

# Chairman's statement



Adonis Pouroulis, Chairman

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## Dear Shareholder,

It is my pleasure to introduce Petra's 2010 Annual Report and Accounts and to give an overview of the Group's strategy and business outlook.

### *A proven growth strategy*

Petra Diamonds is focused on cash generative diamond production, and whilst we maintain a small exploration portfolio in Botswana, our core objective is to continue to grow rough diamond output and increase Petra's stature as a leading independent diamond mining group.

Over the past few years we have successfully executed a growth strategy which has seen Petra's production rise to well over one million carats per annum and gross revenue increase tenfold from US\$17 million in FY2007 to US\$178 million. The Group is now targeting further growth through the implementation of expansion plans at each of its major mining operations. These expansion plans are fully funded, as the IFC and Rand Merchant Bank debt facilities of US\$83 million ensure, along with contributions from Petra's treasury, the roll out of the capital expansion programmes. This growth is expected to double annual production to over two and a half million carats by FY2014 and more than treble production to over three million carats by FY2019.

Our portfolio is currently focused on Africa, which produces the majority of the world's diamonds by volume and value, and where our management team has built up many years of experience. Due to the relatively small size of the diamond mining industry, there are only a limited number of acquisition opportunities. Petra will consider further acquisitions should the right project come to market, but given our commitments to existing organic growth plans, we will only look at new diamond mining projects which are of appropriate scale, and either in or close to production.

### *A diversified portfolio of mines*

Petra has built up a well diversified asset portfolio, with six mining operations in South Africa and one in Tanzania. All of Petra's existing kimberlite operations have long histories of production and therefore the geology and economics of each mine are well understood. This knowledge of the deposits allows management to eliminate much of the risk associated with developing a diamond mine.

Over the years, the Group has developed a low cost profile ideally suited to maximising returns from its assets, and we have proven our ability to extract value from mines which could have been previously considered 'marginal' or 'end of life' operations. The robust nature of our business was demonstrated during the severe economic downturn, given that Petra was the only significant diamond producer not to close any of its operations during this period and in fact still recorded a modest on-mine profit of US\$7.8 million for FY2009.

A further important component to our approach is our focus on 'value production', ensuring that each mine is optimally configured to capture the whole spectrum of diamonds, including those of higher value, according to that orebody's unique production profile. This attention to value production allowed for the discovery of the famous 507 carat Cullinan Heritage, which sold for a record rough diamond price of US\$35.3 million in February 2010.

### ***Management culture and close partnerships***

Much of Petra's success is due to the fostering of a management culture where management is empowered to make decisions suitable to the relevant operations and where innovation and creativity in the workplace is encouraged and rewarded.

A further ingredient in Petra's continued success is close collaboration with our many partners, and in particular I would like to thank the following for their support during the year: The South African Department of Mineral Resources, the Government of the United Republic of Tanzania, the Government of Botswana, and our black economic empowerment partners in South Africa – Thembinkosi Mining Investments, the Petra Diamonds Employee Trust, Sedibeng Mining, Bokone Properties and Re-Teng Diamonds.

During the Period, we were delighted to welcome Dr. Omar Kamal, Managing Director of Al Rajhi Holdings W.L.L. ("Al Rajhi"), to our Board as a Non-Executive Director, further cementing our strong partnership with the Al Rajhi group. Omar is a valuable addition to the Group, contributing a wealth of financial expertise and an extensive contacts network in the important Middle Eastern market. At the same time as Omar's appointment, Volker Ruffer retired as Non-Executive Director and I would like to thank him on behalf of the Board for his important input over Petra's formative years.

### ***Sustainable operations***

Petra is proud to provide direct employment to over 3,700 people and, as our web-based 2010 Sustainability Report goes some way to demonstrate, we support a wide range of initiatives which are designed to enhance the lives of our employees, their families and the wider local communities. In addition, we strictly adhere to all relevant environmental legislation in South Africa, Tanzania and Botswana, placing great emphasis on environmental management throughout the life cycle of our operations from exploration to closure.

### ***A bright outlook***

The fundamentals of our industry remain robust, as it is anticipated that supply constraints will result, in the next three to five years, in a significant shortfall to the market. New sources of production coming on stream in this time-frame will only serve to temporarily counteract the depletion of the world's largest diamond mines, which are all past their peak and can no longer be operated at previous higher levels of production. We believe that demand for diamonds will continue to grow, particularly in the Far East, and this disparity between supply and demand will provide the stimulus for further increases in the value of rough production over the coming years.

Going into the 2011 financial year, I believe Petra is in a unique position to further develop its status as one of the world's important diamond mining groups. I would like to thank and congratulate all my co-directors and the employees at Petra for contributing a huge amount of effort and time in making this a very successful year for the Company.



**Adonis Pouroulis**  
Executive Chairman  
24 November 2010