



**STATE DIAMOND
TRADER**

ANNUAL REPORT 2014-15





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Minister's Note to Parliament



SPEAKER OF PARLIAMENT

HONOURABLE SPEAKER

Annual Report of State Diamond Trader for the year ended 31 March 2015.

I have the honour, in terms of section 65 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 2015

A handwritten signature in black ink, which appears to read "Ramatlhodi". The signature is fluid and cursive.

Advocate Ngoako Ramatlhodi
Minister of Mineral Resources
August 2015

Chairman's Report



OVERVIEW

It is my privilege to present you with the State Diamond Trader Annual Report for 2014/15. One of the key responsibilities of the Accounting Authority is to set the strategy of the company. I am satisfied that given the challenges in the State Diamond Trader's operating model, the Accounting Authority continued to set and to achieve its strategy rooted in our founding legislation which is to *inter alia* provide equitable access of the country's rough diamonds and to contribute further to the growth of the local diamond beneficiation industry. Our challenges and achievements will be demonstrated through this report.

MARKET CONDITIONS

As first identified in the second half of the previous year, the diamond industry is faced with challenges, both internal and external, that are having a significant impact on its sustainability.

The pace of growth in the diamond jewellery sector is slowing and if the value of diamond content is taken into account – it is actually declining.

Large stocks of polished diamonds at wholesale and retail level have added to the downward slide in polished diamond prices and reduced industry confidence.

Meanwhile, rough diamond prices edged upwards, with major producers holding firm on pricing and their clients, generally cutters and polishers, left with no option other than to pay if they want to remain in business.

The industry is at a point where some polished diamonds are priced below that of the rough diamonds required to manufacture them. It is the combination of rising producer prices and stagnant polished prices over a protracted period that is affecting profitability of the so called "mid-stream" players and will eventually result in business failures.

It is in the context of these conditions affecting the industry on a global scale, that the local diamond beneficiation industry has to operate. Generally small in scale and operating at higher cost than competitors in other countries, the local beneficiation industry has seen a further decline in terms of numbers during the course of the year.



Chairman's Report

The State Diamond Trader itself was continuously challenged due to the run of mine supply model and fair market value payable to the producers. Its inability to purchase rough diamonds from the country's largest producers at prices that would enable beneficiators to operate at profitable levels had a significant bearing on its ability to deliver on its mandate.

The subsequent impact is notable in the Trading Report and in the Annual Financial Statements.

Despite this position, the State Diamond Trader is a resilient organisation that has a clear vision to be a catalyst for the transformation and growth of the local diamond beneficiation industry. We will continue to do our best endeavours to deliver on its mandate and to see its vision through.

CORPORATE GOVERNANCE

The Accounting Authority reviewed the Strategy and continued to carry out its functions and duties. As the Chairman, my role is to lead the Accounting Authority effectively. Good Corporate Governance is at the heart of this. We have provided a corporate governance overview in this Annual Report to demonstrate how the State Diamond Trader is governed. We have also provided an overview of the risks that could potentially prevent us from achieving the full potential of our strategy in this Annual Report.

OUTLOOK

As we look to the future, we expect a decline in revenue for 2015 due to market conditions.

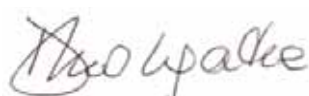
The SDT is however looking forward to the year ahead and to the implementation of more of its agreed strategic interventions to improve local access and diamond beneficiation in South Africa.

These include certain identified constraints in its operating model and opportunities to enhance the same. It is hoped that these will build on the ongoing innovative initiatives that the State Diamond Trade embarks on to enhance the implementation of its mandate and sustainability

APPRECIATION

Before concluding, on behalf of the Accounting Authority, I wish to thank the Executive Authority for the support received during the year under review. I also wish to thank the employees of the State Diamond Trader under the leadership of the Chief Executive Officer whose efforts assisted the entity in its achievements during the year as we continue to lay the foundation for the growth of the local diamond beneficiation industry in South Africa.

Finally, I wish to thank all my fellow Board Members for the contribution they have made to our discussion throughout the busy year, and for their ongoing insightful oversight of the SDT, its governance, strategy and activities.



Ms Dolly Mokgatle
Chairman
State Diamond Trader

Chief Executive Officer's Report



INTRODUCTION

The State Diamond Trader is now on its seventh year of operation within the South African diamond industry. These seven years have mostly provided much insight to the State Diamond Trader. This included the strides it has made in cutting its teeth during the most turbulent years of the diamond markets which experienced shrinking margins, poor market performance and even shrinking financial resources available to the industry. With all the negative and of depressing news that have been reported by many trading and beneficiation centres globally during the course of the year, the local industry has had to fight even harder for its survival.

South Africa is in a unique position where transforming the local industry is set at the heart of its growth agenda. Transformation is not an agreed principle within the industry and the State Diamond Trader continued with its efforts of promoting transformation from a compliance point of view all the way to providing support to new entrants and in particular historically disadvantaged South Africans (HDSA). In its strategic plans for the coming years, the State Diamond Trader pledges to continue on this path as it views transformation as an imperative for growing the industry and inclusive growth of the economy.

TRADING ENVIRONMENT

The global diamond industry performed below expectations during this financial year. The impact was immensely felt by the entire industry and has thus resulted in the State Diamond Trader being unable to achieve the budget set for its trading activities. Regardless of the tough economic climate, the State Diamond Trader was able to increase its sales to HDSA companies by ten (10) % from R 36 000 000 to R 41 000 000 whilst the number of clients supplied with rough diamonds in this financial year also increased from 46 to 50 compared to the previous year.

During the year, the State Diamond Trader advertised for an intake of new clients and this resulted in an additional fourteen (14) new complaint clients. Eleven (11) of these clients are new entrant HDSA companies. This is viewed as encouraging and the efforts of promoting entry into the industry beginning to bear fruit. More work in this regard is continuing as without such promotional efforts, this industry will remain elusive to most South Africans.



Chief Executive Officer's Report

The diamond beneficiation industry requires highly skilled individuals for their operations to be profitable and competitive as competition is high in comparison with other beneficiating centres in the world. For the new entrants and HDSA clients skills development and enhancement is critical as they will otherwise not be able to compete with established beneficiating players. Skills gaps from mainly its HDSA clients were identified as hampering their growth and therefore, in an effort to bridge that gap, various stakeholders were engaged to provide training workshops for this category of clients. The State Diamond Trader thus remains indebted to those partners who took up this challenge and provided the training so required at their own cost.

In addition thereto and to further support its clients, a growing number of its clients participated in the annual Jewellery Africa 2014, Hong Kong Diamond, Gem and Pearl Show March 2015 and the Japan International Jewellery Show with its clients. These platforms provided much needed exposure to markets and opportunities for creating lasting and profitable business relationships.

During the year under review the State Diamond Trader embarked on its first Enterprise Development Programme as a pilot project together with one of its established clients. Various young people who had expressed interest in the diamond industry were interviewed with five taken on to participate in the pilot which is planned to take place over three years. The objective of this project is to train the participating youth on diamond beneficiation entrepreneurship. The State Diamond Trader will further be embarking on more programmes of this sort with various stakeholders in an effort to grow and sustain diamond beneficiation in South Africa.

OPERATING ENVIRONMENT

Financial

The poor diamond market performance globally had a significant impact on the operations of the State Diamond Trader and as a result its performance declined during the year resulting in the revenue for the year of R394,321,101 reflecting a decrease of 29% from the previous year (2014: R554 863 725). The uncertain global economic environment and the slowing of growth in demand for diamond jewellery had a significant effect on the State Diamond Trader's budgeted trading targets and financial resources as can be seen in its annual financial statements which are part of this report.

The abnormality of rough and polished markets where often rough diamonds cost more than polished diamonds experienced during most part of the year left the industry with little room to perform. Local beneficiators including clients of the State Diamond Trader came under significant pressure, finding it difficult to survive under these conditions. New entrants to the industry are particularly sensitive to the prevailing market conditions, having neither the experience nor financial capability to sustain their businesses in the face of the negative sentiment affecting the industry globally.

HUMAN RESOURCES

Growth in this important area of the business was experienced with relevant skills being bought in as well as various promotions being implemented as a result of demonstrated high performance within the core of the business. Four of the Diamond Trainees who had been in training for two years were employed permanently during the year. This growth provided good news as it showed the resilience and high performance of the

Chief Executive Officer's Report

State Diamond Trader team, without which not much could have been achieved. I congratulate all our staff for the good work that was done despite the gloominess in the markets.

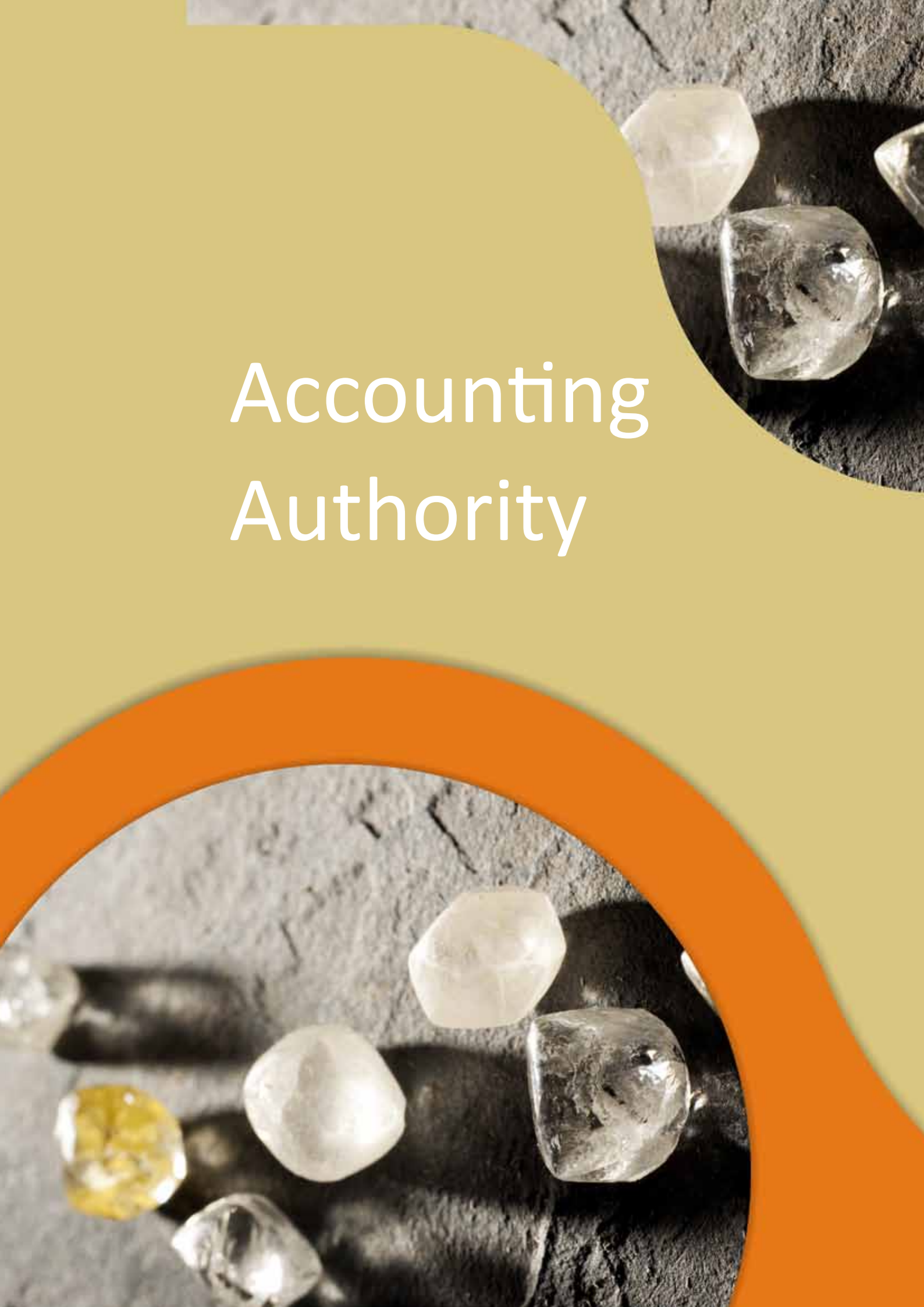
CONCLUSION

I acknowledge the contributions made by various partners who worked with the State Diamond Trader on our various programmes and in trading, including our suppliers and clients and those partners who provided training for clients and much needed support. The Department of Trade and Industry ensured the success of our international projects, the Department of Mineral Resources and the Ministry provided support in a number of areas of the business, the Industrial Development Corporation provided the funding facility much required to keep the business going, the Accounting Authority provided the strategic direction and leadership required for the success of the operations of the State Diamond Trader, De Beers continued to provide personnel, the value brought by these partners was immense and will ensure further growth in the coming years. On behalf of the State Diamond Trader, I thank all of them.



Ms Futhi Zikalala Mvelase
Chief Executive Officer
State Diamond Trader

Accounting Authority





Accounting Authority

COMPOSITION

Mrs D.D. Mokgatle	Chairman
Ms P.N. Zikalala Mvelase	Chief Executive Officer
Mr I. Goondiwalla	Member
Mr T. Montoedi	Member
Ms Z Manase	Member
Mr S. Motloung	Member
Mr L. Rapoo	Member
Ms S. Mohale	Member
Ms N. Mpuntsha	Member
Ms S. Nxumalo	Member
Mr M.A. Luhlabo	Member
Brig. N. Mokoena	Member

Accounting Authority



Mrs D.D. Mokgatle
Chairman



Mr M.A. Luhlabo
Member



Mr S. Motloung
Member



Mr I. Goondiwalla
Member



Brig. N. Mokoena
Member



Mr L. Rapoo
Member



Ms S. Mohale
Member



Mr T. Montoedi
Member



Ms N. Mpuntsha
Member



Ms S. Nxumalo
Member



Ms F. Zikalala Mvelase
Member



Ms Z Manase
Member

COMPANY SECRETARY

Company Secretary Ms Nobuhle Sibeko



State Diamond Trader Staff Members

State Diamond Trader Staff Members

EXECUTIVE MANAGEMENT



Ms F. Zikalala Mvelase
Chief Executive Officer



Mr F. Auger
Chief Operations Manager



Ms N. Thamaga
Chief Financial Officer



Ms N. Sibeko
Legal Officer/Company Secretary

MANAGEMENT



Mr C. Van Der Ross
Sales Manager



Mr N. Mabaso
HR Officer



Mrs D. McBride
Financial & Administration Officer



Mr J. Olifant
Production Controller

STAFF



Mr B. Sekano
Senior Purchasing Officer



Ms S. Mashiloane
Senior Sales Officer



Mr G. Mance
Client Relations Officer



Ms K. Monama
Production Officer



Mr P. Bokaba
Finance Officer



Mr M. Nkotsoe
Finance Officer



Ms P. Fakude
Receptionist



Ms N. C. Mdludlu
Executive Assistant



Mr S. Lindi
Production Officer



Ms S. Govender
Sales Officer



Mr K. Moseki
Purchasing Officer



Mrs S. Ndou
Sales Officer



Governance



Governance

CORPORATE GOVERNANCE

THE ACCOUNTING AUTHORITY

The Board is the designated Accounting Authority and governs the State Diamond Trader in accordance with the Diamonds Amendment Act 29 of 2005 (the Act), the Public Finance Management Act, 1999 as well as good corporate governance principles.

The State Diamond Trader continued to operate on a strong corporate governance foundation that is representative of the interests of all stakeholders. The governance framework is aligned with the recommendations of the King III Report on Corporate Governance and complies with the provisions of the Public Finance Management Act, No. 1 of 1999 (PFMA). The framework underpins the organisation's risk-based, integrated approach to internal controls that are entrenched throughout management and governance processes and is reviewed on an on-going basis.

Governance structures are focused on providing leadership within a framework of effective controls which enables risk to be assessed and managed throughout the organisation. No material issues were identified to suggest flaws in governance. The State Diamond Trader will continue to monitor and enhance current practices on an ongoing basis.

ACCOUNTING AUTHORITY COMPOSITION

All the members of the Accounting Authority of the State Diamond Trader are non-executive members with the exception of the Chief Executive. Members of the Accounting Authority of the State Diamond Trader are appointed by the Minister in line with the Act to effectively manage and guide the activities of the State Diamond Trader based on their knowledge and expertise.

The term of office of a non-executive member is for a period not exceeding five years. Non-executive members may be re-appointed by the Minister for a period not exceeding three consecutive terms in office.

The role of the Chairman and that of the Chief Executive Officer are separate, with a clear division of responsibilities to ensure a balance of power and authority between them. The Chairman has no executive functions.

The effectiveness and performance of all members of the Accounting Authority is assessed annually. During the year under review, in line with the recommendations of the King III Report on Corporate Governance, the Accounting Authority considered the question of whether Accounting Authority evaluations should be conducted in-house or whether this should be outsourced in line with the recommendations of the King III Report on Corporate Governance. It was agreed that the evaluations must be conducted in-house. This was done and the results thereof were submitted to the Executive Authority. The Chairman of the Accounting Authority reviews the performance of the CEO, and the CEO annually reviews the performance of executive management.



Governance

REMUNERATION

The remuneration of members of the Accounting Authority is disclosed in the Annual Financial Statements.

ACCESS TO INFORMATION

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

ACCOUNTING AUTHORITY CHARTER AND RESPONSIBILITIES

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

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

MEETINGS

The Accounting Authority met five (5) times during the year under review apart from the meeting held to review the strategic plan of the State Diamond Trader. Further to the Subcommittee meetings, the Audit and Risk Committee held a risk workshop and all Board members were invited to attend while the Trading Committee held a Sales Strategy workshop and also invited all members who were available attend.

Accounting Authority

ACCOUNTING AUTHORITY AND SUBCOMMITTEE MEETING ATTENDANCE 2014/15

Name	Board	Audit & Risk Committee	Trading & Industry Promotion Committee	HR & Remuneration Committee	Board Strategy
Total number of meetings held	5	5	6	5	1
Mrs. D.D Mokgatle-Chairperson	5	N/A	N/A	N/A	1
MS P.N. Zikalala- CEO	5	4	5	5	1
Mr. I. Goondiwalla	5	5	N/A	N/A	1
MS S. T Nxumalo	1	2	N/A	N/A	0
Mr. T. Montoedi	4	4	4	4	0
Mr. S. Motloung	5	N/A	6	5	1
Mr. M.A Luhlabo	5	N/A	5	N/A	1
MS N.F Mpuntsha	5	N/A	N/A	3	1
Mr. G.L Rapoo	1	N/A	N/A	2	0
Brig. N.H. Mokoena	3	N/A	3	N/A	0
MS S. Mohale	3	N/A	3	N/A	1
MS Z. Manase	3	2	N/A	N/A	1



Accounting Authority Subcommittees

AUDIT AND RISK COMMITTEE

COMPOSITION

Mr I. Goondiwalla	Chairman
Ms S. Nxumalo	Member
Mr T. Montoedi	Member
Ms Z. Manase	Member

The objective of the Audit and Risk committee is to assist the Accounting Authority with the responsibility of safeguarding assets, maintaining effective and efficient internal controls, reviewing the financial information and overseeing the preparation of the annual financial statements of the State Diamond Trader.

The Committee operates in accordance with the Terms of Reference authorised by the Accounting Authority. The Terms of Reference are reviewed once annually. The auditors have unrestricted access to committee members.

The Committee is also responsible for Risk Management as well as IT Governance. The Committee ensures that risks identified are monitored and that appropriate measures are in place to manage the risks identified.

The Committee met five times during the year 2014/15 to review *inter alia* the relevant quarterly reports for submission to the Shareholder, the external audit plan and budget, External and Internal Audit Reports, the internal audit plan and the fair presentation of the financial statements presented to the Board.

Officials from the office of the Auditor-General are invited to attend all Committee meetings and attended all meetings of the Committee during the year under review.



Accounting Authority Subcommittees

HUMAN RESOURCES & REMUNERATION COMMITTEE

COMPOSITION

Mr S. Motloug	Chairman
Ms. N. Mpuntsha	Member
Mr T. Montoedi	Member
Mr L. Rapoo	Member

The Objectives of the Human Resources and Remuneration Committee are to ensure that the State Diamond Trader discharges its responsibilities of attraction, motivation, development and retention of the required staff competencies. The Committee makes recommendations to the Accounting Authority in respect of issues of remuneration for staff and is tasked with monitoring the Remuneration Framework of the organisation.

The Human Resources and Remuneration Committee consists of four Non-executive members and operates in accordance with the Terms of Reference approved by the Accounting Authority.

The Committee met five times during the year under review to review matters such as the State Diamond Trader Retention Strategy, the Organogram against the needs of the organisation and the remuneration framework.



Accounting Authority Subcommittees

TRADING & DIAMOND INDUSTRY PROMOTION COMMITTEE

COMPOSITION

Mr M. A. Luhlabo	Chairman
Brig. N. Mokoena	Member
Ms S. Mohale	Member
Mr T. Montoedi	Member
Mr S. Motloug	Member

The objectives of the Trading and Diamond Industry Promotion Committee is to ensure that the State Diamond Trader meets its mandate which is to purchase and sell rough diamonds for beneficiation and contribute to the growth of the local beneficiation industry.

The Committee operates in accordance with the Terms of Reference approved by the Accounting Authority.

The Committee met six times during the year to review and recommend to the Accounting Authority matters such as the Marketing Strategy Implementation Plan, the Sales Strategy Implementation Plan, quarterly Trading Report of the State Diamond Trader and Diamond Market Report.

Report of the Audit and Risk Committee





Report of the Audit and Risk Committee

STATEMENT OF RESPONSIBILITY

The Audit and Risk Committee is responsible for overseeing the preparation, integrity and fair presentation of the financial statements and related information included in this annual report. It has the ultimate responsibility for ensuring that adequate accounting records and effective systems of internal control are being maintained and makes recommendations to the Accounting Authority.

The Committee is pleased to present the report for the financial year ended 31 March 2015. The Audit and Risk Committee has reviewed its terms of reference and its charter, has regulated its affairs in compliance with this charter, and has discharged all of its responsibilities contained therein.

COMMITTEE RESPONSIBILITY

The Committee reports that it has complied with its responsibilities arising from section 38 (1) (a) of the PFMA and Treasury Regulation 3.1.

EFFECTIVENESS OF INTERNAL CONTROL

The system of internal control applied at the State Diamond Trader is effective, efficient and transparent.

In line with the PFMA and the King III Report on Corporate Governance, Internal Audit provides the Committee and management with assurance that the internal controls are appropriate and effective. Accordingly, it is the Committee's pleasure to report that the system of internal control for the period under review was efficient and effective.

RISK MANAGEMENT

The Accounting Authority is committed to a process of risk management that is aligned to the PFMA and to good corporate governance principles as recommended by the King III Report. Certain aspects of Risk Management are delegated to the Committee by the Board.

The Board approved a revised Fraud Prevention Policy and Plan, the Risk Management Policy and Plan as well the Risk Register for the current financial year ending 31 March 2015. Risks identified as significant against the State Diamond Trader strategy are periodically evaluated and mitigating actions are taken.

The Committee is satisfied with the effectiveness of the risk management process and with the content of the risk report tabled at committee meetings on a quarterly basis.



Report of the Audit and Risk Committee

INTERNAL AUDIT

The Committee is satisfied that the internal audit function is operating effectively and that the internal audit procedures have addressed the risks pertinent to the State Diamond Trader.

EXTERNAL AUDIT

The Committee has met with the Auditor- General South Africa to and is satisfied that there are no unresolved issues.

GOING CONCERN

The Annual Financial Statements of the State Diamond Trader were prepared on a going concern basis and the Accounting Authority is satisfied that the State Diamond Trader is financially sound and has adequate resources to continue operating for the foreseeable future.

APPRECIATION

I wish to express my appreciation to the Accounting Authority, and to the members of the Audit and Risk Committee for their support and contributions during the year and to the Chief Executive Officer and her team (CFO and Internal Auditors) for their hard work. Finally I wish to thank the external auditors for their contributions.



Mr I. Goondiwalla
Chairman of the Audit and Risk Committee



Risk Management





Risk Management

INTRODUCTION

Enterprise Risk Management provides a framework for managing risks which typically involves identifying particular events and or issues that impact the ability of the State Diamond Trader to meet its objectives, assessing them in terms of likelihood and magnitude of the impact, assessing the controls in place to mitigate the risks, determining a response strategy where necessary and monitoring progress and reporting to the Accounting Authority.

ENTERPRISE RISK MANAGEMENT FRAMEWORK

In order for the State Diamond Trader to support effective implementation of the Enterprise Risk Management, the State Diamond Trader has developed a Risk Management Framework aligned to the Public Finance Management Act as well as the King III Report.

RISK MANAGEMENT PROCESSES

The Risk Management Process of the State Diamond Trader aims to contribute towards the achievement of the State Diamond Trader strategy set by the Accounting Authority.

Risk Management processes are as follows:

Risk Identification

The Risk identification process seeks to determine those risks that would prevent the State Diamond Trader from meeting its objectives therefore addresses all categories of risk. The risk identification process is performed at all levels across the organisation.

Risk Analysis

The Risk Analysis process consists of two sub-processes. Control evaluation and Residual Risk Assessment.

Risk Evaluation

The purpose of a risk evaluation is to implement a review management action plan to address unacceptable risk exposure, control weakness, risk incidents and key risk indicator breaches. The decision to create an action plan is based on the residual risk rating. Management of the State Diamond Trader ensures that actions are tracked, communicated effectively and implemented successfully for maximum benefit to be derived from the process.

Risk Monitoring

Risks are continuously monitored. The process involves planning and tracking of new risks, constantly reviewing existing risks, monitoring action plans and residual risks as well as reviewing the execution of the risk responses while evaluating their effectiveness.



Risk Management

Risk Reporting

All risks and action plans implemented are reported to the Audit and Risk Committee and to the Accounting Authority on a quarterly basis.

RISK GOVERNANCE STRUCTURE

The Accounting Authority is the oversight structure of the State Diamond Trader and the Audit and Risk Committee is accountable to the Accounting Authority on all audit and risk related matters. Management is responsible for the implementation of risk policies and procedures. In addition, the Audit and Risk Committee is required to note the reports of the other Committees prior to their consideration and approval reports of all other Committees' before Accounting Authority approval.

RISKS IDENTIFIED

Some of the more pertinent risks identified by the State Diamond Trader during the year under review include the following risks:

Shortage of supply of rough diamonds suitable for local beneficiation

The Causal Factors for this risk are issues of Run of Mine Production which the State Diamond Trader is mandated to purchase from producers by law as well as the pricing methodology utilised by the producers. New Producers coming on stream may also not be inviting the State Diamond Trader to inspect their production therefore not complying with the legislation in terms of inviting the State Diamond Trader to inspect their production.

A control measure in place is that that State Diamond Trader had a strategy to engage the producers on issues of Run of Mine Production.

Action Plans put in place during 2014/15 were for the State Diamond Trader to continue its engagement with the South African Diamonds and Precious Metals Regulator (SADPMR) to ensure that all producers are known and that the State Diamond Trader is able to inspect their production. The State Diamond Trader also uses its own market intelligence to identify mining companies that are not compliant.

In respect of the Issues of Run of Mine, the State Diamond Trader also continued to engage producers to be able to select diamonds that are suitable for local beneficiation and required by its clients resulting in one verbal agreement and one written commitment for this purpose by two large producers.

Dearth (lack) of new entrants and investment into industry

The Causal Factors for this risks are issues of too few new entrants into the industry and insufficient investment into the industry. A shortage of skills and general lack of knowledge about the diamond industry.



RISK MANAGEMENT

Current Controls included promotional efforts at local exhibitions and business forums.

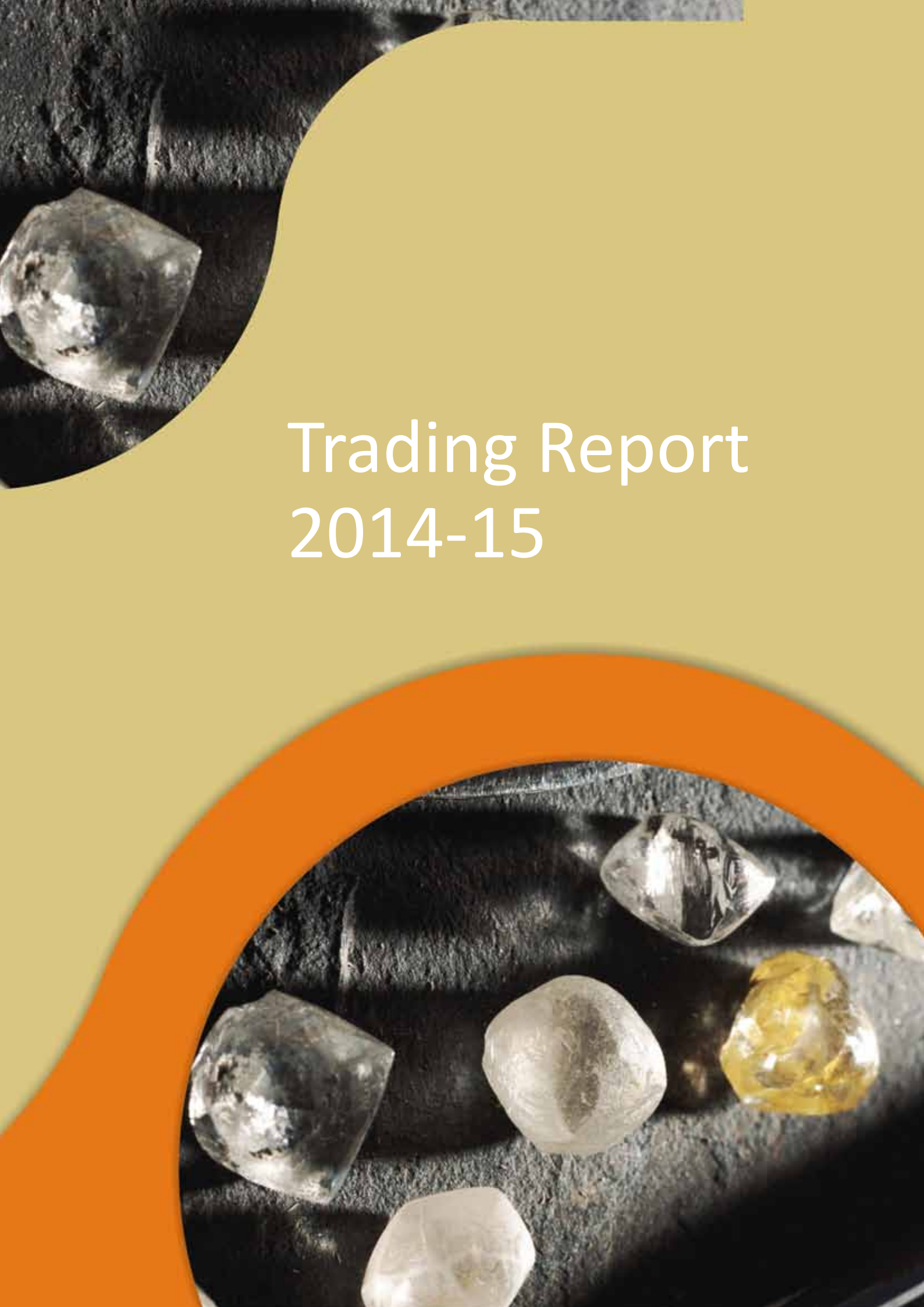
Action Plans for the period under review included the development of a Marketing and Promotion Strategy and Implementation plan as well as to formally engage stakeholders and facilitate access to international and local exhibitions and marketing platforms for HDSA clients and new entrants. This is aimed at increasing access to profitable markets for our clients and stimulate investments into the industry.

Lack of understanding of the diamond beneficiation pipeline

The Causal Factors for this risk is focus being placed on cutting and polishing and not following through the entire diamond beneficiation pipeline to the end users (jewellery, industrial, retail).

Controls in place included the identification of strategic partnerships, an approved Marketing Strategy and the State Diamond Trader facilitation of Business workshops for its clients.

The Action Plan was to develop a Marketing and Promotional Strategy Implementation Plan for the roll out of the Marketing Strategy, Provincial promotional events as well as engagement with industry stakeholders for the Inaugural Diamond Indaba.



Trading Report 2014-15

Trading Report 2014-15

TRADING SUMMARY AND ANNUAL COMPARISON

	2014-15	2013-14	2012-13
SDT inspections US\$*	1,317,984,510	1,283,935,876	1,177,840,751
Carats inspected	7,885,298	8,339,781	7,117,642
US\$ per carat	167.14	153.95	165.48
No of producers	12	12	9
No of inspections	145	134	126

SDT purchase ZAR*	396,728,675	527,791,954	407,998,978
% purchased**	3%	4%	4%
No of purchases	69	68	48

SDT Sales ZAR	394,321,101	554,863,725	411,462,599
COGS ZAR	381,150,996	538,458,752	399,803,045
GM ZAR	13,10,105	16,404,93	11,659,554
GM%	3%	3%	3%
Carats	85,426	230,188	290,449
No. of clients sold to	50	46	42

SDT Stock ZAR (31/03)	20,786,232	4,978,366	15,163,853
Ave age of stock (days)	77	5	21

*At producer values

**% purchased of goods inspired (by value)

DIAMOND MARKETS

The industry as a whole has been affected by slowing consumer demand for diamond jewellery and the subsequent build-up of polished diamond stocks at wholesale and retail level. During the course of 2014-15 this resulted in a downward slide in polished diamond prices and reduced market confidence.

Despite the reduction in demand and resultant negative sentiment, diamond producers continue to demand high prices for rough diamonds - leading to the position where, in some instances, polished diamonds are priced below that of the rough required to manufacture them. This discrepancy between rough and polished diamond prices continues to erode the margins available to beneficiaries – which were already minimal. South Africa has not been immune from the effects of the current depressed market with manufacturers (cutters and polishers) carefully monitoring the costs of their operations and retrenchments have occurred.

The State Diamond Trader itself is continuously challenged in the buying and selling of rough diamonds due to the run of mine supply model and fair market value it has to pay to the producers. The major concern is that due to the market conditions, the State Diamond Trader has not been able to purchase from the country's

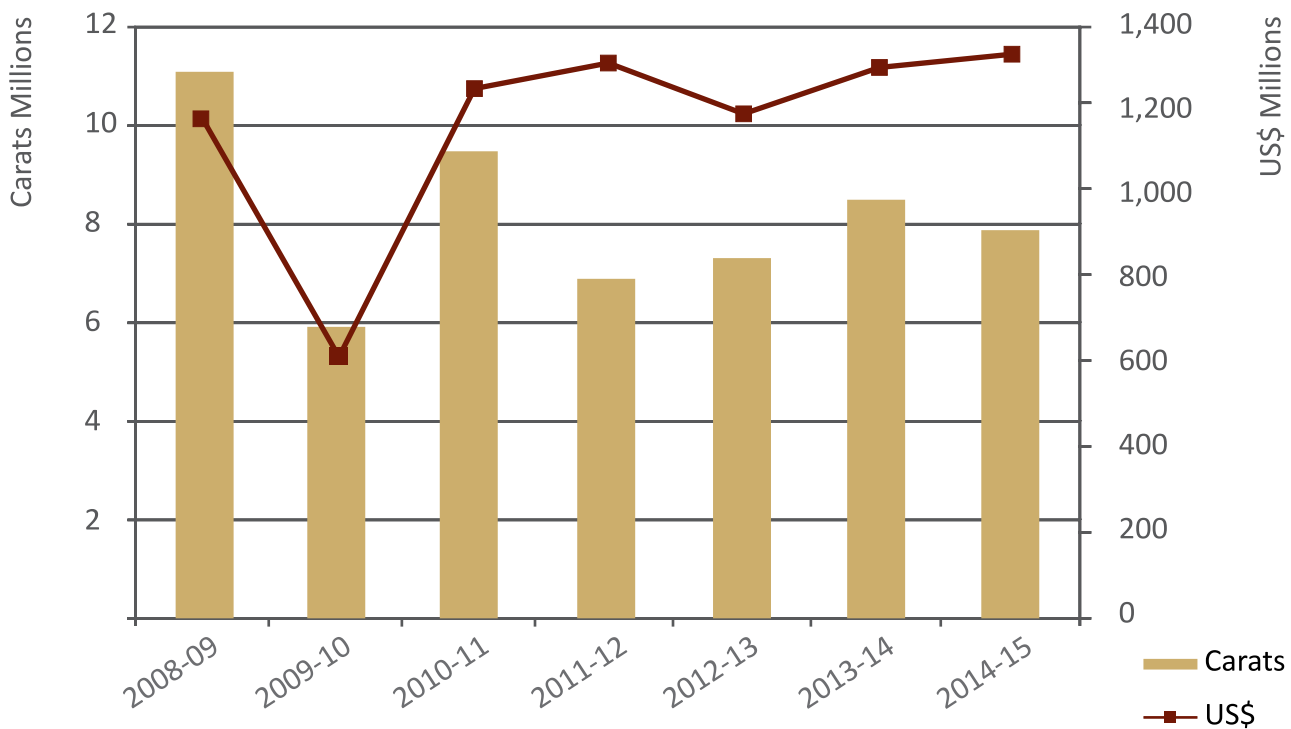
Trading Report 2014-15

largest producer - which has a significant bearing on its ability to deliver its mandate and its sustainability as a commercial entity.

SOUTH AFRICAN DIAMOND PRODUCTION – INSPECTIONS 2014-15

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

State Diamond Trader Inspections (RSA Production) 2008-15



The State Diamond Trader noted a 5% decrease in the quantity (carats) of rough diamonds presented to it by 12 producers during the year. This was accompanied by a 3% rise in the total value presented. This resulted in a 9% increase in the average price of the diamonds mined. Such an increase can be attributed to rising prices of rough diamonds (which is to the contrary of market sentiment) and/ or the improvement in the quality of the rough diamonds produced.

It is noted that by comparing the State Diamond Trader’s statistics with those issued under the jurisdiction of the Kimberley Process Certification Scheme, the State Diamond Trader inspects the large majority (estimated at over 95%) of the diamonds produced in the country.

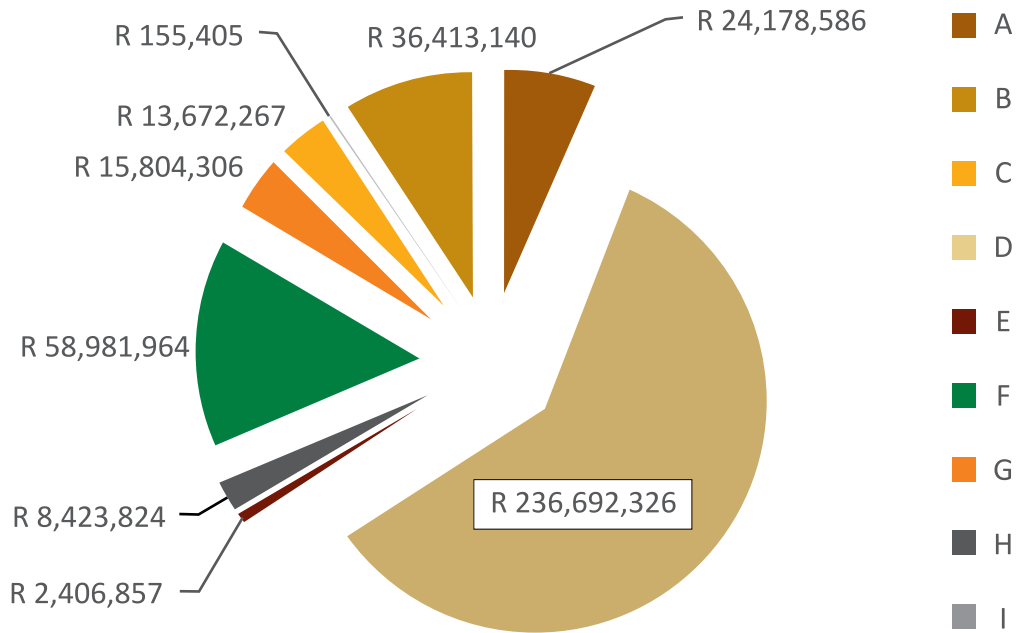
However, it is recorded that there are more than 12 registered diamond producers in the country and the lack of engagement with the State Diamond Trader by a large number of predominantly small producers signifies a lack of compliance with the Diamond Act of 2005 on their part.

The State Diamond Trader continues to liaise with the SADPMR in terms of identifying non-compliant diamond producers, following-up with them directly when it is apparent that production is on-going.

Trading Report 2014-15

PURCHASES 2014-15

SDT Purchases 2014-15 by Producer (ZAR)



The State Diamond Trader purchased rough diamonds from 9 producers during the course of the year.

The average price of diamonds purchased by the State Diamond Trader was US\$ 423 per carat. This compares to the US\$ 167 per carat as inspected in Run of Mine (representative sample) format. This reflects:

1. The type of diamonds that the State Diamond Trader's clients require in terms of suitability for local beneficiation;
2. That the State Diamond Trader was able to obtain agreements with the country's largest producers to select from the representative sample those rough diamonds preferred by its clients for local beneficiation. Such agreements give the State Diamond Trader more flexibility in its purchasing decisions, lessening the chances that purchases will be declined because of the large quantity of rough diamonds not preferred for local beneficiation contained within the selections presented. However, market pricing as determined by producers remains an issue and threatens to negate such gains.

In terms of volume (carats), the amount purchased declined by 61% when compared with the previous year. In terms of value (ZAR), the purchased amount decreased by 25%.

The State Diamond Trader is currently permitted to purchase up to 10% of South African diamond production by carats and value in order to meet its objectives in terms of supporting local beneficiation.

Trading Report 2014-15

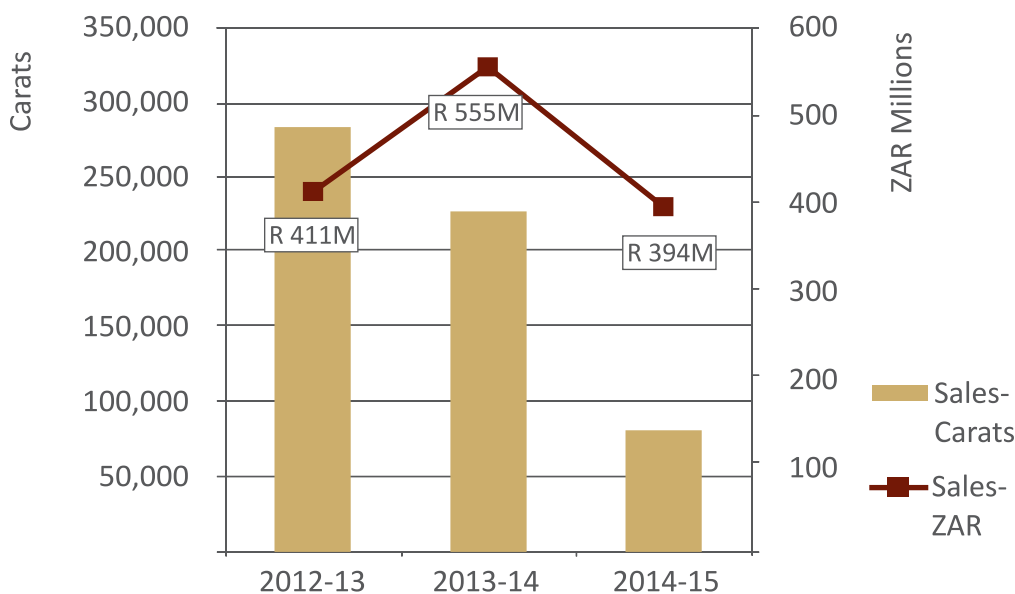
However, during the course of 2014-15 the State Diamond Trader was able to purchase only 1% by carats and 3% by value of the rough diamonds it inspected under the terms of the Diamond Act.

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:

1. The reduction in demand and the prices that local beneficiators were willing to pay for rough diamonds due to global market conditions.
2. The constraints placed on the State Diamond Trader in terms of purchasing Run of Mine selections.
3. The quantity of goods not preferred for beneficiation within South African Run of Mine productions.
4. The sales and pricing methodologies of the producers, placing selections outside of the State Diamond Trader’s capability to operate commercially – this includes the country’s largest producer from which the State Diamond Trader was able to purchase on only four occasions out of a possible ten.
5. The State Diamond Trader’s legislated position as a passive role player, “price-taker”, in the inspection and purchasing of diamonds from the producers in terms of section 59B of the Act.

SALES 2014-15

State Diamond Trader Sales 2012-15



State Diamond Trader sales fell by 63% in terms of carats sold, 29% by value, reflecting the patterns established during the purchasing of rough diamonds.

In general, clients became extremely price sensitive due to the uncertain global market conditions. Larger clients were unwilling to commit capital to purchasing rough diamonds when the demand for polished diamonds was relatively weak and prices were falling.

Smaller clients, with limited bargaining power, found it increasingly difficult to find markets for their polished diamonds that would enable them to make a profit after the purchase of the rough diamonds and ancillary expenses.

Trading Report 2014-15

SUMMARY AND BUDGET COMPARISON 2014-15

Sales	Budget	534,254,934
	Actual	394,321,101
	<i>Diff</i>	-139,933,833
	<i>Diff%</i>	-26%

Gross Margin	Budget	20,548,263
	Actual	13,170,105
	<i>Diff</i>	-7,378,158
	<i>Diff%</i>	-36%

The State Diamond Trader was unable to achieve its budgeted sales and margin targets due to:

1. The inability to purchase rough diamonds at the prices that could have resulted in sales to beneficiators at the required margins.
2. A lack of demand from beneficiators for rough diamonds from representative samples selected (Run of Mine) that are deemed not suitable for local beneficiation.

It should be noted that a 3% gross margin is in line with industry norms for a rough diamond trading entity such as the State Diamond Trader. The only way for the State Diamond Trader to effectively increase actual gross margin levels in order to offset any future rise in expenses is to increase revenue. Whilst the State Diamond Trader only purchased 3% of local production by value during the year, there is scope to do this. However, this requires the resolution of a number of trading issues, in particular pertaining to the nature of South African diamond production and the price at which the State Diamond Trader is able to purchase.

From a trading perspective, in order to mitigate these circumstances, which were outside of the State Diamond Trader's control, it continues to trade on the basis of:

1. Understanding rough diamond demand and price sensitivity of its clients.
2. Purchasing only to its clients' demands.
3. Balancing the requirements of the Stock Holding Policy and minimum gross margin requirements.

As a result the State Diamond Trader was able to trade within its existing policy framework, albeit at lower levels than envisaged and considerably below the 10% of local diamond production as indicated within the legislation.

Trading Report 2014-15

SALES BY CLIENT SEGMENT 2014-15

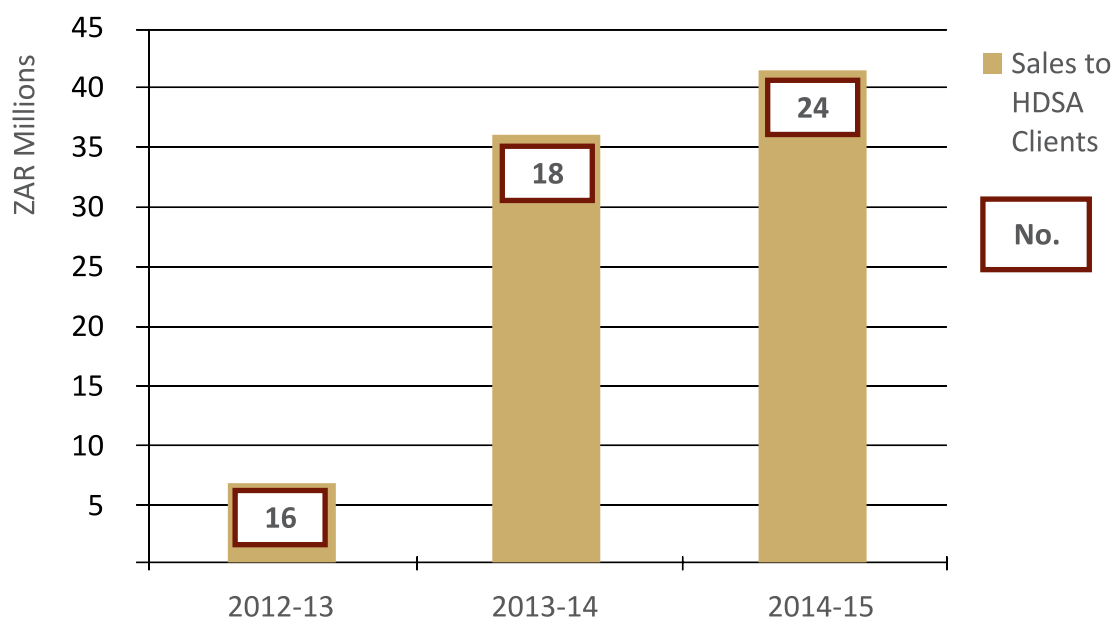
Segment	No. of Client	Carats	ZAR Sales	% of Sales (ZAR)
Growth & Transformation	3	6,831	21,494,777	5%
Equitable Access	21	823	19,900,749	5%
Niche and Large/ Medium Bene	23	36,195	287,668,330	73%
Other	3	41,576	65,257,296	17%
	50	85,426	394,321,101	

Growth & Transformation = HDSA owned companies given preferential allocation in order to support business growth
Equitable Access = small HDSA owned beneficiating companies that have yet to develop business models that will lead to growth
Niche and Large/ Medium Beneficiators = larger, non HDSA owned beneficiating companies that can purchase larger quantities and range of rough diamonds
Other = not on the State Diamond Trader's list of registered clients, companies sold to on an ad-hoc basis to support the aims of the Sales Strategy in terms of unlocking and increasing rough diamonds suitable for local beneficiators from Run of Mine selections

The total number of clients that purchased rough diamonds from the State Diamond Trader during 2014-15 increased from 46 (2013-14) to 50.

As per the State Diamond Trader's ability to select from the Run of Mine representative sample presented by the producers, sales of rough diamonds suitable for beneficiation made up 73% of total sales (by value) in 2014-15, compared to 65% in 2013-14

Sales to HDSA Clients 2012-15



Trading Report 2014-15

As can be seen from the above table, the last three years have seen an increase in the numbers of HDSA clients that have purchased from the State Diamond Trader and an increase in the quantity of rough diamonds sold to them.

The State Diamond Trader continues to facilitate the transformation of the diamond beneficiation industry by targeting HDSA clients that were previously unable to access rough diamonds produced in the country. Despite the challenging market conditions, during the course of the year:

1. The total value of sales to HDSA owned client segments rose from R35.9 million (2013-14) to R41.4 million, an increase of 15%.
2. The number of HDSA clients that purchased also rose from 18 (2013-14) to 24.
3. Sales to companies with HDSA ownership made up 10% of the annual sales value, compared to 6% in the previous year.
4. Use of the Primary Allocation Method – the State Diamond Trader’s preferred method of selling to small and HDSA owned beneficiaries– rose from 34% of total sales in 2013-14 to 46% in 2014-15.

END OF YEAR STOCK – ROUGH DIAMOND INVENTORY AS OF 31ST MARCH 2015

	Carats	ZAR Cost	Ex Rate	US\$	Age (Days)
Stock as of 01/04/2014	1,385	4,978,366	10.72	464,519	5
Purchases					
Sales (COGS)*	85,480	396,7128,675	10.75	36,893,250	
Stock as of 31/03/2015	85,426	380,920,809	10.71	35,550,767	
	1,439	20,786,232	11.50	1,807,002	77

*excluding shipping costs

The State Diamond Trader’s rough diamond inventory at year end was considerably higher than the previous year due to the following:

1. The State Diamond Trader still has 6 large stones (94 carats, R 9.2 million) that were not sold at its pilot tender. The intention is to defend the value of these stones, selling them when market conditions improve and the correct prices can be achieved;
2. The remaining 1,345 carats, R 11.6 million is stock from purchases made during March 2015, just prior to the closing of the year end.

The State Diamond Trader continues to implement a strict stock holding policy whereby all purchased rough diamonds must be sold within an average of 20 working days. This is to ensure that the State Diamond Trader efficiently utilises its finance facilities and ensure consistent cash flow.



Trading Report 2014-15

The retention of the 6 large stones that were not sold at the tender has impacted of the weighted average age of the stock – at 77 days it is outside the guidelines indicated above. However, it should be noted that the weighted average age of the stock at year end is 6 days if these stones are excluded.

The average turnaround time for all purchases made during 2014-15, excluding those still in stock, was 15 working days.

CLIENT RELATIONS 2014-15

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.

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) certificate.

The 2014 process saw 15 clients apply. 14 were subsequently accepted - 11 of which are HDSA owned companies.

During 2014-15, the State Diamond Trader found cause to remove 7 clients from its list. 6 for compliance reasons, the other due to factory closure.

The State Diamond Trader ended 2014-15 with 67 registered clients in the following segments:

Growth & Transformation (HDSA owned)	3
Equitable Access (HDSA owned)	28
Niche & Large/ Med. Beneficiators	35
Public, Private Partnerships	1

DIAMOND INDUSTRY DEVELOPMENT

The State Diamond Trader has a responsibility in terms of the Diamond Act;

“To promote the diamond industry through the necessary research, support and development as deemed necessary from time to time”.

In this respect, various initiatives have been undertaken by the State Diamond Trader to contribute to the growth of the industry.



Trading Report 2014-15

1. Jewellex Africa 2014

The State Diamond Trader facilitated participation of 12 HDSA clients at Jewellex Africa 2014, with the support of the DTI and the Jewellex Council of South Africa. This event enabled the participants to promote their businesses and to showcase their products and potentially develop new markets.

2. Hong Kong Diamond, Gem and Pearl and Jewellery Show 2015

The DTI funded the 2nd South African National Pavilion in Hong Kong facilitated by the SDT. This enabled 11 diamond beneficiators to participate, 9 of them being State Diamond Trader clients (6HDSA's).

3. Japan Trade Show 2015

The State Diamond trader facilitated, with the assistance of the DTI, the participation of 3 HDSA clients at the Japan Trade Show in 2015.

4. Provincial Promotional activities

A total of 3 Provincial Promotional Activities were undertaken in KZN, such activities are to provide information regarding the State Diamond Trader and the diamond industry with the aim of attracting new entrants and entrepreneurs to the industry.

Infrastructure for a cutting and polishing hub

1. The State Diamond Trader has facilitated an enterprise development programme for new HDSA entrepreneurs – forming a partnership with an established local beneficiator. As a result 5 trainees have been engaged and are currently receiving training.
2. The State Diamond Trader has identified other existing established enterprises that have indicated a desire to partner with it in terms of creating further training and development opportunities.

Quality Council for Trades and Occupations (QCTO) diamond cutter qualification

1. The State Diamond Trader is participating in process in conjunction with the MQA that will develop a qualification for which enterprise development trainees will be eligible. The programme is important for the industry in general and the State Diamond Trader's education programme.

Identification of stakeholders and funding institutions that will support the growth of the beneficiation industry

1. The State Diamond Trader has developed a framework for the funding of SMMEs in the diamond beneficiation industry. Presentations have been made to various funding institutions.
2. In addition, the State Diamond Trader has developed a framework for the funding of a diamond equipment hub. This is on the basis that much of the technology required within the industry is unaffordable to new entrants and SMMEs.



Trading Report 2014-15

Facilitation of skills training

1. The State Diamond Trader facilitated a technical training workshop on Rough to Polished diamond conversions. 10 State Diamond Trader HDSA clients and 6 candidates for the incubation hub participated. Participants were given a greater understanding on how to estimate polished outcomes from a rough stone - maximising yield, value and profitability.
2. 14 HDSA clients participated in an entrepreneurial development and marketing workshop facilitated by the State Diamond Trader.
3. 1 State Diamond Trader HDSA client participated at the Global Entrepreneurship Week (external conference). The conference focused on entrepreneurial development in SMMEs.
4. 2 State Diamond Trader HDSA clients participated at the Proudly South African Buy SA Business Forum that took the title "Unlock and Ignite Local Trade".
5. 1 State Diamond Trader HDSA client participated at Proudly South African Business Networking Session. The session helped broaden the understanding of marketing, networking and how best to use available tools to the organisation's advantage.

Creating awareness of the State Diamond Trader and the diamond industry in general

1. The State Diamond Trader presented an information stand to promote itself and the industry at the 2014 Mining Lekgotla.
2. The State Diamond Trader participated in the National Pavilion at the 2015 Mining Indaba in Cape Town.



Performance Against Strategic Objectives



Performance Against Strategic Objectives

MANDATE

Promote the diamond beneficiation industry through research and development over the next phase of State Diamond Trader's existence.

VISION

Be a catalyst for the transformation and growth of the local diamond beneficiation industry.

MISSION

- Ensure acquisition of and equitable access to rough diamonds with particular focus on HDSAs
- Promote the growth of the diamond beneficiation industry through relevant interventions
- Establish and maintain a transformed client base of local diamond beneficiators

VALUES

- We will respect the rights of our stakeholders and promote a caring attitude
- We will promote diversity and create an empowering working environment
- Commitment to mandate – it's promotion, defence and execution
- Agility – anticipation, proactive problem solving and resourcefulness
- Efficiency – professionalism and excellence in all that the State Diamond Trader does
- Innovation – continuous generation of new ideas and innovative thinking

STRATEGIC OBJECTIVES

- Contribute to the growth of the local diamond beneficiation industry
- Develop efficient means to market diamonds not suitable for local beneficiation
- Develop and acquire appropriate Financial and Human Resource capacity

Performance Against Strategic Objectives

STATE DIAMOND TRADER STRATEGIC OBJECTIVES LINKED TO DMR AND NATIONAL OUTCOMES

National Outcome	DMR Outcomes	SDT Strategic outcome
Decent employment through inclusive economic growth	Mineral Regulation	Promote the diamond beneficiation industry through research and development over the next phase of the State Diamond Trader's existence
Create a better South Africa and contribute to a better and safer South Africa	Mineral Regulation	Contribute to the growth of the local diamond beneficiation industry
Effective, efficient and development orientated Public Service	Administration	Develop and acquire appropriate financial and Human Resource capacity

LEGISLATIVE AND OTHER MANDATES

The State Diamond Trader's main business is to buy and sell rough diamonds in order to promote equitable access to and beneficiation of diamond resources. The main aim of the State Diamond Trader is to address distortions in the diamond industry and correct historical market failures to develop and grow South Africa's diamond cutting and polishing industry.

The State Diamond Trader is a state owned entity established in terms of Section 14 of the Diamonds Amendment Act, 29 of 2005. The company is classified as a Schedule 3b entity of the PFMA.

The State Diamond Trader sells to approved customers through the State Diamond Trader's application and approval process. The entity is eligible by law and proclamation to purchase up to 10% of the run of mine from all diamond producers in South Africa.

Performance Against Strategic Objectives

OUTCOMES	STRATEGIC OBJECTIVE	KEY ACTIVITIES	PERFORMANCE MEASURES	TARGET 2014-2015	PERFORMANCE 2014-15	VARIANCE
1. A sustainable, growing and transformed diamond beneficiation industry	1. Contribute to the growth of the local diamond beneficiation industry	Develop a Marketing and Promotion implementation plan (from the "approved" strategy)	An approved Marketing and Promotion Implementation Plan	Completed by June 2014	Plan completed by June 2014 and approved by the Board at its next meeting post completion on 29 July 2014.	
		Implement the strategy according to the Implementation Plan (Considered and prioritised the strategy pillars)			<p>Prioritisation undertaken:</p> <ul style="list-style-type: none"> · Market Research – Implementation commenced in October 2014 and was finalised · Related Expo's – undertaken · SDT Brand development - Commenced and to be completed at Diamond Indaba with the launch of the new brand, per Board decision taken on 30 October 2014 	

Performance Against Strategic Objectives

OUTCOMES	STRATEGIC OBJECTIVE	KEY ACTIVITIES	PERFORMANCE MEASURES	TARGET 2014-2015	PERFORMANCE 2014-15	VARIANCE
		Develop terms of reference for the implementation of the Marketing Strategy	Approved terms of reference	October 2014	<ul style="list-style-type: none"> Undertaken and completed prior to implementation in October 2014 Related Expos undertaken 	
		Engage industry stakeholders on the Marketing Strategy	Agreement with stakeholders on terms of reference and funding	December 2014	Diamond industry stakeholders, provincial governments and funding institutions engaged. Achieved 2 commitments from stakeholders for funding of a prioritised pillar of the Marketing Strategy, Expos and Exhibitions which was held successfully in Hong Kong.	
		Source expertise to implement identified work streams	Expertise sourced	March 2015	Achieved, expertise was sourced with a research consultant company selected to do the Market Research which was concluded as required by March 2015	

Performance Against Strategic Objectives

OUTCOMES	STRATEGIC OBJECTIVE	KEY ACTIVITIES	PERFORMANCE MEASURES	TARGET 2014-2015	PERFORMANCE 2014-15	VARIANCE
		Implement agreed identified work streams	Plan implemented	On-going	<p>Achieved and ongoing work being carried out while the SDT Brand Development is to be concluded and launched at the Diamond Indaba in October 2015</p> <p>Implemented identified work streams are:</p> <p>Market Research – completed</p> <ul style="list-style-type: none"> Related Expos - Japan (Jan 2015), Hong Kong (March 2015), Jewellex 2014 	

Performance Against Strategic Objectives

OUTCOMES	STRATEGIC OBJECTIVE	KEY ACTIVITIES	PERFORMANCE MEASURES	TARGET 2014-2015	PERFORMANCE 2014-15	VARIANCE
3. Diamond Industry Enterprise Development (SMMIEs)		Develop and establish an incubation facility that will create a platform for SMME's to benefit diamonds in a controlled and structured environment	Establish partnerships with relevant stakeholders on creation (e.g. SEDA, DTI, DMR, MQA, IDC, NEF and industry representatives) of a diamond beneficiation incubation hub for new HDSA entrants into the diamond industry	2 MOUs with identified partners concluded by September 2014	1 MOU achieved with diamond beneficiary which is an SDT large client and a pilot began with five youth in January 2015 A Letter of Intent was signed by the SDT and a diamond producer partner after engagements during the year and the project will be implemented in the coming financial year	Negotiations on three pilot projects were at advanced stage at year-end and for implementation at the beginning of the new financial year. Engagements with identified stakeholders took longer than anticipated.
			Infrastructure for a cutting and polishing Hub; HDSA participants identified and funding secured	Launch incubation hub by March 2015	The SDT did not achieve this. Although the letter of intent was entered into in March 2015, the Hub launch is in progress due to circumstances beyond the SDT's control	Delays in negotiations with identified stakeholders resulted in plans to implement project in new year

Performance Against Strategic Objectives

OUTCOMES	STRATEGIC OBJECTIVE	KEY ACTIVITIES	PERFORMANCE MEASURES	TARGET 2014-2015	PERFORMANCE 2014-15	VARIANCE
		Facilitate training for 10 new HDSA entrants into the diamond sector by relevant partners	<p>Training Programme Agreed</p> <p>Training provided for 10 new HDSA entrants</p>	<p>October 2014</p> <p>3 trained</p>	<p>The SDT achieved this as follows:</p> <p>Technical Training on Rough to polished (RTOP) facilitated and 10 HDSA clients trained</p> <p>Client Business Development Workshop (Jan 2015)</p> <p>14 HDSA clients participated in an entrepreneurial development and marketing workshop facilitated by the SDT</p>	<p>As the SDT was able to negotiate for the technical training at no cost to it, a decision to invite all HDSA clients was taken and 10 attended.</p> <p>In the end there were more spaces for clients and to ensure maximum benefit, all HDSA clients were invited and 14 attended and got trained.</p>

Performance Against Strategic Objectives

OUTCOMES	STRATEGIC OBJECTIVE	KEY ACTIVITIES	PERFORMANCE MEASURES	TARGET 2014-2015	PERFORMANCE 2014-15	VARIANCE
		Formally engage stakeholders and facilitate access to international and local exhibitions and marketing platforms for HDSA clients and new entrants, thereby increasing access to profitable markets	Japan Jewellery Show Hong Kong Gem and Jewellery Show; Jewellex SA; Provincial Promotional activities	January 2015 March 2015 September 2015 5 promotional activities by March 2015	The SDT achieved this as follows: 3 HDSA clients participated in January 2015 6 HDSA clients participated in March 2015 (altogether 9 SDT clients participated) Stakeholder engagement and facilitation process in progress Achieved, 3 Visits undertaken by March 2015	This was an overachievement as it was not target in the APP Due to timing, by end of year, two were already scheduled for April 2015 in Limpopo

Performance Against Strategic Objectives

OUTCOMES	STRATEGIC OBJECTIVE	KEY ACTIVITIES	PERFORMANCE MEASURES	TARGET 2014-2015	PERFORMANCE 2014-15	VARIANCE
4. Large Scale SA (HDSA) owned sustainable diamond cutting and polishing companies established		Identify enterprises for growth into large scale beneficiation businesses	5 enterprises identified and trained/supported	March 2015	The SDT achieved this as those HDSA clients with potential for growth from their trading capability were identified and 3 began receiving preferential allocation as a pilot in order to support their growth and other 2 identified for similar support in coming years	
		Increase supply to the enterprise targeted for growth	Supply in line with growth requirements of the enterprise	On-going	The SDT achieved this as the first 3 HDSA clients identified for this were supplied as targeted under the Growth and Transformation segment. They purchased for R 21.5 million. The same clients purchased R 7.6 million in 2013-14	

Performance Against Strategic Objectives

OUTCOMES	STRATEGIC OBJECTIVE	KEY ACTIVITIES	PERFORMANCE MEASURES	TARGET 2014-2015	PERFORMANCE 2014-15	VARIANCE
5. Be the leading and innovative rough diamond trader for the local beneficiation industry	2. Develop efficient means to market diamonds not suitable for local beneficiation	Engage and agree with relevant stakeholders in the diamond pipeline on a special purchasing model	Number of agreements and/ or pilot programmes in place	2 programmes in place	The SDT achieved this with, Programmes in place with 2 large producers. As a result, the sales of rough diamonds suitable for local beneficiation made up 73% of the total value (2013-14 = 65%)	
		Unlock and increase rough diamonds suitable for local beneficiaries	Alternative sales methods established for sale of unsuitable rough diamonds on consistent basis	April 2014	The SDT achieved this. The predominant sales method for the sales of such rough diamonds is the Pre Finance Allocation Method that made up 52% of the total sales (by value) The SDT has also made sales to other customers who are beneficiaries clients to ensure that diamonds suitable for beneficiation are unlocked from the run of mine and made available to its HDSA client base	
			Increased financial reserves for SDT	2% increase by March 2015	Not achieved During Q1 and Q2 of the year, SDT increased the reserves significantly; the loss incurred in the 3rd quarter did not have impact on the total reserves. It is 4th quarter loss that resulted 2.1% decline in the original reserves	The SDT was affected by falling demand and prices during the quarter and thereby reversing the gains previously made

Performance Against Strategic Objectives

OUTCOMES	STRATEGIC OBJECTIVE	KEY ACTIVITIES	PERFORMANCE MEASURES	TARGET 2014-2015	PERFORMANCE 2014-15	VARIANCE
6. Be an efficient, innovative and development oriented organisation (continuous learning environment)	3. Develop and acquire appropriate Financial and Human Resource capacity	Develop and implement a funding strategy for the SDT	Approved funding strategy	December 2014	The SDT achieved this as the Funding Strategy was approved in October 2014	
		Review HR Plan	Delivery of review report	October 2014	The SDT achieved this as the HR Plan was reviewed in October 2014.	
		Efficiently implement HR Plan	HR plan responding to SDT requirements	On-going	Ongoing	
		Identify skills gaps and capacity building requirements	Appropriate HR capacity and skills	April 2014	The SDT achieved this as this was completed by end April 2014	
		Implement HR capacity building dashboard	Appropriate skills	25% of employees trained by March 2015	The SDT achieved this by training 68% of employees by March 2015	



Statement of Responsibility For Financial Statements



Statement Of Responsibility For Financial Statements

STATEMENT OF RESPONSIBILITY BY THE DIRECTORS, WHO CONSTITUTE THE ACCOUNTING AUTHORITY FOR THE STATE DIAMOND TRADER FOR THE YEAR ENDED 31 MARCH 2015.

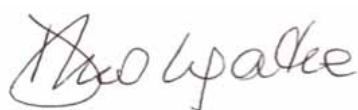
The responsibility of the Accounting Authority of the State Diamond Trader ranges from the maintenance of appropriate records to the preparation and integrity of the quarterly reports and financial statements. Through its committees and its regular meetings, the Accounting Authority is able to engage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

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

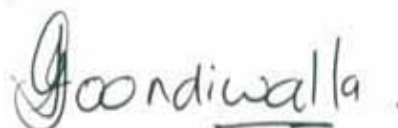
The Accounting Authority establishes policies and sets of standards that are designed to provide reasonable assurance against material misstatements and losses and this enables the Accounting Authority to execute its responsibilities as required. The State Diamond Trader maintains internal financial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

It is the opinion of the Accounting Authority that based on the information available to date, the financial statements herein presented fairly present the financial position of the State Diamond Trader at 31 March 2015 and the results of its operations and cash flow information for the financial year end.

The financial statements which appear hereunder were approved by the Accounting Authority on 21 May 2015 and are signed on its behalf by:



Chairman of the Accounting Authority



Chairman of the Audit and Risk Committee

The cover features a light green background with two circular cutouts. The top-left cutout shows a pile of dark, jagged coal. The bottom cutout shows a large pile of clear, faceted diamonds on a dark surface. The text is centered in the green area.

Report of the Auditor General to Parliament



Report of the auditor-general to Parliament

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the State Diamond Trader set out on pages 59 to 80, which comprise the statement of financial position as at 31 March 2015, the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting authority's responsibility for the financial statements

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

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the State Diamond Trader as at 31 March 2015 and its financial performance and cash flows for the year then ended, in accordance with (SA Statement of GAAP) and the requirements of PFMA.



Report of the auditor-general to Parliament

Report on other legal and regulatory requirements

7. 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 findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, non-compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

8. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the public entity for the year ended 31 March 2015:

- Objective 1: Contribute to the growth of the local diamond beneficiation industry on pages 40 to 47
- Objective 2: Develop efficient means to market diamonds not suitable for local beneficiation on pages 48

9. I evaluated the reported performance information against the overall criteria of usefulness and reliability.

10. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPi).

11. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

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

- Objective 1: Contribute to the growth of the local diamond beneficiation industry
- Objective 2: Develop efficient means to market diamonds not suitable for local beneficiation

Additional matter

13. Although I identified no material findings on the usefulness and reliability of the reported performance information for the selected objectives, I draw attention to the following matter:

Report of the auditor-general to Parliament

Achievement of planned targets

14. Refer to the annual performance report on pages 40 to 47 and page 48 for information on the achievement of the planned targets for the year.

Compliance with legislation

15. I performed procedures to obtain evidence that the public entity had complied with applicable legislation regarding financial matters, financial management and other related matters. I did not identify any instances of material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA.

Internal control

16. I considered internal control relevant to my audit of the financial statements, Performance against Strategic Business targets report and compliance with legislation. I did not identify any significant deficiencies in internal control.

Auditor General

Pretoria

31 July 2015



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence



Accounting Authority's Report



Accounting Authority's Report

This report marks the eighth report by the Accounting Authority and presents a summary of the activities of the State Diamond Trader. The State Diamond Trader was established in July 2007 in terms of section 14 of the Diamonds Amendment Act 29 of 2005.

The review provides context to the financial performance of the State Diamond Trader's operations as detailed in the financial statements.

The objectives of the State Diamond Trader are to promote equitable access to and local beneficiation of diamond resources of South Africa. Whilst, the State Diamond Trader had set itself the objective of operating its business in a profitable and self-sustaining manner, the effects of market volatility and economic conditions continue to present challenges with meeting required levels of performance and subsequently, the continual generation of reserves for ensuring its sustainability in the future.

FINANCIAL PERFORMANCE

FINANCIAL POSITION

Revenue for the year of R394 321 101 reflects a decrease of 29 % from the previous year (2014: R554 863 725). The decrease was primarily due to high prices in rough diamonds and this consequently led to State Diamond Trader's inability to purchase goods from the major producers particularly in the 3rd and 4th quarter of the financial year. We also saw a fall in demand for the goods and this trend continued right until the end financial year.

An average gross margin percentage of 3.34% on average was achieved.

Capital expenditure for the year amounted to R47 409 (2014: R238 930) and was mainly in respect of the acquisition of computer equipment. The State Diamond Trader assets were due for replacement but the Management decided to rather extend the life of the assets through the extension of warranty in lieu of containing costs.

Administrative expenses increased from R17 214 789 the previous year to R19 130 104 in the current year. This is mainly due to the increase in salary expenses as a result of implementation of the Human Resources Plan, resulting in the employment of more personnel; particularly the trainees that had successfully completed the diamond training programme and were deemed ready to assume such duties and responsibilities on a permanent basis.

Inventory at the end of the financial year amounted to R20 786 232 (2014: R4 978 366). This is a direct confirmation of the depression in the demand for diamonds caused by the high rough diamond prices and other economic conditions as already alluded in this report.

The net assets as at 31 March 2015 amounted to R49 180 542 (2014: R50 355 175). The fall in reserves is a net result of the unfavourable market conditions.



Accounting Authority's Report

CASH FLOW POSITION

Cash resources at the end of the financial year amounted to R23 778 597 (2014: R46 465 662).

GOING CONCERN

The annual financial statements were prepared on the basis of going concern principle and the Accounting Authority believes that the State Diamond Trader continues to be a going concern.

SUBSEQUENT EVENTS

There were no subsequent events identified for reporting purposes.

Statement of Financial Position

AS AT 31 MARCH 2015

	Notes	2015 R'0	2014 R'0
ASSETS			
Non-current assets		1 370 012	1 610 334
Property and equipment	6	1 370 012	1 610 334
Current assets		49 751 052	53 048 503
Inventory	7	20 786 232	4 978 366
Trade and other receivables	8	5 186 223	1 604 474
Cash and cash equivalents	9	23 778 597	46 465 662
TOTAL ASSETS		51 122 064	54 658 836
EQUITY AND LIABILITIES			
Equity		49 180 542	50 355 175
Retained income		49 180 542	50 355 175
Non-current liabilities		-	-
Operating Lease Rental Liability		-	-
Current liabilities		1 941 522	4 303 662
Trade and other payables	11	1 859 029	4 203 605
Operating lease: Rental liability		82 493	100 057
Loans and borrowings	10	-	-
TOTAL EQUITY AND LIABILITIES		51 122 064	54 658 836

Statement of Comprehensive Income

FOR THE YEAR ENDED 31 MARCH 2015

	Notes	2015 R'O	2014 R'O
Revenue	12	394 321 101	554 863 725
Cost of sales	12	(381 150 996)	(538 458 752)
Gross profit		13 170 105	16 404 973
Other income	13	4 321 227	4 271 502
Administrative expenses		(19 130 104)	(17 214 789)
Profit/(Loss) from operating activities	14	(1 638 771)	3 461 686
Finance income	15	2 051 601	1 543 577
Finance expenses	16	(1 587 462)	(735 368)
Profit before income tax		(1 174 633)	4 269 894
Income tax expense		-	-
Profit/(Loss) for the period		(1 174 633)	4 269 894
Total comprehensive income		(1 174 633)	4 269 894



Statement of Changes In Equity

FOR THE YEAR ENDED 31 MARCH 2015

	Retained Income/(Loss)
	R'O
Balance at 01 April 2013	46 085 281
Profit for the year	4 269 894
Balance at 31 March 2014	50 355 175
Profit/(Loss) for the year	(1 174 633)
Balance at 31 March 2015	49 180 542

Statement of Cash Flows

FOR THE YEAR ENDED 31 MARCH 2015

	Notes	2015 R'O	2014 R'O
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated by operations	16	(23 111 782)	21 010 521
Interest paid		(1 587 462)	(735 368)
Interest received		2 014 609	1 543 577
Other Income from DBCM		44 976	178 675
Net cash inflow from operations		(22 639 659)	21 997 404
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment		(47 409)	(238 930)
Net cash outflow from investing activities		(47 409)	(238 930)
Analysis of the Revolving credit facility:			
Amount drawn during the reporting period		167 701 870	139 155 859
Amount paid during the reporting period		167 701 870	139 155 859
Net cash outflow from financing activities		-	-
Net increase in cash and cash equivalents		(22 687 068)	21 758 474
Cash and cash equivalents at the beginning of the period		46 465 662	24 707 188
Cash and cash equivalents at the end of the period		23 778 594	46 465 662



Notes to the Financial Statements

Notes to the financial statements for the year ended 31 March 2015

1. REPORTING ENTITY

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.

2. BASIS OF PREPARATION

a) Statement of compliance

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

b) Basis of measurement

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

c) Functional and presentation currency

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

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

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

e) Changes in accounting policies

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

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



Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) Revenue

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

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

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

b) Finance Income and Expenses

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

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

c) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the 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.



Notes to the Financial Statements

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 remaining period of the lease

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

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

e) Financial instruments

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

(1) Classification

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

(2) Recognition

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

(3) Measurement

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



Notes to the Financial Statements

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

- *Cash and cash equivalents*
Cash comprises cash balances with banks. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts the cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. These are initially and subsequently measured at amortised cost.
- *Trade and other receivables (Accounts receivable)*
Trade receivables are initially stated at fair value and subsequently at amortised cost using the effective interest rate method. The recoverable amount of trade receivables is calculated at the present value of expected future cash flows discounted using the original effective interest rate inherent in the asset. Short-term receivables are not discounted.
- *Trade and other payables (Accounts payable)*
Trade payables are initially measured at fair value and are subsequently measured at amortised costs using the effective interest rate method. These are subject to normal trade credit terms and relatively short payment cycles. Trade and other payables are classified as other financial liabilities.

(4) De-Recognition

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.

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

f) Operating leases

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

g) Provisions

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



Notes to the Financial Statements

h) **Employee benefits**

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

i) **Income tax**

As of February 2012 the 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**

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

Related parties also include key management personnel, which are persons having authority and responsibility for planning, directing and controlling the activities of the State Diamond Trader, directly or indirectly, including any members of the accounting authority (whether executive or otherwise) of the State Diamond Trader.

k) **Critical accounting estimates and judgements**

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

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

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

(2) Contingent liabilities

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



Notes to the Financial Statements

l) Donations

Donations consist primarily of use of the De Beers staff seconded to the State Diamond Trader since 2007. Donations are intended to compensate expenses and to provide immediate financial support to the State Diamond Trader with no future related costs and are recognised as income in the period in which they are received and expensed, as they are used by the State Diamond Trader.

m) Irregular, fruitless and wasteful expenditure

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

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
- Market risk

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

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

Risk management policies are established to identify and analyse the risks faced by the State Diamond Trader, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and in the State Diamond Trader's activities.

The State Diamond Trader, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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



Notes to the Financial Statements

Credit risk

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

Exposure to Credit Risk

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

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 less 0.5% and on that basis changes in prime exposes the company to cash flow interest rate risk. The revolving credit facility was paid in full at year end.

Notes to the Financial Statements

Fair values versus carrying amounts

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

In R'O	31 March 2015		31 March 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans and Borrowings	-	-	-	-
Cash and cash equivalents	23 778 597	23 778 597	46 465 662	46 465 662
Trade and other payables	564 025	564 025	338 326	338 326

Capital management

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

5. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, amendments to standards and interpretations issued are not yet effective for the year ended 31 March 2015, and have not been applied in preparing these financial statements:

Standard/Interpretation	Effective date
<p>IFRS 9 (2009) (AC 146)</p> <p><i>Financial Instruments</i></p> <p>IFRS 9 (AC 146) addresses the initial measurement and classification of financial assets and will replace the relevant sections of IAS 39 (AC 133).</p> <p>Under IFRS 9 (AC 146) there are two options in respect of classification of financial assets, namely, financial assets measured at amortised cost or at fair value. Financial assets are measured at amortised cost when the business model is to hold assets in order to collect contractual cash flows and when they give rise to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets are measured at fair value.</p> <p>Embedded derivatives are no longer separated from hybrid contracts that have a financial asset host.</p> <p>This statement will impact the results of the State Diamond Trader as the State Diamond Trader does have Financial Assets and Liabilities.</p>	<p>Annual periods beginning on or after 1 January 2015*</p>



Notes to the Financial Statements

IFRS 9 (2010)
(AC 146)

Financial Instruments

IFRS 9 (2010) (AC 146) addresses the measurement and classification of financial liabilities and will replace the relevant sections of IAS 39 (AC 133).

Under IFRS 9 (2010), the classification and measurement requirements of financial liabilities are the same as per IAS 39 (AC 133), except for the following two aspects:

fair value changes for financial liabilities (other than financial guarantees and loan commitments) designated at fair value through profit or loss, that are attributable to the changes in the credit risk of the liability will be presented in other comprehensive income (OCI). The remaining amount of the fair value change is recognised in profit or loss. However, if this requirement creates or enlarges an accounting mismatch in profit or loss, then the whole fair value change is presented in profit or loss.

The determination as to whether such presentation would create or enlarge an accounting mismatch is made on initial recognition and is not subsequently reassessed.

Under IFRS 9 (2010) (AC 146) derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured, are measured at fair value.

IFRS 9 (2010) (AC 146) incorporates, the guidance in IAS 39 dealing with fair value measurement, and accounting for derivatives embedded in a host contract that is not a financial asset, as well as the requirements of IFRIC 9 *Reassessment of Embedded Derivatives*.

This statement will impact the results of the State Diamond Trader as the State Diamond Trader does have Financial Assets and Liabilities.

Annual periods
beginning on or
after 1 January
2015*

Notes to the Financial Statements

6. EQUIPMENT

	Leasehold Improvements	Furniture and fittings	Security Equipment	Computers	Diamond Equipment	Total
	R'O	R'O	R'O	R'O	R'O	R'O
Year ended 31 March 2015						
Opening net carrying amount	93 441	443 750	567 281	110 143	395 716	1 610 331
Gross carrying amount	460 933	651 505	953 425	1 124 389	456 463	3 646 715
Accumulated depreciation	(367 492)	(207 755)	(386 144)	(1 014 246)	(60 747)	(2 036 384)
Additions	-	-	-	47 409	-	47 409
Depreciation	(22 153)	(65 131)	(95 329)	(60 935)	(43 232)	(286 780)
Closing net carrying amount	71 289	378 619	471 952	96 610	352 484	1 371 012
Gross carrying amount	460 933	651 505	953 425	1 171 791	456 463	3 694 117
Accumulated depreciation	(389 644)	(272 886)	(481 473)	(1 075 181)	(103 979)	(2 323 106)
Year ended 31 March 2014						
Opening net carrying amount	115 594	487 780	662 610	367 845	205 921	1 839 750
Gross carrying amount	460 933	631 038	953 425	1 124 389	238 000	3 407 785
Accumulated depreciation	(345 339)	(143 258)	(290 815)	(756 544)	(32 079)	(1 568 035)
Additions	-	20 467	-	-	218 463	238 930
Depreciation	(22 153)	(64 497)	(95 329)	(257 702)	(28 668)	(468 349)
Closing net carrying amount	93 441	443 750	567 281	110 143	395 716	1 610 331
Gross carrying amount	460 933	651 505	953 425	1 124 389	456 463	3 646 715
Accumulated depreciation	(367 492)	(207 755)	(386 144)	(1 014 246)	(60 747)	(2 036 384)

Notes to the Financial Statements

7. INVENTORY

Cost of inventory

	2015 R'O	2014 R'O
	20 786 232	4 978 366
	20 786 232	4 978 366

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

Prepayments

Interest and DBCM/Other Receivable

SARS Receivable: VAT Receivable

Income Tax Refund Receivable

	5 186 223	1 604 474
	5 037 229	76 329
	57 217	94 574
	91 777	1 433 571
	-	-

- Credit risk and impairment losses

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

9. CASH AND CASH EQUIVALENTS

FNB Operational Accounts

Petty cash

FNB Call Accounts

Standard Bank Call Account

	23 778 597	46 465 662
	4 899 217	24 001 897
	3 000	3 000
	16 970 111	11 037 764
	1 906 270	11 423 001

- Interest rate risk

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

Notes to the Financial Statements

10. LOANS AND BORROWINGS

This note provides information about the contractual terms of the Revolving Credit Facility held at Industrial Development Corporation. The facility available to the State diamond Trader increased from R50 million to R100 million during the last quarter of the financial year. The interest payable on use of this facility is prime less 0.5% 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:

	2015 R'0	2014 R'0
Amount drawn	167 701 870	139 155 859
Amount paid	(167 701 870)	(139 155 859)
Balance on Revolving Credit Facility	-	-

11. TRADE AND OTHER PAYABLES

	2015 R'0	2014 R'0
Accruals	820 366	387 959
Creditors	564 025	338 326
Provisions	160 601	18 776
Vat payable	314 038	3 458 543
	1 859 029	4 203 605

- 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. REVENUE

Revenue consists of sales of rough diamonds to local beneficiators.

2015 R'0	2014 R'0
394 321 101	554 863 725

Notes to the Financial Statements

Cost of sales

Reconciliation:

Opening inventory

Purchases

Security and Transport costs

Less: Closing inventory

Cost of goods sold

	2015 R'O	2014 R'O
Opening inventory	4 978 366	15 163 853
Purchases	396 728 675	527 791 954
Security and Transport costs	230 186	481 311
Less: Closing inventory	20 786 232	4 978 366
Cost of goods sold	(381 150 996)	(538 458 752)

13. OTHER INCOME

Other Income primarily is in respect of Donations to the State Diamond Trader in respect of staff donated by DBCM and associated costs.

Other income

Donations DBCM

Other Income from DBCM

Donations DBCM: Use of Equipment

Other Income

Income Tax Refund

	4 321 227	4 271 502
Donations DBCM	4 276 252	4 090 909
Other Income from DBCM	15 419	-
Donations DBCM: Use of Equipment	-	1 918
Other Income	19 794	178 675
Income Tax Refund	9 762	-

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

Audit Fees

Remuneration for services rendered:

Non-executive members

Executive Management

Depreciation

Operating lease charges

Salaries: other

Salaries – Donations

Use of De Beers Assets and Diamond Equipment

Audit Fees	839 862	589 917
Remuneration for services rendered:		
Non-executive members	485 796	447 220
Executive Management	3 814 343	1 703 022
Depreciation	286 727	468 348
Operating lease charges	476 893	479 270
Salaries: other	3 438 502	3 512 760
Salaries – Donations	4 276 252	4 909 909
Use of De Beers Assets and Diamond Equipment	-	1 918

Notes to the Financial Statements

	2015	2014
	R'O	R'O
15. FINANCE INCOME		
Interest received	2 051 601	1 543 576
16. FINANCE EXPENSES		
Finance fees on IDC facility	534 591	7 500
Interest charged by: IDC	1 052 871	727 868
	(1 587 462)	(753 368)
Cash generated from operations		
Net income / (loss) before taxation	(1 174 686)	4 269 894
Adjusted for:		
- depreciation	286 727	468 348
- other non-cash items	-	15 866
- interest expense	1 587 462	735 368
- interest received	(2 014 609)	(1 543 577)
- other income	(44 976)	(178 675)
- Donations received – DBCM	(4 276 252)	(4 092 826)
- Staff services donated – DBCM	4 276 252	4 090 908
- Use of assets - De Beers	-	1 918
Adjusted net profit before taxation	(1 360 028)	3 767 225
Changes in working capital:		
- decrease/(increase) in trade and other receivables	(3 581 749)	3 635 921
- decrease/(increase) in inventory	(15 807 866)	10 185 487
- (decrease)/ increase in trade and other payables	(2 362 140)	3 437 756
	(21 751 754)	17 259 163
Cash generated from operations	(23 111 782)	21 010 521

Notes to the Financial Statements

17. COMMITMENTS

17.1 Operating Leases – as lessee (expense)

Minimum lease payments due

- within one year
- in second to fifth year inclusive

	2015	2014
	R'0	R'0
- within one year	528 100	470 260
- in second to fifth year inclusive	270 613	696 934
	798 713	1 167 194

Operating lease payments represent rental payable by the State Diamond Trader for its equipment and office premises. The lease for the Office premises was negotiated for a term of 5 years with escalation of 8% per annum starting from 1 September 2011. No contingent rent is payable on both leases.

17.2 Other contracts

Minimum repayments due

- within one year

- within one year	31 667	26 667
	31 667	26 667

Included in the other contracts commitment is the insurance payable by the State Diamond Trader for its rough diamonds.

18. 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 State Diamond Trader in terms of the Public Finance Management Act, 1999 (Act No 1 of 1999, as amended). It therefore has a significant number of related parties including other state owned entities, government departments and all other entities within the national sphere of Government.

The State Diamond Trader, in the ordinary course of business, enters into various agreements with other parties within the national sphere of Government. The significant transactions (in the normal course of business) and balances outstanding at 31 March 2015 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 R100 million with the Industrial Development Corporation (IDC) a State Owned State Diamond Trader for use as working capital from time to time and the outstanding balance on the facility at year end was nil.

Notes to the Financial Statements

19. REMUNERATION

Executive management

3 814 343

1 703 022

Non-Executive members of the Accounting Authority fees:

Mrs Dolly Doreen Mokgatle (Chairperson)

103 713

206 114

Mr Shadrack Mohapi Motloung

109 344

90 712

Ms Nomfundo Felicia Mpuntsha

60 416

47 008

Mr Tshimane Simon Montoedi

84 479

43 008

Mr Mabelindile Archibald Luhlabo

93 766

90 378

Ms Zodwa Penelope Manase

34 077

-

Total

485 795

447 220

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

Mr Gabatsholwe Levy Rapoo

Ms Setepane Mohale

Mr Imtiaz Goondiwalla

Ms Sinaye Temperance Nxumalo

Brig. Ntombizodwa Hazel Mokoena

The following are executive management of the State Diamond Trader.

Ms Phydalis Ntombifuthi Zikalala Mvelase

Ms Nomonde Thamaga

Ms Nobuhle Sibeko

20. SUBSEQUENT EVENTS

There were no subsequent events identified for reporting purposes.

Notes to the Financial Statements

21. CONTINGENT LIABILITIES

The State Diamond Trader is not aware of any contingent liabilities that existed as at 31 March 2015.

22. CONTINGENT ASSET

The State Diamond Trader is not aware of any contingent asset that existed as at 31 March 2015.

23. IRREGULAR EXPENDITURE

23.1 Reconciliation of Irregular expenditure

	2015	2014
	R'O	R'O
Irregular expenditure relating current the year	-	233 562
Current year amounts condoned	-	(233 562)
Closing balance	-	-

24. CHANGE IN ACCOUNTING ESTIMATE

In accordance with the IAS 8, an estimate may require revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. By its nature the revision of an estimate does not relate to prior periods and is not a correction of an error.

During 2014/15, the management of the SDT decided not to acquire new computer assets as it was originally budgeted, but instead conducted an investigation on the condition of the assets and based on the positive report on the condition thereof resolved to extend the warranty for a further period of 2 years. The asset category's useful life was reassessed and extended from 3 to 5 years. The effect of the change in estimate will be as follows for the current year:

	2015
	R'O
Depreciation charge before the change in estimate	119 916
Depreciation charge after change is estimate	60 935
Decrease in depreciation	58 981



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Country of incorporation:	Republic of South Africa
Directors:	
Mrs Dolly Doreen Mokgatle	Chairman
Ms Phydalis Ntombifuthi Zikalala Mvelase	Chief Executive Officer
Mr Imtiaz Goondiwalla	Member
Mr Tshimane Simon Montoedi	Member
Mr Shadrack Mohapi Motloun	Member
Mr Gabatsholwe Levy Rapoo	Member
Ms Setepane Mohale	Member
Ms Nomfundo Felicia Mpuntsha	Member
Ms Sinaye Temperance Nxumalo	Member
Mr Mabelindile Archibald Luhlabo	Member
Brig. Ntombizodwa Hazel Mokoena	Member
Ms Zodwa Penelope Manase	Member
Company Secretary	Ms Nobuhle Sibeko

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