

ANNUAL REPORT

2017/18



1TH
YEAR
EDITION
2007-2017



state diamond trader
REPUBLIC OF SOUTH AFRICA



STATE DIAMOND TRADER

ANNUAL REPORT

2017/18

RP279/2018
ISBN: 978-621-46503-7



STRIVING TOWARDS BEING THE HEARTBEAT OF DIAMOND BENEFICIATION IN AFRICA

The State Diamond Trader strives to be a catalyst for the growth of the diamond and local beneficiation industry as mandated to promote equitable access to rough diamonds to our local beneficiaries by the Diamonds Act (Act No. 56 of 1986) as amended.

CONTENTS PAGE

1. INTRODUCTION		4. OPERATIONAL PERFORMANCE	
Minister's Note to Parliament	2	Trading Report	37
Corporate Profile and Organisational Structure	3	Diamond and Beneficiation Industry Development Programmes	45
Our Operations	4	5. SUSTAINABLE DEVELOPMENT	
2. STRATEGIC PERFORMANCE		Corporate Sustainability	56
Chairperson's Report	7	6. FINANCIAL INFORMATION	
Chief Executive Officer's Overview	10	Audit and Risk Committee Report	60
Performance Against Strategic Objectives	13	Chief Financial Officer's Report	62
3. GOVERNANCE AND REMUNERATION		Statement Of Responsibility For Financial Statements	63
The Board	19	Report of the Auditor-General	64
Executive Management	24	Annual Financial Statements	68
Corporate Governance Report	25	7. ENTITY INFORMATION	
Remuneration Report	33	Entity's General Information	87

Copyright credit for images

Some of the pictures used in this publication belong to Molefi Letsiki Diamond Holding (Cover, page 51), NQ Jewellery Design (cover, page 51).

LIST OF ACRONYMS

The Act	Diamonds Act, 56 of 1986, as amended	MPRDA	Mineral and Petroleum Resources Development Act
AGSA	Auditor General of South Africa	MQA	Mining Qualifications Authority
ARC	Audit and Risk Committee	NDP	National Development Plan
BEE	Black Economic Empowerment	OCI	Other Comprehensive Income
CEO	Chief Executive Officer	PAA	Public Audit Act
CFO	Chief Financial Officer	PFMA	Public Finance Management Act
DBCM	De Beers Consolidated Mines	PPV	Provincial Promotion Visits
DMR	Department of Mineral Resources	R	Rand (s)
DTI	Department of Trade and Industry	ROM	Run of Mine
EDP	Economic Development Programme	SADI	South Africa Diamond Indaba
HDSA	Historically Disadvantaged South Africans	SADPMR	South African Diamonds and Precious Metals Regulator
HR	Human Resources	SAGAAP	South African Generally Accepted Accounting Practice
HR and REMCO	Human Resources and Remuneration Committee	SARS	South African Revenue Services
IAS	International Accounting Standards	SEDA	Small Enterprise Development Agency
IASB	International Accounting Standards Board	SMME	Small Medium and Micro-Enterprises
IDC	Industrial Development Corporation	SOE	State Owned Entity
IFRS	International Financial Reporting Standards	The Guild	South African Young Dimaond Beneficiation Guild
KPCS	Kimberley Process Certification Scheme	TOR	Terms of Reference
MOU	Memorandum of Understanding	The Trading Committee	Trading and Industry Promotions Committee
MP	Member of Parliament	USD	United States Dollar
		VAT	Value Added Tax



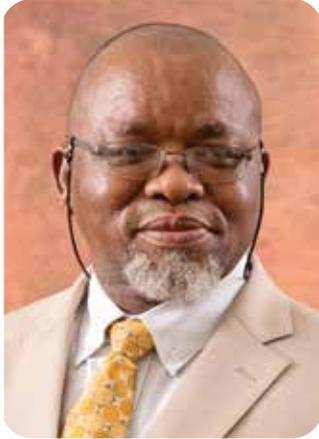
INTRODUCTION

Minister's Note to Parliament

Corporate Profile and Organisational
Structure

Our Operations

MINISTER'S NOTE TO PARLIAMENT



Mr. S.G. Mantashe (MP)
Minister of Mineral Resources

Honourable Speaker of Parliament

Annual Report of the State Diamond Trader for the year ended 31 March 2018.

I have the honour, in terms of section 65 (1) (a) of the Public Finance Management Act No. 1 of 1999 (PFMA), to present the Annual Report of the State Diamond Trader for the year ended 31 March 2018.

A handwritten signature in black ink, appearing to read 'S.G. Mantashe', written over a horizontal line.

Mr. Samson Gwede Mantashe (MP)
Minister of Mineral Resources
August 2018

CORPORATE PROFILE AND ORGANISATIONAL STRUCTURE

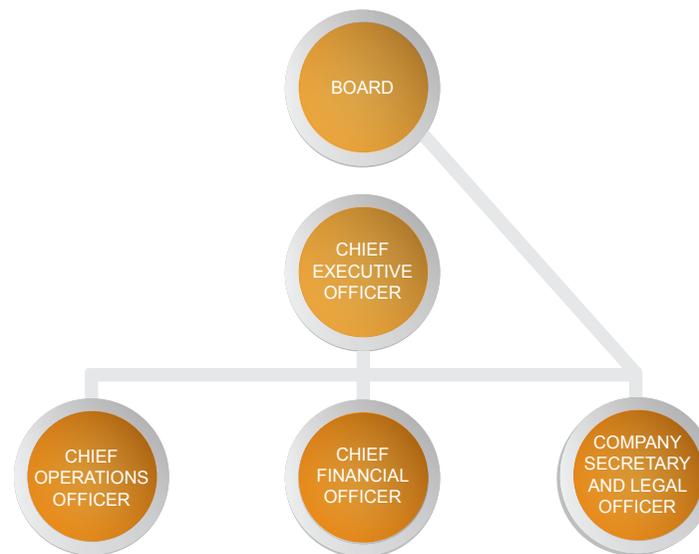
WHO WE ARE

The State Diamond Trader is a state-owned entity established in terms of Section 14 of the Diamonds Act 56, 1986, as amended (“The Act”). It operates in the diamond industry with the aim to grow local diamond beneficiation.

The mandate of the State Diamond Trader is to buy and sell rough diamonds and to promote equitable access to and beneficiation of the country’s diamond resources. The entity strives to address distortions created by the country’s historical exclusion of certain population groups from economic participation. It aims to grow South Africa’s diamond cutting and polishing industry by enabling and increasing participation of Historically Disadvantaged South Africans (HDSAs) in the diamond beneficiation industry. The entity is empowered by law to purchase up to 10% of the run of mine production from all diamond producers in South Africa. It sells to registered customers through an application and approval process.

The year 2017 marked the entity’s 10 years of operation. In pursuit of its statutory mandate, the State Diamond Trader has played an increasingly significant role in enabling the participation of HDSAs.

OUR MANAGEMENT STRUCTURE



OUR OPERATIONS



PURCHASING DEPARTMENT

The State Diamond Trader's purchases are initiated through a process set out in Section 59B of the Act, as follows:

- An offer from diamond producers to inspect productions mined in that cycle in accordance with Section 59B of the Diamonds Act 56, 1986, as amended, and invites the Government Diamond Valuator to all its inspections;
- The entity is presented with the 10% and the 90% of the production and the reserve price thereof and conducts the inspection. Once completed, the Government Diamond Valuator verifies the price set by the producer;
- The State Diamond Trader either accepts the reserve price and makes a purchase or negotiates further with the producer or decline the purchase.

CLIENT RELATIONS DEPARTMENT

The role of the Client Relations Department is to engage with the State Diamond Trader's clientele, current and potential, on all matters not pertaining to the sale of rough diamonds. In this regard, the activities of the Client Relations Department are summarised as follows:

- State Diamond Trader customer base - addition and removal
- Maintenance of client records,
- Client segmentation strategy development and implementation,
- Compliance - relating to licencing and SARS Certification,
- Factory visits - ensuring compliance with beneficiation targets,
- Projects relating to industry and clients' development,
- Diamond industry Public Relations, and
- State Diamond Trader participation at external events,

PRODUCTION DEPARTMENT (SORTING AND VALUATION)

The internal production process is concerned with sorting, valuation and pricing of rough diamonds.

The Production Department assigns a value to each of the parcels with the objective to unlock value and prepare the diamonds for sale to State Diamond Trader clients. The processes undertaken by the Production Department result in the entering of the rough diamond stock into the inventory management and financial reporting application.

SALES DEPARTMENT

The Sales Department works closely with the Client Relations Department to understand the needs of the clients and especially the compliance status of clients. The Sales Department will allocate diamonds to customers in line with its Sales Strategy that seeks to address the issues of transformation and considers the commercial imperative of State Diamond Trader. The entity utilises a sales system of allocating parcels of rough diamonds to its approved; compliant customer base and is heavily based on what the institution has purchased. The sales process is a function of the overall strategy of the State Diamond Trader and being mindful of its mandate as stated in legislation. It is important to note that State Diamond Trader employs the methodology of direct sales to its customers.



STRATEGIC PERFORMANCE

Chairperson's Report

Chief Executive Officer's Overview

Performance against Strategic
Objectives

CHAIRPERSON'S REPORT



Mr. M.J. Carstens
Chairperson of the Board

“Our financial performance yielded R769 million in revenue and R9 million in net profit”

I am pleased to present to you the State Diamond Trader Annual Report for the year ended 31 March 2018.

This year was the first full financial year of the Board's tenure having started the term in September 2016. This was also the year that saw the end of the now former Chief Executive Officer's tenure, Ms. Futhi Zikalala-Mvelase after a period of 10 years with the organisation. The position was temporarily filled by Mr Kagiso Menoe who was seconded from the Department of Mineral Resources until the permanent appointment of Mr Mandla Mnguni was made with effect from 12 February 2018.

At year end, our financial performance yielded R769 million in revenue and R9 million in net profit. The organisation continues to endeavour to maintain a healthy balance between deriving profits and enabling development in line with its mandate adopt or supported by the Diamonds Act 56 of 1986, as amended (“The Act”).

Diamond Production

The diamond industry has experienced a decline in rough diamond production over the years. It is reported that production peaked at \$15.2 billion in 2007 when the State Diamond Trader was established but declined to \$8.3 billion in 2016. This is a significant decline. Nonetheless, during the year under review, the State Diamond Trader saw increased diamond production levels compared to the previous

financial year. The carat value of rough diamonds inspected was 10 million carats in 2017/2018 compared to 8 million carats inspected in 2016. The State Diamond Trader figures for production inspected were compared with those of the Kimberley Process Certification Scheme. The data indicates that the entity inspected 95% of the diamonds produced in the country and purchased 4.69% of total run of mine production by value and 1% by carats.

Diamond Manufacturing

The government of the Republic of South Africa established the State Diamond Trader with a mandate to grow local diamond beneficiation by ensuring equitable access of the country's diamond resources. In line with decreased diamond production, manufacturing statistics are also showing a decline compared to 2007. The State Diamond Trader is eligible to purchase up to 10% of run of mine (all ranges of qualities, colours, and sizes). Diamond beneficiation companies tend to specialise in a narrow range of rough diamonds for manufacturing, which poses a challenge to the State Diamond Trader in fulfilling the demands of companies operating in the industry as the organisation is seized by law to purchase up to 10% full range of all categories of rough diamonds. The State Diamond Trader is not enabled to respond to the demand as the full range cannot be cut profitably by the local industry. This has a huge impact on the State Diamond Trader's purchases and was a key factor in influencing the purchase of 1% by carats of local production. The need for change has been identified and duly flagged with the Executive Authority.

According to a report issued by the Antwerp World Diamond Centre (AWDC) and Bain & Company, the global diamond manufacturing environment is as follows:

- India, is the world’s largest, lowest-cost cutting and polishing centre. It now accounts for about 90% of the global polished-diamond manufacturing by value;
- In the first half of 2017, rough-diamond prices increased by 3% while polished-diamond prices decreased by 3%, renewing pressure on manufacturing industry margins;
- To sustain profitability over the long run, the largest cutting and polishing companies are maintaining intensive operational-improvement drives. They remain focused on continuously shortening cutting and polishing cycles and securing financing. They are also implementing new technologies such as automated cutting processes and advanced digital mapping and modelling of diamond cutting to optimise yields.

The diamond manufacturing industry has serious constraints, chief amongst them being financing. The South African Diamond Beneficiation Industry, and in particular the State Diamond Trader’s mandate of equitable access, is affected by these factors to a significant degree as it aims to grow the sector through inclusive participation involving SMMEs.

South African diamond manufacturing is at most challenged by profitability margins influencing the desire for shortened cutting and polishing cycles, coupled with financing issues.

KEY HIGHLIGHTS

Hong Kong Jewellery and Gem Fair South African Pavilion

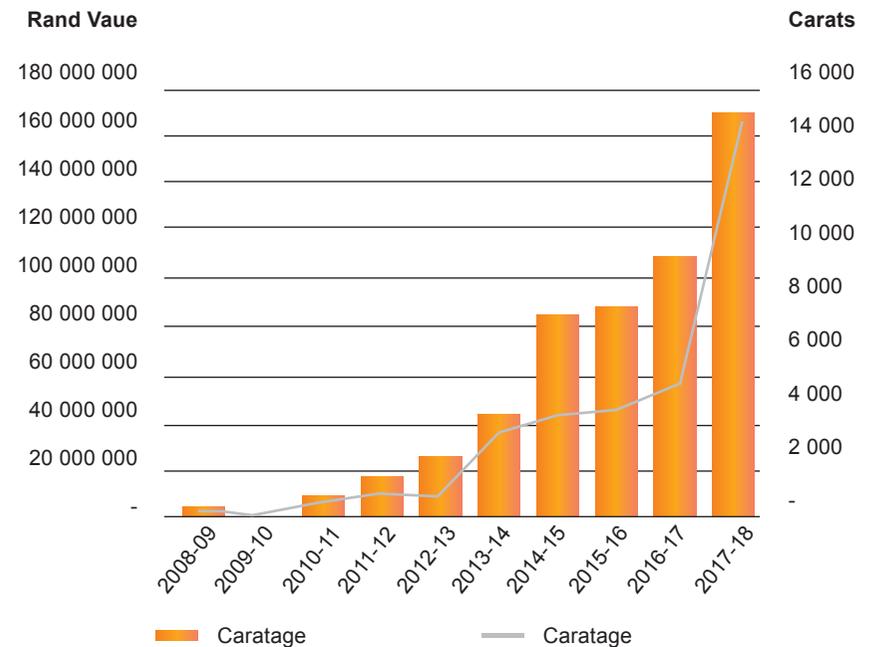
The State Diamond Trader facilitated its first National Pavilion at the Hong Kong Jewellery and Gem Fair in Hong Kong, without the assistance of partners that had been its pillar of strength in this respect for a period of at least four years.

The objective of attending the show is to expose State Diamond Trader clients to international markets for polished diamonds. The 2017 show was a great success. Clients reported to have increased sales volumes significantly at the show in 2017. The organisation met and exceeded its own expectations in the process. Our stakeholders are looking forward to the next National Pavilion in September 2018. A further report on the show is part of this Annual Report, **page 52**.

Sales to HDSA Clients

In celebration of a decade of operations, we took the opportunity to review our sales to Historically Disadvantaged South Africans (HDSAs) which speaks directly to our mandate of equitable access to rough diamonds. A lot is yet to be achieved in the growth of the diamond beneficiation industry; however, statistics indicate a positive upward trend as seen in the graph below.

TEN YEAR SALES TO HDSA



The Journey Towards Impactful Growth to Beneficiation of the South Africa's Diamond Resources

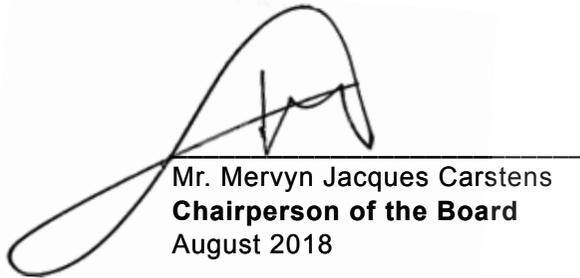
Armed with the prevailing conditions, both workable and unworkable, the State Diamond Trader celebrated its 10th year anniversary in 2017. The decade long experience saw the organisation usher itself into a new path for growth in 2017 as the Board started to discuss, with the benefit of history and the experiences it brought, the need to take further bold steps towards the realisation of its vision of being a catalyst for local diamond beneficiation.

The Board has adopted a new strategic plan targeting improved performance and focus with an objective to achieve, inter alia, the following:

- An increase in the amount, by carats, of rough diamonds sold on primary allocation by 10 percent annually;
- An increase on local beneficiation of -3gr gem quality and all sizes of near gem quality and industrial diamonds by the State Diamond Trader clients to 10,000 carats per annum by 2022;
- Increased sales to black owned companies, as a percentage of total SDT sales by carats, to 30 percent by 2022; and
- Meeting 30% by carats, rough diamond requirements of all clients by 2022.

Conclusion

I am grateful to the leadership of the Executive Authority during the year, the CEOs that led the young dynamic team and my colleagues on the Board for their continued strategic leadership attributes.



Mr. Mervyn Jacques Carstens
Chairperson of the Board
August 2018



CHIEF EXECUTIVE OFFICER'S OVERVIEW

“Our sales to HDSAs increased by over a 100% in comparison to the previous financial year”

Mr. S.M. Mnguni
Chief Executive Officer

The State Diamond Trader has once again recorded positive operational and financial performance during the 2017/2018 financial year. This can be attributed to the sales strategy adopted as well as slightly favourable market conditions during the second and third part of the financial year. This minor improvement was recorded despite challenges relating to access to funding, shrinking markets, changes in exchange rate and the availability of suitable rough diamonds.

Trading Environment

Following the celebration of its decade in existence, the State Diamond Trader continued much stronger and with improved experience in striving to be the “leading catalyst for the transformation of a sustainable diamond beneficiation industry”. Despite the tough economic market conditions and difficulties within the diamond industry, the State Diamond Trader once more managed to ensure that suitable rough diamonds were made available to clients for beneficiation purposes. However, a decline was noted in the total amount of carats offered by producers coupled with an increase of 3% in price.

In the year under review, the State Diamond Trader was able to purchase almost all the productions on offer from large producers through the Special Purchasing Models it has established with the producers.

As a result, sales to HDSAs was increased by over a 100% in comparison to the previous financial year

The rand/dollar exchange rate also strengthened during some sales periods but did not impose much difficulties in concluding purchase deals with clients.

Apart from the Hong Kong Jewellery and Gem Show, in pursuit of further market opportunities, the entity collaborated with the Royal Thai Embassy in which the State Diamond Trader acted as an agent to recruit South African companies to participate at the Bangkok Gems and Jewellery Fair from 6th - 10th September 2017. As such, the State Diamond Trader together with its four Growth and Transformation clients attended the Bangkok Gem and Jewellery show. Participation at international trade shows gives South African beneficiating companies the opportunity to study the market, source new customers and most importantly put the South African diamond beneficiation industry on the map.

The entity also sponsored a Diamond Pavilion at Jewellex Africa 2017. This decision was influenced by the celebration of our decade of existence and saw 13 HDSA clients participate at Jewellex sponsored by the Department of Trade and Industry, ABSA Enterprise Development and De Beers Consolidated Mines Limited while some

clients self-funded. An additional two clients exhibited within the State Diamond Trader sponsored booth. This opportunity enables the clients to showcase their products and potentially develop new markets.

Following a successful execution of the Inaugural South African Diamond Indaba (SADI) in 2015 and the Second South African Diamond Indaba in 2016, access to finance, rough diamonds and markets were identified as factors that delay the “drive towards competitiveness for growth and transformation in the diamond industry”. A resolution therefore was taken during the 2016 Diamond Indaba, that a need exists for these issues to be dealt with through seminars. Subsequently, in April 2017 a finance seminar in partnership with the Department of Mineral Resources and other relevant stakeholders was held.

In March 2018, the entity hosted a seminar on marketing. This seminar targeted diamond beneficiation for cutting and polishing clients regarding the importance of marketing and branding. The seminar was a success and attended by 112 participants from the marketing sector, the State Diamond Trader clients, government officials, diamond producers and aspiring jewellers.

The State Diamond Trader through its synergy with the ABSA Enterprise Development, invited 12 of its Equitable Access clients to participate at the ABSA Business Accelerator Programme workshops on 18th September 2017 and 23rd October 2017. The programme intended to empower the SMMEs on Cash Flow Projection, Cost and Pricing as well as Business Systemisation.

The Enterprise Development Programme completed its third year in December 2017 and closed the financial year with seven groups having 27 registered aspiring entrepreneurs. The last two groups consisting of 10 trainees were recruited in September 2017, in partnership with KGK Diamond and Rez Diamonds. However, the programme continues to attract additional support from other State Diamond Trader clients. To date the State Diamond Trader has partnered with Thoko’s Diamonds, JP Diamonds, Hall of Diamond,

Molefi Letsiki Diamond Holdings and Alvin Swartz Diamond Cutting Works in fulfilling the objectives of transforming the industry through this programme.

Facilitation of the provincial promotional activities has thus been regarded as an operational activity and the State Diamond Trader made eight visits in five provinces in the financial year. These visits have again proved to be a useful tool in educating the country about concerning the diamond beneficiation industry and raising awareness of the career opportunities in existence.

Operating Environment

The financial results of the State Diamond Trader are fully disclosed hereunder within the financial section. As the diamond industry emerged from a stable state, the mining activities have improved.

As indicated in the financial statements, the rough diamonds acquired amounted to R742 million as compared with R698 million in 2016. The gross margin achieved increased from R24 million in 2016 to R27 million in 2017. This is a positive outlook on the overall performance for the State Diamond Trader in this fiscal year.

Human Resources

The State Diamond Trader employed a Marketing Officer and promoted the long serving receptionist to Personal Assistant to the CEO. Over and above that, the State Diamond Trader has 17 fulltime staff members. There are 18 young people on the Enterprise Development Programme which started in January 2015 and they are working towards exiting the program in August 2020 to allow a new intake.

We are also proud of the partnership we have with the Mine Qualification Authority (MQA), wherein we hosted 19 young students on practicals to prepare them for their Trade Test and outside world where they will be able to exercise their newly acquired skills. Since these were pilot projects, there were a few teething challenges,

however valuable lessons were learnt which will assist the State Diamond Trader and key stakeholders to refine and improve their approaches to business.

Forward Looking

The Board of Directors took a bold step to ensure that the State Diamond Trader continues its journey after 10 years of existence, by reviewing its strategy and adopted a new one towards 2023. This strategy is aimed at keeping the entity relevant in this changing world and will be used as an instrument to deliver on the mandate of ensuring equitable access to and promoting local beneficiation of diamonds. This is part of the vision of the State Diamond Trader of being a leading catalyst for transformation and growth of the local diamond beneficiation industry. This strategy has been aligned to the National Development Plan and The Department of Mineral Resources strategy.

Acknowledgement and Appreciation

My sincere appreciation goes to the former Minister Mr. M. Zwane and the current Minister Mr. G. Mantashe (Executive Authority's representatives) for their oversight and visionary leadership. I also wish to commend the Board members for their sound governance, guidance and support. The Parliament Portfolio Committee on Mineral Resources is applauded for its visit to our site on 2nd February 2018 and for their constructive engagement which continues to assist in our efforts for improvement. The whole DMR family, producers, clients and other stakeholders are also appreciated for their cooperation, support and positive spirit in taking this entity forward.

My predecessors, Ms. P.N. Zikalala Mvelase and Mr. K. Menoe are appreciated for the excellent job and hard work during the past years under a challenging environment. The Management team and all staff members are the shining stars who brighten all the days of the State Diamond Trader.



Mr. Stanley Mandla Mnguni
Chief Executive Officer
August 2018

PERFORMANCE AGAINST STRATEGIC OBJECTIVES

STRATEGIC OVERVIEW

The Board adopted the following as the Vision and Mission of the State Diamond Trader:



Performance Environment

The State Diamond Trader strategy and targets for the year under review were prepared against a backdrop of an industry that was showing signs of shrinking due to several factors. Of the 74 clients of the State Diamond Trader 42 were actively trading in 2017/2018. Production levels were also on a downward trajectory although data now depicts a slight increase in production. The State Diamond Trader shares the sentiment by the industry, that of a need for a concerted effort for industry stimulation.

South African production has large quantities that cannot be profitably beneficiated in the country due to manufacturing costs and this has an impact on the growth of local diamond beneficiation. The State Diamond Trader is able to implement its mandate as empowered by legislation in respect of the purchase of local production and the ability to ensure Local Beneficiation locally, the State Diamond Trader has formed good collaborations with industry players and is able to deliver on a number of its initiatives through these collaborations. Be that as it may, the State Diamond Trader is constrained in terms of the impact it is able to make on local diamond beneficiation.

The State Diamond Trader is eligible to purchase up to 10% of run of mine local diamond production by carats and value. Despite such eligibility, the organisation targeted a minimum of 4% during the year under review as a result of the implications of the run of mine qualification.

The consequence of the run of mine qualification is that it leaves the State Diamond Trader with an empowerment to purchase up to 10% of local production from producers whereas the supply has no demand. A significant amount of local production is not suitable for local diamond beneficiation.

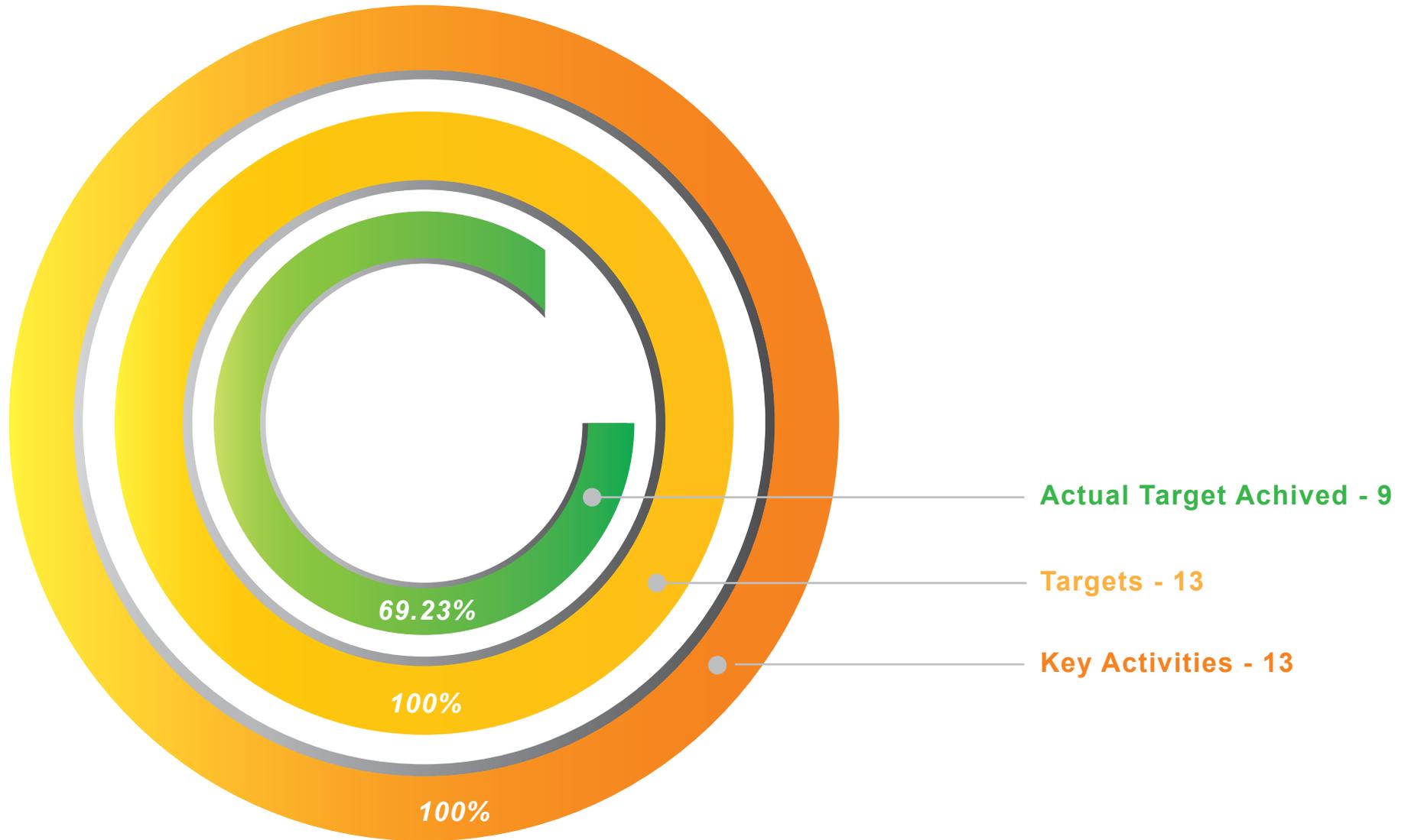
South Africa has a unique opportunity to transform itself into being at the forefront of diamond beneficiation in the continent due to its good infrastructure. The country has abundant diamond skills and is not lacking in diamond beneficiation services. Pertinent pillars of ensuring success, such as funding and markets, are some of the activities that the State Diamond Trader has committed to facilitating for the industry.

Rough diamond prices remain a constant barrier for the industry especially for HDSAs who are impacted by issues of access to finance and markets. Diamond markets fluctuate significantly and are not always predictable. The South African diamond beneficiation industry has however stood the test of time. Although not growing at the desired pace, the State Diamond Trader's strategic plan is geared for positive growth of the industry. The Board adopted the following predetermined objectives for the year under review:

- Promotion of the growth of the local diamond beneficiation industry;
- Implement the outcomes of the South Africa Diamond Indaba (SADI);
- Contribution towards youth skills development including youth from diamond host communities; and
- Ensuring development and alignment of internal resources.

The State Diamond Trader performed well against the targets set although not all targets were met.

SUMMARY OF OUR OVERALL PERFORMANCE AGAINST STRATEGIC OBJECTIVES



PERFORMANCE AGAINST STRATEGIC OBJECTIVES

STRATEGIC OBJECTIVE 1: PROMOTION OF THE GROWTH OF THE LOCAL DIAMOND BENEFICIATION INDUSTRY						
KEY ACTIVITY	PERFORMANCE MEASURE	COMPLETION DATE	TARGET	ACTUAL	VARIANCE	COMMENTS
Purchase rough diamonds consistently for access by local beneficiators	4% of South African production (inspected by value)	31-Mar-18	4%	5%	1%	Target exceeded as annual purchases as a percentage of inspected production as a result of receiving more invitations from producers for inspections than anticipated.
Increase supply of rough diamonds to HDSA clients	5% increase on baseline	31-Mar-18	5% (R58 million)	196% (R163 million)	191% (R108 million)	Target exceeded as the State Diamond Trader increased supply of rough diamonds following invitations to more inspections than anticipated, an increase in the number of clients sold to and the ability of the State Diamond Trader to select rough diamonds from producers in line with agreed pilots with the producers.
	Report on sales to HDSA clients	31-Mar-18	Submit Quarterly report on sales to HDSA clients	Quarterly Reports submitted	None	Target Achieved
Agree and Pilot one industry growth project in collaboration with the young diamond beneficiators Guild	Signed Memorandum of Agreement with the Guild	30-Jun-17	Signed MOA with the Guild	Signed MOA with the Guild	None	Target Achieved
	Report of progress on the Pilot project	31-Mar-18	Submit report on progress of pilot project	Report on progress of pilot submitted	None	Target Achieved
Develop and approve a Business Plan for the Beneficiation Equipment Hub	Approved and funded Business Plan	31-Jan-18	Approved and funded Business Plan	Business Plan approved with no funding	Not Achieved	Business Plan for the Beneficiation approved. Funding not obtained in the year under review. The State Diamond Trader has signed an agreement with partners for funding and implementation of the beneficiation hub in 2018/2019

STRATEGIC OBJECTIVE 2: IMPLEMENT OUTCOMES OF THE SOUTH AFRICAN DIAMOND INDABA (SADI) SERIES						
KEY ACTIVITY	PERFORMANCE MEASURE	COMPLETION DATE	TARGET	ACTUAL	VARIANCE	COMMENTS
Conduct 3 diamond industry seminars on outcomes of SA Diamond Indaba (SADI) 2015 and SADI 2016 with all relevant stakeholders	Report on seminars held	31-Mar-18	3 Seminars held and reports for all submitted	3 Seminars held and report for all submitted	None	Target Achieved
Host SADI 2017	Report on the outcomes of South African Diamond Indaba 2017	31-Jan-18	Report on outcomes of South African Diamond Indaba submitted	South African Diamond Indaba not held, no report produced	Not achieved	Target not achieved as South African Diamond Indaba was held in abeyance until a stakeholder strategy was adopted to ensure that these conferences do not become talk shop events, but events with tangible outcomes that are implemented in order to move the diamond industry forward.

STRATEGIC OBJECTIVE 3: CONTRIBUTE TOWARDS YOUTH SKILLS DEVELOPMENT INCLUDING YOUTH FROM DIAMOND MINING HOST COMMUNITIES

KEY ACTIVITY	PERFORMANCE MEASURE	COMPLETION DATE	TARGET	ACTUAL	VARIANCE	COMMENTS
Develop a Strategy to attract and up skill the youth	Developed and approved Strategy for the engagement of the youth in host diamond mining communities.	31-Mar-18	An approved strategy	An approved strategy	None	Target Achieved
Facilitate continuous training and assessment for EDP youth	Reports on all training provided	31-Mar-18	Submit Quarterly reports on training progress	Quarterly reports submitted	None	Target Achieved

STRATEGIC OBJECTIVE 4: ENSURE DEVELOPMENT AND ALIGNMENT OF INTERNAL RESOURCES

KEY ACTIVITY	PERFORMANCE MEASURE	COMPLETION DATE	TARGET	ACTUAL	VARIANCE	COMMENTS
Implement the Sales Strategy to deliver improved revenues	Improved Revenue	31-Mar-18	As per approved budget by 31-Mar-18	Improved revenue of R769,096,151 against a budget of R650,742,664	R118,353,487	Target exceeded with improvements as planned
Review State Diamond Trader Funding Strategy and establish mechanisms of strengthening balance sheet	Approved Review report	31-Jul-17	Approved review report	No review report approved	Not Achieved	The Review of the Funding Strategy was held in abeyance pending the strategic discussions and the new direction which was approved in January 2018. Funding strategy is scheduled for review in 2018/2019
	Implement mechanisms agreed	31-Mar-18	Implementation of the recommended mechanisms	No mechanisms agreed or implemented	Not Achieved	Performance measure linked to the review of the funding strategy which was not achieved.
Provide training opportunities in accordance with needs identified and approved	25% of staff trained	31-Mar-18	25%	61%	36%	Target exceeded as more training opportunities were identified during the year
Provide training in advanced diamond skills at renowned global centres to staff	Report on opportunities identified and implemented	30-Jun-17	Report on opportunities identified and implemented	Report on opportunities identified submitted	None	Target Achieved
	1 staff member participating	31-Mar-18	1	2	1	Target exceeded. The State Diamond Trader exposed more staff than planned following identification of a need for more staff exposure
Review the State Diamond Trader Marketing Strategy	Report on review conducted	31-Oct-17	Review report	Review Report submitted	None	Target Achieved



GOVERNANCE AND REMUNERATION

The Board

Executive Management

Corporate Governance Report

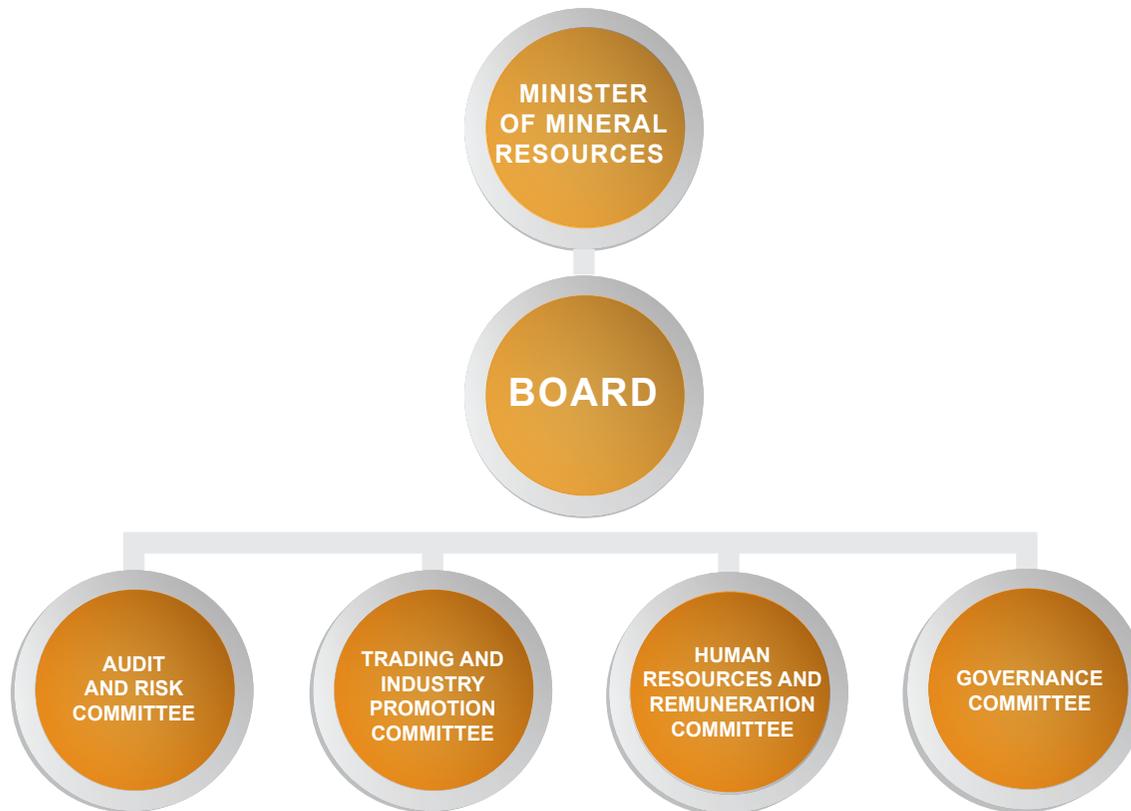
Remuneration Report

THE BOARD

The Board of the State Diamond Trader is appointed by the Minister of Mineral Resources in terms of Section 17(2) of the Diamonds Act 56, 1986, as amended. The Board's tenure commenced on 1 September 2016 for a period of three years until 31 August 2019.

Before the Minister appoints Board members, he is required by the Act to appoint an independent selection panel in line with the knowledge and understanding of issues concerning the Diamond Industry. The ultimate authority to appoint and constitute the State Diamond Trader Board rests with the Minister of Mineral Resources.

REPORTING STRUCTURE



OUR BOARD



Mr. M.J. Carstens
Chairperson of the Board



Mr. S.M. Motloung
Board Member



Mr. G. Du Plessis
Board Member



Dr. M. Matlou
Board Member



Mr. R.L. Mabece
Board Member



Mr. K.J. Menoe
Board Member



Mr. W.M. Mabapa
Board Member



Ms. M. McMaster
Board Member



Mr. B. Deka
Board Member



Mr. I. Goondiwalla
Board Member



Major General N. Mokoena
Board Member



Mr. N.M. Diseko
Board Member



Mr. F.O. Mokoena
Board Member



Mr. S.M. Mnguni
(CEO) (ex officio)

Ms. N.C. Sibeko
Company Secretary and Legal Officer

Mr. M.J. Carstens (Chairperson) (54)

Mr. Carstens holds a National Diploma in Human Resources from Vaal Triangle University of Technology and a Postgraduate Certificate in Employee Development Programme from the University of Stellenbosch. He is a seasoned Mining Executive who has spent thirty-three (33) years in the mining industry of which 30 years was in the diamond industry, occupying various senior managerial roles. He has served as the Executive Director, Land Operations for Trans Hex until 2011 and is currently the Chief Executive Officer for the Alexkor / RMC Joint Venture.

Mr. G. Du Plessis (49)

Mr. Du Plessis holds a BA Hons degree in Labour Sociology from the University of Pretoria (UP) and as well as a BA Political Science (PU). He has extensive experience in labour law and also worked as senior constitutional planner for the Department of Justice. He was involved in the drafting of the Constitution of the Republic of South Africa. He has served as the Head of Collective Bargaining for trade union Solidarity and was appointed Secretary General in 2012, a capacity in which he still serves to date. Mr. Du Plessis also serves as a Board member at the Sentinel Retirement Fund and the Minerals Petroleum Board.

Dr. M. Matlou (59)

Dr. Matlou holds a B.Phil degree in Knowledge Management from the University of Stellenbosch, a B.A degree in Political Science from the University of Ghana, an M.A degree in International Relations from the University of Kent, and a Ph.D degree in Sociology from the University of Essex. He has served inter alia, as the Chief Executive Officer of the Africa Institute of South Africa and Deputy Director General of Tourism in the South African Department of Environmental Affairs and Tourism. Dr. Matlou's board memberships have included the Johannesburg World Summit Company, South African Tourism Board and Regional Organisation for Tourism in Southern Africa and Indian Ocean Tourism Organisation. He has also lectured in higher education institutions in Liberia, South Africa and Ghana.

Mr. R.L Mabece (53)

Mr. Mabece holds a B. Proc degree from the University of the Western Cape (UWC), an LLB degree from UWC and a Higher Certificate in Project Management from Damelin. He has practised law for over two decades and advises government and private sector on a wide range of legal matters. Mr. Mabece has broad legal experience, especially in commercial law. His experience in skills development traverses all aspects of the skills development environment in South Africa. Mr. Mabece serves as the Chairperson of SAFCOL SOC.

Mr. B. Deka (37)

Mr. Deka holds a B.Sc degree in Economics from the University of Zimbabwe (UZ), an M.Sc degree in Economics (UZ), an LLB degree from the University of South Africa and an LLM degree in Mercantile Law from the University of Pretoria. His career spans over a decade with experience inter alia macroeconomic policy, international trade, trade and investment promotion and strategy development. He serves as a Board Member of the South African Diamonds and Precious Metals Regulator.

Mr. S.M. Motloung (63)

Mr. Motloung holds a Diploma in Nursing Science and has a wealth of experience in labour matters. He previously served as a Board Member of inter alia, Services Seta and the Compensation for Occupational Injuries and Diseases. He currently serves as Divisional Manager at UASA where he is responsible for the diamonds sector, the aviation sector as well as transport and manufacturing sectors. He is a Board member of the Sentinel Retirement Fund.

Ms. M. McMaster (60)

Ms. McMaster has a qualification in Advanced Business Management from Damelin. She is a Certified Practitioner: Life Skills Coaching in the category of Leadership and Personal Credibility by the South African Board of People Practices (SABPP). Ms McMaster played a participative role in the political arena between 1994 - 2001 within the new democratic Parliament of South Africa, where she facilitated and coordinated various functions dealing with the organisational transformation within government. Ms. McMaster's skill and knowledge in the field of administration, both general

and specific, covers a span of more than 20 years. She is a Managing Member of Kanya Corporate Social Investments.

Mr K.J. Menoe (37)

Mr Menoe holds a B.Sc Degree in Chemical Engineering from the University of Witwatersrand (WITS). He also has Certificates in Inter alia, Executive Development Programme from WITS Business School, Quality Management Systems (ISO 9001) from the South African Bureau of Standards as well as Imports and Exports: a logistical perspective from the University of Johannesburg. Mr Menoe currently holds a position of Director: Beneficiation Economics at the Department of Mineral Resources. He is also a Board member at the South African Diamonds and Precious Metals Regulator.

Major General N. Mokoena (50)

Major General Mokoena holds a National Diploma in Policing from the University of South Africa (UNISA) and another in Criminal Justice and Forensic Investigation from the University of Johannesburg (UJ). She further holds a B-Tech Degree in Policing from Tshwane University of Technology and an Honours Degree in Safety and Security Executive Development from UNISA. Major General also holds certificates in Control Money Laundering, Compliance Management and Corporate Governance from UJ. She has served the South African Police Services (SAPS) in various capacities for a period spanning over thirty (30) years. She currently holds positions of Provincial Head and Major General: Mpumalanga DPCI. Major General Mokoena has also served as a Board Member of the South African Diamonds and Precious Metals Regulator.

Mr. S.M. Mnguni (CEO) (ex officio) (48)

Mr. Mnguni holds a B. Admin Hons. from the University of the North. He further holds a Certificate in Leadership Development Programme from the Gordon Institute of Business Science and a Certificate in Management Development for Municipal Finance from the University of Witwatersrand. Until his appointment as the Chief Executive Officer of the State Diamond Trader, he spent most of his career at Steve Tshwete Local Municipality in various roles including Corporate Services, Deputy Municipal Manager and Acting Municipal Manager

since 1995. Mr. Mnguni also served at Bushbuckridge Water as the Director of Corporate Services as well as the Company Secretary. Mr. Mnguni also serves as the Non-Executive Director at SAFCOL SOC.

Mr. F.O. Mokoena (41)

Mr. Mokoena holds a National Diploma in Civil Engineering from the Vaal University of Technology. He has extensive experience in civil engineering spanning over a period of 15 years and is a member of the South African Institute of Civil Engineering as well as the National Society of Black Engineers. He is a Director and Shareholder at Flagg Consulting Engineers (Pty) LTD (“Flagg”). He was previously a member of Koena Consulting Engineers which later merged with Flagg. Mr. Mokoena has also served inter alia, as a member of the Free State Township Board, the Maluti a Phufong Water Board and currently serves as a director at Future Coal Mine (Pty) LTD.

Mr N.M. Diseko

Mr. Diseko holds B. Com degree from the University of Cape Town (UCT), a Postgraduate Diploma in Business Administration from the Gordon Institute of Business Science and an MBA Degree from UCT. He previously held the position of Head of CEO’s office at Lonmin plc and has over 12 years of experience in commodities, metals and mining. He is the Founder and CEO of Thakadu group of companies. He serves as a Non-Executive director of ChromTech holdings (Pty) Ltd. Mr. Diseko was recognised as one of the Mail & Guardian’s Top 200 Young South Africans of 2014.

Mr. M. W. Mabapa (47)

Mr. Mabapa holds a National Diploma in Labour Law from the Graduate Institute of Management Technology as well as a Certificate Programme in Industrial Relations (WITS). He has extensive experience in human resources which saw him being appointed in various roles from 1995 including his current role as Deputy General Secretary of the National Union of Mineworkers. Mr. Mabapa serves on the Board of the Mineworkers Investment Company, the Mineworkers Investment Trust as a Trustee, as well as a Board member of the Royal Bafokeng Platinum Ltd and the Mineworkers Investment Company.

Mr. I. Goondiwalla (45)

Mr. Goondiwalla holds a B.Sc Engineering (Metallurgy) degree from the University of Witwatersrand (WITS). He also obtained a Accountants Conversion Course from the University of Cape Town and a Hons. degree in Accounting. He is a CA (SA) and currently holds a position of Senior Dealmaker at the Industrial Development Corporation.

Ms. N.C. Sibeko (Company Secretary and Legal Officer) (36)

Ms. Sibeko holds an LLB degree from the University of Zululand as well as a Postgraduate Diploma in Business Administration from the University of South Africa. She is an admitted attorney of the High Court of South Africa and has practised law in private practise and in corporate for a period spanning over sixteen (16) years.

EXECUTIVE MANAGEMENT

The Executive Management Team is responsible for ensuring the implementation and execution of the strategy as approved by the Board and for the operational management of the business.



Mr. S.M. Mnguni
Chief Executive Officer



Ms. N. Danisa
Chief Financial Officer



Mr. C. Van der Ross
Operations Manager



Ms. N.C. Sibeko
Company Secretary and Legal Officer

The Executive Management team consists of:

Mr. S.M. Mnguni (48) (Chief Executive Officer)

Mr. Mnguni holds a B. Admin Hons. from the University of the North. He further holds a Certificate in Leadership Development Programme from the Gordon Institute of Business Science and a Certificate in Management Development for Municipal Finance from the University of Witwatersrand. Until his appointment as the Chief Executive Officer of the State Diamond Trader, he spent most of his career at Steve Tshwete Local Municipality in various roles including Corporate Services, Deputy Municipal Manager and Acting Municipal Manager since 1995. Mr. Mnguni also served at Bushbuckridge Water as the Director of Corporate Services as well as the Company Secretary. Mr. Mnguni also serve as Non-Executive Director at SAFCOL SOC

Ms. N. Danisa (47) (Chief Financial Officer)

Ms. Danisa holds a B. Com degree in Education from the University of Transkei (now Walter Sisulu University), a Certificate in Theory of Accounting and a Hons degree in Accounting from the University of KwaZulu Natal. She also holds a Postgraduate Diploma in Applied Ethics. She is a Registered Government Auditor (RGA) and has extensive auditing experience spanning over a decade. Ms Danisa also serves as a member of the Audit and Risk Committee at Construction SETA.

Mr. C. Van der Ross (46) (Operations Manager)

Mr. Van der Ross holds a Certificate in Programme for Management Development from the Gordon Institute of Business Science. He has experience spanning over two (2) decades in the diamonds industry having started his career from De Beers Mines Consolidated where he worked in various leadership roles for over twenty-five (25) years. He serves on the Board of the Kimberley Diamond and Jewellery Incubator.

Ms. N.C. Sibeko (36) (Company Secretary and Legal Officer)

Ms. Sibeko holds an LLB degree from the University of Zululand as well as a Postgraduate Diploma in Business Administration from the University of South Africa. She is an admitted attorney of the High Court of South Africa and has practised law in private practise and in corporate for a period spanning over sixteen (16) years.

CORPORATE GOVERNANCE REPORT

The State Diamond Trader operates within a governance framework that is based on the principles of accountability, transparency, ethical management, inclusiveness as well as fairness. The Board recognises the value of an ethical culture and its link to value creation and sustainable development. The Board has approved a manual for corporate governance that is cognisant of the said principles. The manual is reviewed annually to ensure relevance.

The State Diamond Trader is listed in schedule 3B of the Public Finance Management Act, 1 of 1999 (“the PFMA”). Its shareholder is the government of the Republic of South Africa, represented by the Minister of Mineral Resources who exercises Executive Authority on behalf of the government. The Board is the designated Accounting Authority and governs the State Diamond Trader in accordance with the laws of the Republic of South Africa and in particular, the Diamonds Act 56, 1986, as amended (“The Act”) and the PFMA, read with applicable Treasury Regulations.

The King IV Report on Corporate Governance was launched by the Institute of Directors (IOD) in late 2016 which came into effect from 1 April 2017. There has been significant corporate governance and regulatory developments locally and internationally since the release of the King III in 2009 which are now incorporated in King IV. The State Diamond Trader, in line with the philosophy of apply or explain, applicable to King III, strived to align to the recommendations thereof to the extent possible and not in direct conflict with the provision of the Act. King IV is based on the principle of apply and explain. During the year, the State Diamond Trader endeavoured to measure itself against the principles of King IV, and the principles already applied in the organisation. As the financial year begins, the organisation seeks to yet again align to the extent possible to the recommendations of the King IV Report and to bridge identified gaps. Principles not yet adopted have been identified and will be addressed through an action plan to be adopted by the Board in accordance with the Board’s recognition of a need to so align. The State Diamond Trader King IV Checklist is available on the organisation’s website.

King IV raises a number of obligations in respect of disclosures as a means to promote transparency and accountability. It places focus on sustainability issues and to systems thinking in the manner in which business is conducted. The aim of this report is to assist stakeholders with information on the corporate governance environment of the State Diamond Trader to date.

THE BOARD

The Board of the State Diamond Trader is appointed by the Minister of Mineral Resources in accordance with the provisions of the Act. The Board is responsible for setting the strategic direction of the State Diamond Trader. The Board is further responsible for, and plays a leadership role in, the establishment and maintenance of an ethical corporate culture. The Board also operates within a code of conduct and strives to ensure that the ethical culture it sets leads to performance in terms of the delivery of the mandate of the State Diamond Trader and ensures sustainable outcomes for the future of the diamond beneficiation industry in South Africa.

All Board members, with the exception of the Chief Executive Officer are Non-Executive. The Chief Financial Officer has not been appointed as a member of the Board as a result of the King III and King IV recommended practices being in conflict with the State Diamond Trader's founding legislation in this respect, however; the Chief Financial Officer is a standing invitee at all Board meetings.

Board members are suitably qualified for the roles they occupy and come from various diverse backgrounds including, but not limited to, finance, commercial, human resources, law etc. The Board has access to professional advisers at the expense of the State Diamond Trader should they so require. Continuous training and development of Board members is undertaken in line with identified needs.

The Board has formed four Committees that assist in the execution of its duties, the Audit and Risk Committee, the Human Resources and Remuneration Committee, the Trading and Industry Promotion Committee and the Governance Committee. The Board met five times during the year under review while the Audit and Risk Committee met five times, the Human Resources and Remuneration Committee four times, the Trading and Industry Promotion Committee 5 times and finally the Governance Committee met once.

Attendance by Board members at Board and Committee meetings during the year is set out on **page 27**.

The State Diamond Trader is audited by the Auditor General of South Africa, in line with the Public Audit Act, 2004. Internal Audit is an outsourced function, undertaken by Nexia SAB &T during the year under review.

ATTENDANCE OF BOARD AND COMMITTEE MEETINGS

	BOARD	ARC	HR & REMCO	TRADING	GOVERNANCE
Number of Meetings	5	5	4	5	1
Mr. M. Carstens	4.				1
Mr. I. Goondiwalla	5	5.			1
Mr. S.M. Motloung	4		3.		1
Mr. K.J. Menoe	*5			5•	
Ms. M. McMaster	3			3	
Mr. G. Du Plessis	5		3		
Mr. F. Mokoena	5			4**	
Mr. B. Deka	4	5			
Mr. R.L. Mabece	3		3		
Ms. F. Zilalala Mvelase”	2				
Mr. N.M. Diseko +	4	2			
Mr. W. Mabapa	3		2	5	
Dr. M. Matlou	3	5			
Major General N. Mokoena	5			5	
Mr. M. Malie	2				

. Chairperson

* Acting Chief Executive Officer from 1 July 2017 to 11 February 2018

“ CEO until 30 June 2017

° Appointed Alternate Member on 14 October 2017

• Chairperson until appointment as Acting CEO from 1 July 2017 to 11 February 2018

Interim Chairperson from 28 July 2018 to 21 March 2018

+ Resigned with effect from 1 February 2018

** Interim Chairperson appointed 28 July 2017 until 31 March 2018

Primary Responsibilities of the Board

The Board serves as a focal point and the custodian for good corporate governance in the organisation. Board members recognise that good governance contributes towards creating value for the benefit of all South Africans. The Board has adopted formal terms of reference which outline its scope of authority, responsibility and functioning. The terms of reference are reviewed once annually. Certain functions are delegated to committees.

Matters of strategic importance are reserved for the Board. These include decisions affecting the overall vision, mission and objectives of the organisation, together with significant changes to the policy frameworks for operations. The following sets out the main areas where material decisions are taken by the Board:

- Approval of policies;
- Approval of the strategy, shareholder's compact, business plans and budgets and of any subsequent material changes in strategic direction or material deviations from strategies and business plan;
- Determination of the structure, composition and terms of reference of committees and approving all changes to the management of the organisation and to the scheme of delegation;
- High level monitoring of both financial and operational progress and performance, including an annual performance review covering the key performance indicator,
- Significant impact on human and finance resources of the organisation; and
- High Level Stakeholder interfaces such as reporting to the Minister and overall policies on communications with regulated entities, the press and the public.

The Board maintains a system of delegation within the organisation. Any delegations outside the approved framework are specifically recorded in the minutes or in round robin resolutions of the Board.

The Board is entitled to have access, at reasonable times, to members of Executive Management and to all relevant information to assist in the discharge of its duties. The Board is further entitled to enlist services of advisors as necessary from time to time at the expense of the organisation.

Composition

The Board is composed in pursuance of the provisions of the Diamonds Act 56, 1986, as amended and is appointed by the Minister of Mineral Resources. There is one salaried executive and 12 non-executive Board members. Board members strive for independence and to execute their fiduciary duties in the best interest of the State Diamond Trader. The independence requirements recommended in the King III and King IV Reports is a matter that is subject to the founding legislation and is envisaged to endeavour to align, to the extent possible, with the corporate governance recommended practices in due course.

Board membership ceases in the event of a resignation, a disqualification on the grounds listed in the Act or for being absent for more than two consecutive meetings without the leave of the Chairperson. During the year under review, there was one resignation by a non-executive Board member, Mr. N. Diseko affecting the composition of the Board. Other factors impacting on the composition of the Board were as a result of the departure of Ms. Futhi Zikalala-Mvelase as Chief Executive Officer of the organisation with effect from 30 June 2017, the appointment of Mr. Kagiso Menoe as Acting Chief Executive Officer between 1 July 2017 to 15 March 2018, the appointment of Mr. Meshack Malie as an alternate Board member during Mr. Menoe's period in the capacity of Acting Chief Executive Officer and finally, the appointment of Mr. Stanley Mandla Mnguni as Chief Executive Officer with effect from 12 February 2018.

Chairperson of the Board

The Chairperson of the Board, Mr. Mervyn Carstens was appointed by the Minister of Mineral Resources in accordance with the provisions of Section 17 of the Act.

Committees of the Board

The Act allows the Board to delegate responsibilities through the constitution of such committees as necessary. Delegation of authority to sub-committees is set out in the formal terms of reference of each Committee which sets out, inter alia, the composition, purpose, powers and authority of the Committees and the scope of each Committee's mandate and its relationship with the Board. Committees of the Board have access to organisational records, facilities, employees and any other resources as necessary to discharge their duties and responsibilities. The terms of reference of Committees are reviewed once annually and any changes are approved by the Board. The Board has constituted the following Committees:

- Audit and Risk Committee;
- Human Resources and Remuneration Committee;
- Trading and Industry Promotion Committee; and
- Governance Committee.

The Board is satisfied that each Committee has the necessary knowledge, skills, experience and capacity to execute its duties effectively. Each Committee has a minimum of three members. This is statutory requirement for the Audit and Risk Committee. Executive Management has a standing invitation at all Committee meetings, with the exception of the Governance Committee which deals with aspects of remuneration, the performance assessment of the Chief Executive Officer and other matters as may be assigned by the Board.

Members of the Board are entitled to attend Committee meetings as observers, however; members attending a committee meeting they are not a member of, are not entitled to remuneration for that meeting and may not participate without the consent of the Chairperson.

The Board applies its mind to all information and recommendations presented by Committees. The Board is not absolved of its responsibilities through the system of delegation and ensures the discharge of its duties in an accountable manner. The Board is satisfied that its Committees discharged their responsibilities during the year under review.

Audit and Risk Committee

The Audit and Risk Committee is a statutory committee of the Board appointed in terms of section 77 of the PFMA read with Treasury Regulation 27.1.1. It has duties assigned to it by the Board over and above its statutory duties. Specific responsibilities include providing oversight in respect of the effectiveness of the organisation's finance function, external and internal assurance services, and risk management. The Committee also guides the Board through the budgeting process reviews, comments on and is responsible for the integrity of the group's annual financial statements. Information Technology governance is also the responsibility of the Committee. The Committee met five times during the year under review.

The Committee is tasked with ensuring that assurance providers assume a coordinated approach to services and that a system of internal financial controls and risk management, including but not limited to the design, implementation and effectiveness of the internal financial controls through internal audit reports.

The audit and risk committee is also responsible for ensuring that the State Diamond Trader implements an effective mitigation plan for risk, and that disclosure of the risks and mitigation plans is timely and relevant to the risks.

The Committee deliberates and recommends to the Board which assumes individual and collective responsibility in the exercise of due care and skill on the affairs of the entity.

All members of the Committee are non-executive and possess the necessary skill and experience required to serve on the Committee. The Chairperson and all members are appointed by the Board and are Board members. The Committee had four members during the year, Mr. Imtiaz Goondiwalla (Chairperson), Mr. Bothwell Deka, Dr. Matlotleng Matlou and Mr. Namatsegang Diseko who resigned with effect from 1 February 2018. In line with the provisions of Regulation 27.1.1 of the Treasury Regulations, any premature resignation of a member of the Audit and Risk Committee requires the concurrence of the Minister. Such concurrence was duly sought by the Board and was granted by the Minister.

The Audit and Risk Committee is satisfied with the quality of work produced by internal and external auditors and with the internal control environment of the organisation. The Committee is not aware of any adverse indicators that may impact on the organisation. A Report of the Audit and Risk Committee is also included on **page 60** of this Annual Report.

Human Resources and Remuneration Committee (HR and REMCO)

HR and REMCO assist the Board with the human resources strategy, the attraction, motivation, development and retention of required staff competencies. The Committee makes recommendations to the Board in respect of issues of remuneration for staff and is tasked with monitoring the remuneration framework of the entity. The HR and Remuneration Committee has adopted formal terms of reference that are approved by the Board. The Committee has conducted its affairs in compliance with the terms of reference and has discharged its responsibilities contained therein and met four times during the year under review.

The Committee executes its responsibilities in terms of the approved terms of reference and seeks to ensure that the State Diamond Trader has a competitive policy and governance framework for remuneration which is aimed at organisational performance and achievements of strategic objectives set by the Board. The Committee achieves this through a salary benchmarking exercise conducted every three years.

Primary responsibilities of the Committee include inter alia:

- Ensuring that the Remuneration Policy is aligned to and promotes the achievement of the organisation's objectives while encouraging individual performance;
- Ensuring that benefits and incentives are appropriately benchmarked to ensure the organisation's competitiveness in the market;
- Reviewing and making recommendations to the Board on performance evaluation of staff, with the exception of the performance evaluation of the Chief Executive Officer; and

- Reviewing and recommending to the Board salary adjustments, short term incentives and policies.

All the members of the Committee are non-executive and possess the necessary skills and experience required to serve on the Committee. The Chairperson and all members are appointed by the Board and are Board members. The members are Mr Shadrack Motloun (Chairperson), Mr Gideon Du Plessis, Mr Lungile Mabece and Mr William Mabapa.

Trading and Industry Promotion Committee

The Trading and Diamond Industry Promotion Committee (known as the Trading Committee) ensures that the State Diamond Trader operations are in line with the mandate of the organisation, and the objectives set by the Board in the strategic plan. The Committee operates in accordance with the terms of reference approved by the Accounting Authority. The Committee met five times during the year to review.

The Trading Committee assists the Board with trading related activities and with the promotion of the diamond beneficiation industry and is responsible for the development and implementation of trading rules and sales strategies. The Committee interlinks with other sub-committees of the Board as necessary on interrelated issues. It is specifically set out in the Trading Committee's formal terms of reference that its deliberations must take into consideration Black Economic Empowerment and equitable access to rough diamonds deliberations at all times.

Primary responsibilities of the Committee include inter alia:

- The establishment, review and monitoring of the organisation's contribution to the growth of local diamond beneficiation;
- Ensuring the existence of articulate Trading Policies and Rules for the organisation
- Ensuring maintenance of the client base of local diamond beneficiaries; and
- Review and recommend to the Board marketing policies and strategies aimed at contributing to the growth of local diamond beneficiation.

All members of the Trading Committee are non-executive and possess the necessary skills and experience required to serve on the Committee. The Chairperson and all members are appointed by the Board and are Board members. The members are Mr Kagiso Menoe (Chairperson), Mr William Mabapa, Mr France Mokoena, Ms Michelle McMaster and Major General Nonhlanhla Mokoena.

Governance Committee

The Board established the governance Committee to assist the organisation with some functions that are recommended in the King III and King IV reports on corporate governance, without interfering with the functions reserved for the Minister in the Act. The Committee assists the Chairperson of the Board to initiate and manage overall performance evaluations of the Chief Executive Officer.

It also reviews and discusses, on an annual basis, the results of the formal evaluation process of the Board, Board Committees and individual directors (executive and non-executive), including the Chairperson of the Board and the Chief Executive Officer, and make recommendations to the Board as necessary.

The Governance Committee has oversight over the induction programme for new members of the Board to ensure their understanding of the business environment and market in which the State Diamond Trader operates as well as oversee the continuing professional education.

The Governance Committee operates within formal terms of reference approved by the Board. All members of the Governance Committee are non-executive and possess the necessary skills and experience required to serve on the Committee. The Committee is chaired by the Chairperson of the Board, Mr. Mervyn Carstens, Mr. Imtiaz Goondiwalla, Mr. Shadrack Motloun and Mr. Kagiso Menoe are all members of the Governance Committee.

Performance Evaluations

The Board is conscious of its responsibility to evaluate its own performance.

During the year under review, the Board considered the effectiveness of conducting performance evaluations at year end since the Board's tenure had commenced six months previously.

The Board resolved to defer the process of Board evaluations to the following year and sought and received authorization to do so from the Minister.

APPOINTMENT AND DELEGATION TO MANAGEMENT

Chief Executive Officer's appointment and role

The Minister of Mineral Resources is responsible for the appointment of the CEO. The Minister entrusts the recruitment process to the Board which makes recommendations to the Minister.

All delegations by the Board to management are delegated to the CEO so that the authority and accountability of management is considered to be the authority and accountability of the CEO in so far as the Board is concerned. The CEO is assisted by Executive Management to implement and execute the strategy approved by the Board and for the operational management of the business.

The CEO is an ex officio member of the Board and is held accountable by the Board as to the performance of Executive Management and the performance of the organisation. On a quarterly basis, the CEO reports to the Board on the performance of the organisation against strategic objectives set by the Board. The CEO is a standing invitee at all Committee meetings.

The Chairperson evaluates the performance of the CEO against specific and agreed targets on an annual basis which is reviewed by the Governance Committee and recommended to the Board.

Professional Corporate Services to the Board

The Company Secretary provides professional corporate governance services to the Board. The Company Secretary is a full-time employee

of the organisation and ensures that board procedures, regulations and governance codes are adhered to as necessary.

The Company Secretary also serves as Legal Officer of the State Diamond Trader. The appointment, remuneration and removal of the Company Secretary is a matter reserved for the Board. The Company Secretary has an arm's length relationship with the Board and works closely with the Chairperson to ensure the proper and effective functioning of the Board and the integrity of the Board regarding governance processes.

Sustainability

The Board is in the early stages of adopting a stakeholder inclusive approach and the consideration of the triple bottom line context of society, the economy and the environment in which it operates. Be that as it may, some elements of the triple bottom line context in which the State Diamond Trader operates are entrenched in the founding legislation and on the mandate of the organisation. A report on the activities contributing to sustainable development is part of the Annual Report, **page 56**.

The Board has directed the Audit and Risk Committee to monitor and report to the Board on issues of compliance with applicable laws and regulations and has taken cognisance of a need for initiatives aimed at driving responsible corporate citizenship to be sustainable.

Ethics

The Board is committed to the highest standards of ethical behaviour, and in demonstration of this has adopted a Code of Governance and Ethics as recommended by the King III and King IV Reports on Corporate Governance as the standard against which the conduct of Members and staff will be measured.

Strategy and Performance

The Board sets the strategic tone for the entity and works closely with Executive Management to determine the strategic objectives of the

organisation. Annually, Executive Management presents the short term (Annual Performance Plan), medium and long-term strategy to the Board which engages critically with Management's proposals in consideration of the mandate of the State Diamond Trader, the budget, the assumptions thereof, time frames, targets and the objectives of the strategy. On a quarterly basis, the Board reviews performance reports against targets set. The Strategy is for a five-year period at any given time. In determining the strategy, the Board evaluates the availability of resources for implementation.

Risk Governance

The Board is responsible for oversight of the risk management process and has delegated responsibilities to the Audit and Risk Committee. The Board approved a framework policy which guides the risk identification process. The risks are updated annually in line with the strategic objectives of the organisation.

Going Concern

The Board monitors the ongoing viability of the organisation and its effects. It is apprised of the going concern status on a quarterly basis and formally assesses the organisation's viability twice annually. This coincides with the Board meetings wherein the budget is approved and the review of the Annual Financial Statements of the State Diamond Trader. The Board is satisfied that the organisation is solvent. In consideration of a more impactful contribution towards the growth of local diamond beneficiation, the Board has identified a need for a more enabling environment as created by the State Diamond Trader's founding legislation. Therefore, while the organisation is a going concern for a foreseeable future, looking at the past behind the country and the future, sustainability considerations indicate that the State Diamond Trader is placed in a unique position to create value and to facilitate a more impactful implementation of its mandate, with appropriate resourcing.

Reporting

The Board assumes responsibility for the Annual Report, including the

Annual Financial Statements, assisted by the Audit and Risk Committee. The Board further assumes responsibility for statutory reporting to the Executive Authority and to the National Treasury. The preparation of the reporting documents is delegated to Executive Management.

Conclusion

The Board is satisfied with the governance framework and the corporate governance processes of the organisation. Having taken cognisance of the King IV Report on corporate governance, the Board has reflected on the corporate governance environment and will strive to ensure that organisational processes remain relevant and that they promote an ethical, transparent culture within the organisation.

REMUNERATION REPORT

The Board takes responsibility for governance of remuneration and sets the direction for how remuneration should be approached for employees. The Minister of Finance takes responsibility for the determination of remuneration for Board members who are also entitled to claims for out of pocket expenses.

Our Philosophy for Remuneration

The aim of the State Diamond Trader's Remuneration Policy and the Performance Management and Reward Policy is to give guidance to the organisation for the management of processes and practices required to attract and retain competent, well-motivated and committed employees who will support the achievement of the State Diamond Trader's mandate and objectives.

Influential factors for remuneration

Internal Factors

- State Diamond Trader vision, mission and objectives;
- Position accountability levels linked to the benchmarked Paterson job grading system;

- Performance Management and benefits linked to Performance Management Policy and Remuneration Policy;
- Internal position growth linked to the approved organizational structure; and
- Length of service period with State Diamond Trader.

External Factors

- Annual cost of living adjustments linked to inflation rates.
- Remuneration influenced by attracting, retaining and motivating key and talented people.
- Benchmarking salary grades with similar entities within the government and the diamond sector.
- Positive diamonds trading markets resulting to a better revenue generating platform that allows the State Diamond Trader to afford rewarding its employees on approved bonuses.

Key Focus Areas for the Reporting Period

The Human Resources and Remuneration Committee focused on the following key areas in relation to remuneration during the reporting period:

- Cost of living adjustments;
- Performance bonuses;
- Discretionary bonuses; and
- Amendment of the Remuneration Policy to make provisions for discretionary bonuses

The Use of Consultants

The State Diamond Trader engages consultants for remuneration every three years to benchmark State Diamond Trader salaries with other similar entities in the Government and Diamond Sectors. The last salaries benchmarking exercise was conducted in January 2016 and approved by the Board, and the next exercise will be conducted in January 2019 for the Board approval in April 2019.

Conclusion

Remuneration paid to Board members and Executive Management is outlined hereinbelow. The Committee is satisfied that the objectives of the Remuneration Policy were met during the year under review.

STATE DIAMOND TRADER NON-EXECUTIVE AND EXECUTIVE REMUNERATION FOR THE YEAR ENDED ON MARCH 2018

BOARD	
Name	Remuneration paid 2017/2018 (R)
Mr. M.J. Carstens	R 79 312.00
Mr. S. M. Motloug	R 49 997.00
Ms. M. McMaster	R 39 288.00
Mr. G. Du Plessis	R 54 152.00
Mr. F.O. Mokoena	R 91 945.37
Mr. R.L. Mabece	R 40 056.00
Mr. N.M. Diseko	R 35 090.00
Mr. W.M. Mabapa	R 70 346.00
Dr. M. Matlou	R 42 358.00

The following non-executive members of the Accounting Authority are either public servants as defined in the Public Service Act, or are executives at state-owned entities and therefore do not receive any remuneration from the State Diamond Trader:

Mr. I. Goondiwalla
 Mr. M. Malie
 Mr. B. Deka
 Major General N. Mokoena
 Mr. K.J. Menoe

EXECUTIVE MANAGEMENT	
Ms. F. Zikalala Mvelase*	R 566 441.00
Mr. K.J. Menoe**	R 314 299.98
Mr. S.M. Mnguni***	R 317 251.00
Ms. N. Danisa	R 1 388 040.00
Mr. C. Van der Ross	R 1 449 932.51
Ms. N.C. Sibeko	R 1 007 503.72
<p>* CEO contract terminated with effect from 30 June 2017</p> <p>** Seconded from DMR as Acting CEO and paid acting allowance from 1 July 2017 to 11 February 2018</p> <p>*** CEO appointed with effect from 12 February 2018</p>	



OPERATIONAL PERFORMANCE

Trading Report

Diamond and Beneficiation Industry
Development Programmes

TRADING REPORT

Rough Diamond Markets

The global diamond industry has seen stable trading activities, particularly within the rough diamond trading space which were favourable to both traders and dealers. Manufacturers on the other hand felt that the disparity between rough and polished diamond prices which resulted in profitability being squeezed. They, however, welcomed the improved sales of polished and diamond jewellery over the festive period and remained optimistic as this trend continued through to the Hong Kong Show which left a positive impact on the manufacturers. The rand/dollar exchange rate remained highly volatile and thus affected the State Diamond Trader purchasing decisions.

The industry underwent self-correction in terms of rough diamond prices, which led to a consistency in demand and resulted to a more positive sentiment throughout the year. Diamond producers continued to stabilise prices of rough diamonds - leading to the position where, in some instances, manufacturers received much needed respite. The beneficiation industry continues to look for innovative ways in which to survive in a globally competitive space. The introduction of cutting-edge technology is to some degree what most beneficiaries need in their manufacturing facilities to thrive. There is also a need for more beneficiaries to form partnerships with producers that will address the issue of security of supply.

The State Diamond Trader continues with its engagement with producers to increase access to diamonds deemed suitable for beneficiation. This arrangement has helped to alleviate some of the challenges faced in purchasing run of mine diamonds within difficult market conditions. As a result of challenging market conditions, the State Diamond Trader purchased additional productions on pre-finance due to the volatility of rough prices and in avoidance of keeping excess inventory.

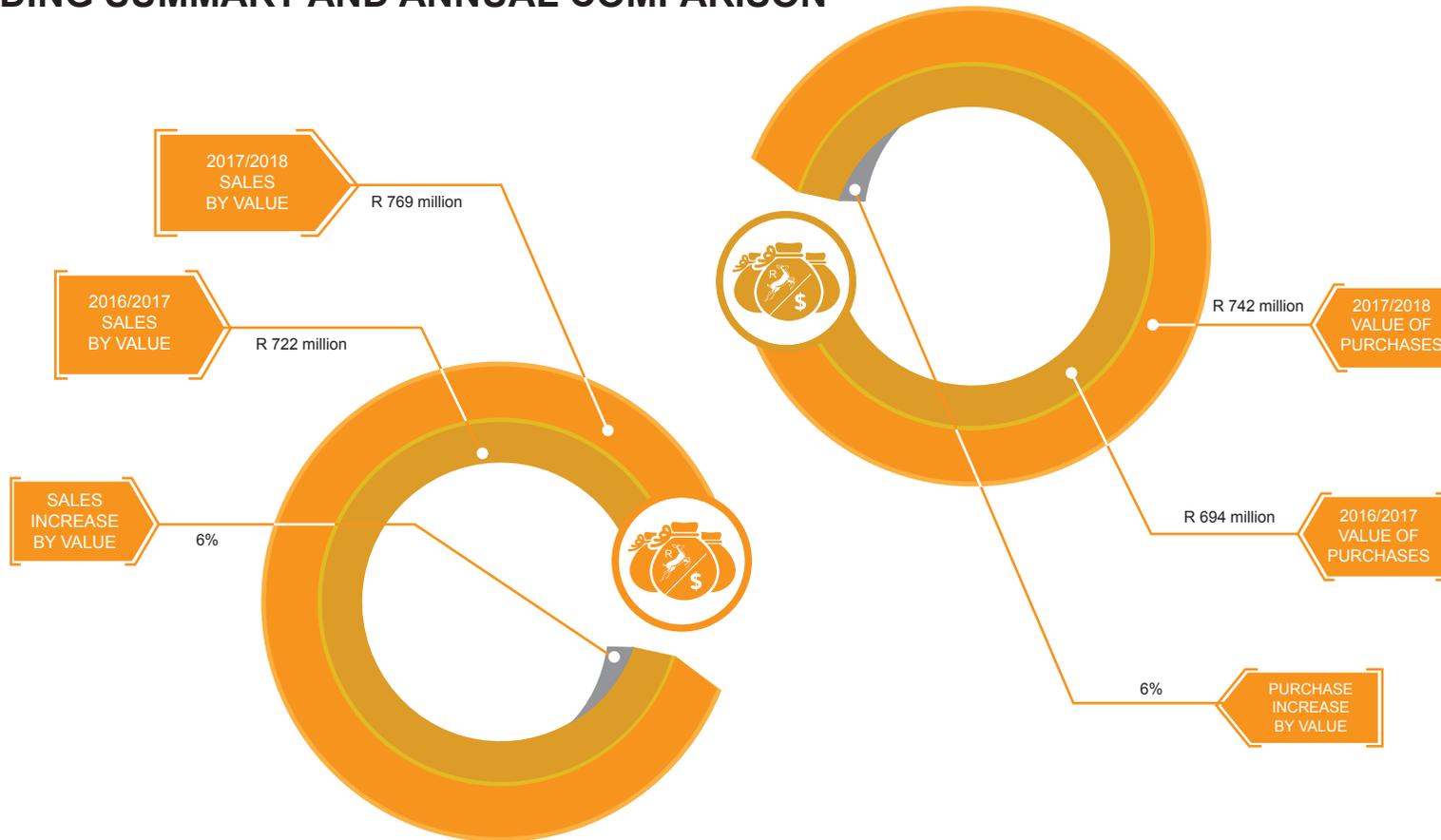


STATE DIAMOND TRADER TRADING PERFORMANCE

Table 1: Year on year comparison of inspections, purchases and sales

	2017/2018	2016/2017	2015/2016
State Diamond Trader Inspections US\$* (US\$'000 000)	1 216	1 144	970
Carats inspected	10 012 744	8 994 894	7 726 850
US\$ per carat	122	127	126
No. of producers	16	12	14
No. of Inspections	126	117	136
State Diamond Trader Purchases ZAR (R'000 000)	742	694	450
% purchased**	4%	4%	3%
No. of purchases	67	60	61
State Diamond Trader Sales ZAR (R'000 000)	769	722	460
COGS	741	698	447
GM	27	24	13
GM%	4%	3%	3%
Carats	116 351	178 052	158 128
No. of clients sold to	42	46	47
State Diamond Trader Stock ZAR (as of 31/03)	20	20	24
Average of stock (days)	>300	>300	>200

TRADING SUMMARY AND ANNUAL COMPARISON



- The value of purchases increased by 6% to R742 million for 2017 from R694 million for purchases in 2016/2017 financial year.
- Whilst the value of purchases increased, volume decreased by 52% to 116,880 carats in 2017 from 177,889 carats in 2016/2017 financial year. Increased value is as a result of a positive impact of the rand/dollar exchange rate as well as the type of diamonds purchased which were on demand in the market. The carats purchased by the State Diamond Trader decreased due to the State Diamond Trader being afforded the opportunity to purchase selection of the goods required through a special purchasing model.
- The number of purchases made from the producers increased from 60 in 2016 to 67 for the year under review.
- Sales increased by 6% to the value of R769 million compared to the previous year sales of R722 million.
- Gross profits increased from 3% in 2016 to 4% for 2017 which translated to an increase by R3 million.

TRADING SUMMARY AND ANNUAL COMPARISON

Table 2: End of Year Stock – Rough Diamond Inventory as of 31st March 2018

	Carats	ZAR Cost
Stock as of 01/04/2017	847.26	20,320,813
Purchases	116,880.05	742,336,248
Sales (COGS)*	116,351.10	741,685,172
Stock as of 31/03/2018	1,376.21	20,971,889

* excluding shipping costs

The State Diamond Trader's rough diamond inventory at year end increased in value by R651,076 and the volume increased by 528.95 carats. The increase relates to stock that was purchased at the end of the fourth quarter of the financial year and will only be sold in the new financial year.

South African Diamond Production – State Diamond Trader Inspections 2017

Trading activity at the State Diamond Trader is determined by the amount of rough diamonds produced in the country.

Figure 1: State Diamond Trader Inspections (2008-2017)

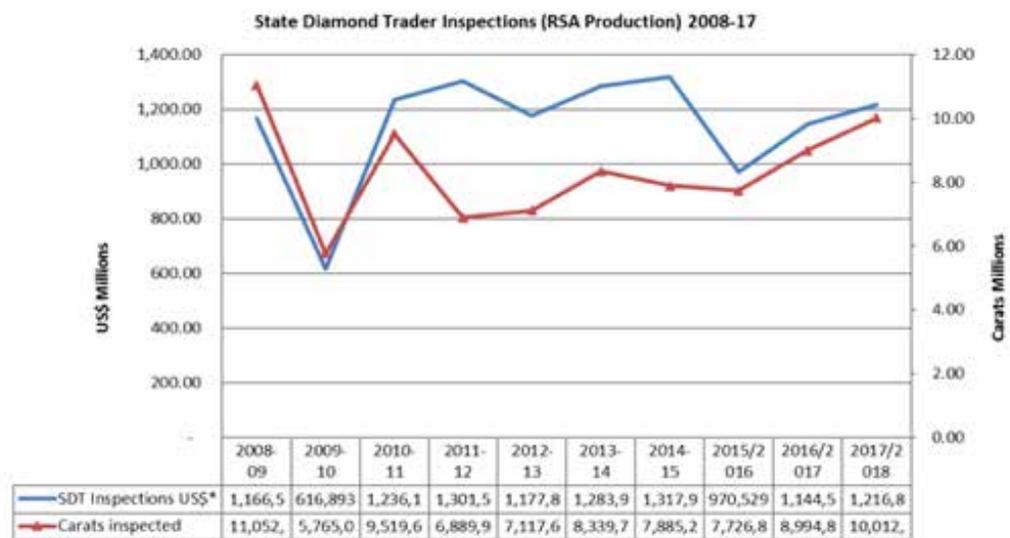


Figure 1 indicates an increase of both carats (volume) and value inspected by 6% and 11% respectively presented to State Diamond Trader by 16 producers. There was a slight decreased average price which indicates a slight decrease in the quality of rough diamonds produced and in particular those suitable for cutting and polishing in South Africa.

The State Diamond Trader's statistics are compared with those of the Kimberley Process Certification Scheme. The entity inspected 95% rough diamonds produced in the country.

Figure 2: State Diamond Trader Purchases

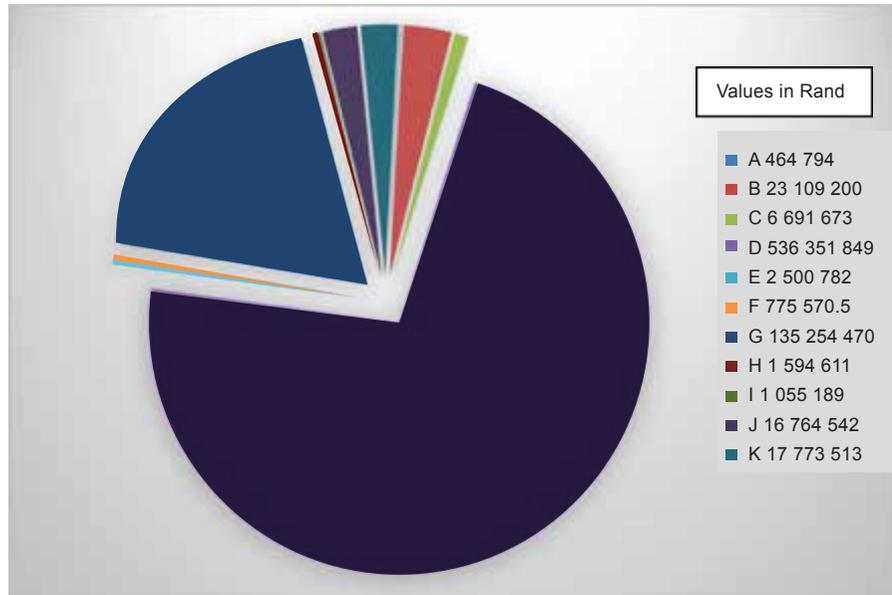


Figure 2 indicates the distribution by value purchased from each producer that complied with the law. The State Diamond Trader purchased rough diamonds from 11 producers during the year in comparison to the previous financial year of 9 producers.

The average price of diamonds purchased by the State Diamond Trader was US\$ 487.98 per carat compared to the US\$ 280.37 per carat of the previous year. This reflects a 74% increase in the average price. There has been a noticeable increase in the average price purchased over the last three financial years and is influenced by the following factors:

- The growth witnessed within the Growth and Transformation and Equitable access segment that is composed of >51% black owned companies;
- The average price of the diamonds purchased is directly linked to improved relations with producers that enables State Diamond Trader with the ability to select diamonds that are deemed suitable for beneficiation from the 10%.

During 2017 the State Diamond Trader purchased 1% by carats and 5% by value of the rough diamonds it inspected under the terms of the Diamond Act.

These relatively low percentages reflect the fundamental inability to purchase consistently from the country's diamond producers. The main reasons for this are as follows:

- The reduction in demand and the prices that local beneficiators were willing to pay for rough diamonds due to the continued global market conditions. The sales and pricing methodologies of the producers, placing selections outside of the State Diamond Trader's capability to operate commercially
- The constraints placed on the State Diamond Trader in terms of purchasing Run of Mine selections. The quantity of goods not preferred for beneficiation within South African Run of Mine productions.

Figure 3: State Diamond Trader Sales

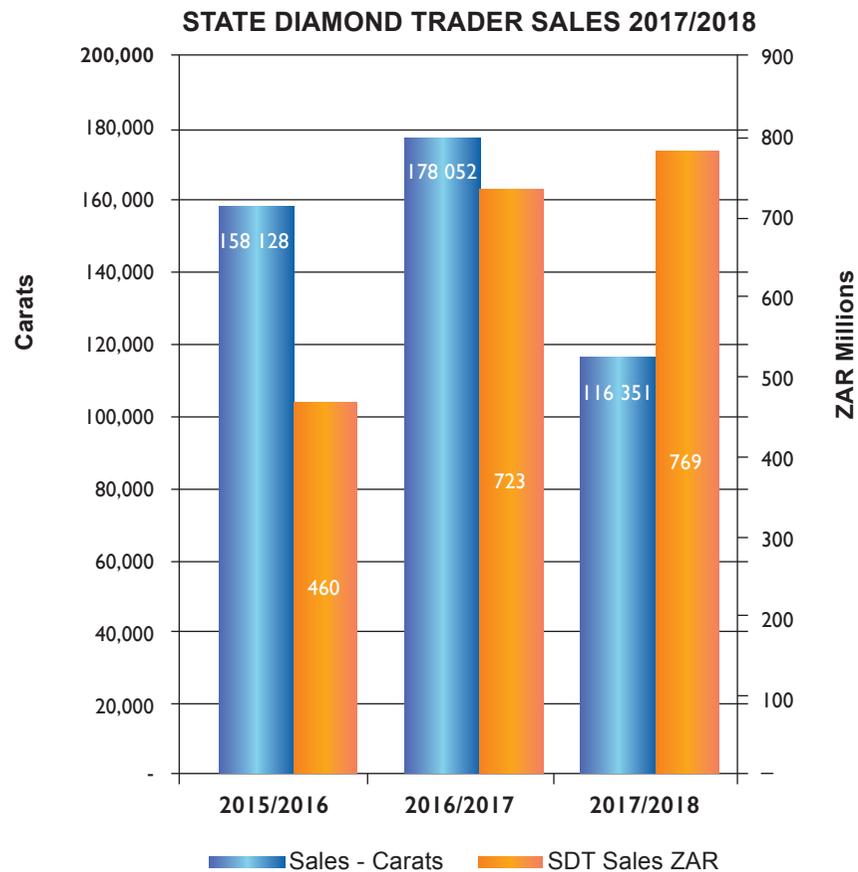


Figure 3 indicates the gradual upward trend of realised sales for the last three financial years. Sales increased by 6% to the value of R769 million compared to the previous financial year sales of R722 million, the gross margin percentage increased from 3% in 2016 to 4% for 2017 which translated to an increase of the gross margin by R3 million and the carats sold decreased by 53%.

The State Diamond Trader has undertaken an analysis of demand trends which indicated that only 15% by volume of local production is on demand by clients for local beneficiation. The State Diamond Trader

sold to 42 clients in total for the year under review which is a decrease when compared to the number sold in 2016 which totalled 46 clients.

Table 3: Summary and Budget Comparison

		Values in Rands
Purchases	Budget	624 066 079
	Actual	742 336 248
Sales	Budget	650 742 664
	Actual	769 096 151
Gross Margin	Budget	25 028 564
	Actual	27 410 979

The State Diamond Trader exceeded its budgeted purchases by 19%, sales by 18% and gross margin by 10% due to:

- The diamond industry experienced increased demand for polished and rough diamonds;
- The ability to purchase rough diamond at negotiated prices that have resulted in sales to beneficiators at the required margins;
- There has been consistent demand from beneficiators for rough diamonds; and
- The execution of the Sales Strategy that enabled sales on pre-finance basis.

From a trading perspective, to mitigate circumstances, outside of the State Diamond Trader’s control, the entity continues to trade on the basis of;

- Understanding rough diamond demand and price sensitivity of its clients;
- Active engagement with all compliant diamond producers; and
- Balancing clients’ demands with State Diamond Trader’s commercial imperative.

Table 4: Sales by Client Segment 2017

The table below provides information relating to the sales achieved by segmentation.

Segment	No. of clients	Carats	ZAR Sales	ZAR Cost	GM	GM%	% of Sales (ZAR)
Equitable Access	16	2,517	46,156,231	44,909,199	1,247,032	3%	6%
Growth and Transformation	5	12,148	114,971,911	110,966,702	4,005,209	3%	15%
Growth and Transformation Incubation	5	153	2,221,859	2,138,011	83,848	4%	0%
Niche and Large/ Medium Bene	15	100,937	604,059,744	582,053,430	22,006,314	4%	79%
Other	1	596	1,686,406	1,617,831	68,576	4%	0%
	42	116,351	769,096,151	741,685,172	27,410,979	4%	

*ZAR cost excludes shipping costs

The State Diamond Trader segments its clients in the following manner:

- **Growth and Transformation** – HDSAs owned companies given preferential allocation in order to support business growth;
- **Equitable Access** – small/medium HDSA owned beneficiating companies that have yet or are in the process of developing their business models that will lead to growth;
- **Niche and Large/Medium Beneficiators** – larger, non-HDSA owned beneficiating companies that can purchase larger quantities and a wider range of rough diamonds; and
- **Other** – Companies not on the State Diamond Trader’s list of registered clients, these companies are sold goods on approval of the Chief Executive Officer

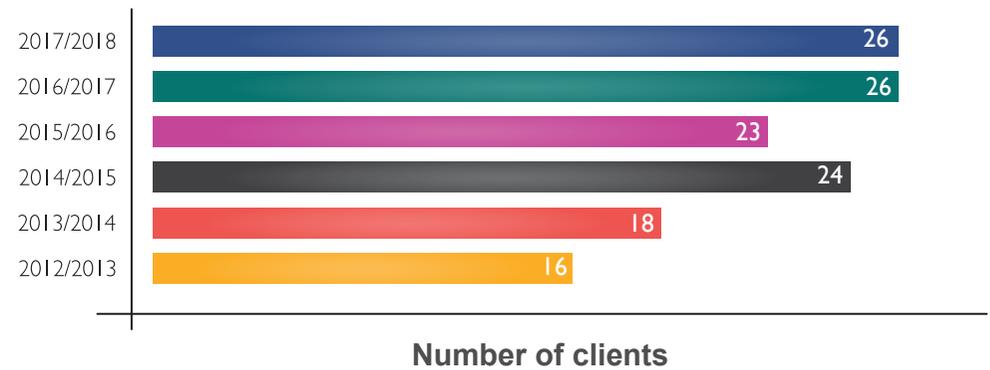
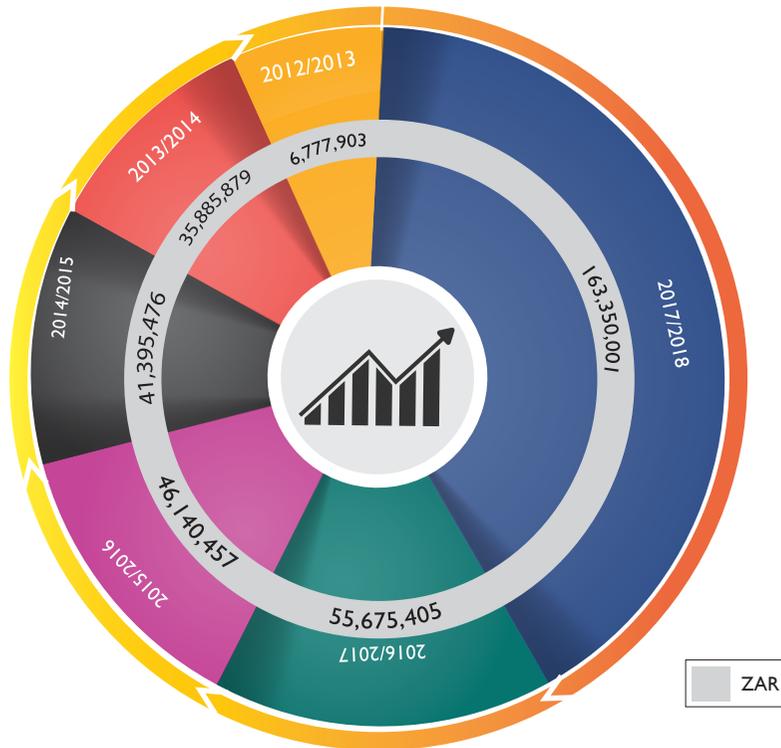
The total number of clients that purchased rough diamonds from the State Diamond Trader during 2017 decreased to 42 from 46 in 2016. The decrease is attributed to the fact that fewer diamonds were sold to those companies defined within the other category.

Table 5: Sales by suitability for beneficiation

2017/2018	Carats	ZAR Sales	% of total	
			Carats	Value
Suitable for beneficiation	47,591	626,494,223	41%	81%
Not suitable for beneficiation	68,760	142,601,928	59%	19%
	116,351	769,096,151		

Sales of rough diamonds suitable for beneficiation increased to 81% of total sales (by value) in 2017, compared to 76% in 2016. By volume(carats) diamonds deemed suitable for beneficiation increased to 41% for 2017 compared to 26% in 2016. The increase in suitable diamonds for beneficiation is attributed to the effective execution of State Diamond Trader’s special purchasing model.

Figure 4: Sales to HDSA clients



The reasons for the drastic increase in sales to HDSA clients is directly linked to the effective execution of the State Diamond Trader’s Sales Strategy, that seeks to address the objective of transformation within the diamond industry. The State Diamond Trader continues to facilitate this within the diamond beneficiation industry by focussing on sales to HDSA clients that were previously unable to access rough diamonds produced in the country. This approach has yielded positive outcomes as can be seen in the increased sales to HDSA clients. This was achieved in part with addressing the issues around access to markets, exposure of these clients to international platforms that enabled these clients to market their businesses and products effectively.

Sales to the number of HDSA clients increased to 26 for 2017 as compared to the 24 clients sold to in 2016. Regarding value sold it is noticeable that there has been a significant increase from the realised sales value of R55 million in 2016 to R163 million for 2017. This equates to an increased sales of R108 million by value to HDSA clients.

Despite the disparity between rough and polished diamond prices during the year;

- Sales to companies with 100% HDSA ownership significantly increased to 21% of the annual sales value in comparison to the 8% of 2016.
- There were 15 clients in the Niche/Large client segment that met the required BEE criteria i.e. between 26%- 50% black ownership whose purchases amounted to R604 million.

State Diamond Trader Client Relations Office

The role of the Client Relations Office is to engage with the State Diamond Trader’s clientele, current and potential, on all matters not pertaining to the sales of rough diamonds.

In addition, it has the responsibility for overseeing projects established to enable the growth of the State Diamond Trader’s clients and general industry development.

The State Diamond Trader’s Registered Clients – Addition and Removal

The State Diamond Trader has an annual process to advertise for and register clients wishing to purchase from it. The purpose of registering clients is to ensure compliance, in particular to those relating to the laws of the country pertaining to the holding of a valid beneficiation licence and SARS Tax Clearance Certificate.

The 2017 process saw six applicants being accepted to State Diamond Trader list of clients – four of which were HDSA owned companies.

During 2017 financial year State Diamond Trader found cause to remove seven clients from its list due to non-compliance reasons.

The State Diamond Trader ended the year with 78 registered clients within the following segments:

- Growth & Transformation 5
- Incubation Growth and Transformation 6

- Niche & Large/Med. Beneficiators 34
- Equitable Access 33

It should be noted that during the fourth quarter of 2017, two of the clients that were segmented as Growth and Transformation Incubation were moved into the Growth and Transformation segment and five Equitable Access clients were moved into the Growth and Transformation Incubation segment. These clients were moved based on their growth potential.

DIAMOND AND BENEFICIATION INDUSTRY DEVELOPMENT

One of the key strategic objectives of the State Diamond Trader is to promote the growth and development of the local diamond and beneficiation industry. As such, the entity embarked on various initiatives aimed at contributing towards the development and growth of the diamond and local beneficiation industry during the financial year under review.

Annual sales and development of the Growth and Transformation segment

During the year under review, the number of clients within the Growth and Transformation segment increased by 0.02% - two new clients entering the segment, with the total number of clients within the segment totalling five. Clients were moved from the Growth and Transformation Incubation as data showed increased purchases signalling an appetite for more supply of rough diamonds. Clients have indicated business growth including identification of new markets for polished diamonds manufactured and they have showed continuous willingness to participate in all State Diamond Trader initiatives. It is important to indicate that these client’s main source for rough diamonds is the State Diamond Trader, but they also purchase from other sources, i.e. producers, accredited local tenders and dealers.

Table 6: The table below indicates sales to the Growth and Transformation segment for 2017 financial year, compared to the previous financial year

	Financial Year 2017/2018	Financial Year 2016/2017	% Difference
Sales to Growth and Transformation	114,971,911	40,842,388	182
Number of Productions purchased by State Diamond Trader	67	60	12
Caratage purchased by State Diamond Trader	116,880	177,889	-34
Caratage sold to Growth and Transformation	12,148	7,631	59

Out of the five clients, four of these Growth and Transformation clients are part of the De Beers developmental programme.

Sales within this segment for the 2017 financial year increased by 182% compared to the 2016 financial year due to the following reasons;

- the segment has increased from three clients to five clients;
- all five clients in this segment purchased on both primary and secondary allocation;
- increase in client appetite for rough;
- the number of productions purchased increased by 12% during the year under review compared to 2016 financial year;
- clients increased their buying power by 59%; and
- during the year under review, the total number of employed by the five clients equated to 37 employees.

Growth and Transformation segment clients are still faced with challenges which include; inconsistent supply of rough diamonds, rough diamond prices being higher than polished prices leading to

less desired profits as well as the volatility of the rand/dollar exchange rate.

Annual sales and development of the Growth and Transformation Incubation segment

The State Diamond Trader analysed client performance to identify clients who have shown potential growth in their purchasing power as well as participation in State Diamond Trader activities from the Equitable Access segment. The number of clients within the Growth and Transformation incubation segment increased from three clients to six clients.

Table 7: The table below indicates sales to the Growth and Transformation incubation segment for financial year 2017/2018, comparing to the previous financial year.

	2017/2018 Financial	2016/2017 Financial	% Difference
Sales to Growth and Transformation	2,221,859	8,567,211	-74
Number of Productions purchased by State Diamond Trader	67	60	12
Caratage purchased by State Diamond Trader	116,880	177,889	-34
Caratage sold to Growth and Transformation	153	1,488	-90

It can be noted from Table 7 that during the 2016/2017 financial year 60 productions were purchased compared to the 2017/2018 financial year where 67 productions were purchased, an increase of 12% can be noted. However, by carats it can be noted that there was a decrease of 34%. The value purchased increased which indicates that rough diamond prices have increased during 2017/2018 financial year.

Comparing the 2016/2017 financial year with the financial year under review, there is a decrease of 74% in revenue due to the following reasons;

- the five clients that are added were in the Equitable Access segment and were allocated parcels on a rotational basis. Considering the period which is from quarter one to quarter three within Equitable Access segment these clients purchased diamonds to the value of R1.5 million,
- client purchases in quarter four amounted to R172,000;
- the productions purchased during the 2017/2018 financial year increased by 12% compared to the 2016 financial year;
- the volatility of the rand/dollar exchange rate was unfavourable most of the time to the Growth and Transformation Incubation segment; and
- during the 2017/2018 financial year, the total number of employees by the six clients equated to 12 employees.

The Growth and Transformation Incubation segment faced continuous challenges this financial year which include;

- companies moving from Jewel City to Bedfordview, Rosebank and other areas;
- inconsistent supply of rough diamonds;
- the rough diamond prices were 10%-20% more expensive than that of polished diamonds, as a result, attaining desirable profits was impossible;
- volatile market conditions because of inverse market trends between prices of rough and polished diamonds;
- selling good quality stones at 20%-30% below RAPAPORT price list remains a challenge and;
- the rand/dollar exchange rate has been extremely volatile which was a concern to the clients of the State Diamond Trader.

Annual baseline report on sales to HDSA clients

During the year under review, the Board tasked the State Diamond Trader through its strategic objectives to increase sales to Historically Disadvantaged clients by 5% in comparison to the previous financial year. The State Diamond Trader sold 56% more carats to HDSA

clients and the revenue achieved from sales increased by 193% in comparison to the 2016.

Table 8: The table below compares activities for the 2017/2018 financial year and 2016/2017 financial year

Activities to HDSA clients	2017/2018	2016/2017
Number of clients sold to	26	24
Sales	163 350 001	55 675 405
Carats/Volume sold	14 817.50	9 501.01
Number of productions purchased	71	60
Carats/Volume purchased	115 753	177 889
Overall contribution to sales	21%	8%

A significant increase in purchases from HDSA clients can be noted during the 2017/2018 financial year. This is due to seven clients purchasing larger productions on pre-finance as well as the fact that the State Diamond Trader could avail more goods to clients even though less carats were purchased by the State Diamond Trader in comparison to the 2016/2017 financial year.

In this financial year, the State Diamond Trader made diamonds available to 42 HDSA clients, 26 of which were able to purchase diamonds. 45 parcels to the total value of R10 million were allocated inhouse to 16 clients who declined to purchase. The reasons for declining to purchase varied from lack of finance and clients generally not seeing value in the price of their parcels.

Baseline for annual sales to clients that are participating in both local and international shows

The State Diamond Trader drafted a framework to establish it can increase the revenue of clients who participate at local and international shows initiated and facilitated by the State Diamond Trader. There were a few challenges which were noticeable and as such the State Diamond Trader consulted clients to ascertain if the shows were beneficial to clients.

The results of the consultation were not conclusive, although some clients could make sales and increase revenues, some clients found it challenging to penetrate the international and local market to satisfy their potential client's demands. Both the State Diamond Trader and clients came to a realisation that consistent participation in these shows is vital in building trust and confidence with potential buyers.

Sales revenue for clients who participated at trade shows during the 2016/2017 financial year was R75 million, the 2017/2018 financial year, sales increased to R124 million out of the 19 clients that participated in local and international exhibitions in 2016, only 10 of these clients were repeat participants in 2017. There is a noticeable increase in the number of clients who are interested to participate in trade shows and that led to an increase in the number of first time participants in both local and international exhibitions. Some of the clients who participated at local and international exhibitions as facilitated by the entity sourced their rough diamonds from the State Diamond Trader on pre-finance. This enabled the clients to have ample stock for the trade shows. Due to this interest and commitment from clients, the State Diamond Trader could increase its sales to exhibiting participants in the 2017.

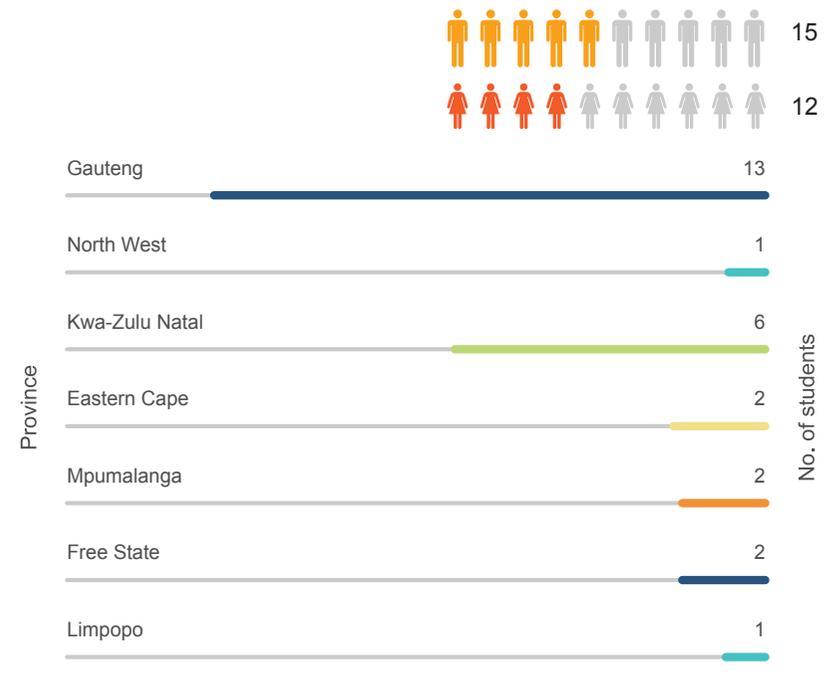
Locally, the State Diamond Trader facilitated participation at Jewellex Africa, while for international shows, clients participated at the Hong Kong Gem and Jewellery Show and the Bangkok Gems and Jewellery Fair both in September 2017. The Hong Kong show yielded exceptional results as the majority of clients could sell their diamonds at the show and were able to secure networks that would yield to positive results in the future. Exhibitors realised sales of polished diamonds to the value of R17 million. The Jewellex Africa and Bangkok shows did not yield any financial results but they enabled clients to network and create contacts which could yield good results in the future.

ENTERPRISE DEVELOPMENT PROGRAMME

The State Diamond Trader has been facilitating the Enterprise Development Programme since 2015 with the intention of introducing young South Africans into the diamond beneficiation/manufacturing industry.

Through this programme, the entity ensures that there is a constant stream of young black diamond entrepreneurs entering the sector equipped with the skills of rough diamond valuation, processing of rough diamonds into polished diamonds, marketing, trading and the business acumen to establish viable businesses within the industry. Since the inception of the programme, the State Diamond Trader, in collaboration with key stakeholders, has offered training to 27 trainees.

Demographics of EDP trainees



The first group of trainees completed the programme on the 31st March 2018, and have taken up employment with established companies. These companies that have committed to assist them with further coaching and support in the establishment of their companies. The trainees originate from all nine provinces and comprise of 15 males and 12 females. One of the trainees has an operational diamond cutting and polishing factory.

The trainee is now a client of the State Diamond Trader and qualifies to buy rough diamonds from the entity. The Enterprise Development Programme continues to generate massive interest among young people across South Africa and diamond beneficiation companies that are keen to partner with State Diamond Trader in this initiative.

TARI STUDENTS

The State Diamond Trader continues to prioritise youth skills development within the jewellery fabrication industry as a powerful tool to ensure innovation-driven growth, inclusive development and sustainable livelihoods. The entity partnered with the Mining Qualifications Authority on the Tari Student programme as a vital cog for skills development in the country. The programme is a partnership between MQA and the Department of Higher Education whereby Jewellery Designers and Watchmakers were sent to Italy for training in their respective fields. The two years training programme’s strategic focus is to expose South African designers to world-class designs and impart valuable skills. The State Diamond Trader committed to playing an important catalytic role towards the success of the programme through an agreement to facilitate and implement the Exit Training Programme upon the return of the students.

Demographics of Students



The 24 students drawn from the nine provinces of South Africa comprising of 9 females and 15 males returned into the country at the end of July 2017. The State Diamond Trader proceeded with the Exit Training Programme by placing them with Master Jewellery Goldsmiths and Watchmakers for them to complete their Trade Test and be developed into fully-fledged entrepreneurs for a period of six months. To date, three of the students have completed their Trade Test Readiness test.

DIAMOND INDUSTRY SEMINARS

Following the successful execution of the Inaugural South African Diamond Indaba (SADI) in 2015 and the Second South African Diamond Indaba in 2016, Access to Finance, Rough diamonds and Markets were identified as factors that inhibit the “drive towards competitiveness for growth and transformation in the diamond industry”. A resolution was therefore taken during the 2016 SADI, that a need exists for these issues to be dealt with in smaller focused settings in the form of seminars. During this reporting year, the State Diamond Trader hosted three seminars in addressing the identified factors; namely;

- Access to Finance Seminar (April 2017)
- Access to Markets Seminar (March 2018)
- Access to Rough Diamonds (March 2018)

It was important for the above-mentioned seminars not to deviate from the SADI 2016 theme which was titled “**Driving competitiveness for growth and transformation in the diamond industry**”.

Finance Seminar

The Finance Seminar was held in April 2017 under the sub-theme “Finding a workable funding model for the diamond industry”. Financial constraints in the diamond industry remain a challenge and such needed to be addressed as no trading growth can be attained without sufficient funding. Access to finance is imperative for any industry wishing to be competitive. Numerous funding institutions attended the seminar and indicated their willingness in finding a

workable funding model for the diamond industry. All the stakeholders in attendance agreed to work together in ensuring transformation of the industry and finding a workable model to fund it.

Access to Markets Seminar

Access to Markets seminar was the second seminar to be hosted in addressing the key inhibiting factors identified. The seminar was a one-day event which focused on the fundamentals of marketing and mainly targeted diamond beneficiation, cutting and polishing companies. Coming out of the seminar, the State Diamond Trader was able to address;

- The importance of marketing in any business (Marketing is a critical part of business and needs to be planned and budgeted for.)
- Challenges facing diamond manufacturers with regards to access to the relevant markets-means of addressing the challenges
- Centralised polishing trading Centre



* Access to Markets Seminar held in Sandton

Access to Rough Diamonds Seminar

Access to Rough diamonds seminar was the third seminar to be hosted in addressing the key inhibiting factors identified. The seminar was a partnership between the State Diamond Trader, the South African Diamond Producers Organisation as well as the South African Diamonds and Precious Metals Regulator. The three stakeholders resolved to continue dialogue on compliance issues and to establish meaningful relationships between government and industry.

With previous constant engagements that have been taking place between government and the South African Diamond Producers Organisation in resolving challenges faced, instead of duplicating efforts, the State Diamond Trader management resolved to partner with the South African Diamond Producers Organisation in hosting a session in a form of a conference to continue with discussions in finding solutions to challenges faced. This also made financial sense to collectively host the seminar since the discussion issues are of similar nature with the same stakeholders and audience. The conference was attended by representatives from government, represented by officials from the Department of Mineral Resources, State Diamond Trader, the South African Diamonds and Precious Metals Regulator, the Chamber of Mines, Tender Houses, Suppliers of diamond equipment as well as legal representatives for small scale miners.

Industry Growth Project

In achieving the entity's strategic outcome of **“a sustainable, globally competitive and transformed diamond beneficiation industry”** and the strategic objective of **“promoting local beneficiation”**, the State Diamond Trader piloted an industry growth project in collaboration with the South African Young Diamond Beneficiation Guild.

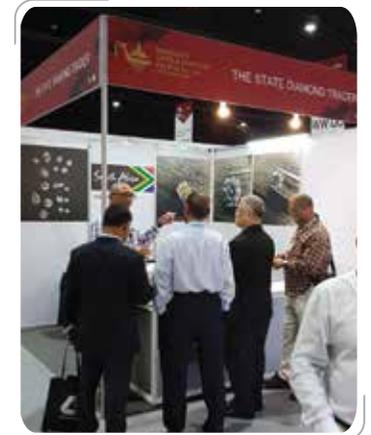


The two parties entered into a Memorandum of Understanding (MOU) and agreed to engage and collaborate in a joint project aimed at marketing diamonds manufactured in South Africa to local and international markets. The agreement is for a period of five (5) years and may be renewed by mutual consent of both parties.

The areas of collaboration as agreed by both parties include, *inter alia*:

- Exploration and penetration of markets for the South African diamonds;
- Exploration of the South African market to educate the market about diamonds, penetrate the market and stimulate consumption;
- Exploration and penetration of the Chinese market;
- Develop a marketing project and implementation plan for the above-mentioned points;
- Engage other stakeholders and seek partnerships for the project; and Jointly source funding for the project as necessary from time to time.

The parties agreed on an industry project to pilot one international market with the aim of penetrating that particular market as well as to further access international markets. Thailand was identified as a relevant market to pilot and this led to the parties participating at the Bangkok Jewellery and Fair Show. Through the participation at the show, it was evident that there is a market that South Africa can pursue in a form of outward missions, having business-to-business engagements with trading companies to ascertain the market, the type of goods the market requires etc. The pilot programme further proved that there is growing appetite for diamonds manufactured in South Africa.

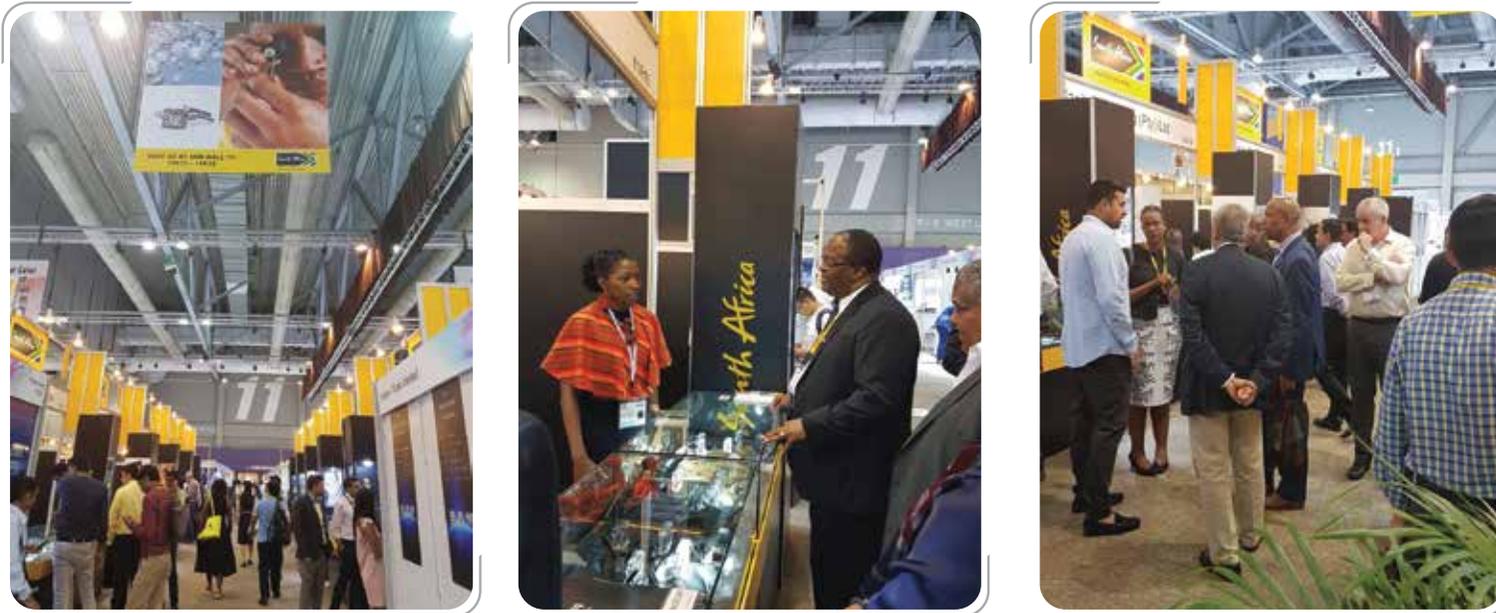


Access to local and international markets

The State Diamond Trader continues to prioritise programmes and activities that empower the entity, along with its beneficiation clients to access relevant markets with the aim of promoting the growth of the South African diamond and beneficiation industry. The State Diamond Trader continues to facilitate South African Pavilions and Diamond Pavilions at the various relevant shows and to invite diamond manufactures to exhibit and sell their diamonds while promoting their companies and South African produced diamonds.

During this financial year, the State Diamond Trader participated at local and international shows which enabled its client's exposure to relevant markets and an opportunity to intensify on existing relationships built throughout the years of participation. The State Diamond Trader realises that consistency in participating at these various shows is key in penetrating markets as well as establishing and building clientele. During the reporting period, the State Diamond Trader participated at the Hong Kong Gem and Jewellery Fair, Jewellex Africa, Africa Mining Indaba and Bangkok Jewellery and Fair Show yet again.

Participation at these shows continues to yield positive outcomes in a sense that South Africa is indeed establishing its footprint in local and international markets, and, through continuous presence, credibility is also sustained with buyers. The world now is aware that South Africa is not only rich in minerals but it has the skills to manufacture diamonds and jewellery to the best possible standards.



** State Diamond Trader clients exhibiting and trading at the Hong Kong Gem and Jewellery Fair.*

* State Diamond Trader participating at the Jewellux Africa



* State Diamond Trader participating at the Africa Mining Indaba 2017



PROVINCIAL PROMOTIONAL VISITS

The State Diamond Trader continues to participate at various relevant platforms to create awareness and promotion of the entity as well as the diamond and beneficiation industry. During the reporting period, the State Diamond Trader participated at the following Provincial and Promotional Visits and / or Career Guidance events:

- North-West Premier's Villages Townships Small Dorpies Entrepreneurship Outreach Programme, Northwest (May 2017 and June 2017)
- Department of Mineral Resources Learner Focus Week, Limpopo (July 2017)
- Jozini Career Guidance Day, Kwa-Zulu Natal (October 2017)
- Wedela and Khutsong Career Guidance Day, Merafong Municipality Gauteng (March 2018)



SUSTAINABLE DEVELOPMENT

Corporate Sustainability



CORPORATE SUSTAINABILITY

The King IV Report on corporate governance advocates for an integrated thinking which must take into account the connectivity and interdependencies between varying factors affecting the State Diamond Trader and its ability to create value over time.

Furthermore, in consideration of its effect and impact on society as guided by the King IV Report, the State Diamond Trader recognises the interdependencies and interconnectedness of various factors in its operating environment. The Board is in the process of defining more articulately, its policies and processes, however; activities impacting on corporate sustainability undertaken during the year are outlined below.

CORPORATE SOCIAL RESPONSIBILITY

The State Diamond Trader values the importance of positively impacting communities and has adopted an approach of contributing towards sustainable development by delivering social and economic benefits to its surrounding communities. The entity constantly strives to conduct its business in a manner that is ethical; taking into account its social responsibility in consideration of human rights.

In living up to the entity's mandate of promoting a caring attitude, not only to clients and stakeholders but also to the general disadvantaged South African populace wellbeing, the State Diamond Trader is committed to have a positive impact on the lives of the disadvantaged communities.

Annually in support of Mandela Day, the State Diamond Trader employees visit and dedicate their time at a children's home in the heart of Alexandra township in Johannesburg - Leratong Joy for One. Leratong Joy for One is a children's home that was established in 1992 and houses children from the ages of two to 18. The home provides a place of safety for children who are abused, living in poverty-stricken families, orphans and children living with HIV. The Leratong Joy for One home is also a place of refuge in a township stricken with poverty and a high unemployment rate, providing for families in-and-around Alexandra township living in poverty with basic groceries. Leratong Joy for One, also assists children within the community of Alexandra who do not live with them, through sharing the donations of clothes and food with those who are in need. This home that brings light into the community is not funded by any organisation or through government grant funding, it solely relies on donations.

During the Mandela day, employees of the State Diamond Trader dedicate their time interacting and motivating children at the Leratong Joy for One children's home. Also, as part of their contribution to making a difference in South Africa, employees and clients of the State Diamond Trader donated money and clothing towards the home. All funds raised were used to buy items needed by the home. The State Diamond Trader is grateful to its employees and to its clients for putting a smile on children at the Leratong Joy for One Home.



** State Diamond Trader employees making a difference to the lives of children in Alexandra on Mandela Day - June 2017*

INVESTING IN OUR PEOPLE

State Diamond Trader Employees

The State Diamond Trader trained 61% of its employees during the year under review. The Board is in the process of approving a bursary policy for staff aimed at augmenting the Workplace Skills Plan of the entity prepared annually.

Investing in skills development for the Industry

During the year under review, the State Diamond Trader invested in training 27 trainees in the Enterprise Development Project, 24 trainees for Jewellery Manufacturing and four trainees in watch making in partnership with the Mining Qualifications Authority.



STAKEHOLDER MANAGEMENT

The Board recognises that the relationship between the organisation and its stakeholders and its ability to create value for itself is also dependent on its ability to create value for others. The State Diamond Trader during 2015 and 2016, placed efforts in achieving a stakeholder inclusive approach through the South African Diamond Indaba and was able to achieve on a number of the objectives it set through stakeholder collaborations and management, inter alia, the Hong Kong Jewellery and Gem Fair, Enterprise Development Programme, the South African Diamond Indaba, Jewellex, etc. During the year under review, the Board recognised a need for a more focused approach to stakeholder management so as to achieve balanced interests of the capitals as guided by the King IV Report on corporate governance being, financial, human, social relationships, rough diamonds resource, manufacturing of the rough diamonds. A framework for stakeholder engagements is in the process of being formalised. The State Diamond Trader however engaged the following stakeholders, inter alia, during the year.

STAKEHOLDER MANAGEMENT FOR THE YEAR ENDED ON 31 MARCH 2018		
STAKEHOLDER GROUP	OBJECTIVES OF STAKEHOLDER MANAGEMENT FOR THE STAKEHOLDER GROUP	RELEVANCE OF STAKEHOLDER GROUP
Executive Authority	To Report, engage and keep informed	The Executive Authority is the Shareholder representative nominated by the Republic of South Africa as such for the State Diamond Trader in terms of the Diamonds Act, 56, 1986, as amended
Regulators	Compliance, engagements and to keep informed	Continuous engagement with stakeholder group for sustainability
Clients	Engagement, collaboration, keeping the clients satisfied, keeping the clients informed	The State Diamond Trader is mandated by the Diamonds Act 56 of 1986, as amended, to establish and maintain a client base for local diamond beneficiation
Employees	To engage, keep informed, to facilitate optimum output levels for operations	Employees are the engine of the organisation
Media	Keep informed	Media facilitates supply of information to the general public
Parliament of the Republic of South Africa	To report, keep informed, engage	The State Diamond Trader was established through an act of Parliament
Key players in the Diamond Industry	To engage, collaborate and gather market intelligence for operations	Key players in the diamond industry from producing sector to downstream activities all play a role in the implementation of the mandate of the entity



FINANCIAL PERFORMANCE

Chief Financial Officer's Report

Audit and Risk Committee Report

Statement of responsibility for
Financial Statements

Report of the Auditor-General

Annual Financial Statements

AUDIT AND RISK COMMITTEE REPORT



Mr. Imtiaz Goondiwalla
Chairperson of the Audit and Risk Committee

“We are satisfied with the accounting policies and the financial statements, they are appropriate and comply with International Financial Reporting Standards (IFRS).”

We are pleased to present our report for the year ended 31 March 2018.

The Audit and Risk Committee is a creature of Statute in terms of Section 77 of the PFMA, read with Treasury Regulation 27. Its objective is to assist the Board to maintain an effective, efficient and transparent system of financial and risk management and internal control, as well as a system of internal audit. The Committee has adopted formal terms of reference approved by the Board and reviewed annually.

Audit and Risk Committee’s Terms of Reference

The Audit and Risk Committee functions under formal terms of reference that are approved by the Board. The Committee has conducted its affairs in compliance with the terms of reference and has discharged its responsibilities contained therein.

Role and Responsibilities

The Audit and Risk Committee’s role includes statutory duties, as well as further responsibilities assigned to it by the Board. The Audit and Risk Committee is satisfied by the level of execution of its duties during the year under review.

External Auditors and Independence

The Audit and Risk Committee is satisfied that the external auditor, appointed in terms of the Public Audit Act, Act No. 25 of 2004, is independent. The Committee, in consultation with management, agreed to the audit strategy and budget for the year under review. Officials from the office of the Auditor-General are invited to attend all Audit and Risk Committee meetings and attended all meetings of the Committee during the year under review.

Financial Statements and Accounting Practices

The Audit and Risk Committee has reviewed the accounting policies and the financial statements of the State Diamond Trader and is satisfied that they are appropriate and comply with International Financial Reporting Standards (IFRS).

Internal Controls

The Audit and Risk Committee oversaw the process in terms of which internal audit performed assessments of the effectiveness of the State Diamond Trader’s system of internal control and risk assessments, including internal financial controls.

Governance of Risk

The Board has assigned oversight of the State Diamond Trader's risk management function to the Audit and Risk Committee. The Committee has an oversight role in respect of the entity's Risk Register, financial reporting risks, internal controls, fraud risk, as well as information technology risk

Internal Audit

The Audit and Risk Committee is responsible for ensuring that the State Diamond Trader's internal audit function is independent and able to discharge its duties. Furthermore, the Committee oversees cooperation between the Internal and External auditors and serves as a link between the Board and these assurance functions. The internal audit function reports to the Committee and is responsible for reviewing and providing assurance on the adequacy of the internal control environment across the entity's operations. During the year under review, the Committee approved the three-year rolling internal audit plan.

Going Concern

The annual financial statements of the State Diamond Trader were prepared on a going-concern basis and the Committee is satisfied that the State Diamond Trader is financially sound and has adequate resources to continue operating for the foreseeable future.

Conclusion

I wish to express my appreciation to the Board, and to the members of the Audit and Risk Committee for their support and contributions during the year, as well as to all three incumbents that held the position of CEO during the year under review, the CFO and internal auditors for their hard work. Finally, I also wish to thank the external and internal auditors for their contribution in ensuring that our reports are audited in a fair and professional manner.



Mr. Imtiaz Goondiwalla

Chairperson of the Audit and Risk Committee

August 2018



Ms. N. Danisa
Chief Financial Officer

CHIEF FINANCIAL OFFICER'S REPORT

“Our revenue increased by 6% and this is mainly attributed to the sales strategy that management implemented to boost sales.”

The State Diamond Trader is a government business enterprise that generates its revenue through trading in rough diamonds. The market of diamonds is influenced by global economic activities in countries such as India, China and the United States of America as they are the major consumers of the product. SDT does not receive funding from the State and as such depends on its margins achieved from the sale of rough diamonds.

FINANCIAL PERFORMANCE

Profitability

The 2018 financial year was quite a challenging one for the entity, but despite such conditions the organisation remained financially sustainable. The diamond mining industry continued to face lots of challenges ranging from lack of financing, declining production and volatile exchange rates.

SDT managed to achieve a net surplus increase in 2018 of 10% to R8.5m (FY 2017: R7m). Revenue increased by 6% to R769m (FY 2017: R722m). The increase is mainly attributable to the sales strategy that management implemented to boost sales in 2018.

Total expenditure increased by 20% to R25m (FY 2017: R20m). The major contributor to the increase in expenditure is employee costs due to a discretionary bonus that was paid to the employees in 2018 for the first time in the existence of State Diamond Trader.

SDT continued to manage the working capital efficiently to improve liquidity and profitability. The 50% increase in trade and other receivables in 2018 is due to an amount owed to State Diamond Trader by Mining Qualification Authority for the project that the two entities are running. SDT sells to its customers on cash basis only to minimise the risk of bad debts.

Cashflow Management

Cash and cash equivalents increased from R32m in 2017 to R39m in 2018.

Going Concern

SDT annual financial statements have been prepared on a going concern basis. There are no pending or threatened legal proceedings which have had or may have a material effect on the financial position of the entity.

Events After the Reporting Date

There have been no facts or circumstances of a material nature that have arisen between the financial year-end and the date of this report.

Ms. Nompumelelo Danisa
Chief Financial Officer
August 2018

STATEMENT OF RESPONSIBILITY FOR FINANCIAL STATEMENTS

STATEMENT OF RESPONSIBILITY BY THE DIRECTORS, WHO CONSTITUTE THE ACCOUNTING AUTHORITY OF THE STATE DIAMOND TRADER FOR THE YEAR ENDED 31 MARCH 2018

The Board is required by the Public Finance Management Act 1 of 1999 (PFMA) to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report.

The Board has a responsibility to ensure that the financial statements fairly represent the affairs of the State Diamond Trader as at the end of the financial year and that the results of operations and cash flows are in conformity with International Financial Reporting Standard (IFRS) and are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

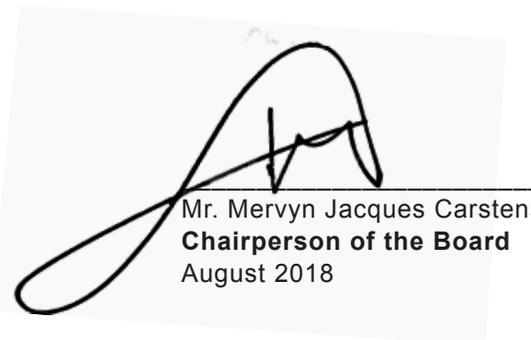
The Board is satisfied that financial statements presented herein represent the state of affairs of the State Diamond Trader, its financial results, its performance against predetermined objectives and its financial position at the end of the financial year. Furthermore, the Board is satisfied that the results of operations and cash flows are in conformity with International Financial Reporting Standard (IFRS) and are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The Board establishes policies and sets of standards that are designed to provide reasonable assurance against material misstatements and losses. This enables the Board to execute its responsibilities as required. The State Diamond Trader maintains internal financial controls, thereby providing 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 strategic direction to management on the expected performance and the outcomes. These are regularly reviewed to ensure compliance and relevance.

The financial statements that appear hereunder were approved by the Accounting Authority on 27 July 2018 and are signed on its behalf by:



Mr. Imtiaz Goondiwalla
Chairperson of the Audit and Risk Committee
August 2018



Mr. Mervyn Jacques Carstens
Chairperson of the Board
August 2018

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

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the State Diamond Trader set out on **pages 68 to 86** which comprise the statement of financial position as at 31 March 2018, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the State Diamond Trader as at 31 March 2018, and its financial performance and cash flows for the year then ended in accordance with the 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).

Basis of opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.

4. I am independent of the public entity in accordance with the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

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

Responsibilities of accounting authority for the financial statements

6. The accounting authority is responsible for the preparation and fair presentation of the financial statements in accordance with SA Statements of GAAP and the requirements of the 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.

7. In preparing the financial statements, the accounting authority is responsible for assessing the State Diamond Trader's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting authority either intends to liquidate the public entity or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

8. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

9. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

10. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

11. My procedures address the reported performance information, which must be based on the approved performance planning documents of the public entity. I have not evaluated the completeness and appropriateness of the performance measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

12. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the public entity for the year ended 31 March 2018:

Objectives	Pages in the annual performance report
Objective 1 - Promote the local diamond beneficiation industry	pg.16
Objective 2 - Implement outcomes of the SA Diamond Indaba Series	pg.16
Objective 3 - Contribute towards youth skills development, including youth from diamond mining host communities	pg.17

13. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

14. I did not raise any material findings on the usefulness and reliability of the reported performance information for the following objectives:

- Objective 1 - Promote the local diamond beneficiation industry
- Objective 2 - Implement outcomes of the SA Diamond Indaba series
- Objective 3 - Contribute towards youth skills development, including youth from diamond mining host communities

Other matters

15. I draw attention to the matters below.

Achievement of planned targets

16. Refer to the annual performance report on **pages 16 to 17** for information on the achievement of planned targets for the year.

Adjustment of material misstatements

17. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Promote the local diamond beneficiation industry and contribute towards youth skills development, including youth from diamond mining host communities. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Report on the audit of compliance with legislation

Introduction and scope

18. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the public entity with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

19. The material findings on compliance with specific matters in key legislations are as follows:

Procurement and contract management

20. Goods, works or service were not procured through a procurement process which is fair, equitable, transparent and competitive, as required by section 51(1)(a)(iii) of the PFMA.

Expenditure management

21. Effective and appropriate steps were not taken to prevent irregular expenditure amounting to R1 219 699 as disclosed in note 25 to the annual financial statements, as required by section 51(1)(b)(ii) of the PFMA.

Other information

22. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.

23. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion

or any form of assurance conclusion thereon.

24. In connection with my audit, my responsibility is to read the other information on and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

25. If, based on the work I have performed, I conclude that there is a material misstatement in this other information, I am required to report that fact. I have nothing to report in this regard.

Internal control deficiencies

26. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiency that resulted in the finding on compliance with legislation included in this report.

Financial and performance management

Compliance monitoring

27. Non-compliance with legislation could have been prevented had compliance been properly reviewed and monitored.

Auditor-General

Pretoria
31 July 2018



Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected objectives and on the public entity’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:

- identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- obtain an understanding of internal control relevant to the audit 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 public entity’s internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting authority
- conclude on the appropriateness of the accounting authority’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the State Diamond Trader’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a public entity to cease continuing as a going concern
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

4. I also confirm to the accounting authority that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.

ANNUAL FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2018

	Notes	2018 R	2017 R
ASSETS			
<i>Non-current assets</i>			
Property and equipment	6	749,828	937,450
<i>Current assets</i>			
Inventory	7	20,971,889	20,320,813
Trade and other receivables	8	3,587,992	1,526,259
Cash and cash equivalents	9	38,709,275	32,475,726
TOTAL ASSETS		64,018,984	55,260,248
EQUITY AND LIABILITIES			
<i>Equity</i>			
Retained income		61,767,521	53,261,328
<i>Non-current liabilities</i>			
		-	-
<i>Current liabilities</i>			
Loans and borrowings		2,251,462	1,998,920
Trade and other payables	10	1,373,768	1,429,042
Operating lease liability	11	9,052	12,673
Incentive bonus provision	12	868,642	557,204
TOTAL EQUITY AND LIABILITIES		64,018,984	55,260,248

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2018

	Notes	2018 R	2017 R
Revenue	13	769,096,151	722,723,434
Cost of sales	14	(742,214,312)	(698,676,269)
Gross profit		26,881,839	24 047 167
Other income	15	4,550,508	1,265,930
Administrative expenses		(25,141,888)	(19,893,038)
Profit from operating activities	16	6,290,459	5,420,059
Finance income	17	3,091,801	2,276,840
Finance expenses	18	(876,068)	(549,058)
Profit before income tax		8,506,192	7,147,841
Profit for the period		8,506,192	7,147,841
Total comprehensive income		8,506,192	7,147,841

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2018

	Retained income R
Balance at 1 April 2016	46,113,488
Profit for the year	7,147,841
Balance at 31 March 2017	53,261,329
Profit for the year	8,506,192
Balance at 31 March 2018	61,767,521

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2018

	Notes	2018 R	2017 R
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated by operations	19	4,098,470	8 454 821
Interest paid		(876,068)	(549 058)
Interest received		3,091,801	2 276 840
Net cash inflow from operations		6,314,203	10 182 603
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of equipment		(80,654)	(150,705)
Net cash outflow from investing activities		(80,654)	(150,705)
CASH FLOWS FROM FINANCING ACTIVITIES			
Revolving Credit Facility amount drawn during the reporting period		35,160,170	70,232,297
Revolving Credit Facility amount paid during the reporting period		(35,160,170)	(70,232,297)
Net cash outflow from financing activities		-	-
Net increase/(decrease) in cash and cash equivalents		6,233,549	10,031,898
Cash and cash equivalents at the beginning of the period		32,475,726	22,443,828
Cash and cash equivalents at the end of the period		38,709,275	32,475,726

NOTES TO THE FINANCIAL STATEMENTS

Notes to the financial statements for the year ended 31 March 2018

1. REPORTING ENTITY

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

2. BASIS OF PREPARATION

a) Statement of compliance

The financial statements have been prepared in accordance with, and comply with, the South African Statements of Generally Accepted Accounting Practice (GAAP) and the PFMA.

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 to Note 3 (e).

c) Functional and presentation currency

These financial statements are presented in Rands, which is the State Diamond Trader'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 the South African 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. The practice 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 ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3 (k): Accounting estimates and judgements.

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 3 (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 State Diamond Trader has transferred to the buyer the significant risks and rewards of ownership of goods.
- The State Diamond Trader 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 State Diamond Trader.

- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

b) Finance income and expense

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

Finance expense comprises 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 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 State Diamond Trader; 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 State Diamond Trader 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:

Asset category	Depreciation rate
Furniture and fittings	10%
*Computer hardware	20%
Security equipment	10%
Diamond equipment	10%
Leasehold improvements	Over the lesser of the useful life or the remaining period of the lease term

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.

Classification

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

Recognition

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

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 of cash and 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.

Derecognition

The State Diamond Trader derecognises 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 derecognition. 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, contingent liabilities and contingent assets

Provisions are recognised when the State Diamond Trader has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to a provision is presented in the Income Statement net of any reimbursement. Contingent assets and contingent liabilities are not recognised on the Statement of Financial Position.

h) Employee benefits

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

i) Income tax

As of February 2012, the State Diamond Trader was granted income tax exempt status and therefore would not be liable for any income tax for the year.

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

k) 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:

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.

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) 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.

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.

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, and
- market risk.

The financial risk management 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.

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 State Diamond Trader's interest rate risk arises from revolving credit facility. The facility is issued at prime plus 2% and on that basis, changes in prime expose the company to cash flow interest rate risk. The revolving credit facility was paid in full at year-end.

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:

In R'0	31 March 2018		31 March 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	38,709,275	38,709,275	32,475,726	35,475,726
Trade and other payables	1,373,768	1,373,768	1,429,042	1,429,042
Trade and other receivables	2,122,897	2,122,897	149,706	149,706

Capital management

The State Diamond Trader is a government business enterprise and does not have any share capital. The State Diamond Trader is not funded by government and it is 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 2018, and have not been applied in preparing these financial statements:

STANDARD OR INTERPRETATION	DETAIL	EFFECTIVE DATE
IAS 40 (amendment)	<ul style="list-style-type: none"> • Investment property • The amendment clarifies and provides more guidance for transfers of property under construction to Investment property. • The amendment will be applied retrospectively and will not have a material impact on the group's financial statements. 	Annual periods beginning on or after 1 January 2018.
IFRS 1, First-time Adoption of International Financial Reporting Standards	<ul style="list-style-type: none"> • Annual Improvements 2014-2016 Cycle: Deletion of short-term exemptions that are no longer applicable 	1 January 2018
IFRS 2, Share-based Payment	<ul style="list-style-type: none"> • Classification and Measurement of Share-based Payment Transactions: A collection of three distinct narrow-scope amendments dealing with classification and measurement of share-based payments. The amendments address: <ul style="list-style-type: none"> • the effects of vesting conditions on the measurement of a cash-settled share-based payment; • the accounting requirements for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled; and • classification of share-based payment transactions with net settlement features. 	1 January 2018

STANDARD OR INTERPRETATION	DETAIL	EFFECTIVE DATE
IFRS 3, Business Combinations	<ul style="list-style-type: none"> Annual Improvements 2015 - 2017 Cycle: Clarification that when an entity obtains control of a business that is a joint operation, it is required to remeasure previously held interests in that business. 	1 January 2019
IFRS 4, Insurance Contracts	<p>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts: Two amendments to IFRS 4 to address the interaction between IFRS 4 and IFRS 9:</p> <ul style="list-style-type: none"> A temporary exemption from IFRS 9 has been granted to insurers that meet specified criteria; and An optional accounting policy choice has been introduced to allow an insurer to apply the overlay approach to designated financial assets when it first applies IFRS 9 	1 January 2018
IFRS 9 (new)	<p>Financial instruments The standard requires financial assets to be measured either at amortised cost or fair value, depending on the business model under which they are held and the cash flow characteristics of the instrument.</p> <p>The standard contains new hedge accounting requirements aimed at better aligning the accounting treatment with the risk management strategy. In addition, the standard replaces the incurred loss impairment model in IAS 39 with an expected loss model. It will no longer be necessary for a credit event to have occurred before credit losses are recognised.</p> <p>The new standard will be applied retrospectively and could have a material impact on the group's financial statements. The group has not yet quantified the potential impact of the new standard on the group.</p>	Annual periods beginning on or after 1 January 2018.
IFRS 9 with IFRS 4 (amendment)	<p>The amendments address reservations for issuing the IFRS 9 and IFRS 4 on different effective dates as there would be accounting mismatch and volatility that will arise in profit or loss if IFRS 9 is applied before the new insurance contract.</p> <p>Two approaches were included in the amended IFRS 4 to address issues raised by interested parties which are the following:</p> <ul style="list-style-type: none"> The overlay approach: With this approach, entities will reclassify from profit or loss a certain portion of income and expenses to OCI for financial assets measured at fair value through profit or loss through application of IFRS 9. These financial assets classified at fair value through profit or loss should not be instruments that would have been classified as such under IAS 39 and the financial assets should relate to contracts that fall within the scope of IFRS 4. Temporary exemption approach: With this approach, entities whose activities are predominantly issuing insurance contracts and have never applied any version of IFRS 9 will be exempted from applying IFRS 9 up till the earlier of 1 January 2021 and the adoption of the new IFRS 4 standard. <p>The amendments will be applied retrospectively and will not have a material impact on the group's financial statements.</p>	Annual periods beginning on or after 1 January 2018.

STANDARD OR INTERPRETATION	DETAIL	EFFECTIVE DATE
IFRS 11 Joint Arrangements	<p>Annual Improvements 2015 – 2017 Cycle:</p> <p>Clarification that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.</p> <p>IFRS 12</p>	January 2019
IFRS 15 (new)	<p>Revenue from contracts with customers</p> <p>The IFRS replaces IAS 18: Revenue and provides a single, principle-based, five-step model to be applied to all contracts with customers. The steps involve identifying the contract, identifying the performance obligations under the contract, determining the transaction price, allocating the transaction price to the performance obligations in the contract, and recognising revenue when the entity satisfies a performance obligation.</p> <p>Clarification to IFRS 15 revenue from contracts with customers:</p> <p>The amendment does not change the underlying principles of IFRS 15 but it provides clarity as to how to apply those principles.</p> <p>The amendments clarify how to identify a performance obligation in a contract, determine whether a company is a principal, or an agent; and determine whether the revenue from granting a licence should be recognised at a point in time or over time. The amendments also provide reliefs to reduce cost and complexity for a company when it first applies the new standard.</p> <p>The new standard could have a material impact on the group's financial statements and may be applied with full retrospective effect or under a modified retrospective approach with an adjustment made to the opening balance of retained income. Early adoption is permitted. The group has not yet quantified the potential impact of the new standard on the group.</p>	<p>Annual periods beginning on or after 1 January 2018.</p> <p>Annual periods beginning on or after 1 January 2018.</p>
IFRS 16 (new)	<p>Leases</p> <p>The new standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance leases.</p> <p>The new standard could have a material impact on the group's financial statements and may be applied with full retrospective effect or under a modified retrospective approach with an adjustment made to the opening balance of retained income. Early adoption is permitted. The group has not yet quantified the potential impact of the new standard on the group.</p>	Annual periods beginning on or after 1 January 2019.

STANDARD OR INTERPRETATION	DETAIL	EFFECTIVE DATE
IFRS 17 Insurance contracts	<p>IFRS 17 creates one accounting model for all insurance contracts in all jurisdictions that apply IFRS.</p> <ul style="list-style-type: none"> • IFRS 17 requires an entity to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and take into account any uncertainty relating to insurance contracts. • The financial statements of an entity will reflect the time value of money in estimated payments required to settle incurred claims. • Insurance contracts are required to be measured based only on the obligations created by the contracts. • An entity will be required to recognise profits as an insurance service is delivered, rather than on receipt of premiums. • This standard replaces IFRS 4 – Insurance contracts. 	January 2019
IAS 23 Borrowing Costs	<p>Annual Improvements 2015 -2017 Cycle:</p> <ul style="list-style-type: none"> • The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings. 	January 2019
IAS 28 Investments in Associates and Joint Ventures	<p>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28): Narrow scope amendment to address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28 (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture.</p> <ul style="list-style-type: none"> • Annual Improvements 2014-2016 Cycle: Clarification that a venture capital organisation, or a mutual fund, unit trust and similar entities may elect, at initial recognition, to measure investments in an associate or joint venture at fair value through profit or loss separately for each associate or joint venture. • Long-term interest in Associates and Joint Ventures: Clarification provided that an entity should apply IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. 	January 2019
IFRIC 22 Foreign Currency Transactions and Advance Consideration	<p>This interpretation addresses the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency.</p>	January 2019

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 2018						
Opening net carrying amount	-	248,359	281,533	151,718	255,841	937,450
Gross carrying amount	460,933	651,505	953,425	1,322,496	456,463	3,844,822
Accumulated depreciation	(460,933)	(403,146)	(691,892)	(1 170 779)	(200 622)	(2 907 372)
Additions	14,800	-	-	52,896	12,958	80,654
Depreciation	-	(63,997)	(94,640)	(64,173)	(48,467)	(268,277)
Closing net carrying amount	14,800	184,362	189,893	140,441	220,332	749,828
Gross carrying amount	14,800	651,505	953,425	1,375,392	469,421	3,464,543
Accumulated depreciation	-	(467,143)	(763,532)	(1,234,952)	(249,089)	(2,714,716)
Year ended 31 March 2017						
Opening net carrying amount	49,137	313,488	376,385	27,904	304,161	1,071,132
Gross carrying amount	460,933	651,505	953,425	1,171,791	456,463	3,694 117
Accumulated depreciation	(411,796)	(338,017)	(577,040)	(1,143,888)	(152,302)	(2,622,986)
Additions	-	-	-	150,705	-	150,705
Depreciation	(49,133)	(65,130)	(95,210)	(26,593)	(48,321)	(284,388)
Closing net carrying amount	-	248,359	281,533	151,718	255,841	937,450
Gross carrying amount	460,933	651,505	953,425	1,322,497	456,463	3,844,822
Accumulated depreciation	(460,933)	(403,146)	(671,892)	(1,170,779)	(200,622)	(2,907,372)

7. INVENTORY

	2018 R	2017 R
	20,971,889	20,320,813
Cost of inventory	20,971,889	20,320,813

Inventory is stated at the lower of cost and net realisable value. Inventory relates to rough diamonds on hand at year-end.

8. TRADE AND OTHER RECEIVABLES

	3,587,992	1,526,259
Prepayments	729,206	556,705
Other receivable	2,090,341	85,917
SARS receivable: VAT receivable	735, 888	807,347
Accrued interest	32, 557	76,290

9. CASH AND CASH EQUIVALENTS

	38,709,275	32 475 726
FNB operational accounts	2,030,819	3,030,563
Petty cash	3,000	3,000
FNB call accounts	34,384,125	27,290,919
Standard Bank call account	2,291,332	2,151,244

Interest rate risk

The State Diamond Trader's exposure to interest rate risk for financial assets and liabilities are disclosed in Note 4.

10. LOANS AND BORROWINGS

This note provides information about the contractual terms of the revolving credit facility held with the Industrial Development Corporation. The credit facility available to the State Diamond Trader is R60 million. The interest payable on use of this facility is prime plus two percent and other finance charges are also payable. Details on the finance total costs are provided in Note 16. The analysis on use of the facility during the year is as follows:

Analysis of revolving credit facility:		70,232,297
Amount drawn	35,160,170	(70,232,297)
Amount paid	(35,160,170)	-
Balance on revolving credit facility	-	

11. TRADE AND OTHER PAYABLES

	1,373,768	122,103
Accrued expenses	289,651	816,206
Creditors	548,079	490,734
Leave accrual	536,038	-
Vat payable	-	

Liquidity risk

The State Diamond Trader's exposure to currency and liquidity risk relating to trade and other payables are disclosed in Note 4.

12. INCENTIVE BONUS PROVISION

	868,642	557,204
Opening balance	557,204	504 921
Amount paid	(868,642)	(506 549)
Adjustment made	1,180,080	555 576

The provision has been calculated by taking the actual performance bonus paid in 2016/17 and adjusted it by 10% taking into account the fact that salaries have been adjusted by 7.5% in the prior year.

13. REVENUE

Revenue consists of sales of rough diamonds to local beneficiators.

769,096,151	722 723 434
--------------------	--------------------

14. COST OF SALES

	(742,214,312)	(698,676,269)
Opening inventory	20,320,813	24,095,119
Purchases	742,336,249	694,503,245
Security and transport costs	529,139	398,717
Less: Closing inventory	20,971,889	20,320,813

15. OTHER INCOME

Other income is primarily in respect of donations to the State Diamond Trader in respect of staff donated by De Beers Consolidated Mines and associated costs.

Other income	4,550,508	1,265,930
Donations: De Beers Consolidated Mines	-	205,109
Sponsorships and other income	4,550,508	814,100
Other income	-	246,721

16. PROFIT/(LOSS) FROM OPERATING ACTIVITIES IS STATED AFTER ACCOUNTING FOR THE FOLLOWING:

Audit fees	645,136	868,235
Remuneration for services rendered:		
Board fees	502,544	480,728
Compensation of employees	14,234,983	10,956,722
Depreciation	268,278	284,388
Operating lease charges	613,700	550,936
Salaries – donations	-	205,109

17. FINANCE INCOME

Interest received	3,091,801	2,276,840
-------------------	-----------	-----------

18. FINANCE EXPENSES

	(876,068)	(549,058)
Finance fees on IDC facility	663,440	117,393
Interest charged by: IDC	212,628	431,665

19. CASH GENERATED FROM OPERATIONS

Net income / (loss) before taxation	8,506,192	7,147,841
<i>Adjusted for:</i>		
- depreciation	268,278	284 388
- interest expense	876,068	549 058
- interest received	(3,091,801)	(2 276 840)
- other income	-	-
- Donations received – De Beers Consolidated Mines	-	(205,109)
	-	205,109
Adjusted net profit before taxation	6,558,737	(2,964,655)
<i>Changes in working capital:</i>		
- decrease/(increase) in trade and other receivables	(2,061,733)	(985,382)
- decrease/(increase) in inventory	(651,076)	3,774,306
- (decrease)/ increase in trade and other payables	252,543	38,550
	2,460,266	2,750,374
Cash generated from operations	4,098,470	8,454,821

20. COMMITMENTS

Operating leases – as lessee (expense)

Minimum lease payments due

- within one year	242,821	568,489
- in second to fifth year inclusive	72,611	244,414
	315,432	812,903

Operating lease payments represent rental payable by the State Diamond Trader for its equipment and office premises. The office rental lease has been extended for a period of two years starting from 1 September 2016 to 31 August 2018

Operating lease payments represent rental payable by the State Diamond Trader for its equipment and office premises. The office rental lease has been extended for a period of two years starting from 1 September 2016 to 31 August 2018.

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 Mineral Resources. The State Diamond Trader is a Schedule 3B public entity in terms of the PFMA. 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 2018 entered into between the State Diamond Trader and entities outside the State Diamond Trader are as follows:

The State Diamond Trader has a revolving facility of R60 million with the IDC for use as working capital from time to time and the outstanding balance on the facility at year end was nil. The total amount drawn and repaid during the year amounted to R35,160,170.

21.1 Remuneration

	2018	2017
Executive management	5,043,468	5,770,739

The following are executive management members of the State Diamond Trader.

Ms P.N. Zikalala Mvelase (term expired on 30 June 2017)
 Mr. K. Menoe (acting CEO from July 17 – March 2018)
 Mr. S.M. Mnguni (effective 12 Feb 2018)
 Ms. N. Danisa
 Ms. N. Sibeko
 Mr. C. van der Ross

Non-executive members	2018	2017
	R'000	R'000
Mr. M. Carstens (Chairperson)	79,312	52,578
Mr. S.M. Motlounq	49,997	73,632
Mr. G. du Plessis	54,152	37,091
Mr. M.W. Mabapa	70,346	34,145
Mr. N.M. Diseko	35,090	37,060
Mr. L. Mabece	40,056	15,481
Dr. M. Matlou	42,358	45,029
Ms. M. McMaster	39,288	35,506
Mr. F. Mokoena	91,945	25,745
Ms. D.D. Mokgatle		37,412
Ms. N.F. Mpuntsha		20,764
Mr. T.S. Montoedi		30,729
Mr. M.A. Luhlabo		37,557
Total	502 544	480,727

The following non-executive members of the Accounting Authority are either public servants as defined in the Public Service Act, or are executives at state-owned entities and therefore do not receive any remuneration from the State Diamond Trader:

Mr. I. Goondiwalla
 Major-General N.H. Mokoena
 Mr. K. Menoe
 Mr. B. Deka

22. SUBSEQUENT EVENTS

There were no subsequent events identified for reporting purposes.

23. SEGMENT REPORTING

IFRS 8: Operating Segments sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. An operating segment is a component of an entity:

- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- for which discrete financial information is available.

The requirements of the IFRS are based on the information about the components of the entity that management uses to make decisions about operating matters. The IFRS requires identification of operating segments on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker in order to allocate resources to the segment and assess its performance.

The State Diamond Trader generates its revenue from the sale of rough diamonds and it operates in one geographic area that is Johannesburg.

Hence its revenue and expenses are not divided into segments as a result no segmental reporting done in the financial statements.

24. CONTINGENT LIABILITIES

The State Diamond Trader is not aware of any contingent liabilities that existed as at 31 March 2018.

25. CONTINGENT ASSET

The State Diamond Trader is not aware of any contingent asset that existed as at 31 March 2018.

26. IRREGULAR EXPENDITURE

26.1 Reconciliation of Irregular expenditure

	2018 R	2017 R
Opening balance	31,344	75,137
Add: Irregular expenditure relating to current year	633,208	31,344
Add: Irregular expenditure relating to prior year	586,491	
Less: Prior year amounts condoned	(31,344)	(75,137)
Less: Current year amounts condoned		
Less: Amounts recoverable (not condoned)	-	-
Less: Amounts not recoverable (not condoned)	-	-
Irregular expenditure awaiting condonation	1,219,699	31,344

Analysis of awaiting condonation per age classification

Current year	633,208	31,344
Prior years	586,491	-
Total	1,219,699	31,344

Details of irregular expenditure – current year

Incident	Disciplinary steps taken/criminal proceedings	Amount
The deviation was not in accordance with the SDT's policy.	No sanctions taken	633,208

Details of irregular expenditure condoned

Incident	Disciplinary steps taken/criminal proceedings	Amount
Request for quotation did not specify that functionality will be used as the evaluation criterion	Condoned	31,344

Details of irregular expenditure recoverable (not condoned)

None

Details of irregular expenditure not recoverable (not condoned)

None

27. FRUITLESS AND WASTEFUL EXPENDITURE

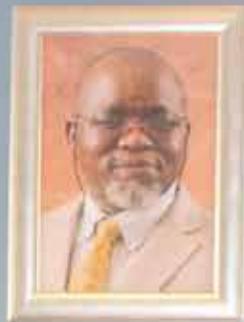
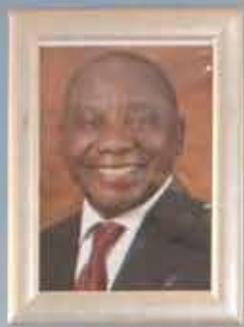
Reconciliation of Fruitless and Wasteful Expenditure	2018 R	2017
Opening balance	-	
Fruitless and wasteful expenditure – current year	31,832	
Less: Amount resolved	-	
Less: Amounts transferred to receivables for recovery	-	
Closing balance	31,382	

Analysis of Current year's (relating to current and prior years) fruitless and wasteful expenditure.

Incident	Disciplinary steps taken/criminal proceedings	2018 R'000
Payment made for the Cell phone of a terminated employee and some employees exceeded their limits.	No	31,832
TOTAL		31,832

28. DETAILS OF UNRECOGNISED COMMITMENTS

Companies	Amount 2018
Tsebo Cleaning Services	36,618
Protea Coin Group (Pty) Ltd	100,747
Redwill ICT	1,347,145
Valdilex	106,032
SAGE Pastel Payroll	5,042
ICAS Employee and Organisational Enhancement Services SA	12,768
Ram International Insurance Brokers	29,167
Marsh (Pty) Ltd	56,127
Motswako Office Solutions	
MPVS Construction cc	
Steiner Hygiene (Pty) Ltd	
SAB&T Chartered Accountants Incorporated	
GIB Insurance Brokers	35,000
Total	1,728,646



STATE DIAMOND
TRADER

The Heart Beat of
Diamond Beneficiaries



...diamond
...stry thro
...velopmen
...ase of Sta
...s existenc

...ore contact us
...address:
...et, Johannesburg
...11 334



ENTITY INFORMATION

Domicile	Johannesburg, South Africa
Nature of business	The State Diamond Trader is a creature of Statute, the Diamonds Act (Act No. 56 of 1986) as amended. Its main business is to promote equitable access to and local beneficiation of the Republic's diamonds.
Postal Address	P. O. Box 61212 Marshalltown South Africa 2107
Business Address	Jewel City 225 Main Street Johannesburg 2001
	(011) 334 2691
	infosdt@statediamondtrader.gov.za
	www.statediamondtrader.gov.za
	@SDT_RSA
	State Diamond Trader sdt
	statediamondtrader
Shareholder	Government of the Republic of South Africa represented by the Minister of Mineral Resources
Auditors	Auditor General of South Africa



CONTACT DETAILS

Postal Address: P. O. Box 61212
Marshalltown
South Africa
2107

Business Address: Jewel City
225 Main Street
Johannesburg
2001



(011) 334 2691



infosdt@statediamondtrader.gov.za



www.statediamondtrader.gov.za



@SDT_RSA



State Diamond Trader sdt



statediamondtrader

RP279/2018

ISBN: 978-621-46503-7

ANNUAL REPORT

2017/18