State Diamond Trader



Annual Report 2011/2012



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MINISTER'S NOTE TO PARLIAMENT



Speaker of Parliament

Honourable Speaker

Annual Report of State Diamond Trader for the year ended 31 March 2012.

I have the honour, in terms of section 65 of the Public Finance Management Act 1999 (Act No. 1 of 1999), to present the Annual Report of the State Diamond Trader for the year ended 31 March 2012.

Ms Susan Shabangu MP
Minister of Mineral Resources
August 2012

CHAIRPERSON'S REPORT





Chairmanperson's Report

The State Diamond Trader's vision is to be 'a leading catalyst for the transformation of a sustainable diamond beneficiation industry' and its objective is to 'ensure constant and suitable supply and access to rough diamonds'. All indications during the course of the year reflected that the State Diamond Trader, in the same vein as the rest of the diamond industry, faced significant challenges towards achieving its goals such as:

- The disparity in the diamond pipeline between the prices paid for rough diamonds and those paid for polished diamonds.
- The lacklustre performance of the world economy, notably the US and EU economies, which impacted negatively on consumer confidence and the consumption of diamond jewellery.
- Its clients' ability to raise funds in the face of the challenging global funding situation.

The performance of the State Diamond Trader during 2011-12 can therefore be summed up as challenging when compared to the previous year. Due to an uncertain market picture, lack of demand from its clients and pricing differences, the State Diamond Trader was only able to secure and sell 4% of local rough diamond production to local beneficiators at a cost of R 433M; this is set against a target of 10% as described in current legislation.

Strategically, the State Diamond Trader has undertaken continuous dialogue with its clients. As a result of that, a clearer picture of the capabilities of the local beneficiation industry which will in future enable it to guide any policy changes. But more importantly, we recognise the relationship between the mining industry and the rest of the economy, in order to fully capitalise on this sector. In doing so the mining industry forms an integral part of our strategy of moving to the 10% rate of growth to bring about greater equality and employment.

The Accounting Authority is the foundation of corporate governance and oversees processes that ensure that its relationships with management, government and other stakeholders are underpinned by sound, ethical corporate governance principles. It is therefore pleasing to note that we have met all our legislative obligations and that the State Diamond Trader has once again received an unqualified audit.



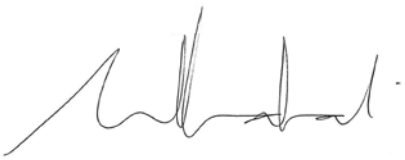


We were able to act on our human resource requirements during the year and as a result added more Diamond Valuator Trainees and their training continued under the watchful eye of management. Even more notable, was our ability to employ the State Diamond Trader's Chief Executive Officer which thus anchors the further growth of the State Diamond Trader. We wish her well in the challenging task ahead.

I am appreciative of the contributions made by the fellow members of the Accounting Authority, both those retired and those newly appointed. It has been a privilege working with all of them for the past five years in establishing and further developing what is now a well-run organisation. I would also like to thank the staff for their continued commitment, dedication and hard work. The State Diamond Trader looks forward to continued engagement with the Minister and the Department of Mineral Resources to continue to strengthen and transform the industry to enable it to contribute to the social and economic transformation of our country.

As we re-focus on the maxim, 'as one of Africa's major natural resources, diamonds are helping transform southern Africa and the lives of its people,' it is our view that the varying profile of State Diamond Trader clientele, which includes large, medium and small operators, will help it to meet its broad objective of stimulating the sustainable development of our country's diamond beneficiation industry. The Beneficiation Strategy provides the pillars upon which such transformation for South Africa is anchored.

As I contemplate the imminent change in the Accounting Authority of the State Diamond Trader in the coming few months, I am often reminded that only a diamond is forever.



Advocate Linda Makatini
Chairperson
State Diamond Trader



The State Diamond Trader Accounting Authority



Ms L. Makatini
(Chairperson)



Ms P. N. Zikalala
(Chief Executive Officer)



Mr I. Goondiwalla
(Member)



Mr A. Mngomezulu
(By invitation)



Mr Y. Tenza
(By invitation)



Mr P. Moeti
(Member)



Mr S. Motloung
(Member)



Ms D. Maphatiane
(Member)



Mr T. Montoedi
(Member)



Mr L. Rapoo
(Member)



Mr K. Joseph
(Member - resigned Nov 2011)



Mr D. Nkosi
(Member - resigned Oct 2011)



Ms B. Luthuli
(By invitation)



Ms F. Ngcwabe
(Member - resigned July 2011)



CHIEF EXECUTIVE OFFICER'S REPORT

TRADING ENVIRONMENT

The year began on a high note, continuing on the upward, yet unsustainable, trend on which the previous financial year had ended. While it was clear that a correction in the market was going to take place, no one could specifically predict when and by how much. The second and third quarters of the year saw a larger than expected decline in the demand for rough diamonds and the word was that the industry just could not determine the right prices throughout that period. No improvement came about even as the summer holidays were approaching. The last quarter came with appetite for rough but not to the extent experienced in the same quarter of the previous financial year. For the State Diamond Trader, this was not welcome news and it had a negative affect on its trading ability and thereby its turnover. It thus called for even more prudent decisions on its diamond purchases.

In spite of the softening of the market and in executing its objectives to ensure equitable access to rough diamonds, the State Diamond Trader managed to purchase a total of 293 087 carats of rough diamonds at a value R 410 405 051 during the financial year. Compared to the previous financial year, this indicates a 47% decline of purchases in value and a 65% decline in volume. Such negative trading performance of the State Diamond Trader was influenced mainly by uncertain market conditions.

The State diamond Trader conducted 125 rough diamond inspections on productions presented to it and purchased 72 times. As a result of the general price volatility within the diamond industry, the State Diamond Trader had to decline the purchase of a number of productions to ensure maximum trading within such adverse trading conditions. The main reasons for the decline were the prices at which the rough diamond were presented and a subsequent lack of demand. For two years prior to this particular financial year, the price of rough diamonds had been on an upward slope as they somehow regained the ground lost during the economic downturn of 2008/2009. However, these gains, of approximately 30%, were almost wiped out as economic uncertainty returned.

However, regardless of the situation the organisation succeeded in purchases of smaller productions on a consistent basis to ensure rough diamonds were made available to beneficiators and as there was some demand from the smaller segments of its clients.

Throughout the financial year, the State Diamond Trader sold to fifty eight compliant clients. A number of clients were not able to purchase from the State Diamond Trader despite the numerous offers made to them due to various trading challenges facing them. Conditions such as pricing, funding and the performance of the polished markets contributed significantly to the challenges faced by the clients. The State diamond Trader ensured the implementation of its Trading Rules and thereby continued to update its client list to ensure compliance.

The organisation continued with the facilitation of support for its small mandate clients as well as Historically Disadvantage South African clients, by sponsoring an exhibition stand at South Africa's premier jewellery show, Jewellex, which is an annual event attended by jewellery manufacturers. The clients who thereby exhibited were able to meet such jewellery manufacturers and present their work to this market. This was the State Diamond Trader's second year at the show and the clients have shown appreciation for this exposure. Its client coaching and mentoring programme continued throughout the year and gains therefrom were recorded.





OPERATING ENVIRONMENT

Financial

Despite the challenging global financial situations the State Diamond Trader continued to operate as a going concern. Some of its trading policies were reviewed during the year and this took into account its Interim Sales Strategy which has now become part of its policy on allocations. A gross margin of R 22 631 690 was achieved during the financial year.

Human Resources

The State Diamond Trader continued to seek efficiency and professionalism in managing its affairs by developing and acquiring appropriate Human Resource capacity. Out of the first four Trainees Diamond Valuators, two were subsequently employed permanently while the others continued with further training. The State Diamond Trader employed another four Trainee Diamonds Valuators during the year and two left the training programme midway while the remainder progressed throughout the year. The growth and contribution of all the Trainees has been exciting. Trainees within the Finance and Administration function continued to perform well and one was subsequently employed on a permanent basis when a vacancy came up. The State Diamond Trader managed to employ its Chief Executive Officer during the year and this has to auger well for its further development and stability.

CONCLUSION

In the process of executing its mandate, the State Diamond Trader demonstrated constructive
indication of success. The staff and management enthusiastically approached all the tasks they were entrusted with by the Accounting Authority and this ensured the success achieved again during the year.
I thus extend my utmost appreciation to the staff and management and the Accounting Authority of the State diamond Trader. I also, in no small measure, acknowledge and appreciate the support of the Department of Mineral Resources, De Beers, complying diamond producers and clients as well as all the stakeholders of the State Diamond Trader.



Ms P. N. Zikalala
Chief Executive Officer
31 July 2012



State Diamond Trader Staff Members



Ms P. N. Zikalala
(Chief Executive Officer)



Mr F. Auger
(Operations Manager)



Mr P. Zonke
(Chief Financial Officer – Consultant)



Mrs D. McBride
(Administration Officer)



Ms A. Hlongwane
(Trainee Company Secretary)



Mr C. Van Der Ross
(Sales Manager)



Mr L. Hammond
(Purchasing Manager)



Ms D. Moeng
(Production Controller)



Mr P. Bokaba
(Finance Officer)



Ms R. Masemola
(Diamond Valuator)



Ms P. Fakude
(Receptionist)



Ms S. Mashiloane
(Diamond Valuator Trainee)



Mr B. Sekano
(Diamond Valuator Trainee)



Ms K. Monama
(Diamond Valuator Trainee)



Ms N. Mbina
(Diamond Valuator Trainee)



Mr G. Mance
(Diamond Valuator Trainee)



GOVERNANCE



GOVERNANCE

The State Diamond Trader operates on a strong corporate governance foundation that is representative of the interests of all stakeholders. The governance framework is aligned with King III recommendation and complies with the provisions of the Public Finance Management Act (PFMA). This framework underpins the organisation's risk-based, integrated approach to internal controls that are entrenched throughout management and governance processes and is reviewed on an on-going basis. Governance structures are focused on providing leadership within a framework of effective controls which enables risk to be assessed and managed throughout the organisation.

The State Diamond Trader is mandated to promote equitable access to and local beneficiation of the diamond resources of South Africa. The State Diamond Trader is fully committed to the highest standards of governance.

While the Accounting Authority of the State Diamond Trader is responsible for the maintenance of sound corporate governance, it believes that implementation is best managed at executive management level.
The State Diamond Trader has, in all material respects, complied with the PFMA and King III recommendations.

State Diamond Trader and the Public Finance Management Act (PFMA) 1999

As a public entity, the State Diamond Trader operates in terms of the PFMA. In terms of PFMA the Accounting Authority and the Accounting Officer are accountable for the use of resources to deliver services to all stakeholders. The Act emphasises:

- regular financial reporting,
- independent auditing and supervision of internal control systems,
- improved accounting standards,
- greater focus on output and performance, and
- increased accountability at all levels.

Shareholder's Compact

In terms of the PFMA, the State Diamond Trader is obliged to conclude a Shareholder's Compact on an annual basis with its Shareholder, the Minister of Mineral Resources (the Minister, also referred to as the Shareholder). The compact sets out the mandate of the State Diamond Trader, together with the organisation's key performance indicators for the year. One of the Accounting Authority's responsibilities is to keep the Shareholder informed on all major developments affecting the organisation. This is achieved through:

- quarterly reports to the Shareholder;
- the annual report;
- detailed three-year corporate plans;
- direct contact between the Chairperson of the Accounting Authority and Shareholder; and
- on-going engagement with the Shareholder.





Role of the Accounting Authority of the State Diamond Trader

Sound governance entrenched by the Accounting Authority is integral to the sustainability of the State Diamond Trader. The Accounting Authority of the State Diamond Trader is appointed by the Minister of Mineral Resources. It has a Charter detailing processes and procedures that regulate its functioning. Similarly, each Committee of the State Diamond Trader has formal and written terms of reference to ensure optimal discharge of its duties within the mandate conferred upon it by the Accounting Authority.

The Accounting Authority is the core of State Diamond Trader's governance system and is responsible for:

- providing clear strategic direction to the organisation;
- ensuring that the appropriate management structures are in place;
- promoting a culture of ethical behaviour;
- overseeing risk management;
- entrenching sound corporate governance through an integrated governance structure; and
- compliance with all relevant laws, regulations and codes of practice.

The Accounting Authority has a duty to address matters of significance and concerns of all stakeholders, taking into account greater demands for accountability, and recognising and balancing the interests of all stakeholders.

Composition

The Accounting Authority of the State Diamond Trader represents a broad range of skills and experience to ensure an appropriate balance, to bring a sense of perspective and to add value and insight in strategic decision making. Due to the resignation of four members over the past two years, the number of members has gone down to nine, including one executive member, the Chief Executive Officer (CEO). In line with best practice, the roles of Chairperson and CEO are separate. The term of office of a non-executive member is for a period not exceeding five years. Non-executive members may be re-appointed by the Minister for a period not exceeding three consecutive terms in office. The term of the current members expires in 2012.

The effectiveness and performance of all members of the Accounting Authority is assessed annually. The Accounting Authority reviews its own role and effectiveness. The Chairperson of the Accounting Authority reviews the performance of the CEO, and the CEO annually reviews the performance of executive management.





Accounting Authority

Composition

Ms L. Makatini	(Chairperson)
Ms P. N. Zikalala	(Chief Executive Officer from August 2011)
Major Gen. P. Arendse	(Member – joined October 2011)
Mr I. Goondiwalla	(Member)
Mr K. Joseph	(Member – resigned November 2011)
Ms D. Maphatiane	(Member)
Mr P. Moeti	(Member)
Mr T. Montoedi	(Member)
Mr S. Motloung	(Member)
Ms F. Ngcwabe	(Member – resigned July 2011)
Mr D. Nkosi	(Member – resigned October 2011)
Mr L. Rapoo	(Member)
Brigadier N. Mokoena	(Alternate for Major Gen. P. Arendse – joined October 2011)

Remuneration

The remuneration of members of the Accounting Authority is disclosed in note 22 of the Notes to the Financial Statements.

Access to information

The Accounting Authority has access to all information it may require and may, at the cost of State Diamond Trader, seek independent professional advice if necessary. Management provides the Accounting Authority and its committee members with timeous and accurate information and documentation to fulfil its responsibilities.

Accounting Authority charter and responsibilities

The Accounting Authority has a fiduciary duty to act in good faith, with due care and diligence, and in the best interests of its stakeholders. The Accounting Authority is the primary body responsible for corporate governance values. While control is delegated to management and various committees, the Accounting Authority retains full and effective control over the performance of the State Diamond Trader.

The Accounting Authority's responsibilities include the appointment of the executive management, formulation and approval of the corporate strategies, ensuring a proper governance framework, overseeing risk management and ensuring that State Diamond Trader's business is managed appropriately and prudently.





Executive sessions and meetings of non-executive members of the accounting authority

Non-executive members of the Accounting Authority meet separately to discuss issues of significance to the Accounting Authority and its operations. The Accounting Authority and its committees also hold executive sessions with management where issues pertinent to business operations are identified. These issues are addressed with the relevant management representatives.

Attendance

Members continued to attend meetings at both the Accounting Authority and committee levels and discharged their fiduciary duties and ensured strategic direction to management throughout the financial year.

Meetings

The Accounting Authority held four quarterly meetings during the financial year, apart from two meetings held to review the strategic plan and the risk profile of the State Diamond Trader as well as three Client Information Sessions.

The following members of the Accounting Authority's sub-committees attend Accounting Authority meetings by invitation:

Mr A. Mngomezulu	Trading, Clientele and BEE Committee
Mr Y. Tenza	Audit and Risk Management Committee
Ms B. Luthuli	Audit and Risk Management Committee



Name	Board Meeting 24/05/2011	Board Meeting 26/07/2011	Board Meeting 26/10/2011	Board Meeting 25/01/2012	Client Information Session 19/07/2011	Client Information Session 23/11/2011	Client Information Session 14/02/2012	Board Strategic plan Session 27/08/2011	Board Strategic plan & risk Session 07/03/2012	Meetings Attended
Ms L. Makatini (Chairperson)	✔	✔	✔	✔	✔	✔	✔	✔	✔	9
Ms P.N. Zikalala (CEO)	✔	✔	✔	✔	✔	✔	✔	✔	✔	9
Mr I Goondiwalla	✔	✔	✔	✔	✗	✗	✔	✔	✗	6
Ms D. Maphatiane	✔	✗	✔	✔	✗	✗	✗	✔	✗	4
Mr A. Mngomezulu (by invitation)	✗	✔	✗	✔	✔	✗	✔	✔	✗	5
Mr P. Moeti	✔	✗	✗	✗	✗	✗	✗	✗	✔	2
Mr T Montoedi	✔	✗	✔	✗	✗	✔	✗	✔	✗	4
Mr S Motloung	✔	✔	✔	✔	✗	✗	✔	✔	✔	7
Mr Y. Tenza (by invitation)	✗	✗	✗	✗	✗	✗	✗	✗	✗	0
Mr L. Rapoo	✗	✔	✔	✔	✗	✗	✗	✗	✗	3
Ms B. Luthuli (by invitation)	✗	✔	✔	✔	✔	✗	✔	✗	✔	6
Mr K. Joseph	✔	✔	✔	N/A	✗	N/A	N/A	✔	N/A	4
Ms F. Ngcwabe	✗	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0
Mr D. Nkosi	✔	✔	N/A	N/A	✔	N/A	N/A	✔	N/A	4
Major General P. Arendse	N/A	N/A	✗	✗	N/A	✗	✔	N/A	✔	2
Total Members Attended	**9**	**9**	**9**	**8**	**5**	**3**	**7**	**9**	**6**	

N/A indicates meetings not applicable to that member as they were not Accounting Authority Members at the time



Accounting Authority Committees

Audit and Risk Committee

Composition

Mr Y. Tenza	Chairperson
Ms P. N. Zikalala	CEO
Ms B. Luthuli	Member
Ms D. Maphatiane	Member
Mr L. Rapoo	Member

The Audit and Risk Committee (ARC) is an advisory committee to the Accounting Authority and is accountable to the Accounting Authority.

The ARC consists of 4 non-executive members. The Chairperson of the Accounting Authority is not eligible to be appointed as chairperson of the ARC.

The overall purpose of the ARC is to assist the Accounting Authority in discharging its duties relating to, among others:

- the safeguarding of assets;
- the operation of adequate systems and controls;
- effective risk management;
- ensuring the preparation of accurate reporting and statements in compliance with legal requirements and accounting standards;
- ensuring good corporate governance; and
- ensuring compliance with all statutory and regulatory legislation.

Officials from the Office of the Auditor-General are invited to attend all ARC meetings.

Audit and Risk Committee Meetings

Name	19/04/2011	31/05/2011	18/10/2011	20/01/2012	Meeting Attended
Mr Y. Tenza (Chairperson)	✔	✔	✗	✔	3
Ms P.N. Zikalala (CEO)	✔	✔	✔	✔	4
Ms B. Luthuli	✔	✔	✔	✔	4
Ms D. Maphatiane	✔	✔	✗	✔	3
Mr L. Rapoo	✗	✗	✔	✗	1
Total Members Attended	**4**	**4**	**3**	**4**	





Human Resource, Finance and Remuneration Committee

Composition

Mr I. Goondiwalla	Chairperson
Ms P. N. Zikalala	CEO
Ms D. Maphatiane	Member
Mr T. Montoedi	Member

The Human Resources, Finance and Remuneration Committee comprises of 3 non-executive members.

The Human Resource, Finance and Remuneration Committee purposes are to:

- Ensure that the State Diamond Trader discharges its responsibilities of attraction, motivation, development and retention of the required staff competencies;
- Ensure that management has created and maintained an effective environment for financial management, internal control and procurement processes;
- Provide guidance and make recommendations to the Accounting Authority in respect of annual budgets required for approval as well as any material financial matter impacting on the State Diamond Trader;
- Monitor the remuneration framework for the entire organisation; and
- Ensure that at all times it applies the principles of sound corporate governance.

The Human Resource, Finance and Remuneration Committee is authorized by the Accounting Authority to:

- Investigate any activity within its terms of reference,
- Seek any information it requires from any State Diamond Trader employee in pursuance of its responsibilities;
- Obtain outside legal or other independent professional advice, and
- Secure the attendance of outsiders with relevant experience and expertise if it considers it necessary.

Human Resources, Finance and Remuneration Committee Meetings

Name	14/04/2011	17/10/2011	17/01/2012	Meeting Attended
Mr I. Goondiwalla (Chairperson)	✔	✔	✔	3
Ms P.N. Zikalala (CEO)	✔	✔	✔	3
Ms D. Maphatiane	✔	✔	✔	3
Mr T. Montoedi	✔	✔	✔	3
Total Members Attended	**4**	**4**	**4**	





Joint Finance and Audit Committee Meetings

Name	10/05/2011	17/05/2011*	21/07/2011	Meeting Attended
Mr Y. Tenza (Chairperson)	✔	✔	✔	3
Ms P.N. Zikalala (CEO)	✔	✔	✔	3
Mr I. Goondiwalla	✔	✔	✗	2
Ms B. Luthuli	✔	✔	✔	3
Ms D. Maphatiane	✗	✗	✗	0
Mr T. Montoedi	✔	✔	✗	2
Mr L. Rapoo	✔	✔	✗	2
Total Members Attended	**6**	**6**	**3**	

•teleconference

Trading, Clientele and BEE Committee

Composition

Mr A. Mngomezulu	Chairperson
Ms P. N. Zikalala	CEO
Mr K. Joseph	Member (resigned November 2011)
Mr P. Moeti	Member
Mr S. Motloung	Member

The main purpose of the Trading, Clientele and BEE Committee is to ensure that the State Diamond Trader meets its mandate which is to purchase and sell rough diamonds for beneficiation.

Trading, Clientele and BEE Committee Meetings

Name	07/04/2011	07/07/2011	20/10/2011	20/12/2011	Meeting Attended
Mr A. Mngomezulu (Chairperson)	✔	✔	✔	✔	4
Ms P.N. Zikalala (CEO)	✔	✔	✔	✔	4
Mr K. Joseph	✔	✔	✔	N/A	3
Mr P Moeti	✗	✗	✔	✔	2
Mr S. Motloung	✔	✔	✔	✔	4
Total Members Attended	**4**	**4**	**5**	**4**	





Executive Committee

The Executive Committee is responsible for overseeing the business of the Accounting Authority from time to time and for reporting to the Accounting Authority on urgent matters and any matter as directed by the Accounting Authority.

The Committee comprises of all Chairpersons of the Committees of the Accounting Authority. The CEO and the Company Secretary attend its meetings.

Composition

Ms L. Makatini	Chairperson
Ms P. N. Zikalala	CEO
Mr I. Goondiwalla	Chairperson of the HR, Finance and Remuneration Committee
Mr A. Mngomezulu	Chairperson of the Trading, Clientele and BEE Committee
Mr Y. Tenza	Chairperson of the Audit and Risk Management Committee





AUDIT AND RISK COMMITTEE

REPORT OF THE AUDIT AND RISK COMMITTEE

The Audit and Risk Committee is pleased to present the report for the financial year ended 31 March 2012 as required by the Public Finance Management Act, 1 of 1999, as amended.

The Audit and Risk Committee reviewed its terms of reference and its charter, has regulated its affairs in compliance with this charter, and has discharged all of its responsibilities contained therein.

In the conduct of its duties, the Audit and Risk Committee has, inter-alia, reviewed the following:

- reports from external auditors detailing concerns arising out of audits and ensured there are appropriate responses from management, which will result in the concerns being addressed;
- the adequacy, reliability and accuracy of financial information provided by management and other users of such information;
- the effectiveness of the internal audit function;
- the activities of the internal audit function, including its annual work programme, coordination with the external auditors, the reports of significant investigations and the responses of management to specific recommendations; and
- the scope and results of the external audit function, it's cost effectiveness, as well as the independence and objectivity of the external auditors.

The Audit and Risk Committee is of the opinion, based on the information and explanations given by management and the internal auditors and discussions with the independent external auditors on the result of their audits, that management is implementing appropriate internal controls to ensure that the financial records may be relied upon for preparing the financial statements, and that accountability for assets and liabilities is maintained. Nothing significant has come to the attention of the Audit and Risk Committee to indicate any material breakdown in the functioning of these controls, procedures and systems during the period under review.

RISK MANAGEMENT

Introduction

The Minister of Mineral Resources appointed an Accounting Authority in terms of section 17 of the Diamonds Amendment Act, 2005.

In line with the Public Finance Management Act as well as good governance, the Accounting Authority has established committees to assist in performing its functions. These include:

Executive Committee

- Executive Committee
- Audit and Risk Committee
- Trading, Clientele and BEE Committee
- Human Resource, Finance and Remuneration Committee

It is the responsibility of the Accounting Authority to oversee the risk management of the company.

Risk Governance Structure

Committee is accountable to the Accounting Authority on all audit and risk related matters. Management is responsible for the implementation of risk policies and procedures. In addition, the Audit and Risk Committee is required to note reports of all other Committees' before Accounting Authority approval.

The following is the structure of the entity:

- Accounting Authority
- Accounting Authority Committees
- Management
- Staff

State Diamond Trader Strategic Risk Profile

The overall risk profile for the State Diamond Trader is tabled in terms of highest inherent risk exposure. The impact rating of each risk is multiplied by the likelihood to arrive at the risk exposure both at the inherent and residual level.

The risk executive dashboard highlights the strategic risks identified by the Accounting Authority of the State Diamond Trader. The inherent risks (IR) identified depict the risk profile without taking current controls into account. The residual risks (RR) identified are the exposure to risk remaining after taking the current controls into account.

It should be noted as highlighted in the dashboard that the Accounting Authority feels that the ***suitability of supply*** is the biggest inherent and residual risk facing the State Diamond Trader.

Although this risk is dependent on external factors (i.e. legislation), management should monitor the mitigating controls on a continuous basis and ensure that action plans are implemented.



The State Diamond Trader's identified Strategic Risks 2011/12

Risk Executive Dashboard								
Risk Category	Risk Title	Inherent Rating			Residual Rating		
		II	IL	IR	RI	RL	RP
Strategic	Suitability of a supply	5	5	25	4	4	16
Strategic	Unpredictable continuous supply of diamonds	4	3	12	4	3	12
Strategic	Lack of profitable trading	5	5	25	3	3	9
Strategic	Inability to implement existing organogram	4	4	16	3	3	9
Strategic	IT Governance risk	5	5	25	4	3	12

Legend:

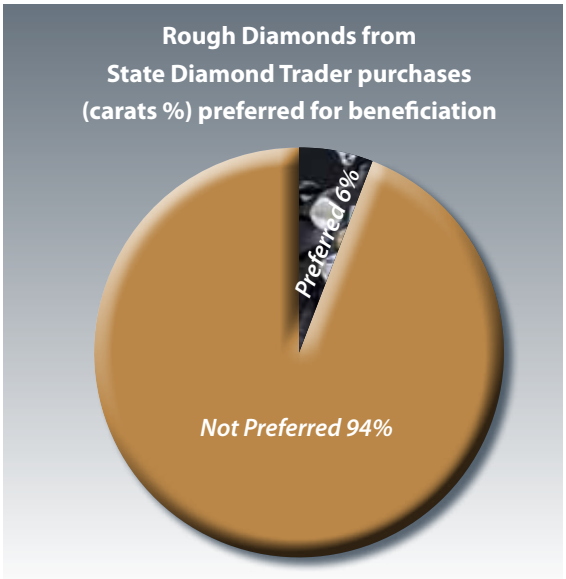
Exposure rating	Low from 1-5	Medium from 6-12	High from 12,5-25	II	IL	IR	RI	RL	RP
Overall assesment	Acceptable	Acceptable with caution	Unacceptable	Inherent Impact	Inherent Likelihood	Inherent Risk	Residual Impact	Residual Impact	Residual Risk

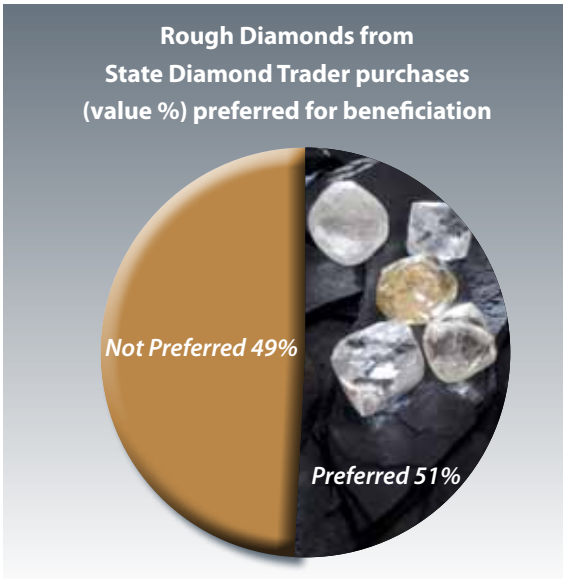
Strategic Risk Report 2011/12

Risk 1 – Suitability of Supply

The suitability of rough diamond production for beneficiation purposes impacts of the sales of the State Diamond Trader. In general, the target market for equitable access purposes (the mandate segment) only wants to cut and polish a narrow range of rough diamonds, those that produce +1 carat, SI1+ quality, I+ colour round polished diamonds. In addition, larger companies will utilise rough diamonds down to one carat in size, producing the same polished qualities and colours as previously mentioned.

However, quantity of these types of rough diamonds within the overall production of South Africa is relatively small as illustrated below;









Within the context of the Diamond Act, the State Diamond Trader can only purchase "Run of Mine", a representative sample of each producers total production within any given time period. The challenge remains for the State Diamond Trader in how to sell the goods deemed not required for local beneficiation. In the short to medium term it is unlikely that any change to the legislation will occur. Therefore, the State Diamond Trader must look at actions that will mitigate this risk and allow it to operate effectively.

In terms of the actions identified in the Risk Profile;

1. **Engage producers individually to negotiate better supply.**
   To date no producer has agreed to this proposition and it is unlikely to happen as the producers will want uphold the letter of the law and not allow amounts to "cherry picking".

2. **Explore changes in legislation to allow the State Diamond Traderto export what it cannot sell to the local market.**
   This is a distinct possibility and is attractive as it may enable the State Diamond Trader to extract more "preferred" rough diamonds from the larger producers' Run of Mine selections.

To date the State Diamond Trader has not fully explored this option as it requires a change in sales policy at Accounting Authority level.

Purchasing from other diamond producing countries

In addition to the actions identified in the Risk Profile, this risk could be mitigated by purchasing suitable rough diamonds from other countries. In this case, the State Diamond Trader would not be bound by the Run of Mine purchasing format, effectively selecting rough diamonds suitable for cutting and polishing in South Africa.

As the State Diamond Trader is a state entity, such purchasing must be part of international agreements on the part of the countries involved.

To date some progress has been made with regards to the possible purchasing from Zimbabwe – but further investigation has come to a halt pending the resolution of a number of logistical issues.
When purchasing from other diamond producing countries, the State Diamond Trader shall be mindful of the following;

1. What can be purchased – are the rough diamonds suitable for local beneficiation?
2. What will be the selection and pricing process?
3. Will it be cost effective? Will the State Diamond Trader be able to achieve a margin that covers all costs?





Risk 2 - Unpredictable continuous supply of diamonds

Trading activity at the State Diamond Trader is determined by the amount of rough diamonds produced in the country, with the legislation dictating the maximum quantity that can be purchased.

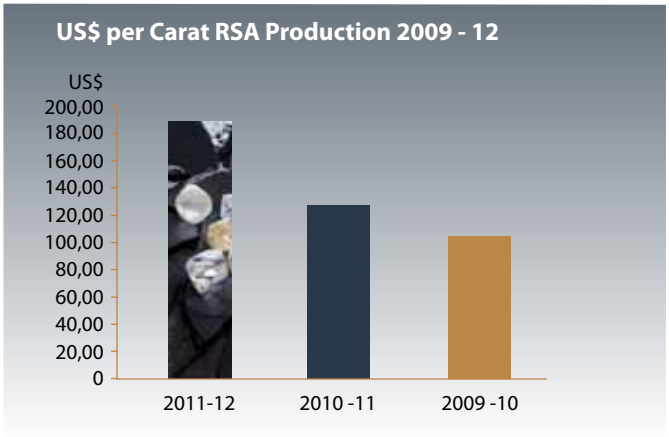
The State Diamond Trader is able to purchase up to 10% of any diamond producers production. However, in doing so it has to balance two factors. Firstly it must uphold its mandate and make rough diamonds available to its clients. Secondly it must operate as a commercial entity and trade at a margin that enables cost recovery.

There are two factors that have affected the State Diamond Trader's ability to mitigate this risk.

1. **The unpredictability of production.**
   Due to the uncertain global economic situation, production of rough diamonds within South Africa has been inconsistent as indicated by the volume (carats) produced per annum, shown below.



2. **Price volatility**
   In conjunction with inconsistent production levels has been the volatile price swings, illustrated in the changes in average price per carat the last three financial years.



During the financial year 2011/12 the State Diamond Trader was only able to purchase 4% of the value of the rough diamonds it inspected. Its inability to secure the full 10% available to it is a function of a lack of demand and inability to secure the required trading margin in order for it to work on a cost recovery basis. This risk could also be mitigated by the purchasing of rough diamonds from other producing countries – see Risk 1.





Risk 3 – Lack of profitable trading

The following chart indicates that this risk has been fully mitigated.

	2011 - 12	2010 - 11	2009 - 10	2008 - 09
State Diamond TraderSales ZAR	**433,053,737**	810,405,548	330,892,108	117,209,265
COGS ZAR ***	**410,440,046**	774,268,144	318,101,802	115,456,826
GM ZAR	**22,613,690**	36,137,404	12,790,306	1,752,429
GM%	**5,22%**	4,46%	3,87%	1,50%

This has been achieved through the rigorous application of Operational Policies relating to purchasing, production, sales and stock holding.

However, in the long-term profitability will be ensured through the efficient distribution of those rough diamonds deemed not suitable for local beneficiation (see risk 1).

With regards to the action identified in the risk profile;

Refine client selection process to expand client database

A full review of the client base has been undertaken – but it has not been done with a view to maintaining or increasing profitability.

Risk 4 – Inability to implement the existing organogram

A full review of the client base has been undertaken – but it has not been done with a view to maintaining or increasing profitability.

1. **Funding**
   The State Diamond Trader remains subject to a funding model in which it must pay all its costs from trading margin. Given that the State Diamond Trader is a relatively new entity and the diamond industry is passing through a particularly volatile period – the State Diamond Trader has been conservative in entering into full scale recruitment processes which will significantly increase costs.

2. **Secondments**
   As a result of the funding issue – the State Diamond Trader has relied on secondments to fulfil several key posts in the organogram.





Risk 5 - IT Governance risk

The State Diamond Trader IT Strategy was approved by the Accounting Authority in May 2011. As a result an IT consultant has been engaged to develop the policies and procedures governing IT usage at the State Diamond Trader. This has coincided with the installation of a new IT system during the course of the State Diamond Trader's relocation.

The implementation of the approved IT Policies and Procedures is on-going (April 2012).



Mr Yekani Tenza
Chairperson of the Audit and Risk Management Committee





TRADING REPORT



Trading Report

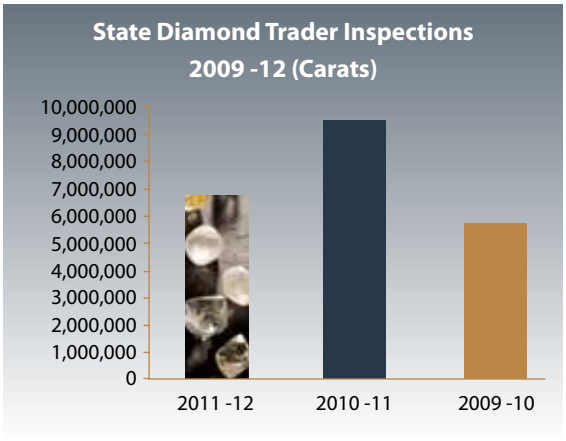
State Diamond Trader Trading Performance 2009 - 2012

Name	2011 - 12	2010 - 11	2009 - 10	2008 - 09
Value inspected US$*	**1,301,572,083**	1,236,182,068	616,893,943	1,166,505,636
Carats inspected	**6,889,931**	9,519,617	5,754,002	11,052,435
US$ per carat	**188.91**	129.86	107.01	105.54
No. of producers	**7**	9	6	9
No. of inspections	**125**	125	90	46
State Diamond Trader Purchases ZAR	**410,405,051**	780,560,949	317,728,000	92,024,575
% purchased **	**4%**	9%	7%	1%
No. of purchases	**72**	67	29	11
State Diamond Trader Sales ZAR	**433,053,736**	810,405,548	330,892,108	117,209,265
COGS ZAR	**410,440,046**	774,268,144	318,101,802	115,456,836
GM ZAR	**22,613,690**	36,137,404	12,790,306	1,752,429
GM%	**5,22%**	4,46%	3,87%	1,50%
No. of clients sold to	**58**	60	34	68
State Diamond Trader Stock ZAR (31/03)	**6,726,132**	6,525,971	—	271,988
Ave age of stock (days)	**16**	1	—	>200

* At producer values **% purchased of goods inspected (by value)

State Diamond Trader Inspections 2011/12





The above charts emphasise the volatility in diamond production in South Africa as the industry comes to terms with the global economic recession.

Trading activity at the State Diamond Trader is determined by the amount of rough diamonds produced in the country, with the legislation dictating the maximum quantity that can be purchased.
Despite the 28% drop in carat production, the total value of rough diamonds produced in RSA increased by 5% as prices rose significantly during the first half of 2011.



These increases were reversed as the market weakened from August 2011.



The 7 mining companies that presented rough diamonds to the State Diamond Trader during the year accounts for over 90%* of the total production of the country

* State Diamond Trader estimate

Purchases 2011/12

The State Diamond Trader was only able to purchase 4% of the carats and value of South African production due to the pricing of the two largest producers at a time when global market prices fell from their peak in July 2011.

During the course of the year, 72 purchases were secured from 7 producers, an increase from 67 purchases from 6 producers in the previous year.

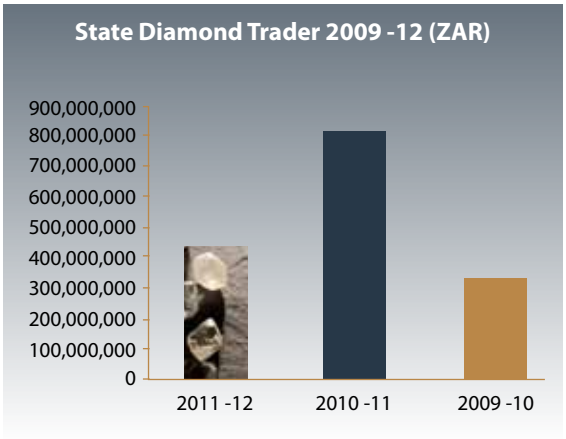
However the total value of purchases fell by 47% due to inability to secure the rough diamonds at a price where the State Diamond Trader could guarantee the minimum trading margin.





Trading Report

Sales 2011/12



In overall terms sales decreased by 47% - from R810 million to R433 million.
The reasons for the this decrease are as follows;

1. The State Diamond Trader purchasing a lower percentage of the production available
2. An unsustainable rise in prices at producer level as demand returned to pre-recession levels

Despite the significant fall in rough diamonds available for sale, the State Diamond Trader was still able to sell to 58 companies throughout the year, as opposed to 60 in 2010/11.

Beneficiation

The suitability of rough diamond production for beneficiation purposes impacts of the sales of the State Diamond Trader. In general, the target market for equitable access purposes (the mandate segment) only wants to cut and polish a narrow range of rough diamonds. The consequence for the State Diamond Trader sales was that only 2% of the total sales value was made to the mandate segment.

The constraints placed on the State Diamond Trader in terms of it purchasing Run of Mine production from local diamond producers means that it is obliged to sell to larger, more established companies that have the ability to cut and polish a wider range of rough diamonds or market the unsuitable rough diamonds in accordance with legislation.



The result is seen in the distribution of sales by segment as seen as follows;



L/M = Large and medium sized beneficiators. State Diamond Trader clients with established factories employing more than 10 people

Mandate = clients from HDSA backgrounds and companies with greater than 50% HDSA ownership. Employing less than 5 people, these clients are supplied in terms of giving equitable access to rough diamonds

Niche = other beneficiators, clients from non HDSA backgrounds, employing less than 10 people

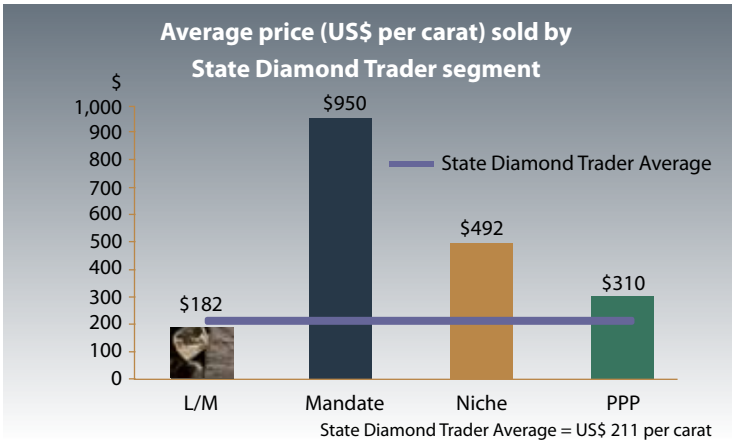
PPP = Public, Private Partnerships. Clients in partnerships with regional governments

Despite lower overall sales, the value of sales to Mandate clients increased year on year by 65%, from R 6.4 million to R 10.6 million.

Similarly, the value of sales to Niche clients rose by 44%, from R 56 million to R 81 million.

The value of sales to L/M clients fell by 39%, from R 560 million to R 340 million.

In order to support the demands of the State Diamond Trader's target market, the Mandate Clients, it does allow them to "cherry pick" those diamonds most suitable for their manufacturing and marketing capabilities. These tend to be the more valuable, larger, high quality rough diamonds generally required by all beneficiators in South Africa. The extent to which this affects the rough diamonds sold to each segment is demonstrated in the following chart.

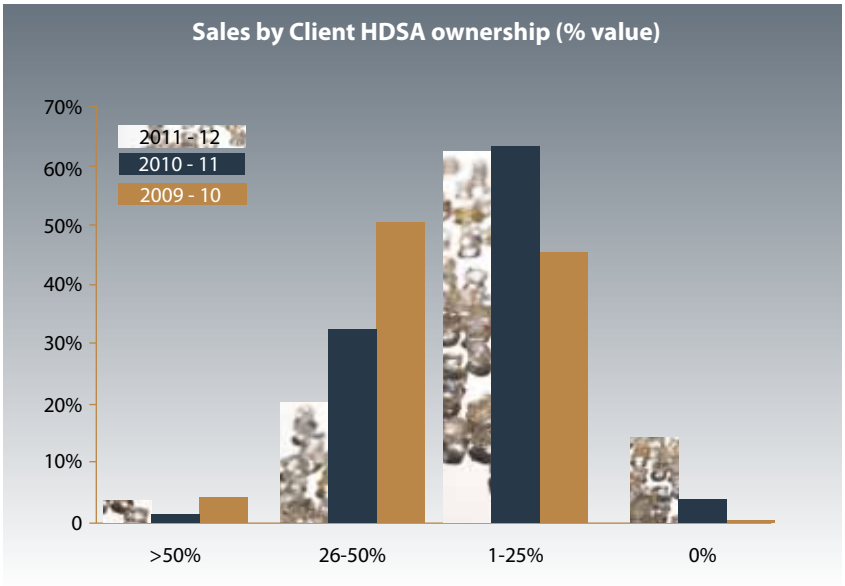




Trading Report

Transformation

The State Diamond Trader continues to sell the majority of its rough diamonds to those clients which have some form of HDSA ownership.



Client Relations

The suitability of rough for beneficiation in South Africa continues to be a great challenge for State Diamond Trader. It has been proven that 94% (by carats) of rough diamonds mined in South Africa consist of goods that are deemed to be economically unsuitable for cutting and polishing in South Africa. Local beneficiators have to share the 6% that remains.

Client Performance

The Female Client Mentoring Pilot Project was sustained for another year. The project has been successful and the two female clients have been continuously developing their skills in diamond manufacturing, marketing and sales.

The project was affected by the slowdown experienced by the industry during the second half of 2011. It became difficult for the project to see optimum results. Our wish as the State Diamond Trader is for the project to continue and for the ladies to also continue to learn and grow from this initiative.

During the year the State Diamond Trader hosted three Client Information Sessions. These Sessions are hosted in order for the State Diamond Trader to get a better understanding of the challenges faced by its stakeholders, building relationships and engaging with clients to keep them abreast with information that could have an impact on their businesses.





Trading Report

The purpose is to generate proper feedback from clients to the State Diamond Trader and vice versa about the industry and how they are affected. The State Diamond Trader hosts these information sessions to find out which areas need improvement and what can be done to meet clients' requirements and manage expectations. It also enables the State Diamond Trader to facilitate relevant inventions to assist clients in sustaining their businesses.

During this financial year it was decided to invite clients according to their segments in order to better understand the challenges faced by each client group.

It remains a concern for the State Diamond Trader that the majority of clients do not partake at these events which allow them to share their views and difficulties faced within the industry.

In the financial year 2011/12 there were 58 clients who made purchases from the State Diamond Trader as compared to 60 in 2010/11.

The State Diamond Trader accepted 10 new clients in March 2011. These clients have also been participating in purchasing from the State Diamond Trader.

During the course of the year the State Diamond Trader undertook a review of its existing clientele. As a result, 28 clients were suspended due to a number of compliance issues, predominantly the holding of a valid SARS certificate of good standing. In some cases it has been evident that some companies were severely affected by the economic downturn and have since closed down their operating factories.





Performance against Strategic Business Target

The State Diamond Trader's mandate is as defined in the Diamond Amendment Act 2005 and it is to:

- facilitate the equitable access to the nation's rough diamond resources;
- promote local beneficiation of diamonds;
- undertake research and;
- develop a client base

Further to this, the Accounting Authority has instigated a Mission and Vision to guide strategy and deliver the mandate;

VISION

- A leading catalyst for the transformation of a sustainable diamond beneficiation industry

MISSION

- Ensure acquisition of and equitable access to rough diamonds with particular focus on Historically Disadvantaged South Africans
- Support the growth of the industry through relevant interventions
- Establish and maintain a client base of local diamond beneficiators

At its mid-year strategic plan review held on the 27 August 2011, the Accounting Authority re-confirmed its vision, mission, values and strategic goals while it took the forward looking step of improving its strategic objectives, key activities, measures and targets to achieve better alignment with its strategic goals and mandate. Consequently some of its strategic objectives, key activities, measures and targets were re-aligned in line with its resolution. This also resulted in the quarterly reports for the last two quarters being aligned with the reviewed strategic plan. The annual report on progress against the strategic plan is thus in line with the reviewed strategic plan.



STRATEGIC GOALS	STRATEGIC OBJECTIVE	KEY STRATEGIC OUTPUTS	KEY ACTIVITIES	PERFORMANCE MEASURES	TARGET 2011/12	PERFORMANCE April 2011 to March 2012	VARIANCES EXPLANATION
GOAL 1: To ensure continued sustainability of the State Diamond Trader	**Improve profitability of State Diamond Trader operations**	**State Diamond Trader operating as a "going-concern"**	• Improve stock turnaround time	• Reduced turnaround times on stocks	A weighted average of 14 days	Average stock turnaround for full year = 10 days	ZAR value per budget not met due to softening in diamond markets locally
			• Maintain gross margin rates	• Gross margin	Minimum of 4%	GM = 5% (R22,613,690)	
			• Review and streamline operational expenditure	• Improve efficiencies	Operating expenses not to exceed budget	Operating expenses within budget	
			• Ensure that trading policies create an enabling environment to deliver required profit	• A review of trading policies	September-Annually	Allocation Policy and Trading Rules reviewed	
			• Increase number of and value of sales to HDSA clients	• Increased number of and percentage value of sales to HDSA clients	10% p.a. in numbers and sales value	Number of HDSA clients traded increased from 23 to 26	
						Value of sales to HDSA clients grew from R6.4M to R10.6M (65%)	

STRATEGIC GOALS	STRATEGIC OBJECTIVE	KEY STRATEGIC OUTPUTS	KEY ACTIVITIES	PERFORMANCE MEASURES	TARGET 2011/12	PERFORMANCE April 2011 to March 2012	VARIANCES EXPLANATION
						Sales to HDSA clients made up 3% of value, 1% of carats	
			• Maintain cordial relations with the IDC	• Reduced cost of funding • Improved funding arrangements	Prime minus 1% R50m	No IDC loans used for purchase funding	Further loan negotiations to be completed in 2012/13
	To provide support to State Diamond Trader clients	**Competent clients with sustainable businesses**	• Facilitate technical and business management training	• Number of clients trained	20 HDSA clients p.a.	Training on branding and marketing was availed to 15 HDSA clients 2 HDSA women clients enrolled in mentoring and coaching programme with one large client	
			• Provide market intelligence	• Market Intelligence briefings	Quarterly	3 Client Info Sessions held during the year and market intelligence shared	

STRATEGIC GOALS	STRATEGIC OBJECTIVE	KEY STRATEGIC OUTPUTS	KEY ACTIVITIES	PERFORMANCE MEASURES	TARGET 2011/12	PERFORMANCE April 2011 to March 2012	VARIANCES EXPLANATION
						Sponsored 15 clients' participation at Jewellex in July 2011 where they marketed their businesses	
			• Facilitate access to finance	• Increased number of trading clients	10% p.a.	As part of three client information sessions held Sales made to 25 Mandate clients (2010/11= 22)	
GOAL 2: Be an efficient and professionally managed organization	**Develop and acquire appropriate Human Resource capacity**	**Appropriate skills and capacity**	• Ensure Accounting Authority approval of reviewed HR policy	• Policy approved	April 2011	HR Policy being implemented and new permanent officials have been employed	Subject to the additional policies, further training planned as on- going
			• Design relevant Training Programme	• Implementation of relevant training for all diamond trainee personnel	April 2011 and on going		
			• Ensure continuous capacity building for all personnel	• Skills gaps identified and relevant courses/ training initiated	April 2012		

STRATEGIC GOALS	STRATEGIC OBJECTIVE	KEY STRATEGIC OUTPUTS	KEY ACTIVITIES	PERFORMANCE MEASURES	TARGET 2011/12	PERFORMANCE April 2011 to March 2012	VARIANCES EXPLANATION
				• Review and monitor training provided to ensure appropriateness	On going	Training for Diamond valuators continued to second year, two employed by end of year as permanent officials and further review of training	
GOAL3: Promote and uphold efficient governance	**Implement and maintain admin systems, procedures and controls**	**Efficiency and Best Practices**	• Regular Internal Audits	• Submission of Internal Audit Reports to the Audit and Risk Management Com	Quarterly	3 internal audits conducted during second half of the year	
			• Ensure timeous processing of all financial and trading transactions	• Reduced turnaround times on stocks and decreased loan cost	On going	Target turnaround exceeded (Actual = 10 days, target = 14 days)	
			• Training staff on all policies and business processes	• Implementation of/Compliance with all policies and business processes	April 2012	Workshops were conducted throughout the year for staff	
			• Develop and approve IT Policies and Procedures	• Controlled IT System	March 2012	IT policies were developed during the year and for approval in May 2012 by the Board.	Completion delayed due to complexity and installation of new IT equipment

STRATEGIC GOALS	STRATEGIC OBJECTIVE	KEY STRATEGIC OUTPUTS	KEY ACTIVITIES	PERFORMANCE MEASURES	TARGET 2011/12	PERFORMANCE April 2011 to March 2012	VARIANCES EXPLANATION
			• Acquire and maintain adequate insurance for diamond stock and State Diamond Trader assets	• Sufficient insurance for all stock and assets	Annually	Annual insurance in place up to June 2012	
			• Review and maintain compliant procurement procedures	• Compliant procurement procedures	April 2012	Procurement Procedures reviewed in April 2011 and for review during Q1 2012/13	
	Adhere to Corporate Governance, Legislation and Policies	**Compliance**	• Ensure Audit and Risk Committee meetings are held	• Compliance by the Committee	Minimum of 4 Meetings p.a.	Set meetings were held	
			• Ensure approval and submission of Statutory reports	• Approved and submitted: ➢ Quarterly and annual Reports	By end of 1 month after end of every Quarter and Annually	All quarterly and annual reports submitted within required time	
			• Ensure meetings with External Auditors (AG) are conducted	• Audit and Risk Management Com Meeting	Quarterly	Meetings held during quarterly meetings	
			• Address All Audit findings	• Unqualified Audit Reports	Quarterly and with the Annual Report	Audit findings addressed & discussed with AG	
			• Conduct annual Risk Assessment	• Updated Risk Register	By March, annually	Review done in March 2012	





Performance against Strategic Business Target

STRATEGIC GOALS	STRATEGIC OBJECTIVE	KEY STRATEGIC OUTPUTS	KEY ACTIVITIES	PERFORMANCE MEASURES	TARGET 2011/12	PERFORMANCE April 2011 to March 2012	VARIANCES EXPLANATION
GOAL 4: Ensure constant access to rough diamonds	**Enforce legislation compliance**	**Rough diamond made available to local beneficiators**	• Ensure all producers declare their production cycles	• Production cycles used in inspection planning	Annually	Production cycles submitted by a few producers	
		State Diamond Trader to comply with its legislated requirement	• Inspect rough diamonds produced in SA	• Productions inspected	90%	6,889,931 carats, US$1.3B inspected	
			• Purchase up to 10% of total SA production (volume and value)	• % of SA production purchased	9% by 2011 10% by 2012	4% of volume (carats) and value purchased	Reduction in purchases due to market conditions
	Improve relations with producers	**Select rough diamonds as per clients' demands**	• Update client demand analysis	• Report produced	December, Annually	Update done and no changes	
			• Develop producer engagement strategy	• Approved Producer Engagement Strategy	April 2011	Approved in April 2011 and being implemented	
				• Reduced number of disputes with producers	On going	No IDV processes	

STRATEGIC GOALS	STRATEGIC OBJECTIVE	KEY STRATEGIC OUTPUTS	KEY ACTIVITIES	PERFORMANCE MEASURES	TARGET 2011/12	PERFORMANCE April 2011 to March 2012	VARIANCES EXPLANATION
	Develop and maintain trading relations with other African diamond producing countries	**Cost benefit analysis and strategy on importing diamonds**	• Investigate the costs and benefits of importing rough diamonds from other African countries	• Cost benefit analysis report completed	March 2011	Report completed in March 2011	Further testing studies to be done during the course of 2012/13 to ensure costing for international purchase and ensure local tradability
			• Develop strategy for importing rough diamonds	• Rough diamond importation strategy	March 2012	Strategy to be finalised during Q1 of 2012/13 due to further testing required.	
			• Negotiating supply agreements with diamond producing nations' governments	• Supply agreements concluded	2 agreements by March 2013	To be completed by March 2013	
			• Compliance with Kimberley Process Certification Scheme	• Compliance with international diamond trading rules	By the time of first international purchase	By 2013/14	



STATEMENT OF RESPONSIBILITY FOR FINANCIAL STATEMENTS

Statement of responsibility by the directors, who constitute the Accounting Authority for the State Diamond Trader for the year ended 31 March 2012.

The responsibility of the Accounting Authority of the State Diamond Trader ranges from the maintenance of appropriate records to the preparation and integrity of the quarterly reports and financial statements. Through its committees and its regular meetings, the Accounting Authority is able to engage with the management on all areas of responsibility and make recommendations and decisions.

The financial statements presented herein represent the state of affairs of the State Diamond Trader its financial results, its performance against predetermined objectives and its financial position at the end of the financial year. The financial statements have been prepared in terms of the South African Statements of Generally Accepted Accounting Practice, the Public Finance Management Act and the Treasury Regulations. The financial statements are thus based on appropriate accounting policies supported by reasonable and prudent judgments and estimates.

The Accounting Authority establishes policies and sets of standards that are designed to provide reasonable assurance against material misstatements and losses and this enables the Accounting Authority to execute its responsibilities as required. The State Diamond Trader maintains internal financial controls thereby to provide assurance regarding the management and maintenance of its assets and the integrity of its financial records. The internal policies are underpinned by its policy framework and the strategic objectives, which provide a strategic direction to management on the expected performance and the outcomes. These are regularly reviewed to ensure compliance and relevance.

It is the opinion of the Accounting Authority that based on the information available to date, the financial statements herein presented fairly present the financial position of the State Diamond Trader at 31 March 2012 and the results of its operations and cash flow information for the financial year end.

The financial statements which appear hereunder were approved by the Accounting Authority on 26 July 2012 and are signed on its behalf by:

Adv. Linda Makatini
Chairperson of the Accounting Authority

Mr Imtiaz Goondiwalla
Chairperson of the HR, Finance and Remuneration Committee





Accounting Authority's Report

The Accounting Authority hereby presents its fifth report summarising the activities of the State Diamond Trader. The State Diamond Trader was established in July 2007 in terms of section 14 of the Diamonds Amendment Act 29 of 2005. This review provides a context to the financial performance of the State Diamond Trader's operations as detailed in the financial statements.

Financial performance

The objectives of the State Diamond Trader are to promote equitable access to and local beneficiation of diamond resources of South Africa. The State Diamond Trader has set itself the objective of operating its business in a profitable and self-sustaining manner to ensure its sustainability in the future.

During the previous year the State Diamond Trader was at its peak of performance as it achieved revenues in excess of R810 million. The market recovery and a boom in the industry fuelled this.

The Interim Sales Strategy, implemented in response to the 2008-09 low trading performance, remained in place for selected transactions. Of the 72 purchases made by the State Diamond Trader, 31 were subject to the strategy which guarantees an appropriate margin prior to purchase.

The successful application of the Interim Sales Strategy means that the State Diamond Trader is now in a position to purchase the 10% representative sample from all but the largest producer in South Africa without requiring loans or pre-financing from its clients. The strategy has also made more suitable rough diamonds available to clients in the State Diamond Trader's target market the small/mandate clients.

Financial position

Revenue for the year of R433 053 736 (2011: R810 405 548) reflects a decrease of 47%. This was due to the State Diamond Trader purchasing a lower percentage of the production available as a result of the unsustainable rises in prices at producer level. A Gross Margin percentage of 5% on average was achieved on trading.

Capital expenditure for the year amounted to R1 781 170 (2011: R0). This was due State Diamond Trader moving to the new and larger office premises. An IT refresh was done in terms of buying new IT equipment and new security equipment for the offices. Also new furniture and fittings were needed for the extra space State Diamond Trader has in new offices.

Administrative expenses have increased from R12 302 795 the previous year to R14 163 013 in the current year and this is mainly due to travel, salary expense and trainee expense as State Diamond Trader started paying for salaries and training expenses and related running costs of the State Diamond Trader as a result of State Diamond Trader office move to bigger premises during the financial year. There was R6 726 132 inventory at the end of the financial year (2011: R R6 525 971).

Net assets as at 31 March 2012 amounted to R40 899 605 (2011: R27 985 686).





Accounting Authority's Report

Cash flow position

Cash resources at the end of the financial year amounted to R31 952 148 (2011: R21 115 365). The cash and cash equivalents of R31 952 148 million belonged to State Diamond Trader.

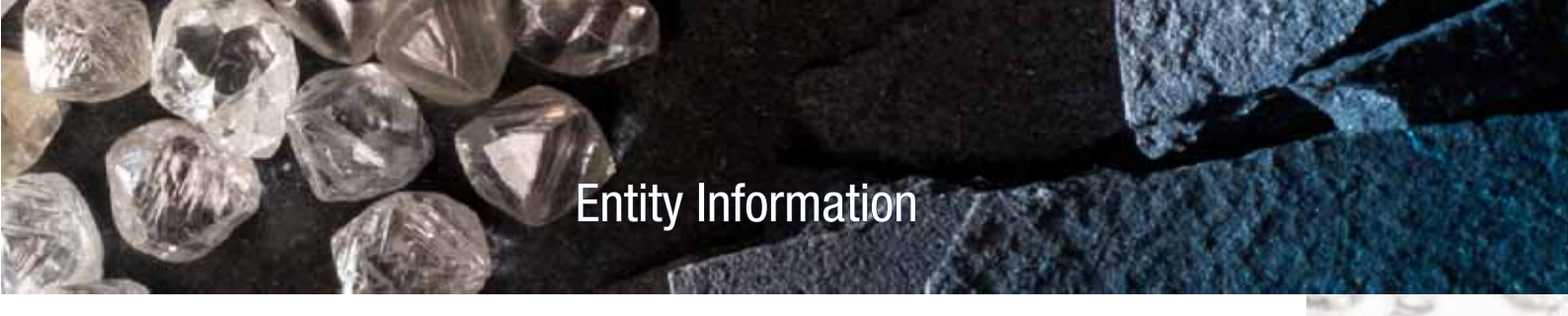
Going concern

The Accounting Authority is of the view that the performance of the State Diamond Trader during the financial year has strengthened and that it will continue operating as a going concern.

Subsequent Events

There were no subsequent events identified for reporting purposes.





Entity Information



Postal address:

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Marshalltown
South Africa
2107

Business address:

Jewel City
225 Main Street
Johannesburg
2001

Email:
infosdt@statediamondtrader.gov.za

Website:
www.statediamondtrader.gov.za

Shareholder:
Government of the Republic of South Africa
Represented by Minister of Minerals and Resources

Country of incorporation:
Republic of South Africa





Accounting Authority

Ms L. Makatini	(Chairperson)
Ms P. N. Zikalala	(Chief Executive Officer from August 2011)
Major Gen. P. Arendse	(Member – joined October 2011)
Mr I. Goondiwalla	(Member)
Mr K. Joseph	(Member – resigned November 2011)
Ms D. Maphatiane	(Member)
Mr P. Moeti	(Member)
Mr T. Montoedi	(Member)
Mr S. Motloung	(Member)
Ms F. Ngcwabe	(Member – resigned July 2011)
Mr D. Nkosi	(Member – resigned October 2011)
Mr L. Rapoo	(Member)
Brigadier N. Mokoena	(Alternate for Major Gen. P. Arendse – joined October 2011)

Company Secretary: Vacant

Trainee Company Secretary: Ms A. Hlongwane (resigned April 2012)





AUDITOR GENERAL



Auditor General

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON STATE DIAMOND TRADER

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the State Diamond Trader set out on pages 52 to 74, which comprise the statement of financial position as at 31 March 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting authority's responsibility for the financial statements

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with South African Statements of Generally Accepted Accounting Practice (SA Statements of GAAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA), and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2001) (PAA), the General Notice 1111 of 2010 issued in Government Gazette 33872 of 15 December 2010 and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.





Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the State Diamond Trader as at 31 March 2012 and its financial performance and cash flows for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice (SA Statements of GAAP) and the requirements of the PFMA.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

PAA REQUIREMENTS

7. In accordance with the PAA and the General Notice 1111 of 2010 issued in Government Gazette 33872 of 15 December 2010, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

8. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages 35 to 41 of the annual report.

9. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury Framework for managing programme performance information.

   The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

10. There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

Compliance with laws and regulations

11. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. I did not identify any instances of material non-compliance with specific matters in key applicable laws and regulations as set out in the General Notice issued in terms of the PAA.





Internal control

12. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. I did not identify any deficiencies in internal control which we considered sufficiently significant for inclusion in this report.



Pretoria
31 July 2012

AUDITOR-GENERAL SOUTH AFRICA

Auditing to build public confidence



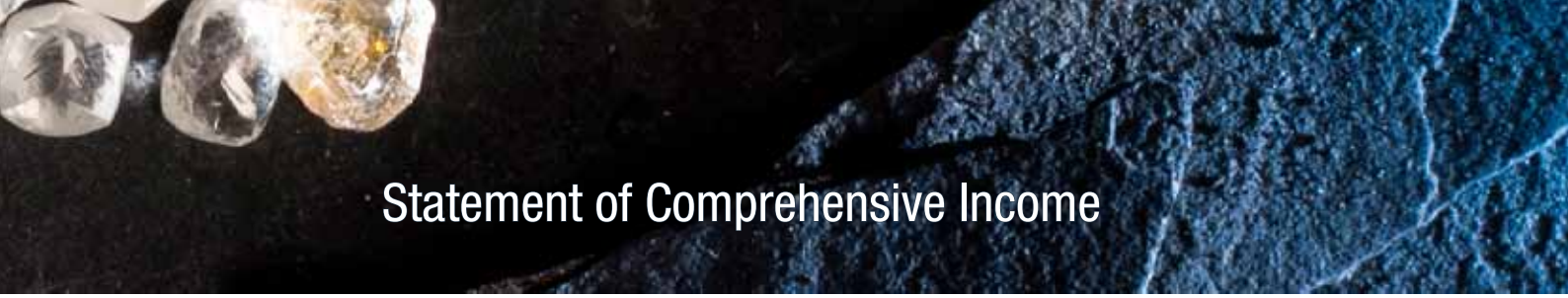


FINANCIALS

Statement of Financial Position

as at 31 March 2012

	Notes	2012 Rands	2011 Rands
ASSETS			
Non-current assets		**2 121 239**	**637 124**
Property and equipment	6	2 121 239	637 124
Current assets		**39 649 208**	**29 750 263**
Inventory	7	6 726 132	6 525 971
Trade and other receivables	8	970 928	2 108 927
Cash and cash equivalents	9	31 952 148	21 115 365
TOTAL ASSETS		**41 770 447**	**30 387 387**
EQUITY AND LIABILITIES			
Equity		**40 899 605**	**27 985 686**
Retained income		40 899 605	27 985 686
Non-current liabilities		37 373	53 171
Operating Lease Rental Liability (Straight Lining)		37 373	-
Deferred tax liability	19	-	53 171
Current liabilities		**833 469**	**2 348 530**
Trade and other payables	11	833 469	594 700
Loans and borrowings	10	-	816 330
Tax payable		-	937 500
TOTAL EQUITY AND LIABILITIES		**41 770 447**	**30 387 387**



Statement of Comprehensive Income

for the year ended 31 March 2012

	Notes	2012	2011
		Rands	Rands
Revenue	12	433 053 736	810 405 548
Cost of sales	12	(410 440 046)	(774 293 776)
Gross profit		**22 613 690**	**36 111 772**
Other income	13	6 330 929	7 145 523
Administrative expenses		(14 163 013)	(12 302 795)
Profit/(Loss) from operating activities	14	**14 781 606**	**30 954 500**
Finance income	15	1 665 628	705 628
Finance expenses	16	(280 961)	(175 163)
Profit before income tax		**16 166 273**	**31 484 965**
Income tax expense	17	(3 252 354)	(7 890 077)
Profit/(Loss) for the period		**12 913 919**	**23 594 888**
Total comprehensive income		**12 913 919**	**23 594 888**





Statement of Changes in Equity

for the year ended 31 March 2012

	Retained Income
	Rands
Balance at 01 April 2010	**4 390 798**
Profit for the year	23 594 888
Balance at 31 March 2011	**27 985 686**
Profit for the year	12 913 919
Balance at 31 March 2012	**40 899 605**





Statement of Cash Flows

for the year ended 31 March 2012

	Notes	2012 Rands	2011 Rands
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated by operations	18	16 268 688	22 723 556
Interest paid		(280 961)	(175 163)
Interest received		1 665 628	705 628
Income tax paid		(4 243 024)	(9 001 142)
Other Income from DBCM		23 952	9 804
Net cash inflow from operations		**13 434 283**	**14 262 683**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment		(1 781 170)	-
Net cash outflow from investing activities		**(1 781 170)**	**-**
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of IDC revolving credit facility		-	-
Payment of IDC standby facility		(816 330)	(1 400 000)
Net cash outflow from financing activities		**(816 330)**	**(1 400 000)**
Net increase in cash and cash equivalents		**10 836 783**	**12 862 683**
Cash and cash equivalents at the beginning of the period		21 115 365	8 252 682
Cash and cash equivalents at the end of the period		**31 952 148**	**21 115 365**



Notes to the financial statements for the year ended 31 March

1. Reporting entity

State Diamond Trader is an entity domiciled in South Africa. The address of the entity's registered office is Jewel City, 225 Main Street, Johannesburg, 2001. The entity is primarily involved in the purchase and sale of rough diamonds.

2. Basis of preparation

a) Statement of compliance

The financial statements have been prepared in accordance with, and comply with, South African Statements of Generally Accepted Accounting Practice (SA GAAP) and the Public Finance Management Act, 1999 (Act No 1 of 1999).

b) Basis of measurement

The financial statements have been prepared in accordance with the going-concern principle on the historical basis except for financial instruments, refer note 3(e).

c) Functional and presentation currency

These financial statements are presented in Rands which is the entity's functional currency. All financial information presented in Rands has been rounded to the nearest rand.

d) Use of estimates and judgements

The preparation of financial statements in conformity with SA GAAP requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. It also requires management to exercise its judgement in the process of applying the State Diamond Trader's accounting policies.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3(k) (Critical accounting estimates and judgments).

e) Changes in accounting policies

The Entity applies revised IAS 1 Presentation of Financial Statements (2007), which became effective as of 1st January 2009. As a result, the Entity presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income.



Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on amounts disclosed previously.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except as explained in note 2(e), which addresses changes in accounting policies.

a) Revenue

Revenue comprises the fair value of the consideration received or receivable for the goods sold in the ordinary course of State Diamond Trader's activities. Revenue is shown, net of value-added tax, estimated returns, rebates and discounts.

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- The entity has transferred to the buyer the significant risks and rewards of ownership of goods;
- The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

b) Finance Income and Expenses

Finance income comprises interest income on bank balances. Interest is accrued on a time proportionate basis using the effective interest rate method.

Finance expenses comprise interest expense on borrowings and changes in the cost of financial liabilities at amortised costs. All borrowing costs are recognised in profit or loss using the effective interest rate method.

c) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first in first out principle and includes the cost of acquiring the inventory and other costs incurred in bringing them to the existing location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

d) Property and equipment

The cost of an item of property and equipment is recognised as an asset when:

- it is probable that the future economic benefits associated with the item will flow to the Entity; and
- the cost of the item can be measured reliably.

All property and equipment is stated at historical cost less accumulated depreciation and, if





applicable, accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items and bringing the item to working condition for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation on property and equipment is calculated using the straight-line method to allocate their cost (including capitalised leased assets) over the estimated useful lives, as follows:

Motor vehicles	10%
Furniture and fixtures	10%
Computer hardware	33.3%
Other office equipment	10%
Leasehold improvements	over the remaining period of the lease

Depreciation is recognised in profit or loss. The depreciation method, residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in profit or loss.

e) Financial instruments

Financial instruments carried on the balance sheet include cash and cash equivalents, trade and other receivables, loans and borrowings and trade and other payables.

(1) Classification

Financial instruments are measured at amortised cost using the effective interest rate method less any impairment losses.

(2) Recognition

The State Diamond Trader recognises financial assets and financial liabilities on the date it become party to the contractual provisions of the instrument.

(3) Measurement

Financial instruments are measured initially at fair value (transaction price) plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately, while on other financial instruments they are capitalised.





Subsequent to initial recognition, these financial instruments are measured as follows:

- ***Cash and cash equivalents***
  Cash comprises cash balances with banks. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts the cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. These are initially and subsequently measured at amortised cost.

- ***Trade and other receivables (Accounts receivable)***
  Trade receivables are initially stated at fair value and subsequently at amortised cost using the effective interest rate method. The recoverable amount of trade receivables is calculated at the present value of expected future cash flows discounted using the original effective interest rate inherent in the asset. Short-term receivables are not discounted.

- ***Trade and other payables (Accounts payable)***
  Trade payables are initially measured at fair value and are subsequently measured at amortised costs using the effective interest rate method. These are subject to normal trade credit terms and relatively short payment cycles. Trade and other payables are classified as other financial liabilities.

(4) Impairment

Financial assets that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of Impairment. If any such indication exists, an impairment loss is recognised in profit and loss as the difference between the asset's carrying amount and present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

If in a subsequent year the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the income statement. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been previously recognised.

(5) De-recognition

The State Diamond Trader de-recognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for de-recognition in accordance with IAS 39.

The State Diamond Trader uses the weighted average method to determine realised gains and losses on de-recognition. The financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.





f) Operating leases

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

g) Provisions

Provisions are recognised when the entity has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the obligation. The amount of the provision is the present value of the expenditure expected to be required to settle the obligation.

h) Employee benefits

The cost of all short term employee benefits, such as salaries, medical aid, leave pay-outs and other contributions is recognised during the year in which the employee renders the related service.

i) Income tax

As of February 2012 the entity was granted income tax exempt status and therefore would not be liable for any income tax for the year. As provisional income tax was already paid at the time, it has been recognized as an expense for the year.

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss, except to the extent that it relates to items recognised in equity. Current taxation comprises tax payable, calculated on the basis of the expected taxable income for the year, using tax rates expected at the balance sheet date and any adjustments of the tax payable for the previous year.

Deferred taxation is recognised using the balance sheet method providing for all temporary differences except to the extent that the deferred tax liability or asset arises from the initial recognition of an asset of liability in a transaction that is not a business combination which at the time of the transaction, affects neither accounting nor taxable profit or loss. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilised. Deferred taxation is calculated using the taxation rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at balance sheet date. The effect on deferred taxation of any changes in taxation rates is charged to profit or loss, except to the extent that it relates to items previously charged or credited directly to equity.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

j) Related parties

The State Diamond Trader operates in an economic environment currently dominated by entities directly or indirectly owned by the South African government. As a result of the constitutional independence of all three spheres of government in South Africa, only parties within the national sphere of government will be related parties. Related parties also include key management personnel,





which are persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any members of the accounting authority (whether executive or otherwise) of the State Diamond Trader

k) Critical accounting estimates and judgements

The State Diamond Trader makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are as follows:

(1) Estimates of residual values and useful lives of equipment

The State Diamond Trader reassesses annually the residual values and remaining useful lives of fixed assets. The residual values of these assets have been estimated as the amount that the State Diamond Trader would currently obtain from disposal of each asset, in its current location, if the asset were already of the age and in the condition expected at the end of its useful life. The useful life is estimated as the period over which an asset is expected to be available for use by the State Diamond Trader. Technological innovation and maintenance programs impact the useful lives and residual values of the assets.

(2) Contingent liabilities

Management applies its judgement to the patterns and advice it receives from its attorneys, advocates and other advisors in assessing if an obligation is probable, more likely than not, or remote. This judgement application is used to determine whether the obligation is recognised as a liability or disclosed as a contingent liability.

l) Donations

Donations consist primarily of use of the De Beers staff seconded to the entity, De Beers assets that are in the premises that were used by the State Diamond Trader, use of DMR staff seconded to the State Diamond Trader and in 2011 year end State Diamond Trader Trainees being paid for by DMR on behalf of State Diamond Trader. Donations are intended to compensate expenses and to provide immediate financial support to the State Diamond Trader with no future related costs and are recognised as income in the period in which they are received and expensed, as they are used by State Diamond Trader.

m) Irregular, fruitless and wasteful expenditure

Irregular expenditure means expenditure incurred in contravention of, or not in accordance with, a requirement of any applicable legislation, including:

- The PFMA, or
- Any national/provincial legislation providing for procurement procedures in that national/provincial government.

Fruitless and wasteful expenditure means expenditure that was made in vain and could have been avoided had reasonable care been exercised.

All irregular, fruitless and wasteful expenditure is charged against income in the period in which it is incurred.



Notes to the Financial Statements



4. Financial Risk Management

Overview

The State Diamond Trader has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the State Diamond Trader's exposure to each of the above risks, and the objectives, policies and processes for measuring and managing risk.

The accounting authority has an overall responsibility for the establishment and oversight of the State Diamond Trader's risk management framework. It has established the Risk Management Committee, which is responsible for developing and monitoring the State Diamond Trader's risk management policies. The committee reports regularly to the accounting authority on its activities.

Risk management policies are established to identify and analyse the risks faced by the State Diamond Trader, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and in the State Diamond Trader's activities. The State Diamond Trader, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The accounting authority, through its relevant Committees, oversees how management monitors compliance with the State Diamond Trader's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the State Diamond Trader.

Credit risk

Credit risk is the risk of financial loss to the State Diamond Trader if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the State Diamond Trader's receivables from customers.

Exposure to Credit Risk

The State Diamond Trader is not exposed to credit risk from its customers, as its policy is not to grant credit. Goods will not be released to the customer until payment has been received.

Liquidity risk

Liquidity risk is the risk that the State Diamond Trader will not be able to meet its financial obligations as they fall due. The State Diamond Trader's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the State Diamond Trader's reputation.





The State Diamond Trader manages liquidity risk by following a cycle approach to the purchase and sale of diamonds. Only once all diamonds from the previous cycle have been sold and the revolving credit facility has been settled in full will the next order to purchase diamonds be placed. In this manner the State Diamond Trader is able to manage its cash flow requirements.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the State Diamond Trader's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising return on the risk.

Currency risk

The State Diamond Trader is exposed to currency risk on sales and purchases, which are denominated in US Dollars (USD). The State Diamond Trader manages currency risk by settling the foreign currency denominated purchases on or about the date of purchase and receiving payments for foreign currency denominated sales on or about the date of sale, thereby minimising foreign currency exposure.

Cash Flow interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in interest rates. The entity's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the company to cash flow interest rate risk.

The sensitivity analysis below focuses on cash flow sensitivity (the impact on future interest-related cash flows). A change of 100 basis points in the interest rates at the reporting date would have increased/ (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant.

Sensitivity analysis

	Effect on profit or (loss)	
	Increase	**Decrease**
At 31 March 2012		
Revolving Facility	-	-
Standby Facility	-	-
Cash flow sensitivity (net)	-	-
At 31 March 2011		
Revolving Facility	-	-
Standby Facility	(7 193)	7 193
Cash flow sensitivity (net)	(7 193)	7 193





Notes to the Financial Statements



Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet are as follows:

	31 March 2012		31 March 2011	
In Rands	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Loans and Borrowings	-	-	816 330	816 330
Cash and cash equivalents	31 952 148	31 952 148	21 115 365	21 115 365
Trade and other payables	307 591	307 591	227 620	227 620

Capital management

The State Diamond Trader is Government Business Enterprise and does not have any share capital.

The State Diamond Trader is not funded by government and it is expected to be self-sufficient. The accounting authority monitors gross profit margins and operating expenditure to ensure that the State Diamond Trader generates sufficient profit from its operations to cover operating expenses.



5. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations issued are not yet effective for the year ended 31 March 2011, and have not been applied in preparing these financial statements:

Standard/Interpretation		Effective date
IAS 12 amendment	*Deferred tax: Recovery of Underlying Assets* As a result of this amendment to IAS 12, the Company will change the rate applied for measuring deferred tax arising from the Company's investment property measured using the fair value model in accordance with IAS 40 *Investment Property*. Previously the Company used a blended rate, however in terms of the amendment a sale rate will be applied. This amendment will have to be applied retrospectively and may result in a potential restatement of comparative balances. This statement would not have an impact on the Entity as it is exempt from Income Tax.	Annual periods beginning on or after 1 January 2012*
IFRS 1 amendment	*Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* This statement would not impact the results of the Entity as the Entity is not first time adopters of IFRS.	Annual periods beginning on or after 1 July 2011*(1)
IFRS 7 (AC 144) amendment	*Disclosures – Transfers of Financial Assets* In terms of the amendments additional disclosure will be provided regarding transfers of financial assets that are: • not derecognised in their entirety and • de-recognised in their entirety but for which the entity retains continuing involvement. This statement will impact the results of the Entity as the Entity does have Financial Assets.	Annual periods beginning on or after 1 July 2011*
IFRS 9 (2009) (AC 146)	*Financial Instruments* IFRS 9 (AC 146) addresses the initial measurement and classification of financial assets and will replace the relevant sections of IAS 39 (AC 133). Under IFRS 9 (AC 146) there are two options in respect of classification of financial assets, namely, financial assets measured at amortised cost or at fair value. Financial assets are measured at amortised cost when the business model is to hold assets in order to collect contractual cash flows and when they give rise to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets are measured at fair value. Embedded derivatives are no longer separated from hybrid contracts that have a financial asset host. This statement will impact the results of the Entity as the Entity does have Financial Assets.	Annual periods beginning on or after 1 January 2013*

IFRS 9 (2010) (AC 146)	*Financial Instruments* IFRS 9 (2010) (AC 146) addresses the measurement and classification of financial liabilities and will replace the relevant sections of IAS 39 (AC 133). Under IFRS 9 (2010), the classification and measurement requirements of financial liabilities are the same as per IAS 39 (AC 133), except for the following two aspects: • fair value changes for financial liabilities (other than financial guarantees and loan commitments) designated at fair value through profit or loss, that are attributable to the changes in the credit risk of the liability will be presented in other comprehensive income (OCI). The remaining amount of the fair value change is recognised in profit or loss. However, if this requirement creates or enlarges an accounting mismatch in profit or loss, then the whole fair value change is presented in profit or loss. The determination as to whether such presentation would create or enlarge an accounting mismatch is made on initial recognition and is not subsequently reassessed. • Under IFRS 9 (2010) (AC 146) derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured, are measured at fair value. IFRS 9 (2010) (AC 146) incorporates, the guidance in IAS 39 dealing with fair value measurement, and accounting for derivatives embedded in a host contract that is not a financial asset, as well as the requirements of IFRIC 9 *Reassessment of Embedded Derivatives*. This statement will impact the results of the Entity as the Entity does have Financial Assets.	Annual periods beginning on or after 1 January 2013*
IFRIC 14 (AC 447) amendment	*Prepayments of a Minimum Funding Requirement* The amendments to IFRIC 14 (AC 447) address the accounting treatment for prepayments made when there is a minimum funding requirement (MFR). Under the amended IFRIC 14 (AC 447) an asset would be recognised in respect of such a prepayment, made to the defined benefit pension plan, on the basis that the entity has a future economic benefit from the prepayment. This statement will not impact the results of the Entity as the Entity does not have prepayments of a MFR.	Annual periods beginning on or after 1 January 2011*
IFRIC 19 (AC 452)	*Extinguishing Financial Liabilities with Equity Instruments* IFRIC 19 (AC 452) addresses the accounting treatment for the extinguishment of financial liabilities with equity instruments. Under IFRIC 19 (AC 452), equity instruments issued to a creditor to extinguish all or part of a financial liability would represent "consideration paid". The equity instruments will be measured on initial measurement at their fair value, unless such fair value cannot be reliably measured, in which case the fair value of the financial liability will be used. The difference between the carrying amount of the financial liability (or part thereof) extinguished and the initial measurement amount of the equity instruments shall be recognised in profit or loss. This statement will not impact the results of the Entity as the Entity does not enter into such transactions.	Annual periods beginning on or after 1 July 2010*

6. Property and equipment

	Leasehold Improvements R	Furniture and fittings R	Security Equipment R	Computers R	Diamond Equipment R	Total R
Year ended 31 March 2012						
Opening net carrying amount	**151 277**	**126 012**	**323 398**	**36 438**	**-**	**637 124**
Gross carrying amount	458 560	178 418	448 108	362 527	-	1 447 613
Accumulated depreciation	(307 283)	(52 406)	(124 710)	(326 089)	-	(810 489)
Additions	-	334 562	494 371	714 237	238 000	1 781 170
Assets Transfer (DBCM)	-	24 359	10 946	45	-	35 350
Depreciation	(21 925)	(30 433)	(70 419)	(200 568)	(10 693)	(334 038)
Closing net carrying amount	**130 983**	**454 501**	**758 296**	**550 152**	**227 307**	**2 121 239**
Gross carrying amount	454 592	537 340	953 425	1 065 566	238 000	3 248 923
Accumulated depreciation	(323 609)	(82 839)	(195 129)	(515 414)	(10 693)	(1 127 684)
Year ended 31 March 2011						
Opening net carrying amount	**173 202**	**143 835**	**368 195**	**150 995**	**-**	**836 227**
Gross carrying amount	458 560	178 418	448 108	362 527	-	1 447 613
Accumulated depreciation	(285 358)	(34 583)	(79 913)	(211 532)	-	(611 386)
Additions	-	-	-	-	-	-
Depreciation	(21 925)	(17 823)	(44 797)	(114 557)	-	(199 103)
Closing net carrying amount	**151 277**	**126 012**	**323 398**	**36 438**	**-**	**637 124**
Gross carrying amount	458 560	178 418	448 108	362 527	-	1 447 613
Accumulated depreciation	(307 283)	(52 406)	(124 710)	(326 089)	-	(810 489)

7. Inventory

	2012 R	2011 R
	6 726 132	**6 525 971**
Cost of inventory	6 726 132	6 525 971

Inventory is stated at the lower of cost and net realisable value.

8. Trade and other receivables

	970 928	**2 108 927**
Prepayments	113 312	170 721
VAT Receivable	514 798	1 886 061
Other receivable	56 256	52 145
Refund receivables	286 562	-

- Credit risk and impairment losses

The entity's exposure to credit risk and impairment losses is disclosed in Note 4.

9. Cash and cash equivalents

	31 952 148	**21 115 365**
FNB Operational Account	10 681 602	5 849 662
FNB Joint Account	-	10 729
Petty cash	2 000	2 000
FNB Call Accounts	10 819 777	10 252 974
Standard Bank Call Account	10 448 769	5 000 000

- Interest rate risk

The entity's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 4.



10. Loans and borrowings

This note provides information about the contractual terms of the interest bearing loans and borrowings, which are measured at amortised cost. For more information about the entity's exposure to interest rate and liquidity risk, see note 4.

	2012 R	2011 R
Standby Loan Facility	-	-
Current portion of long term loans	-	**816 330**
Standby Loan Facility	-	816 330
Revolving Credit Facility	-	-

The Standby Loan is at the interest rate of prime + 1.5%, once off raising fee of 1% and is repayable over 36 months in equal monthly instalments of R116 667 from the first day of the 13th month (which is 1 October 2008) from the date of the first drawdown of the Standby Loan. This loan was fully repaid in October 2011.

The revolving facility was not used in the current financial year and thus has a balance of R0 at period end (2011: R0).

11. Trade and other payables

	833 469	**594 700**
Accruals	483 503	187 948
Creditors	307 591	227 620
VAT payable	-	55 365
Provisions	42 375	123 767

- Liquidity risk

The entity's exposure to currency and liquidity risk relating to trade and other payables are disclosed in note 4.





12. Revenue

	2012	2011
	R	R
Revenue consists of sales of rough diamonds to local beneficiators.	**433 053 736**	**810 405 548**
Cost of sales		
Reconciliation:		
Opening inventory	6 525 971	-
Purchases	410 405 051	780 560 948
Vaulting, Security and Transport costs	235 155	258 799
Less: Closing inventory	6 726 132	6 525 971
Cost of goods sold	**(410 440 046)**	**(774 293 776)**

13. Other income

Other Income is Donations to the State Diamond Traderin respect of Staff donated by DBCM and DMR and use of Equipment from DBCM.

Other income	**6 330 929**	**7 145 523**
Donations DBCM	4 716 511	5 142 763
Other Income from DBCM	23 952	9 804
Donations DBCM: Use of Equipment	147 133	160 913
DBCM Transfer of assets Unrealised Profit	39 333	-
Donations DMR	1 404 000	1 832 043

14. Profit/(loss) from operating activities is stated after accounting for the following:

Audit Fees	624 958	404 412
Emoluments		
For service as members	422 044	440 180
For managerial services	300 473	-
Depreciation	334 038	199 103
Operating lease charges	316 770	179 365
Salaries	1 048 880	412 509
Reversal of Provision on Salaries	(97 677)	-
Salaries - Donations	6 120 511	6 974 806
Use of De Beers Assets and Diamond Equipment	147 133	160 913





15. Finance income

	2012	2011
	R	R
Interest received	**1 665 628**	**705 628**

16. Finance expenses

Raising fees on IDC Revolving facility	252 500	-
Interest charged by:	28 461	175 163
IDC	28 339	175 163
Other	122	-
	(280 961)	**(175 163)**

17. Income tax expense

Current tax expense:		
South African Normal Tax	3 599 822	8 768 646
Deferred tax expense	(53 171)	53 171
Reversal of temporary differences	(294 297)	(931 740)
Income tax expense	**3 252 354**	**7 890 077**

Reconciliation of effective tax rate:

Statutory rate%	28.00%	28.00%
Adjustments:		
Non-deductible expenses	-	0.03%
Tax not charged due to being exempt	-5.60%	-
Prior year reversal of over accrual	-1.83%	-2.97
Reversal of deferred tax liability	-0.33%	-
Effective tax rate	**20.24%**	**25.06%**







18. Cash generated from operations

	2012 R	2011 R
Net income / (loss) before taxation	**16 166 273**	**31 484 965**
Adjusted for:		
- depreciation	334 038	199 103
- other non-cash items	(36 984)	(350)
- interest expense	280 961	175 163
- interest received	(1 665 628)	(705 628)
- other income received from DBCM	(23 952)	(9 804)
- Donations received - DMR and DBCM	(6 267 644)	(7 135 719)
- Staff services donated - DBCM	4 716 511	5 142 764
- Staff services donated - DMR	1 404 000	1 832 043
- Use of assets - De Beers	147 133	160 913
Adjusted net profit before taxation	**15 054 708**	**31 143 449**
Changes in working capital:		
- decrease/(increase) in trade and other receivables	1 137 999	(2 001 934)
- decrease/(increase) in inventory	(200 161)	(6 525 971)
- (decrease)/ increase in trade and other payables	276 142	108 012
	1 213 980	**(8 419 893)**
Cash generated from operations	**16 268 688**	**22 723 556**

19. Deferred tax liability

Recognised deferred tax liability
Deferred tax liabilities are attributable to the following:

Property and equipment	-	30 400
Leave pay	-	(25 031)
Prepayments	-	47 802
	-	53 171

Unrecognised deferred tax liability



20. Commitments

	2012	2011
	R	R
Operating Leases – as lessee (expense)		
Minimum lease payments due		
- within one year	432 444	19 950
- in second to fifth year inclusive	1 630 590	-
	2 063 034	**19 950**

Operating lease payments represent rental payable by the entity for its equipment and office premises. The lease for equipment was negotiated for a term of 3 years with escalation of 0% per annum starting from 1 September 2011. The prior lease came to end on 31 August 2011. The lease for the Office premises was negotiated for a term of 5 years with escalation of 8% per annum starting from 1 September 2011. No contingent rent is payable on both leases.

21. Related Parties

The State Diamond Trader is wholly owned by the National Government of the Republic of South Africa represented by the Minister of Minerals and Energy. The State Diamond Trader is a Schedule 3B public entity in terms of the Public Finance Management Act, 1999 (Act No 1 of 1999, as amended). It therefore has a significant number of related parties including other state owned entities, government departments and all other entities within the national sphere of Government.

The State Diamond Trader, in the ordinary course of business, enters into various agreements with other parties within the national sphere of Government. The significant transactions (in the normal course of business) and balances outstanding at 31 March 2012 entered into between the State Diamond Trader and entities outside the entity are as follows:

Department of Mineral Resources (DMR) seconded one of its staff members to the State Diamond Trader as the Chief Executive Officer. The total costs paid by DMR on behalf of State Diamond Trader were as follows:

DMR Staff Costs	1 404 000	1 832 043

The State Diamond Trader borrowed funds from the Industrial Development Corporation (IDC) a Government entity for the start-up of its operations and the outstanding balances on the facilities were as follows:

IDC Standby Loan Facility	-	816 330

22. Emoluments

Executive members		
Chief Executive Officer	300 473	-

Non-Executive members Accounting Authority and Sub-committee meeting fees

Ms L. Makatini (Chairperson)	134 096	139 543
Ms D. Maphatiane	48 002	49 240
Mr O. Temkin	-	12 310
Mr I. Goondiwalla	-	-
Mr K. Joseph	-	-
Mr P. Moeti	22 408	42 072
Mr T. Montoedi	48 002	35 113
Mrs H. Tyler	-	22 802
Mr S. Motloung	62 671	40 358
Mr Y. Tenza (Audit and Risk Management Committee)	41 135	60 098
Ms B. Luthuli (Audit and Risk Management Committee)	65 730	38 644
Total	**422 044**	**440 180**

The following Non-Executive members of the Accounting Authority are either public servants as defined in the Public Service Act, or are executives of State Owned Entities and therefore do not get paid by the State Diamond Trader:

Ms F. Ngcwabe
Mr A. Mngomezulu
Mr L. Rapoo

23. Subsequent Events

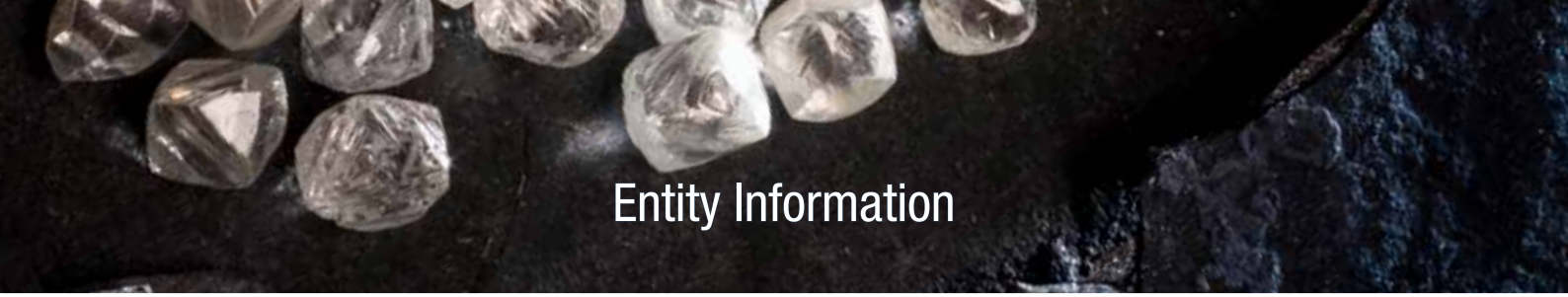
There were no subsequent events identified for reporting purposes.

24. Contingent Liabilities

The State Diamond Traderis not aware of any contingent liabilities that existed as at 31 March 2012.

25. Contingent Asset

A contingent asset in the form of monies paid as a 50% deposit for the printing of the annual report for the 2009 year to a supplier that did not perform in terms of agreement. The matter has been taken to court and the State Diamond Traderis awaiting court judgement relating to the deposit.



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Website:
www.statediamondtrader.gov.za

Shareholder:

Government of the Republic of South Africa Represented by Minister of Mineral Resources

Country of incorporation:

Republic of South Africa

Accounting Authority:

Ms L. Makatini (Chairperson)
Ms P. N. Zikalala (Chief Executive Officer)
Major Gen. P. Arendse
Mr I. Goondiwalla
Mr K. Joseph (resigned November 2011)
Ms D. Maphatiane
Mr P. Moeti
Mr T. Montoedi
Mr S. Motloung
Ms F. Ngcwabe (resigned July 2011)
Mr D. Nkosi (resigned October 2011)
Mr L. Rapoo
Brigadier N. Mokoena (Alternate for Major Gen. P. Arendse)

Trainee Company Secretary:

Ms A. Hlongwane (resigned March 2012)





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