ZAR14.19 (H1 FY2018 US\$1:ZAR13.40)*
2. *The following definitions have been used in this announcement:*
 - a. *ct: carat*
 - b. *cpht: carats per hundred tonnes*
 - c. *Exceptional Diamonds: stones that sell for more than US\$5 million each*
 - d. *LTIFR: lost time injury frequency rate (calculated per 200,000 man-hours worked)*
 - e. *Kt: thousand tonnes*
 - f. *Mcts: million carats*
 - g. *mL: metre level*
 - h. *Mt: million tonnes*
 - i. *ROM: run-of-mine, i.e. relating to production from the primary orebody*
 - j. *SLC: sub-level cave, a variation of block caving*
3. *Diamond inventory carrying values are stated at the lower of cost of production on the weighted average basis or estimated net realisable value.*

~ Ends ~

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About Petra Diamonds Limited

Petra Diamonds is a leading independent diamond mining group and a consistent supplier of gem quality rough diamonds to the international market. The Company has a diversified portfolio incorporating interests in three underground producing mines in South Africa (Finsch, Cullinan and Koffiefontein) and one open pit producing mine in Tanzania (Williamson). It also maintains an exploration programme in Botswana and South Africa, which is currently under review.

Petra's strategy is to focus on value rather than volume production by optimising recoveries from its high quality asset base in order to maximise their efficiency and profitability. The Group has a significant resource base of ca. 290 million carats, which supports the potential for long-life operations.

Petra conducts all operations according to the highest ethical standards and will only operate in countries which are members of the Kimberley Process. The Company aims to generate tangible value for each of its stakeholders, thereby contributing to the socio-economic development of its host countries and supporting long-term sustainable operations to the benefit of its employees, partners and communities. Petra is quoted with a premium listing on the Main Market of the London Stock Exchange under the ticker 'PDL' and is a constituent of the FTSE4Good Index. For more information, visit www.petradiamonds.com.

APPENDIX - MINE BY MINE PRODUCTION TABLES

Finsch - South Africa

	Unit	H1 FY 2019	H1 FY 2018	Variance	FY 2018
Sales					
Revenue	US\$m	87.0	100.8	-14%	231.9

Diamonds sold	Carats	829,530	970,446	-15%	2,152,786
Average price per carat	US\$	105	104	+1%	108
ROM Production					
Tonnes treated	Tonnes	1,503,335	1,559,280	-4%	3,084,395
Diamonds produced	Carats	927,934	931,859	-0%	1,926,467
Grade ¹	Cpht	61.7	59.8	+3%	62.5
Tailings Production					
Tonnes treated	Tonnes	134,395	515,224	-74%	794,973
Diamonds produced	Carats	19,490	104,737	-81%	147,010
Grade ¹	Cpht	14.5	20.3	-29%	18.5
Total Production					
Tonnes treated	Tonnes	1,637,730	2,074,503	-21%	3,879,368
Diamonds produced	Carats	947,424	1,036,596	-9%	2,073,477
Capex					
Expansion Capex	US\$m	8.3	24.0	-65%	42.3
Sustaining Capex	US\$m	4.1	3.4	+21%	7.7
Borrowing Costs Capitalised	US\$m	1.4	7.1	-80%	4.0
Total Capex	US\$m	13.8	34.5	-60%	54.0

Note:

1. The Company is not able to precisely measure the ROM / tailings grade split because ore from both sources is processed through the same plant; the Company therefore back-calculates the grade with reference to resource grades.

Cullinan - South Africa

	Unit	H1 FY 2019	H1 FY 2018	Variance	FY 2018
Sales					

Revenue	US\$m	66.2	61.4	+8%	167.0
Diamonds sold	Carats	688,536	439,012	+57%	1,335,669
Average price per carat	US\$	96	140	-31%	125
<u>ROM Production</u>					
Tonnes treated	Tonnes	1,996,624	1,783,229	+12%	3,741,086
Diamonds produced	Carats	785,444	602,594	+30%	1,342,020
Grade ¹	Cpht	39.3	33.8	+16%	35.9
<u>Tailings Production</u>					
Tonnes treated	Tonnes	696,354	37,023	+1781%	412,749
Diamonds produced	Carats	46,582	4,640	+904%	26,700
Grade ¹	Cpht	6.7	12.5	-47%	6.5
<u>Total Production</u>					
Tonnes treated	Tonnes	2,692,978	1,820,252	+48%	4,153,835
Diamonds produced	Carats	832,026	607,235	+37%	1,368,720
<u>Capex</u>					
Expansion Capex	US\$m	17.3	30.0	-42%	56.2
Sustaining Capex	US\$m	3.2	1.4	+129%	6.5
Borrowing Costs Capitalised	US\$m	2.3	9.1	-75%	11.2
Total Capex	US\$m	22.8	40.5	-44%	73.9

Note:

1. The Company is not able to precisely measure the ROM/ tailings grade split because ore from both sources is processed through the same plant; the Company therefore back-calculates the grade with reference to resource grades.

	Unit	H1 FY 2019	H1 FY 2018	Variance	FY 2018
Sales					
Revenue	US\$m	10.5	11.0	-5%	27.2
Diamonds sold	Carats	23,406	21,555	+9%	51,936
Average price per carat	US\$	447	511	-13%	525
ROM Production					
Tonnes treated	Tonnes	377,391	289,478	+30%	649,259
Diamonds produced	Carats	25,275	25,292	-0%	52,537
Grade	Cpht	6.7	8.7	-23%	8.1
Total Production					
Tonnes treated	Tonnes	377,391	289,478	+30%	649,259
Diamonds produced	Carats	25,275	25,292	-0%	52,537
Capex					
Expansion Capex	US\$m	3.0	5.5	-45%	9.6
Sustaining Capex	US\$m	0.2	2.3	-91%	2.7
Total Capex	US\$m	3.2	7.8	-59%	12.3

Williamson - Tanzania

	Unit	H1 FY 2019	H1 FY 2018	Variance	FY 2018
Sales					
Revenue	US\$m	43.5	18.5	+135%	68.5
Diamonds sold	Carats	194,913	79,445 ¹	+145%	253,524 ¹
Average price per carat	US\$	223	233	-4%	270

<u>ROM Production</u>					
Tonnes treated	Tonnes	2,510,451	2,403,393	+4%	4,659,563
Diamonds produced	Carats	208,064	168,881	+23%	328,681
Grade	Cpht	8.3	7.0	+18%	7.0
<u>Alluvial Production</u>					
Tonnes treated	Tonnes	195,557	193,172	+1%	385,721
Diamonds produced	Carats	6,357	5,953	+7%	12,421
Grade	Cpht	3.3	3.1	+5%	3.2
<u>Total Production</u>					
Tonnes treated	Tonnes	2,706,008	2,596,565	+4%	5,045,284
Diamonds produced	Carats	214,421	174,834	+23%	341,102
<u>Capex</u>					
Expansion Capex	US\$m	0.0	0.7	-100%	2.6
Sustaining Capex	US\$m	3.2	1.5	+113%	2.0
Total Capex	US\$m	3.2	2.2	+45%	4.6

Note:

1. *Negatively impacted by the 71,654 carat parcel blocked for export.*

Capex reconciliation

Capex	Unit	H1 FY 2019	H1 FY 2018	Variance	FY 2018
Finsch	US\$m	13.8	34.5	-60%	54.0
Cullinan	US\$m	22.8	40.5	-44%	73.9
Koffiefontein	US\$m	3.2	7.8	-59%	12.3
Williamson	US\$m	3.2	2.2	+45%	4.6
Subtotal - Capex	US\$m	43.0	85.0	-49%	144.8

incurred by operations					
Corporate / exploration	US\$m	1.3	0.7	+86%	2.4
Petra internal projects division - Capex under construction / invoiced to operations	US\$m	0.0	0.0	0%	(1.7)
Other Corporate - Capex under construction / invoiced to operations	US\$m	0.0	(0.1)	-100%	0.0
Total Group Capex	US\$m	44.3	85.6	-48%	145.5

Notes:

1. Capex for the Period includes US\$3.7 million (H1 FY 2018: US\$16.2 million) of capitalised borrowing costs, which is also included in the applicable mine by mine tables above.
2. Petra's annual Capex guidance is cash based and excludes capitalised borrowing costs. Given that the majority of Petra's debt funding is in relation to its expansion and development programmes, Petra's guidance is to assume that the majority of interest and financing fees will be capitalised for the duration of the project phase and not expensed through the income statement.

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