

STATE DIAMOND TRADER

# ANNUAL REPORT

2016/17



**state diamond trader**  
REPUBLIC OF SOUTH AFRICA



STATE DIAMOND TRADER

# ANNUAL REPORT 2016/17

RP225/2017  
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# GENERAL INFORMATION

# 1. ENTITY INFORMATION

<b>Domicile:</b>	Johannesburg, South Africa
<b>Nature of business:</b>	The State Diamond Trader is a creature of Statute, the Diamonds Act (Act No. 56 of 1986), as amended. Its main business is to promote equitable access to and local beneficiation of the Republic's diamonds.
<b>Postal address:</b>	PO Box 61212 Marshalltown South Africa 2107
<b>Business address:</b>	Jewel City 225 Main Street Johannesburg 2001
<b>Tel:</b>	011 334 2691
<b>Website:</b>	<a href="http://www.statediamondtrader.gov.za">www.statediamondtrader.gov.za</a>
<b>Email:</b>	<a href="mailto:info@statediamondtrader.gov.za">info@statediamondtrader.gov.za</a>
<b>Twitter:</b>	@SDT_RSA

## BOARD MEMBERS UP TO 31 AUGUST 2016

<b>Executive authority:</b>	Government of the Republic of South Africa, represented by the Minister of Mineral Resources
Mrs DD Mokgatle	Board Chairperson, term expired 31 August 2016
Mr I Goondiwalla	Chairperson, Audit and Risk Committee
Mr T Montoedi	Term expired, 31 August 2016
Ms SM Motloung	Chairperson, Human Resources and Remuneration Committee
Mr MA Luhlabo	Term expired, 31 August 2016
Ms N Mpuntsha	Term expired, 31 August 2016
Mr GL Rapoo	Resigned, 31 May 2016
Ms SM Mohale	Term expired, 31 August 2016
Major-General NH Mokoena	
Ms S Nxumalo	Term expired, 31 August 2016
Ms PN Zikalala-Mvelase	CEO

## BOARD MEMBERS FROM 1 SEPTEMBER 2016

Mr MJ Carstens	Board Chairperson, appointed with effect from 1 September 2016
Mr NM Diseko	
Mr SM Motloung	Chairperson, Human Resources and Remuneration Committee
Dr M Matlou	
Mr W Mabapa	
Mr KJ Menoe	Chairperson, Trading Committee
Mr F Mokoena	
Mr B Deka	
Mr I Goondiwalla	Chairperson, Audit and Risk Committee
Major-General NH Mokoena	
Mr M McMaster	
Mr RL Mabece	
Mr G du Plessis	
Ms PN Zikalala-Mvelase	CEO

## 2. LIST OF ABBREVIATIONS/ACRONYMS

<b>BEE</b>	Black Economic Empowerment
<b>CEO</b>	Chief Executive Officer
<b>CFO</b>	Chief Financial Officer
<b>DMR</b>	Department of Mineral Resources
<b>EDP</b>	Enterprise Development Programme
<b>GAAP</b>	Generally Accepted Accounting Practice
<b>HDSA</b>	Historically Disadvantaged South Africans
<b>HR</b>	Human Resources
<b>IAS</b>	International Accounting Standards
<b>IASB</b>	International Accounting Standards Board
<b>IDC</b>	Industrial Development Corporation
<b>IESBA</b>	International Ethics Standards Board for Accountants
<b>IFRS</b>	International Financial Reporting Standards
<b>ISA</b>	International Standard on Auditing
<b>KPCS</b>	Kimberley Process Certification Scheme
<b>MPRDA</b>	Mineral and Petroleum Resources Development Act
<b>MQA</b>	Mining Qualifications Authority
<b>MTSF</b>	Medium-term Strategic Framework
<b>PAA</b>	Public Audit Act No. 25 of 2004
<b>PFMA</b>	Public Finance Management Act (Act No. 1, 1999) read with the Treasury Regulations
<b>ROM</b>	Run of Mine
<b>SADI</b>	South Africa Diamond Indaba
<b>SADPMR</b>	South African Diamonds and Precious Metals Regulator
<b>SARS</b>	South African Revenue Service
<b>SCM</b>	Supply Chain Management
<b>SDT</b>	State Diamond Trader
<b>SEDA</b>	Small Enterprise Development Agency
<b>SMME</b>	Small medium and micro-enterprises
<b>SOE</b>	State-owned Entity
<b>The dti</b>	The Department of Trade and Industry

### 3. MINISTER'S NOTE TO PARLIAMENT



**Mr Mosebenzi J Zwane, MP**  
Minister of Mineral Resources

Honourable Speaker of Parliament

#### **Annual Report of State Diamond Trader for the year ended 31 March 2017**

I have the honour, in terms of section 65(1)(a) of the Public Finance Management Act No. 1 of 1999 (PFMA), to present the Annual Report of the State Diamond Trader for the year ended 31 March 2017, including the Annual Financial Statements and the Audit Report.

A handwritten signature in black ink, consisting of a large, stylized 'M' followed by a horizontal line.

**Honourable Minister Mosebenzi J Zwane, MP**  
**Minister of Mineral Resources**  
August 2017



## 4. STRATEGIC OVERVIEW

### 4.1 Overview of the entity

The core business of the State Diamond Trader is to buy and sell rough diamonds in order to promote equitable access to and beneficiation of South Africa's diamond resources. Its main aim 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 (SOE) established in terms of Section 14 of the Diamonds Act (Act No. 56 of 1986) as amended. The entity is classified as a Schedule 3B entity in terms of the Public Finance Management Act, Act No. 1 of 1999 (PFMA).

The State Diamond Trader sells diamonds to approved clients who are approved through the entity's application and approval process that takes place annually. The entity is eligible by law and proclamation to purchase up to 10% of the run of mine (ROM) from all diamond producers in South Africa.

The State Diamond Trader started its operations in 2007 and will be celebrating its 10th anniversary in 2017. Over the last ten years, we have established ourselves as a trading platform for the local diamond beneficiating sector. In pursuit of our statutory mandate in terms of the Act, the State Diamond Trader has played an increasingly important role in the development of small, predominantly historically disadvantaged South African (HDSA) diamond beneficiaries.

Although we are constrained by the operating model as determined by legislation, the Board has set clear targets and is intent on taking advantage of the opportunities at hand to enhance the operating environment. The State Diamond Trader prides itself as an innovative organisation as it continues to forge ahead with the implementation of its mandate, its sustainability, as well as the sustainability of the diamond beneficiation industry in South Africa.

### 4.2 Mandate

Our objective is derived from Section 15 of the Diamonds Act and is to promote equitable access to and local beneficiation of the Republic's diamonds.

We also have, inter alia, the following functions in terms of Section 16 of the Diamonds Act:

- To comply with the requirements of the Kimberley Process Certification Scheme (KPCS) in respect of any diamonds we handle
- To establish and maintain a client base of local diamond beneficiaries

### 4.3 Vision

Our vision is to be the catalyst for the transformation and growth of the local diamond beneficiation industry in South Africa.

### 4.4 Mission

Our mission is to:

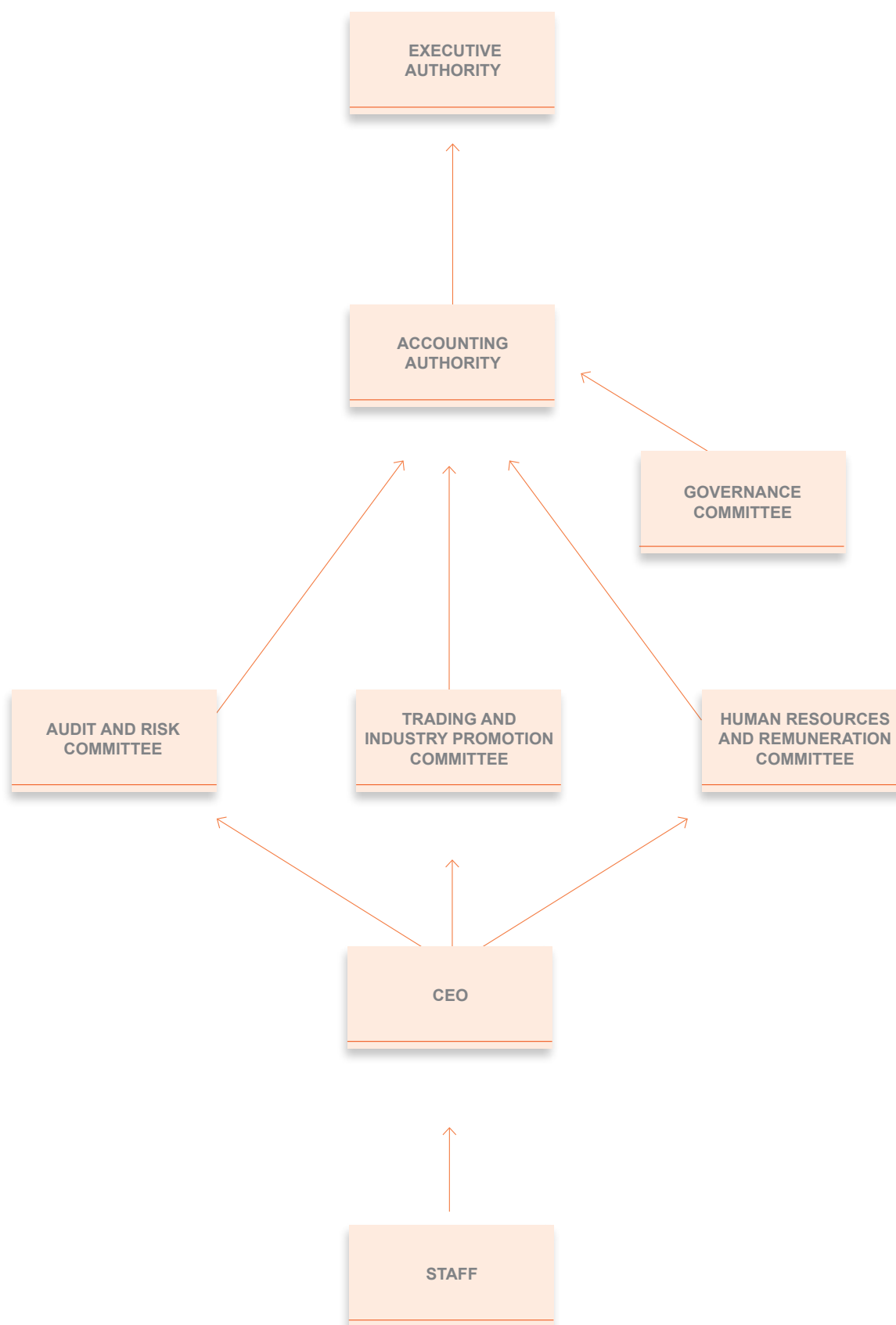
- ensure acquisition of and equitable access to rough diamonds, with a particular focus on HDSAs;
- promote the growth of a globally competitive diamond beneficiation industry through relevant interventions; and
- establish and maintain a transformed client base of local diamond beneficiaries.

### 4.5 Values

We have identified the following as our values as an organisation:

- **Respect** for the rights of our stakeholders and promote a just and caring attitude
- **Promote** diversity and create an empowering working environment
- **Commit** to our mandate, its 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
- **Integrity**, we will conduct our business with the utmost integrity

## 5. ORGANISATIONAL STRUCTURE





# LEADERSHIP REPORTS

## 6. CHAIRPERSON'S REPORT



**Mr MJ Carstens**  
Chairperson of the Board

### OVERVIEW

It is a privilege and pleasure to present my report for the year ended 31 March 2017. The year under review saw a change of guard at the State Diamond Trader as my fellow Board members and I were appointed with effect from 1 September 2016. We took over a healthy and stable organisation from the outgoing Board and the transition has been a smooth one. I wish to thank my predecessor for her leadership of the entity until 31 August 2016.

Our financial results improved this year compared to the last financial year, as shown in the annual financial statements. This was despite global economic uncertainty and the continuous threat to the luxury sectors of the economy, such as ours. The diamond industry continued to demonstrate its resilience and sustainability during this period.

### KEY HIGHLIGHTS

#### Legislative mandates

In the face of challenges entrenched in our founding legislation and characterised by issues such as the State Diamond Trader having to purchase ROM, while the South African market has specific types of diamonds that it cuts and polishes locally, we forged ahead with the implementation of our mandate to promote equitable access to and beneficiation of the diamonds of the Republic. The State Diamond Trader sold diamonds to 75 clients during the year under review. The amount of diamonds beneficiated in South Africa is monitored by our sister entity, the South African Diamonds and Precious Metals Regulator (SADPMR).

### Financial sustainability

The State Diamond Trader is a national government business enterprise under schedule 3B of the PFMA. This means that the State Diamond Trader is a juristic person under the ownership and control of the national executive. It has been assigned financial and operational authority to carry on a business activity and acquires rough diamonds from diamond producers to sell to local beneficiaries as its principal business, and is financed fully from sources other than the National Revenue Fund. It is therefore an imperative for the State Diamond Trader to derive profits to remain sustainable. The financial sustainability of the State Diamond Trader may be seen as being in conflict with its mandate of promoting local beneficiation.

Our aim is to make sufficient profits to enable us to run our operations and not to make substantial profits from our clients. The State Diamond Trader strives to maintain an equilibrium in this respect and to remain sustainable, while it continues to provide the service it is providing to local beneficiaries in terms of the legislation.

### Corporate social responsibility

The State Diamond Trader is committed to acting as a socially responsible organisation. This means that we will comply fully with the laws, rules and regulations of the country. It also means that we will go further by extending a helping hand in our communities from time to time. During the year under review, the State Diamond Trader adopted Leratong Joy for One, a home in the township of Alexandra, Johannesburg, and lends assistance to the home as necessary from time to time.

## Stakeholder engagements

The State Diamond Trader places a great degree of value on stakeholder engagement and collaboration. As an entity, the State Diamond Trader engages with its stakeholders on an ongoing basis and collaborates wherever possible as it understands that the success of the industry will not be realised through working in silos. Furthermore, the State Diamond Trader recognised a need for industry-wide stakeholder engagement in the diamond industry and conceptualised the South African Diamond Indaba (SADI), which was first held in 2015/16. In September 2016, the second SADI was held under the theme of “Enabling South Africa to become the heartbeat of diamond beneficiation in Africa” and the subtheme of “Driving competitiveness for growth and transformation in the diamond industry”. At this level of engagement, the State Diamond Trader intended to collaborate with the industry to ensure that its objective of the growth of the diamond beneficiation industry is realised through transformation.

## Corporate governance

The Accounting Authority is committed to maintaining high levels of corporate governance and to ensuring that appropriate structures and systems of control are firmly in place to enable the State Diamond Trader to operate successfully and sustainably.

Board and Board Subcommittee meetings were held according to the State Diamond Trader’s annual calendar and were well attended by the respective members. The Board reviewed and formulated the organisational strategy, and exercised oversight over the overall performance of the entity. The Board has the appropriate mixture of skills to execute its responsibilities. The Board adheres to the principles of good and sound corporate governance and ensures organisational compliance with its founding legislation, the PFMA, the King III Report on Corporate Governance, as well as internal policies. We have provided a corporate governance overview in this annual report to demonstrate how the State Diamond Trader is governed.

## LOOKING AT THE YEAR AHEAD

Under the guidance of the Executive Authority and the Board, the State Diamond Trader will be forging ahead with consulting stakeholders for optimum strategies aimed at correcting the historical failures in the industry and charting a way forward. The Board will ensure

the optimisation of its resources and the execution of its strategy. The Board is also seized with the matter of the decline of the diamond beneficiation industry and will work closely with all entities in the family of the Department of Mineral Resources (DMR) and the Department itself to focus on the promotion of the industry, as well as its transformation.

## APPRECIATION

On behalf of the Board, I take this opportunity to extend my gratitude firstly to my predecessor and her colleagues on the Board for leaving an inheritance of a healthy and efficient organisation. Secondly, I thank the Executive Authority for its guidance and support of the State Diamond Trader at all times.

I am also indebted to our stakeholders, who continue to offer us support in our quest to fulfil our mandate of the promotion of the local diamond beneficiation industry. Our success would not have been possible without the support of our stakeholders, their ability to constantly engage with us and their willingness to collaborate with us on some of our projects. I wish to further single out the Department of Trade and Industry (the dti) for its support over the last six years, as a result of which we were able to hold the South African flag high at the Hong Kong International Show, showcasing products at the South African Pavillion. Although this partnership has sadly come to an end, the Board appreciates the assistance received from the dti over the years.

To my colleagues, my fellow Board members, thank you for your collective and individual support to the Board. Your guidance, expertise and wisdom go a long way towards steering the State Diamond Trader on the right path. I further wish to thank the Chief Executive Officer (CEO), Ms Futhi Zikalala-Mvelase, in particular, for her leadership of the entity for the last nine years.

Last but certainly not least, I wish to thank the State Diamond Trader’s management team and all our committed members of staff for their hard work and dedication during the year under review. I look forward to fulfilling our goals for the 2017/18 financial year through your dedication and hard work.



**Mr MJ Carstens**  
**Chairperson of the Board**



## 7. ACCOUNTING AUTHORITY



**Mr M J Carstens**  
Chairperson of the Board



**Ms PN Zikalala-Mvelase**  
Chief Executive Officer



**Mr I Goondiwalla**  
Board member



**Mr RL Mabece**  
Board member



**Ms M McMaster**  
Board member



**Mr S Motloun**  
Board member



**Mr F Mokoena**  
Board member



**Mr K Menoe**  
Board member



**Mr W Mabapa**  
Board member



**Mr G du Plessis**  
Board member



**Major-General NH Mokoena**  
Board member



**Mr B Deka**  
Board member



**Mr NM Diseko**  
Board member



**Dr M Matlou**  
Board member

**COMPANY SECRETARY**  
Ms N Sibeko

## 8. CHIEF EXECUTIVE OFFICER'S REPORT



**Ms PN Zikalala-Mvelase**  
Chief Executive Officer

### OVERVIEW

The State Diamond Trader celebrates its 10th year of existence and accomplishments this year, and what a time it has had! From its establishment in 2007, to the partnerships it has had with various stakeholders, notably the DMR and De Beers, who both provided much-needed resources, right from the start, to the work it has accomplished, I am proud to have had the opportunity to oversee much of this. I have been assisted by the fantastic State Diamond Trader team that has been the cornerstone of the entity's achievements through turbulent times. There have also been many special times during these ten years as the State Diamond Trader has managed to bring about many firsts, such as the SADI series, the National Pavilion in Hong Kong at the Gem and Jewellery Show and bringing a number of young black people into the industry.

Throughout these years, the diamond industry has been overwhelmed by a number of factors that also threatened the State Diamond Trader's operations. We therefore want to acknowledge the successes we have met as an organisation, the synergy we have created with the industry at large, the barriers we have knocked down, and the opportunities we have built up for our local industry to compete globally. But more than that, this is about the success that we have witnessed in the lives of our clients, the interventions we have made in marketing of the local diamond industry, as well as our role in championing youth development projects such as the Enterprise Development Programme (EDP).

### Trading environment

The State Diamond Trader's core business is the buying and selling of rough diamonds, as distinct from the mandate that also calls upon it to grow the local diamond beneficiation industry. During the year, the broad market economic conditions were favourable to the State Diamond Trader, thus creating a healthy trading environment. The price of rough diamonds was stable for the most part of the financial year. While we have noted slight uptakes in certain categories of goods, the demand fuelled by the successful festive season and the Hong Kong Show boosted the perception in the industry. The volatility of the exchange rate continued to have a critical influence on the State Diamond Trader's trading decisions during the year.

The State Diamond Trader, through its engagements with producers, was able to buy greater quantities of diamonds that were suitable for the local industry. The number of carats sold has been increasing steadily year on year, with a 13% increase from the previous financial year. However, the real growth can be seen in the value sold, which increased by a considerable 57% in rand terms. This phenomenon has compensated, to some extent, for a vibrant trading market and a consistency in demand by our clients.

The State Diamond Trader continued to provide opportunities for new entrants through its annual intake of new clients. In the year under review, 12 companies applied to become clients of the State Diamond Trader. Only seven companies fully met the criteria. They were

accepted and are now in the State Diamond Trader's client database. At the end of the financial year, the State Diamond Trader had 75 registered clients.

The State Diamond Trader continued to implement its marketing strategy effectively throughout the year. In the year under review, the clients attended the small, medium and micro-enterprises (SMME) workshop that was facilitated by the Small Enterprise Development Agency (SEDA) wherein clients were helped to advance their businesses through a knowledge-sharing platform by experts from SEDA. The State Diamond Trader facilitated another workshop by the Absa Enterprise Development Programme. This consisted of the three components that were deemed beneficial to the State Diamond Trader's clients: access to markets, access to finance and non-financial support. Both these interventions made by the State Diamond Trader were insightful and all the stakeholders involved benefitted from them.

The State Diamond Trader, under the umbrella of the DMR, and in collaboration with industry stakeholders, hosted the second SADI, where all the relevant industry bodies proposed solutions for the sustainable growth of the diamond beneficiation industry, and set out realistic expectations and deliverables that will allow the local industry to become "the heartbeat of diamond benefiting in Africa". The discussions from the SADI yielded positive resolutions.

During the SADI Conference, the State Diamond Trader launched the EDP. This is a three-year programme where trainees undergo intensive diamond manufacturing, business management and diamond industry knowledge-based training. This project is aimed at developing young people's entrepreneurial skills within diamond beneficiation in South Africa. Currently, the programme employs five groups of young HDSAs. The programme has 17 trainees. The State Diamond Trader is in partnership with the following companies in the EDP: Ascot Diamonds, KGK SA and Rez Diamonds. The State Diamond Trader hopes to partner with even more stakeholders in ensuring that such programmes leave a positive impact on the development of youth and the promotion of SMMEs in South Africa.

The State Diamond Trader further facilitated the fourth South African National Pavilion at the Hong Kong

Diamond, Gem and Jewellery Fair in September 2016. Participation at this show exposes clients to alternative markets in leading diamond-consuming countries, which is beneficial for their businesses. The show also gave the clients the opportunity to showcase their loose, polished jewellery and gem products, and to further network with possible investors and clients. In fulfilment of the 2016/17 Corporate Plan, participation at the Hong Kong Show in September 2016 enabled 11 of the State Diamond Trader's clients to build relationships with international clients.

The State Diamond Trader has continued to facilitate diamond manufacturer participation at the annual Jewellex Africa Jewellery Show. The State Diamond Trader actively participated in the planning of this show and will continue to work collaboratively with the Jewellery Council in making relevant interventions that form part of the sustainability of its industries. Jewellex creates an enabling environment for networking and establishing partnerships where possible, which will ultimately benefit both the diamond and jewellery industries.

In the year under review, the State Diamond Trader facilitated 14 provincial promotional activities in five provinces. The visits are facilitated in partnership with other provincial governmental departments, municipalities and industry stakeholders. Such activities are facilitated to raise awareness about the State Diamond Trader and, most importantly, to raise awareness of the existence of the diamond industry in South Africa.

## **OPERATING ENVIRONMENT**

### **Financial**

As the diamond industry emerged from a rather depressed state, mining activities also began to increase. The carats inspected by the State Diamond Trader increased from 7 726 850 carats in 2015/16 to 8 994 894 carats in 2016/17. This represents a 16% increase year on year. The increase in the availability of rough diamonds resulted in more diamonds being purchased by the State Diamond Trader and thereby growing its revenue through sales.

As indicated in the financial statements, the State Diamond Trader made purchases amounting to



R694 million (compared with R450 million in 2015/16). This accounted for the gross revenue, which amounted to R722 million (R460 million in 2015/16). The gross margin achieved increased from R12 945 262 in 2015/16 to R24 445 884 in 2016/17. These positive offshoots can only augur well for the State Diamond Trader's sustainability.

### **Human resources**

The State Diamond Trader permanently employed an Operations Manager and Supply Chain Management (SCM) Officer. Additionally, the State Diamond Trader employed three people living with disabilities as diamond valuator trainees in the Operations Department. The State Diamond Trader wishes all its new employees success. The contributions made by all staff of the State Diamond Trader propelled it to achieve the high number of purchases and sales that were achieved this year. The sound administrative capability and compliance with good governance principles also ensured that it tabled sound annual financial and performance reports at the end of the year.

### **CONCLUSION**

In the State Diamond Trader's 10th year of existence, I have found warmth in the entire team. To run this organisation, complacency is not an option. I have surrounded myself with dynamic people, albeit all of them younger than myself. I have learnt a lot from them and, at times, I have been a student to them. The future

is dependent on our youth, and I believe the standard set by the State Diamond Trader will remain exemplary to our peers even after my time.

The financial crisis was humbling and it instilled a culture of resilience in my staff. I take no comfort in checklists or large presentations that look backward. I spend my time in areas that can drive forward-leaning impact like EDPs, sourcing international markets for our product and sustainability.

I would therefore like to express my gratitude to the Shareholder, the Department of Mineral Resources. The support over the years has been immense and has paved the way for a bright future for this organisation. I would also like to thank my management and staff for their unwavering support to beneficiation ideals. Without them, a lot of milestones would never have been achieved. I want to thank our entire network of stakeholders. Their contribution to diamond beneficiation and the State Diamond Trader as an entity is acknowledged and valued. I am proud of the South African diamond industry, and I am more confident than ever that our best days lie ahead.



**Ms PN Zikalala-Mvelase**  
**Chief Executive Officer**

## 9. STATE DIAMOND TRADER STAFF MEMBERS

### EXECUTIVE MANAGEMENT



**Ms PN Zikalala-Mvelase**  
Chief Executive Officer



**Ms N Danisa**  
Chief Financial Officer



**Ms N Sibeko**  
Legal Officer and  
Company Secretary



**Mr C Van Der Ross**  
Operations Manager

### MANAGEMENT



**Mr N Mabaso**  
Human Resource Officer

### STAFF MEMBERS



**Ms S Mashiloane**  
Senior Sales Officer



**Mr B Sekano**  
Senior Purchasing Officer



**Ms N Xulu**  
Finance and SCM Officer



**Mr P Bokaba**  
Finance and ICT Officer



**Ms P Fakude**  
Receptionist



**Ms K Monama**  
Production Officer



**Mr G Mance**  
Client Relations Officer



**Ms S Govender**  
Sales Officer



**Mr S Lindi**  
Production Officer



**Mrs S Ndou**  
Sales Officer



**Ms C Kockney**  
Diamond Trainee



**Ms T Kock**  
Diamond Trainee



**Mr T Tsotetsi**  
Diamond Trainee



# **CORPORATE GOVERNANCE AND COMPLIANCE**

## 10. GOVERNANCE FUNCTIONS

The State Diamond Trader is classified as a schedule 3B entity in terms of the PFMA. Its sole shareholder is the Government of the Republic of South Africa, represented by the Minister of Mineral Resources, who exercises executive authority on behalf of the government.

The Board is the designated Accounting Authority and governs the State Diamond Trader in accordance with the Diamonds Act and the PFMA, read with applicable Treasury Regulations. The Board believes that the entity has endeavoured, where possible, to harmonise its corporate governance with the principles incorporated in the Code of Corporate Practices and Conduct as set out in the King Report on Corporate Governance, 2009, to the extent possible. The Board has noted that King IV came on stream with effect from 1 April 2017 and will endeavour to strive for alignment to the principles of good corporate governance embodied in King IV going forward.

## 11. GOVERNANCE STRUCTURES

The Board has the primary responsibility of driving the strategic direction of the entity and ensuring that resources are adequately allocated towards effective risk management and ongoing stakeholder engagements and communication. 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.

As mentioned in the Chairperson's report, the Board underwent significant changes during the year under review. Most members are new to the Board and were appointed with effect from 1 September 2016, except for three members, Mr S Motloun, Major-General NH Mokoena and Mr I Goondiwalla, who served on the Board previously. The Chief Executive Officer of the State Diamond Trader and the Chief Executive Officer of the SADPMR are ex officio members of the Board.

## 12. BOARD RESPONSIBILITIES AND ACCOUNTABILITY

The Board is appointed by the Minister of Mineral Resources in accordance with the requirements of the Diamonds Act to effectively manage and guide the activities of the State Diamond Trader based on their knowledge and expertise. The Board is responsible for oversight of the State Diamond Trader and ensuring

the long-term economic and social sustainability of the entity. The Board further has a responsibility to ensure that all legal and ethical requirements and principles are adhered to. The role of the Chairperson and that of the CEO are separate, with a clear division of responsibilities to ensure a balance of power and authority between them. The Chairperson is independent and non-executive. The Chairperson assesses the performance of the CEO, and the CEO annually reviews the performance of executive management.

The Board has a responsibility to ensure that the State Diamond Trader delivers on its mandate and pursues the strategy set by the Board, while adhering to government policies. The Board further ensures monitoring and implementation of its resolutions through the Company Secretary and by further interrogating quarterly reports detailing all significant operational and financial activities for each quarter during the financial year.

The Board further ensures the implementation of its statutory and commercial imperatives through the monitoring and assessment of organisational performance against the pre-determined objectives. Management, led by the CEO, assists the Board in fulfilling its pre-determined objectives. The Board Charter articulates the Board's responsibilities and the code of conduct for Board members. The Accounting Authority has access to all information it may require and may, at the cost of the State Diamond Trader, seek independent professional advice if necessary. Management provides the Accounting Authority and its committee members with timely and accurate information and documentation to fulfil their responsibilities.

### 12.1 Board remuneration

The Board is remunerated in accordance with the rates issued by National Treasury on an annual basis. Remuneration of members of the Accounting Authority is disclosed in the annual financial statements.

### 12.2 Board meetings

Board meetings are held at least once a quarter, with additional meetings held as and when necessary to discuss special business needs. The Board also held one strategic session meeting during the year. Table 1 reflects the attendance of meetings by Board members.

**Table 1: Attendance of Board meetings by previous Board**

Name of member	18 April 2016	26 May 2016	28 July 2016
Mrs DD Mokgatle (Chairperson)	P	P	P
Mr I Goondiwalla	P	P	P
Mr T Montoedi	P	P	A
Mr SM Motloun	P	P	A
Mr MA Luhlabo	P	P	P
Ms N Mpuntsha	P	P	P
Mr GL Rapoo	A	A	A
Ms S Mohale	P	P	P
Major-General NH Mokoena	P	A	A
Ms S Nxumalo	A	A	A
Ms PN Zikalala-Mvelase	P	P	P

P = Present; A = Absent

**Table 2: Attendance of Board meetings and strategy session by Board Members appointed with effect from 1 September 2016**

Name of member	25 October 2016	26 October 2016	27 January 2017	17 March 2017
Mr MJ Carstens (Chairperson)	P	P	P	P
Mr NM Diseko	P	P	P	P
Dr M Matlou	P	P	P	P
Mr W Mabapa	P	P	P	P
Mr KJ Menoe	P	P	P	P
M. B Deka	A	A	A	P
Mr SM Motloun	P	P	P	P
Mr M McMaster	P	P	P	P
Mr I Goondiwalla	P	P	P	P
Major-General NH Mokoena	P	A	P	A
Mr F Mokoena	P	P	A	P
M. RL Mabece	P	A	A	P
Mr G du Plessis	P	P	P	P
Ms PN Zikalala-Mvelase (CEO)	P	P	P	N/A

P = Present; A = Absent; N/A = Not applicable

## 13. BOARD COMMITTEES

The following Committees are Board Committees:

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

### 13.1 Audit and Risk Committee

The Audit and Risk Committee is a statutory committee established in accordance with the guidelines in the PFMA and the King III Report on Corporate Governance. The Audit and Risk Committee adopted formal terms of reference approved by the Board.

Internal and external auditors have unrestricted access to the Audit and Risk Committee. During the year under review, it reviewed the effectiveness of the systems of internal control and was satisfied with the

effectiveness. A report by the Chairperson of the Audit and Risk Committee on the duties and activities of the Committee during the financial year is part of the annual report and is contained on page 21.

The Audit and Risk Committee is chaired by Mr I Goondiwalla. Dr M Matlou, Mr B Deka and Mr N Diseko were members of the Committee with effect from 5 September 2016. All members are independent non-executive directors and have the necessary financial and risk management skills to fulfil their mandate. The CEO, Chief Financial Officer (CFO), Operations Manager, and Legal Officer and Company Secretary are standing invitees at Audit and Risk Committee meetings. The internal and external auditors also attend all meetings.

The Committee met five times during the year under review. Attendance of members of the Audit and Risk Committee during the year under review appears in Table 3.

**Table 3: Attendance of Audit and Risk Committee meetings**

Name of member	12 April 2016	17 May 2016	28 July 2015	15 October 2016	20 January 2017
Mr I Goondiwalla (Chairperson)	P	P	P	P	P
Mr T Montoedi (term expired on 31 August 2016)	P	P	P	N/A	N/A
Ms S Nxumalo (term expired on 31 August 2016)	A	A	A	N/A	N/A
Dr M Matlou (appointed 5 September 2016)	N/A	N/A	N/A	P	P
Mr NM Diseko (appointed 5 September 2016)	N/A	N/A	N/A	P	P
Mr B Deka (appointed 5 September 2016)	N/A	N/A	N/A	P	P

P = Present; A = Absent; N/A = Not applicable



## 13.2 Human Resources and Remuneration Committee

The objective of the Human Resources and Remuneration Committee is to assist the Board with the human resources (HR) strategy, and the attraction, motivation, development and retention of required staff competencies. The Committee makes recommendations to the Accounting Authority in respect of issues of remuneration for staff and is tasked with the monitoring the remuneration framework of the entity. The HR and Remuneration Committee has adopted formal terms of reference that are approved

by the Board. The Committee has conducted its affairs in compliance with the terms of reference and has discharged its responsibilities contained therein.

The Committee is chaired by Mr S Motloun. Mr G du Plessis, Mr W Mabapa and Mr L Mabece were its members with effect from 26 October 2016. The Committee met three times during the year under review to review matters such as the State Diamond Trader's retention strategy, the organogram against the needs of the organisation and the remuneration framework. Attendance of members during the year under review is shown in Table 4.

**Table 4: Attendance of Human Resources and Remuneration Committee meetings**

Name of member	5 July 2016	6 December 2016	16 March 2017
Mr S Motloun (Chairperson)	P	P	P
Mr L Rapoo (resigned 31 May 2016)	A	N/A	N/A
Ms N Mpuntsha (term expired on 31 August 2016)	P	N/A	N/A
Mr T Montoedi (term expired on 31 August 2016)	P	P	P
Mr G du Plessis (appointed on 26 October 2016)	N/A	P	P
Mr W Mabapa (appointed on 26 October 2016)	N/A	P	P
Mr L Mabece (appointed on 26 October 2016)	N/A	A	P

P – Present; A – Absent; N/A Not applicable

### 13.3 Trading and Diamond Industry Promotion Committee

The objective of the Trading and Diamond Industry Promotion Committee (known as the Trading 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 annual trading report is presented in this annual report on page 28. The Committee operates in accordance with the terms

of reference approved by the Accounting Authority. The Committee met four times during the year to review and recommend to the Accounting Authority matters such as the review of the quarterly reports and exercise oversight over the entity's marketing and client relations activities.

The Committee is chaired by Mr KJ Menoe with Major-General NH Mokoena, Ms M McMaster, Mr W Mabapa and Mr F Mokoena as members of the Committee. Attendance of meetings by members is reflected in Table 5 below.

**Table 5: Attendance of Trading and Industry Promotion Committee meetings**

Name of member	12 May 2016	12 July 2016	7 December 2016	30 March 2017
Mr MA Luhlabo (Chairperson until 31 August 2016)	P	P	N/A	N/A
Mr KJ Menoe (Chairperson from 26 October 2016)	N/A	N/A	P	P
Mr S Motloung (term expired on 31 August 2016)	P	P	N/A	N/A
Major-General N Mokoena	A	A	P	P
Ms T Montoedi (term expired on 31 August 2016)	A	P	N/A	N/A
Ms M McMaster (appointed 26 October 2016)	N/A	N/A	P	P
Mr F Mokoena (appointed 26 October 2016)	N/A	N/A	P	P
Mr W Mabapa (appointed 26 October 2016)	N/A	N/A	P	P

P = Present; A = Absent; N/A = Not applicable



## 14. REPORT OF THE AUDIT AND RISK COMMITTEE

We are pleased to present our report for the year ended 31 March 2017.

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

### AUDIT AND RISK COMMITTEE'S TERMS OF REFERENCE

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

### ROLE AND RESPONSIBILITIES

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

### External auditors and independence

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

### Financial statements and accounting practices

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

### Internal financial controls

The Audit and Risk Committee oversaw the process in terms of which internal audit performed assessments

of the effectiveness of the State Diamond Trader's system of internal control and risk assessments, including internal financial controls.

### Governance of risk

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

### Internal Audit

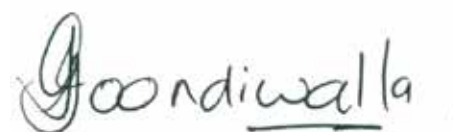
The Audit and Risk Committee is responsible for ensuring that the State Diamond Trader's internal audit function is independent and able to discharge its duties. Furthermore, the Committee oversees cooperation between the internal and external auditors and serves as a link between the Board and these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

### GOING CONCERN

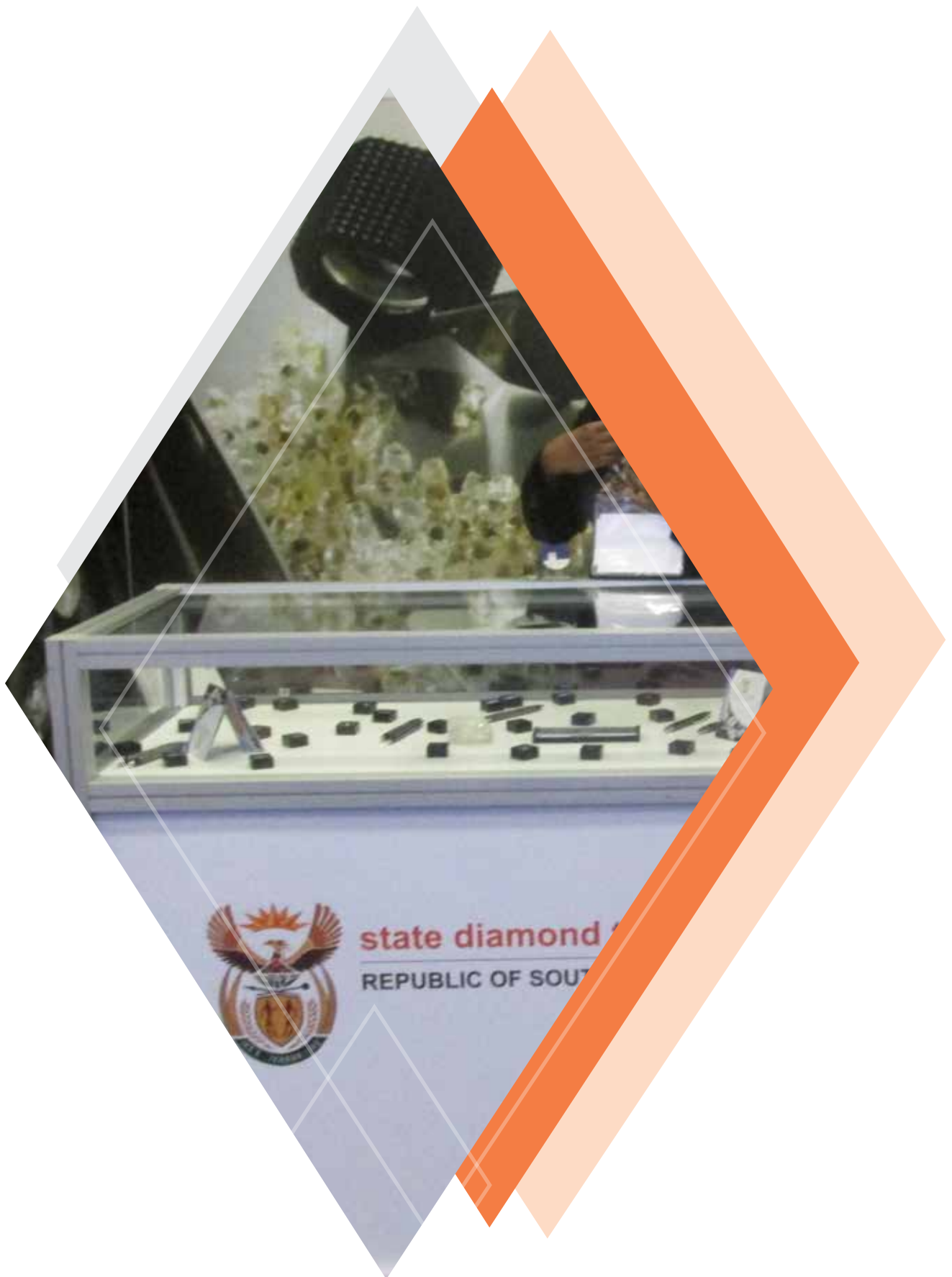
The annual financial statements of the State Diamond Trader were prepared on a going-concern basis and the Committee is satisfied that the State Diamond Trader is financially sound and has adequate resources to continue operating for the foreseeable future.

### IN CONCLUSION

I wish to express my appreciation to the Board, and to the members of the Audit and Risk Committee for their support and contributions during the year, as well as to the CEO and her team (the CFO and internal auditors) for their hard work. Finally, I wish to thank the external and internal auditors for their contribution in ensuring that our reports are audited in a fair and professional manner.



**Mr I Goondiwalla**  
**Chairperson of the Audit and Risk Committee**



# PERFORMANCE INFORMATION

## 15. OVERVIEW OF ENTITY'S PERFORMANCE INFORMATION

Medium-term Strategic Framework (MTSF) outcomes	Department of Mineral Resources (DMR) strategic outcomes	State Diamond Trader (SDT) strategic outcomes	Strategic objective	Key activities	Performance measures	Target 2016/17	Performance	Variance
Decent employment through inclusive growth	Equitable and sustainable benefit from mineral resources	1. A sustainable, growing and transformed diamond beneficiation industry	1. Contribute to the growth of the local diamond beneficiation industry	Implement marketing strategy – market research	Report on identified interventions by the SDT in order to grow the industry	Evaluation and progress report approved in April 2017	Evaluation of progress against the marketing strategy reviewed throughout the four quarters of the year as part of the CEO's report to the Board.	
				Host second SADI	Second SADI held	Host SADI by March 2017	<p>SADI was held in September 2016.</p> <p>Target of 200 delegates was exceeded as 266 delegates attended.</p> <p>Meetings were held with industry representatives to discuss the outcomes of SADI 2016.</p> <p>Meetings were also held with the key stakeholders to discuss the outcomes and preparation for the follow-up seminars and preparations for SADI 2017</p>	
				Prepare for the second expanded Jewelllex Africa	Jewelllex with Diamond Pavilion as trading platform	Second expanded Jewelllex	<p>The second expanded Jewelllex Africa was held in September 2016.</p> <p>Participation at the Diamond Pavilion increased to 18 clients having stand-alone stands and 11 clients exhibited within the State Diamond Trader's stand. A platform for networking and market access was achieved for these clients.</p>	

Medium-term Strategic Framework (MTSF) outcomes	Department of Mineral Resources (DMR) strategic outcomes	State Diamond Trader (SDT) strategic outcomes	Strategic objective	Key activities	Performance measures	Target 2016/17	Performance	Variance
				Facilitate access to international and local exhibitions for clients	Client participation at related expos (number of clients)	Hong Kong 10 participating clients	The 4th South African National Pavilion was held at the Hong Kong Gem and Jewellery Show in September 2016 with 16 companies (11 SDT clients) participating. There was positive feedback from those who participated in the areas of sales, networks and new opportunities.	
						Jewellex SA 15 clients participating	Diamond Pavilion increased to 18 clients having stand-alone stands and 11 clients exhibited in the SDT's stand at Jewellex Africa in September 2016. A platform for networking and market access was achieved for these clients.  The target of participation at Jewellex Africa 2016 and increasing the number of clients exhibiting was achieved.	The target was exceeded as a result of the uptake by clients.
						Facilitated participation in other expos	There were a number of other expos facilitated by the SDT. The following expos took place: <ul style="list-style-type: none"> <li>• North West Villages, Townships and Small Dorries Economic Legotia – one client exhibited</li> <li>• Japan Gem and Jewellery Show – five clients exhibited</li> <li>• Soweto Lenyalo Expo – one client exhibited</li> </ul> Three other expos were facilitated with seven clients participating	

Medium-term Strategic Framework (MTSF) outcomes	Department of Mineral Resources (DMR) strategic outcomes	State Diamond Trader (SDT) strategic outcomes	Strategic objective	Key activities	Performance measures	Target 2016/17	Performance	Variance
					Increased revenues for SDT clients	Baseline established	Baseline established and the SDT increased sales to clients who participated at local and international shows by 11%.	
Vibrant, equitable, sustainable rural communities contributing towards food security for all	Transformed minerals sector			Implement marketing strategy – conduct provincial promotional activities	Number of activities	Five promotional activities by March 2017	SDT in partnership with various stakeholders conducted 14 provincial promotional visits in five provinces. The breakdown of the visits that took place is as follows: <ul style="list-style-type: none"> <li>• Free State: 2</li> <li>• Gauteng: 3</li> <li>• North West: 2</li> <li>• Northern Cape: 1</li> <li>• KwaZulu-Natal: 6</li> </ul>	This target was exceeded due to invitations received from stakeholders upon becoming aware of the SDT's promotional activities.
A skilled and capable workforce to support inclusive growth	Equitable and sustainable benefit from mineral resources  Transformed minerals sector	2. Diamond industry enterprise development		Establish developmental programme that will create platforms for SMMEs to benefit diamonds	One programme established for the development of four existing HDSA clients	Implement three-year programme as launched in March 2016	The developmental programme was established with three clients from the initial seven identified and selected.  A report on the performance of participating clients was completed.	
					1. Incubation programme established for the development of new industry entrants and entrepreneurs	Training for youth in programme continuing	An additional incubation programme was established for the period under review, which brings the total of incubation programmes to five, comprising 17 youth.	

Medium-term Strategic Framework (MTSF) outcomes	Department of Mineral Resources (DMR) strategic outcomes	State Diamond Trader (SDT) strategic outcomes	Strategic objective	Key activities	Performance measures	Target 2016/17	Performance	Variance
				Facilitate industry-specific business training for HDSDA clients by relevant partners	Annual report on training facilitated	March 2017	SDT facilitated training for 28 clients for the period under review with the following partners: <ul style="list-style-type: none"> <li>• Hong Kong Trade Development Council</li> <li>• Absa Bank</li> <li>• SEDA</li> <li>• </li> </ul> Annual report on the training completed.	
An efficient, effective and development-oriented public service	Efficient, effective and development-oriented department	3. Large-scale South African (HDSDA)-owned sustainable diamond cutting and polishing companies established	2. Increase sales of suitable rough diamonds to HDSDA beneficiaries	Identify changes to legislation	Board-approved legislative amendment proposals	April 2016	The target was achieved and completed in April 2016.	
Decent employment through inclusive growth	Equitable and sustainable benefit from mineral resources			Implement sales strategy	Deliver improved revenue and actual gross margin	Achieved budgeted targets	Target per budget was achieved and exceeded Revenue budget: R425 million Actual achieved: R722 million Global market budget: R16 million Actual achieved: R24 million	Diamond markets improved globally with healthy demand for rough diamonds albeit a steady movement for polished diamonds.
Decent employment through inclusive growth	Transformed minerals sector				Amount of overall sales to HDSDA beneficiaries	R50 million	Overall sales to HDSDA beneficiaries was achieved with sales amounting to R55 million.	Target exceeded due to improved global markets, which drove demand
					Number of HDSDA clients sold to	20	The total number of HDSDA clients sold to was achieved with 24 HDSDA clients sold to.	Target exceeded due to improved global markets which drove demand.

Medium-term Strategic Framework (MTSF) outcomes	Department of Mineral Resources (DMR) strategic outcomes	State Diamond Trader (SDT) strategic outcomes	Strategic objective	Key activities	Performance measures	Target 2016/17	Performance	Variance
An efficient, effective and development-oriented public service	Efficient, effective and development-oriented department	4. Be an efficient, innovative and development-orientated organisation (continuous learning environment)	3. Contribute towards youth skills development	Recruit youth with disabilities into two- to three-year diamond valuator trainee programmes	Four youth with disabilities recruited and trained	By June 2016	SDT increased the percentage of purchases to 4% of the total inspected.  Total inspected: US\$ 1,144 billion Total purchased: US\$50 million	Diamond markets improved globally with healthy demand for rough diamonds albeit a steady movement for polished diamonds
				Launch Diamond Learnership programme	Learnership Programme	By March 2017	Four youth with disabilities were recruited with effect from 1 July 2016. However, three remain in training.  As part of the EDP, four learners have already enrolled on the Diamond Learnership from February to July 2016 and six learners are currently enrolling on the same learnership from January to June 2017. As a result of this enrolment, the Mining Qualifications Authority (MQA) is paying the SDT learnership grants linked to all 10 learners.	One youth with disability left the training for personal reasons.



## 15.1 Trading Report 2016/17

### Trading summary and annual comparison

The table below indicates an increase in both carats (volume) and value inspected by 16% and 18% respectively. The average price also increased by 1.3% in comparison to 2015/16.

The value inspected increased significantly in the year under review. Therefore, due to favourable demand for rough diamonds, purchases also increased by 54% on

the backdrop of the number of purchases made from the producers decreasing from 67 (2015/16) to 60 for the year under review. The reason for this is the fact that some smaller producers had challenges in mining and therefore have not shown the State Diamond Trader any productions to inspect.

Sales increased by 57% compared to the previous year. The gross margin percentage remained the same, but the gross margin increased by R11 500 622 and the carats sold increased by 13%.

### Year-on-year comparison of inspections, purchases and sales

#### State Diamond Trader Trading Performance

US\$'000 000

	2014/15	2015/16	2016/17
<b>SDT Inspections US\$*</b>	1 317	970	1 144
Carats inspected	7 885 298	7 726 850	8 994 894
US\$ per carat	167 14	125 60	127 24
Number of producers	12	14	12
Number of inspections	145	136	117

R'000 000

<b>SDT purchases ZAR</b>	396	450	694
Percentage purchased **	3%	3%	4%
Number of purchases	69	61	60

R'000 000

<b>SDT sales ZAR</b>	394	460	722
Cost of goods sold ZAR	381	447	698
Gross margin ZAR	13	13	24
Gross margin percentage	3%	3%	3%
Carats	85 426	158 128	178 052
Number of clients sold to	50	47	46

R'000 000

<b>SDT stock ZAR (31 March)</b>	20	24	20
Average of stock (days)	77	>200	>300

\* At producer values

\*\* % purchased of goods

#### End-of-year stock – rough diamond inventory as of 31 March 2017

	Carats	ZAR cost	Exchange rate	US\$ cost
Stock as of 1 April 2016	1 009,64	24 095 119	12,33	1 954 683
Purchases	177 889,20	694 503 243	13,93	49 874 013,61
Cost of goods sold*	178 051,58	698 277 550	13,92	50 146 930
Stock as of 31 March 2017	<b>847,26</b>	<b>20 320 813</b>	<b>12,08</b>	<b>1 681 767</b>

\* excluding shipping costs



The State Diamond Trader's rough diamond inventory at year end was lower in value in comparison to the previous year. It should be noted that the carats (volume) fell by 19%. This indicates that sales from the older stock was realised during 2016/17. The following contributed to the stock:

1. The State Diamond Trader still has five large stones (84.22 carats, R7.4 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 State Diamond Trader managed to sell one large stone from the old stock in the year under review (11.51 carats, R1.1 million).
3. The remaining 763.04 carats (R12.9 million) includes stock from purchases made during the year under review.
4. The closing stock decreased in value by 15% compared to the previous year.

### **Rough diamond markets**

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

The industry underwent self-correction in terms of rough diamond prices. This led to a consistency in demand and resulted in a more positive sentiment throughout the year. Diamond producers continued to stabilise prices of rough diamonds, leading to the position where, in some instances, manufacturers received much-needed respite. The discrepancy between rough and polished diamond prices continues to be narrowed as industry tries to accommodate the margins that are required by beneficiaries.

The beneficiation industry continues to look for innovative ways in which to survive in a globally competitive space. The introduction of cutting-edge technology is to some degree what most beneficiaries need in their

manufacturing facilities in order to thrive. There is also a need for more beneficiaries to form partnerships with producers that will address the issue of security of supply.

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

### **South African diamond production – State Diamond Trader inspections 2016/17**

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.

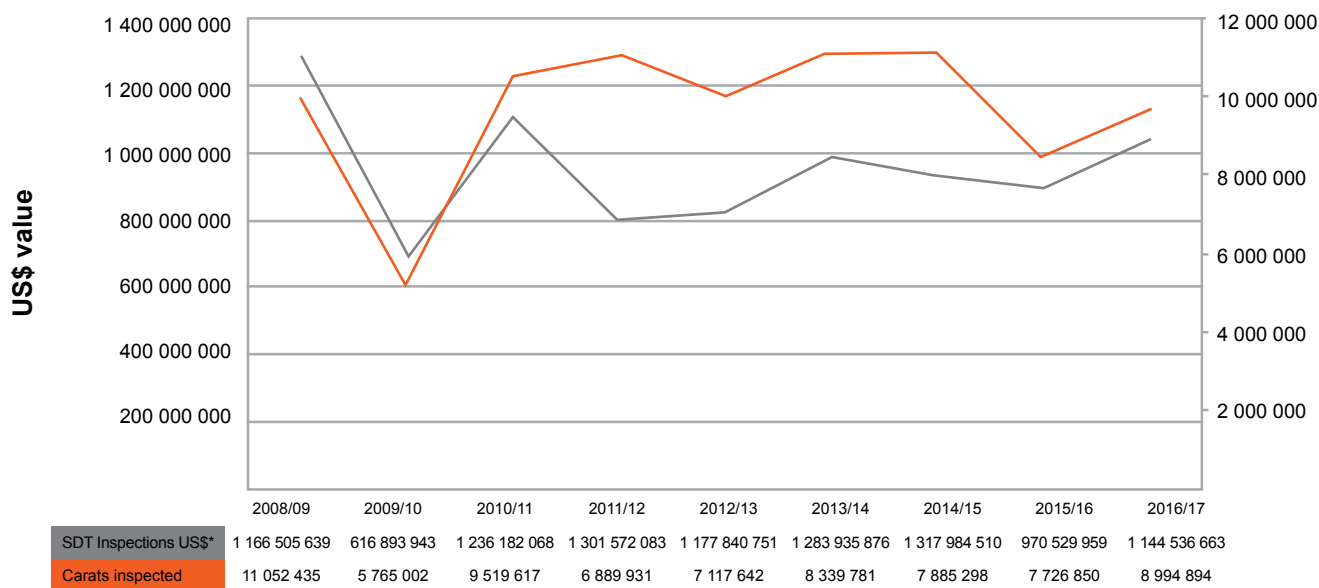
The State Diamond Trader noted a 16% increase in the quantity (carats) of rough diamonds presented to it by 12 producers during the year. This was accompanied by an 18% increase in the total value presented. Although there was a significant increase in volume (carats), the high percentage increase in the value is a direct result of a 1.3% incline in the average price to US\$127 per carat when compared to the US\$125.6 per carat in 2015/16.

The growing average price indicates a slight increase in the quality of rough diamonds produced and, in particular, those suitable for cutting and polishing in South Africa. This also indicated the steady state of the diamond industry for the year under review.

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

It should be noted that two more producers complied with the law in showing the State Diamond Trader their productions, bringing the total compliant producers to 12. However, it is recorded that there are more than 14 registered diamond producers in the country, and the lack of engagement with the State Diamond Trader by a large number of predominantly medium to small producers signifies a lack of compliance on their part with the Diamonds Act of 1986.

### State Diamond Trader inspection (RSA production) 2008 to 2017 by producers



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 ongoing.

The State Diamond Trader purchased rough diamonds from nine producers during the course of the year, in comparison to eight producers in the previous financial year.

The average price of diamonds purchased by the State Diamond Trader was US\$280.37 per carat, compared to the US\$194.71 per carat in the previous year. This reflects the following:

- The execution of the sales strategy in which the State Diamond Trader was able to market those diamonds

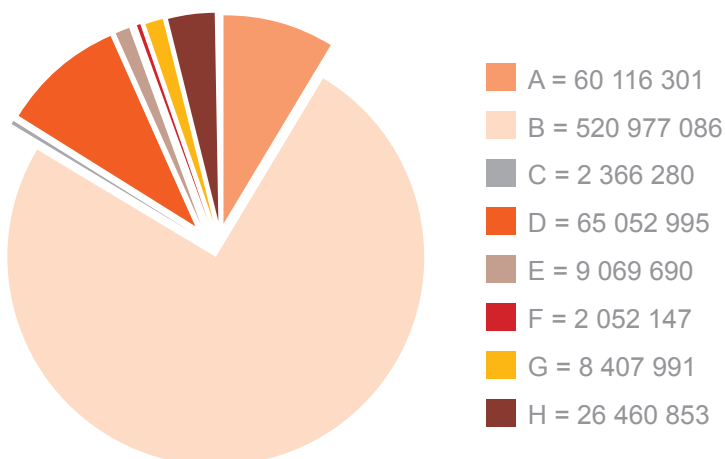
that are not preferred by its clients for beneficiation. This enables the State Diamond Trader to supply suitable rough diamonds for local beneficiation.

- This also has a positive impact on the State Diamond Trader's commercial imperative.

In terms of volume (carats), the amount purchased increased by 13% when compared to the previous year. In terms of value (ZAR), the purchased amount increased by 54%. The increased purchase of volume (carats) and value is directly linked to the increased productions levels when compared to the previous financial year.

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

### State Diamond Trader purchases 2016/17 by producers (ZAR)



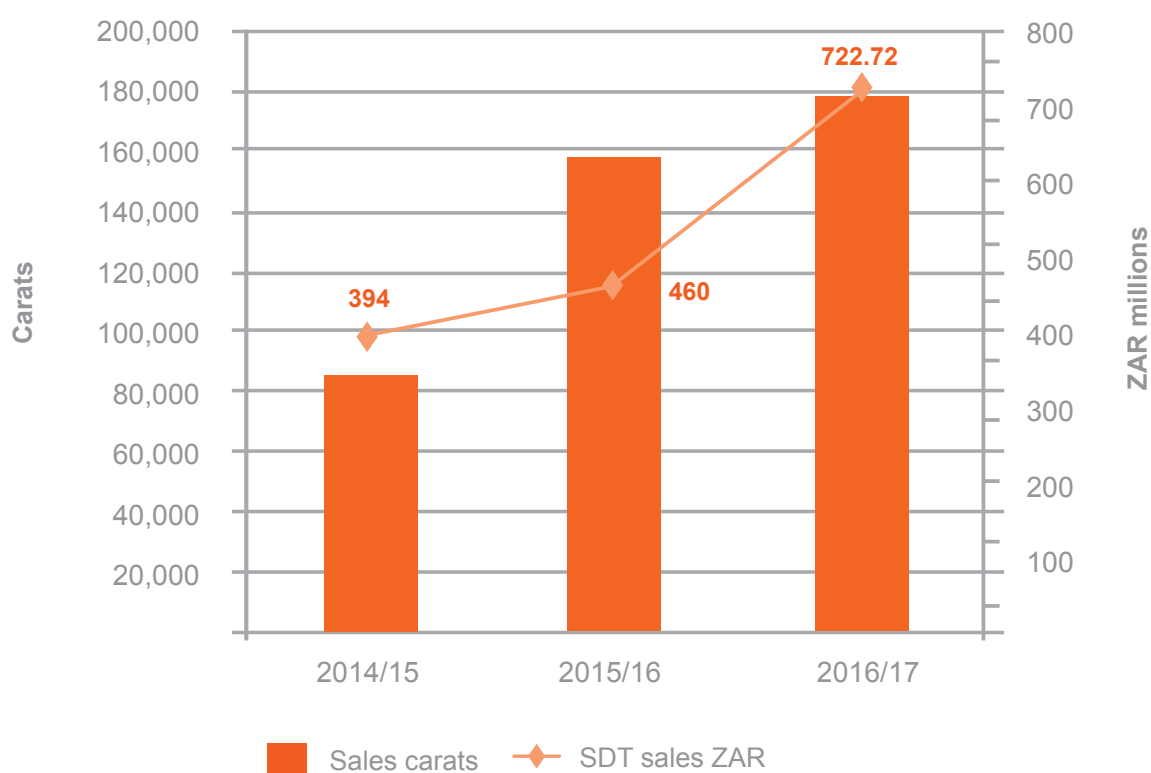
However, during the course of 2016/17, the State Diamond Trader was able to purchase 2% by carats and 4% by value of the rough diamonds it inspected in terms of the Diamonds Act.

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

- The reduction in demand by local beneficiators related to the high prices of rough diamonds.

- The constraints placed on the State Diamond Trader in terms of purchasing ROM selections.
- The quantity of goods not preferred for beneficiation within South African ROM productions.
- The sales and pricing methodologies of the producers, placing selections outside of the State Diamond Trader's capability to operate commercially.
- The State Diamond Trader's legislated position as a passive role player and "price-taker" in the inspection and purchase of diamonds from producers in terms of section 59B of the Diamonds Act.

**State Diamond Trader sales 2016/17**



Sales of rough diamonds from the State Diamond Trader increased by 13% in terms of carats and 57% by value, reflecting an increase in demand for rough diamonds by the industry.

In general, clients started to acclimatise to current markets, albeit by buying in smaller quantities. They still showed a lot of interest in commercial goods. Larger clients were willing to commit capital to purchasing

rough diamonds, particularly because of the special purchasing models that the State Diamond Trader has with its larger producers.

Smaller clients continued to have limited bargaining power, and found it increasingly difficult to find markets for their polished diamonds that would enable them to make a profit and be competitive in the market for the acquisition of rough diamonds.

## Summary and budget comparison 2016/17

		2016/17
		Year-to-date totals
<b>Purchases</b>	Budget actual	408 900 000
		694 503 243
	Difference	285 603 243
	Difference (%)	70%
<b>Sales</b>	Budget actual	425 256 000
		722 723 434
	Difference	297 467 434
	Difference (%)	70%
<b>Gross margin</b>	Budget actual	16 356 000
		24 445 884
	Difference	8 089 884
	Difference (%)	49%

The State Diamond Trader was able to achieve and exceed its budgeted purchases (+70%), sales (+70%) and gross margin (+49%) due to the following reasons:

- The diamond industry experienced an increased demand for polished and rough diamonds.
- The ability to purchase rough diamonds at the prices that could have resulted in sales to beneficiaries at the required margins.
- A consistent demand from beneficiaries for rough diamonds from representative samples selected (ROM) deemed not suitable for local beneficiation.

The 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. While the State Diamond Trader only purchased 4% of local production by value during the year, there is scope to increase this percentage. However, this is reliant on a number of factors, which include 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 the State Diamond Trader's control, it continues to trade on the basis of:

- understanding rough diamond demand and price sensitivity of its clients;
- active engagement with all compliant diamond producers; and
- balancing clients' demands with the State Diamond Trader's commercial imperative.

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.

## Sales by client segment 2016/17

Segment	Number of Clients	Carats	ZAR sales	ZAR cost	Gross margin	Gross margin percentage	Percentage of sales (ZAR)
Growth and transformation	6	9 188	50 484 904	48 465 530	2 019 374	4%	7%
Equitable access	18	682	5 190 501	4 968 553	221 948	3%	1%
Niche and large/medium beneficiaries	18	103 275	605 040 942	584 093 251	20 947 691	4%	83%
Other	4	64 907	62 007 088	60 750 216	1 256 872	2%	9%
<b>Total</b>	<b>46</b>	<b>178 052</b>	<b>722 723 434</b>	<b>698 277 550</b>	<b>24 445 884</b>	<b>3%</b>	

\* ZAR cost excludes shipping costs

**Growth and transformation** = HDSA-owned companies given preferential allocation in order to support business growth

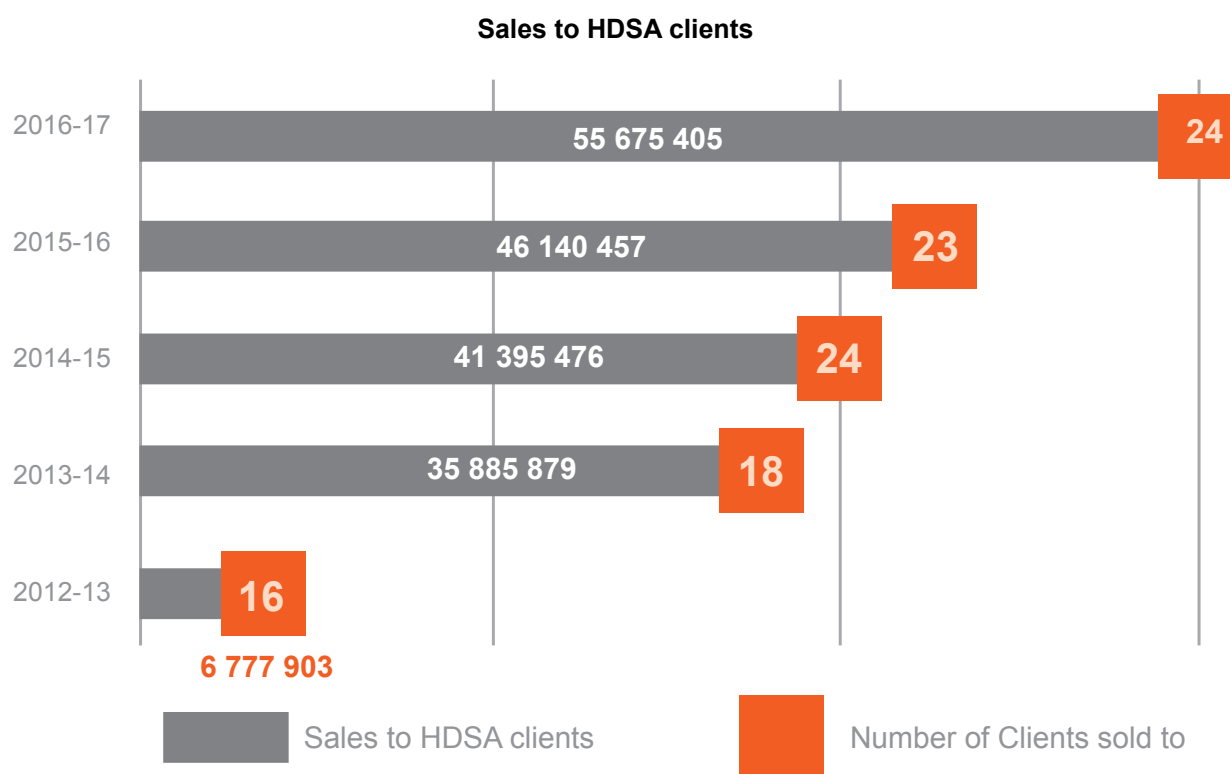
**Equitable access** = small HDSA-owned beneficiating companies that have yet to develop business models that will lead to growth

**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 ROM selections

The total number of clients that purchased rough diamonds from the State Diamond Trader during 2016/17 decreased from 47 (in 2015/16) to 46 in the year under review.

As per the State Diamond Trader's ability to market diamonds not preferred for beneficiation, the sale of rough diamonds suitable for beneficiation made up 76% of total sales (by value) in 2016/17, compared to 66% in 2015/16. The increase in suitable diamonds for beneficiation can be attributed to the effective marketing of non-suitable diamonds. The State Diamond Trader continues to balance achieving its mandate and its commercial imperative.



As can be seen from the table above, although there has been a slight increase in the numbers of HDSA clients that purchased from the State Diamond Trader, the value sold to HDSA clients increased by 19%. Sales to HDSA clients have seen a steady increase in the last five financial years.

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 disparity between rough and polished diamond prices during the course of the year:

- The total value of sales to the HDSA-owned client segment increased from R46.1 million (in 2015/16) to R55 million, an increase of 30%.
- The number of HDSA clients that purchased diamonds increased from 23 (in 2015/16) to 24 in the year under review.
- Sales to companies with 100% HDSA ownership made up 8% of the annual sales value, a slight decrease from the previous year of 10%.
- There were 17 clients in the niche/large client segment that met the required black economic empowerment (BEE) criteria, i.e. between 26 and 50% black ownership, whose purchases amounted to R605 million.
- Use of the primary allocation method: the State Diamond Trader's preferred method of selling to small and HDSA-owned beneficiaries declined from 20% of total sales in 2015/16 to 14% in 2016/17. This is once again reflective of market conditions for the year under review due to the high prices of rough diamonds.

#### **State Diamond Trader's client relations 2016/17**

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

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

#### **The State Diamond Trader's registered clients – additional and removed**

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 South African Revenue Service (SARS) tax clearance certificate.

The 2016 process saw 13 clients apply: nine of which were HDSA-owned companies.

During 2016/17, the State Diamond Trader found cause to remove seven clients from its list for compliance reasons.

The State Diamond Trader ended 2016/17 with 75 registered clients in the following segments:

Growth and transformation (HDSA-owned)	3
Incubation, growth and transformation	3
Equitable access (HDSA-owned)	30
Niche and large/medium beneficiaries	39

## **15.2 Diamond industry development**

The State Diamond Trader has a responsibility, in terms of the Diamonds Act, "to promote the diamond industry through the necessary research, support and development as deemed necessary from time to time".

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

### **De Beers Beneficiation Project**

All five of the clients selected by De Beers for its beneficiation project are clients of the State Diamond Trader that were supported and developed by the State Diamond Trader since its inception. These clients were assisted with finding markets through the entity's marketing initiatives.

### **Enterprise Development Programme**

In general, South Africa is faced with the difficulty of poor economic participation of young people. It was recognised that the high rate of youth unemployment and low number of entrepreneurial activities among young people contributed to their minimal participation. While youth entrepreneurial activity is low in South Africa, it is non-existent in the diamond industry. The reason for this minimal participation is largely due to the fact that there is little knowledge and lack of awareness of the diamond industry among South Africans.

The State Diamond Trader has recognised the poor participation of young people in the industry, and thus put an enterprise development project in place, which is geared towards bringing youth into the diamond beneficiation and manufacturing industry.

Through this project, the State Diamond Trader will transform the industry by introducing new and fresh minds into entrepreneurship within the sector. The State Diamond Trader seeks to achieve two things:



- Promote self-employment among the youth through the development of businesses that are owned and managed by youth
- Increase the participation of youth through this enterprise development project

The State Diamond Trader continued with the facilitation of the EDP in partnership with its stakeholders. Following the inception of two EDP groups in 2015, three additional groups of ten trainees were introduced to the programme during the year under review. Seventeen young South Africans are being trained with various stakeholders within the programme.

During the course of the training programme, the trainees are exposed to a number of industrial activities, including diamond processing education, diamond factory work, diamond market intelligence and business management functions.

The trainees are, for most part of the training, placed at different stakeholders' premises and spend a limited time at the State Diamond Trader.

The second EDP group that began training in October 2015, continued with intensive rough diamond processing training at one of the stakeholders' factories. Their training period was extended by a further six months, ending in June 2017. One of the reasons for



*Enterprise Development Programme trainees*

the extension was to allow the trainees an opportunity to visit the factory premises in India for further training.

The State Diamond Trader continues to be the champion for this programme, which was officially launched during the SADI 2016. From time to time, the State Diamond Trader has invited relevant industry representative to facilitate business motivation workshop for the trainees. It also continuously seeks to explore other avenues aimed at ensuring that these trainees become proper industrialists.

Up to this point, the EDP has been progressing well, with interest in the programme received from other governmental departments, industry representatives and the general public. Consequently, the State Diamond Trader is committed to ensuring the success of the programme and the development of youth.

#### **Facilitation of training and capacity building for HDSA clients**

For the year under review, the State Diamond Trader facilitated industry-related training for 28 HDSA clients. Of these:

- Thirteen participated in an Absa enterprise development programme workshop. The programme covered areas of access to markets, finance and non-financial support programmes that the Absa enterprise development programme offers to qualifying SMMEs.
- Five attended the Hong Kong Trade Development Council's "Think Asia – Think Hong Kong" marketing workshop. The workshop's intention was to introduce the clients to the Asian Diamond Trading Market with a special focus on Hong Kong as the gateway to Mainline China.
- Ten participated in a workshop presented by SEDA. The workshop focused on business developmental services available to SMMEs.
- The State Diamond Trader continues to support the industry at large with relevant interventions.

## Facilitation of access to international and local exhibitions

### Jewellex Africa: 25 to 27 September 2016

The execution of Jewellex Africa 2016 enabled 18 clients to have stand-alone exhibition booths. Some were sponsored by the dti and SEDA, and some were financed individually by clients. An additional 11 clients exhibited within the State Diamond Trader's sponsored booth. This opportunity enabled the clients to showcase their products and potentially develop new markets.

The State Diamond Trader identified Jewellex Africa as one of the important events that contributes to the development of the diamond and jewellery industry. As a result, during the year under review, the State Diamond Trader continued to serve as a committee member on the Jewellex Planning Committee that looks into expanding the Jewellex Africa Show to become a recognised African gem and jewellery show. In 2017, the State Diamond Trader, in partnership with the Jewellery Council of South Africa, ensured that the Diamond Pavilion existed for the second time at the show. A diamond pavilion allows individual companies to have their own stands, where they can conclude business deals with clients. Previously, all clients participated at the State Diamond Trader's stand, and therefore took turns to attend the show. Although this allowed clients to make an appearance at the show, it was of a disadvantage to clients as they could not exhibit from the start to the end of the show.

### Hong Kong Gem and Jewellery Show: 13 to 19 September 2016

The State Diamond Trader, in partnership with the dti, continued to facilitate the South African National Pavilion at the Hong Kong Gem and Jewellery Show. The show in September 2016 was the fourth pavilion facilitated through the aforementioned synergy. As a result, 11 State Diamond Trader clients participated in the show, of which 10 had previously exhibited at the show. The Hong Kong Gem and Jewellery Show is an important global event as it allows the diamond and diamond jewellery manufacturers an opportunity to interact directly with the Asian market. It is an event that enables on-site trading of loose polished diamonds



*Hong Kong Gem and Jewellery Show*

and equips the South African diamond dealers with real-time market data. The Asian region consumes most of the world's diamond production and South Africa's participation at the Hong Kong Show serves the purpose of acquiring access to markets.

### Japan International Jewellery Show: 23 to 26 January 2017

The State Diamond Trader, in partnership with the Jewellery Council of South Africa, coordinated the participation of the South African diamond and jewellery manufacturers at the International Jewellery Show in Japan. The participation was sponsored by the dti. Five of the State Diamond Trader's clients participated at the show. Clients indicated that they had a successful exhibition in Japan and that an untapped diamond market exists in Tokyo and surrounding areas in Japan. It was the clients' view that it would be beneficial for the industry to invest in participation at the International Jewellery Show in Japan.



## Diamond Indaba Conference: 26 September 2016

The State Diamond Trader, in partnership with the DMR and other industry bodies, successfully facilitated the second annual SADI at the Gallagher Estate Convention Centre. This event was again facilitated in conjunction with the Jewellex Africa event. The SADI Conference allows the industry an opportunity to engage and interact with relevant stakeholders, such as the government, diamond producers, financial institutions and fellow diamond beneficiaries, on matters necessary for the growth of the diamond industry.



South African Diamond Indaba 2016

## Promotional activities

Such activities are facilitated to raise awareness about the State Diamond Trader, and most importantly to raise awareness of the existence of the diamond industry in South Africa. Additionally, the intention is to attract new entrants and entrepreneurs to the industry. The following promotional activities were achieved during the year:

- Learners Focus Week: Aldam, Free State – July 2016
- Career and Exhibition Expo: Phuthaditjhaba, Free State – July 2016
- Career Day: Cullinan Diamond Mine, Pretoria – May 2016
- Youth in Mining: Fourways, Johannesburg – June 2016
- Imbizo on Mining Development: Umzumbe, KwaZulu-Natal – April 2016
- Youth Information Dissemination Session: Ikageng, North West – June 2016
- Platinum Innovation Expo: Mmabatho, North West – November 2016
- Provincial Economic Lekgotla: Mmabatho, North West – December 2016
- Education Career Expo: Kimberley, Northern Cape – July 2016
- Rural Empowerment Career Expo: Delareyville, North West – April 2017

## Women in Mining Conference

The State Diamond Trader participated at the Women in Mining Conference, which was organised by the Mine Health and Safety Council on 27 August 2016. The conference was facilitated under the theme “Developing and empowering the next generation of women in mining”. The State Diamond Trader was invited to participate as an exhibitor at the conference.

As a result, it could use this platform to further raise aware of its existence and the diamond beneficiation industry as a whole. The State Diamond Trader also promoted and marketed its clients at this event.

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

The State Diamond Trader continued to conduct presentations to various funding institutions. In addition, it continued to engage various stakeholders with regard to the funding of a diamond equipment hub. This is based on the fact that much of the technology required in the industry is unaffordable to new entrants and SMMEs. The State Diamond Trader also continued to support the industry at large with relevant interventions, developments and marketing.



# ANNUAL FINANCIAL STATEMENTS

## 16. STATEMENT OF RESPONSIBILITY FOR FINANCIAL STATEMENTS

### **Statement of responsibility by the directors, who constitute the Accounting Authority of the State Diamond Trader for the year ended 31 March 2017**

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 regular meetings, the Accounting Authority is able to engage with 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 pre-determined 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 (GAAP), the PFMA 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. This enables the Accounting Authority to execute its responsibilities as required. The State Diamond Trader maintains internal financial controls, thereby providing assurance regarding the management and maintenance of its assets and the integrity of its financial records. The internal policies are underpinned by its policy framework and the strategic objectives, which provide strategic direction to management on the expected performance and the outcomes. These are regularly reviewed to ensure compliance and relevance.

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 2017 and the results of its operations and cash flow information for the financial year-end.

The financial statements that appear hereunder were approved by the Accounting Authority on 4 August 2017 and are signed on its behalf by:



**Chairperson of the Audit and Risk Committee**



**Chairperson of the Board**

## 17. REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

#### Opinion

1. I have audited the financial statements of the State Diamond Trader set out on pages 44 to 66, which comprise the statement of financial position as at 31 March 2017, and the statement of financial performance, statement of changes in equity, and statement of cash flows for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the State Diamond Trader as at 31 March 2017, and its financial performance and cash flows for the year then ended in accordance with the South African Statements of Generally Accepted Accounting Practice and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999).

#### Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the Auditor-General's responsibilities for the audit of the financial statements section of my report.
4. I am independent of the public entity in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code), together with the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### Responsibilities of the Accounting Authority for the financial statements

6. The Accounting Authority, is responsible for the preparation and fair presentation of the financial statements in accordance with South African statements of GAAP and the requirements of the PFMA and for such internal control as the Accounting Authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
7. In preparing the financial statements, the Accounting Authority is responsible for assessing the State Diamond Trader's ability to continue as a going concern, disclosing, as applicable, matters relating to a going concern and using the going-concern basis of accounting, unless there is an intention either to liquidate the public entity or to cease operations, or there is no realistic alternative but to do so.

#### Auditor-General's responsibilities for the audit of the financial statements

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

# REPORT ON THE AUDIT OF THE ANNUAL PERFORMANCE REPORT

## Introduction and scope

10. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against pre-determined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
11. My procedures address the reported performance information, which must be based on the approved performance planning documents of the public entity. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
12. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the public entity for the year ended 31 March 2017:

Objectives	Pages in the annual performance report
Objective 1 – Contribute to the growth of the local diamond beneficiation industry	23
Objective 2 – Increase sales of rough diamonds to HDSA beneficiaries	26

13. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
14. I did not 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 – Increase sales of rough diamonds to HDSA beneficiaries

## Other matter

15. 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:  
Achievement of planned targets
16. Refer to the annual performance report on pages 23 to 27 for information on the achievement of the planned targets for the year and explanations provided for the under/overachievement of a number of targets.

## REPORT ON AUDIT OF COMPLIANCE WITH LEGISLATION

### Introduction and scope

17. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the public entity with specific matters in key legislation. I performed procedures to identify findings, but not to gather evidence to express assurance. I did not identify any instances of material non-compliance with selected specific requirements of applicable legislation, as set out in the general notice issued in terms of the PAA.

### Other information

18. The State Diamond Trader's Accounting Authority is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report thereon and those selected objectives presented in the annual performance report that have been specifically reported on in the auditor's report.

19. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.

20. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed on the other information obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

### Internal control deficiencies

21. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. I did not identify any significant deficiencies in internal control.

*Auditor General*

Pretoria

31 July 2017





## 18. ACCOUNTING AUTHORITY'S REPORT

This is the ninth report of the Accounting Authority since the inception of the State Diamond Trader and presents a summary of the activities for the financial year 2016/17. The report provides context to the financial performance of the State Diamond Trader's operations as detailed in the financial statements.

The State Diamond Trader was established in July 2007 in terms of Section 14 of the Diamonds Act, Act No. 56 of 1986, as amended. The objectives of the State Diamond Trader are to promote equitable access to and local beneficiation of the diamond resources of South Africa. While 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 as these conditions directly affect performance.

### FINANCIAL PERFORMANCE

#### Financial position

Revenue for the year under review of R722 723 434 reflects an increase of 57% from the previous year (2016: R460 417 568). The increase was due to improvements in the diamond markets as a result of the healthy demand for rough diamonds experienced globally.

An average gross margin percentage of 3% was achieved. Capital expenditure for the year amounted to

R150 705 (2016: 0), relating to the purchase of laptops. Administrative expenses decreased from R20 000 354 in the previous year to R19 893 038 in the current year. The decrease is 4%, which is immaterial and can be attributed to management efficiency in containing costs.

Inventory at the end of the financial year amounted to R20 320 813 (2016: R24 095 119). The reduction is due to the positive results experienced during the financial year.

The net assets as at 31 March 2017 amounted to R53 261 328 (2016: R46 113 487). The increase is due to the favourable results experienced from the markets.

#### Cash flow position

Cash resources at the end of the financial year amounted to R32 475 726 (2016: R22 443 828).

#### Going concern

The annual financial statements were prepared on the basis of the 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.



## 19. ANNUAL FINANCIAL STATEMENTS

### STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2017

	Notes	2017 R	2016 R
<b>ASSETS</b>			
<b>Non-current assets</b>		937 450	1 071 133
Property and equipment	6	937 450	1 071 133
<b>Current assets</b>		<b>54 322 798</b>	<b>47 079 824</b>
Inventory	7	20 320 813	24 095 119
Trade and other receivables	8	1 526 259	540 877
Cash and cash equivalents	9	32 475 726	22 443 828
<b>TOTAL ASSETS</b>		<b>55 260 248</b>	<b>48 150 957</b>
<b>Equity and liabilities</b>			
<b>Equity</b>		<b>53 261 328</b>	<b>46 113 487</b>
Retained income		53 261 328	46 113 487
<b>Non-current liabilities</b>		-	-
<b>Current liabilities</b>		<b>1 998 920</b>	<b>2 037 470</b>
Loans and borrowings	10	-	-
Trade and other payables	11	1 429 042	1 503 722
Operating lease liability		12 673	28 827
Incentive bonus provision	12	557 204	504 921
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>55 260 248</b>	<b>48 150 957</b>

# STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2017

	Notes	2017 R	2016 R
Revenue		722 723 434	460 417 568
Cost of sales	13	(698 676 269)	(447 472 306)
<b>Gross profit</b>		<b>24 047 167</b>	<b>12 945 262</b>
Other income	14	1 265 930	3 790 557
Administrative expenses		(19 893 038)	(20 000 354)
<b>Profit/(loss) from operating activities</b>	15	<b>5 420 059</b>	<b>(3 264 535)</b>
Finance income	16	2 276 840	1 418 778
Finance expenses	17	(549 058)	(1 221 298)
<b>Profit before income tax</b>		<b>7 147 841</b>	<b>(3 067 055)</b>
<b>Profit/(loss) for the period</b>		<b>7 147 841</b>	<b>(3 067 055)</b>
<b>Total comprehensive income</b>		<b>7 147 841</b>	<b>(3 067 055)</b>

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2017

	R
<b>Balance at 1 April 2015</b>	<b>49 180 542</b>
Loss for the year	(3 067 055)
<b>Balance at 31 March 2016</b>	<b>46 113 487</b>
Profit for the year	7 147 841
<b>Balance at 31 March 2017</b>	<b>53 261 328</b>

# STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2017

	Notes	2017 R	2016 R
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated by operations	18	8 454 821	(1 532 246)
Interest paid		(549 058)	(1 221 298)
Interest received		2 276 840	1 418 778
Net cash inflow from operations		<b>10 182 603</b>	<b>(1 334 766)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of property and equipment		(150 705)	-
Net cash outflow from investing activities		(150 705)	-
		<b>(150 705)</b>	<b>-</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Amount drawn during the reporting period		70 232 297	89 049 506
Amount paid during the reporting period		(70 232 297)	(89 049 506)
Net cash outflow from financing activities		-	-
<b>Net increase in cash and cash equivalents</b>		<b>10 031 898</b>	<b>(1 334 766)</b>
Cash and cash equivalents at the beginning of the period		22 443 828	23 778 594
<b>Cash and cash equivalents at the end of the period</b>		<b>32 475 726</b>	<b>22 443 828</b>

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

## 1. REPORTING ENTITY

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

## 2. BASIS OF PREPARATION

### a) *Statement of compliance*

The financial statements have been prepared in accordance with, and comply with, the South African standards of GAAP and the PFMA.

### b) *Basis of measurement*

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

### c) *Functional and presentation currency*

These financial statements are presented in rands, which is the State Diamond Trader's functional currency. All financial information presented in rands has been rounded to the nearest rand.

### d) *Use of estimates and judgements*

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to

accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

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

### 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 represented so that it conforms to the revised standard. Since the change in accounting policy only impacts on presentation aspects, there is no impact on amounts disclosed previously.

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

### a) *Revenue*

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

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

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

**b) Finance income and expense**

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

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

**c) Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the cost of acquiring the inventory and other costs incurred in bringing them to the existing location and condition.

Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

**d) Property and equipment**

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

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

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

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

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

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

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

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

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

**e) Financial instruments**

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



## **Classification**

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

## **Recognition**

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

## **Measurement**

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

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

### ***Cash and cash equivalents***

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

### ***Trade and other receivables (accounts receivable)***

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

### ***Trade and other payables (accounts payable)***

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

## **Derecognition**

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

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

### **f) *Operating leases***

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

### **g) *Provisions, contingent liabilities and contingent assets***

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

**h) Employee benefits**

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

**i) Income tax**

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

**j) Related parties**

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

Related parties also include key management personnel, 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) Accounting estimates and judgements**

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

**Estimates of residual values and useful lives of equipment**

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

**Contingent liabilities**

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

**l) Donations**

Donations consist primarily of use of the De Beers staff seconded to the State Diamond Trader since 2007. Donations are intended to compensate for 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 and market risk.

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

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

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

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

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

### 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 its revolving credit facility. The facility is issued at prime less 0.5% and on that basis, changes in prime expose the company to cash flow interest rate risk. The revolving credit facility was paid in full at year-end.

### Fair values versus carrying amounts

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

In R'O	2017		2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans and borrowings	-	-	-	-
Cash and cash equivalents	32 475 726	32 475 726	22 443 828	22 443 828
Trade and other payables	816 206	816 206	820 165	820 165

### Capital management

The State Diamond Trader is a government business enterprise and does not have any share capital. The State Diamond Trader is not funded by government and it is self-sufficient. The Accounting Authority monitors gross profit margins and operating expenditure to ensure that the State Diamond Trader generates sufficient profit from its operations to cover operating expenses.

## 5. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, amendments to standards and interpretations issued are not yet effective for the year ended 31 March 2017, and have not been applied in preparing these financial statements:

Standard or interpretation	Detail	Effective date
<b>IAS 1 (amendment)</b>	<p><b>Presentation of financial statements</b></p> <p><b><i>Materiality, disaggregation and subtotals</i></b></p> <p>The amendment clarifies that an entity should not aggregate or disaggregate information in a manner that obscures useful information, for example, by aggregating items that have different characteristics or disclosing a large amount of immaterial detail. It further clarifies that it may be necessary to disaggregate some of the line items specified in IAS 1 where it is relevant to an understanding of the entity's financial position or performance.</p> <p>The revised standard will be applied retrospectively and will not have a material impact on the group's financial statements.</p>	Annual periods beginning on or after 1 January 2016.
<b>IAS 7 (amendment)</b>	<p><b>Statement of cash flows</b></p> <p>The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, namely: changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values, and other changes.</p> <p>The amendments will be applied prospectively and will not have a material impact on the group's financial statements.</p>	Annual periods beginning on or after 1 January 2017.
<b>IAS 16 and IAS 38 (amendments)</b>	<p><b>Property, plant and equipment and intangible assets</b></p> <p><b><i>Acceptable method of depreciation and amortisation</i></b></p> <p>The amendment to IAS 16 clarifies that depreciation of an item of property, plant and equipment based on revenue generated by using the asset is not appropriate, while the amendment to IAS 38 establishes a rebuttable presumption that amortisation of an intangible asset based on revenue generated by using the asset is inappropriate. The presumption may only be rebutted in certain limited circumstances.</p> <p>The amendments will be applied retrospectively and will not have a material impact on the group's financial statements.</p>	Annual periods beginning on or after 1 January 2016.
<b>IAS 16 and IAS 41 (amendment)</b>	<p><b>Property, plant and equipment and agriculture</b></p> <p><b><i>Accounting for bearer plants</i></b></p> <p>The amendment outlines that bearer plants should be accounted for in the same way as property, plant and equipment in IAS 16: Property, plant and equipment, because their operation is similar to that of manufacturing since they only produce products for a certain period of time. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41.</p> <p>The amendments will be applied retrospectively and will not have a material impact on the group's financial statements.</p>	Annual periods beginning on or after 1 January 2016.

Standard or interpretation	Detail	Effective date
<b>IAS 19 (amendment)</b>	<p><b>Employee benefits</b></p> <p>The amendment clarifies that, in determining discount rates for post-employment benefit plans, emphasis is placed on the currency that the liabilities are denominated in and not in the country where they arise.</p> <p>The amendments will be applied retrospectively and will not have a material impact on the group's financial statements.</p>	Annual periods beginning on or after 1 January 2016.
<b>IAS 34 Interim financial reporting</b>	<p><b>Annual improvements 2012-2014 cycle</b></p> <p>Clarification of the meaning of disclosure of information "elsewhere in the interim financial report".</p>	Annual periods beginning on or after 1 January 2016
<b>IAS 40 (amendment)</b>	<p><b>Investment property</b></p> <p>The amendment clarifies and provides more guidance for transfers of property under construction to investment property.</p> <p>The amendment will be applied retrospectively and will not have a material impact on the group's financial statements.</p>	Annual periods beginning on or after 1 January 2018.
<b>IFRS 1 (amendment)</b>	<p><b>First-time adoption of IFRS</b></p> <p><b>Annual improvements 2014-2016 cycle</b></p> <p>The amendment seeks to delete certain short-term exemptions included in IFRS 1.</p> <p>The amendment will be applied retrospectively and will not have a material impact on the group's financial statements.</p>	Annual periods beginning on or after 1 January 2017.
<b>IFRS 5 (amendment)</b>	<p><b>Non-current assets held for sale</b></p> <p>The amendment clarifies that when an asset is reclassified from "held for sale" to "held for distribution" or vice versa, this does not result in a change to a plan of sale. It further expands on guidance that a change to a plan of sale should be applied to an asset that ceases to be held for sale, but is not reclassified as held for distribution.</p> <p>The revised standard will be applied prospectively and will not have a material impact on the group's financial statements.</p>	Annual periods beginning on or after 1 January 2016.
<b>IFRS 7 (amendment)</b>	<p><b>Financial instruments: disclosure</b></p> <p><b>Servicing contracts</b></p> <p>The amendment requires disclosure of all types of continuing involvement in transferred assets. It further provides guidance on what "continuing involvement" means.</p> <p><b>Interim financial statements</b></p> <p>The amendment clarifies that disclosure of offsetting financial assets and financial liabilities is not required for all interim periods except where required by IAS 34.</p> <p>The revised standard will be applied retrospectively and will not have a material impact on the group's financial statements.</p>	Annual periods beginning on or after 1 January 2016.



Standard or interpretation	Detail	Effective date
<b>IFRS 9 (new)</b>	<p><b>Financial instruments</b></p> <p>The standard requires financial assets to be measured either at amortised cost or fair value, depending on the business model under which they are held and the cash flow characteristics of the instrument.</p> <p>The standard contains new hedge accounting requirements aimed at better aligning the accounting treatment with the risk management strategy. In addition, the standard replaces the incurred loss impairment model in IAS 39 with an expected loss model. It will no longer be necessary for a credit event to have occurred before credit losses are recognised.</p> <p>The new standard will be applied retrospectively and could have a material impact on the group's financial statements. The group has not yet quantified the potential impact of the new standard on the group.</p>	Annual periods beginning on or after 1 January 2018.
<b>IFRS 9 with IFRS 4 (amendment)</b>	<p>The amendments address reservations for issuing the IFRS 9 and IFRS 4 on different effective dates as there would be accounting mismatch and volatility that will arise in profit or loss if IFRS 9 is applied before the new insurance contract.</p> <p>Two approaches were included in the amended IFRS 4 to address issues raised by interested parties which are the following:</p> <ul style="list-style-type: none"> <li>• <i>The overlay approach:</i> With this approach, entities will reclassify from profit or loss a certain portion of income and expenses to other comprehensive income for financial assets measured at fair value through profit or loss through the application of IFRS 9. These financial assets classified at fair value through profit or loss should not be instruments that would have been classified as such under IAS 39 and the financial assets should relate to contracts that fall within the scope of IFRS 4.</li> <li>• <i>Temporary exemption approach:</i> With this approach, entities whose activities are predominantly issuing insurance contracts and have never applied any version of IFRS 9 will be exempted from applying IFRS 9 until the earlier of 1 January 2021 and the adoption of the new IFRS 4 standard.</li> </ul> <p>The amendments will be applied retrospectively and will not have a material impact on the group's financial statements.</p>	Annual periods beginning on or after 1 January 2018.
<b>IFRS 12 (amendment)</b>	<p><b>Disclosure of interests in other entities</b></p> <p><b>Annual improvements cycle 2014–2016</b></p> <p>The amendment clarifies the scope of IFRS 12, that is, whether if the disclosures for IFRS 12 should also be made in the interest of an entity classified as held for sale. The IASB concluded that the disclosures should also apply to interests that are classified as held for sale or discontinued operations.</p> <p>The amendment will be applied retrospectively and will not have a material impact on the group's financial statements.</p>	Annual periods beginning on or after 1 January 2017.

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

## 6. PROPERTY AND EQUIPMENT

	Leasehold improvements R	Furniture and fittings R	Security equipment R	Computers R	Diamond equipment R	Total R
<b>Year ended 31 March 2017</b>						
<b>Opening net carrying amount</b>	<b>49 137</b>	<b>313 488</b>	<b>376 385</b>	<b>27 904</b>	<b>304 161</b>	<b>1 071 133</b>
Gross carrying amount	460 933	651 505	953 425	1 171 791	456 463	3 694 117
Accumulated depreciation	(411 796)	(338 017)	(577 040)	(1 143 888)	(152 302)	(2 623 043)
	-	-	-	150 705	-	150 705
Depreciation	(49 137)	(65 131)	(95 210)	(26 593)	(48 323)	(284 388)
<b>Closing net carrying amount</b>	<b>-</b>	<b>248 359</b>	<b>281 533</b>	<b>151 718</b>	<b>255 841</b>	<b>937 450</b>
Gross carrying amount	460 933	651 505	953 425	1 322 496	456 463	3 844 822
Accumulated depreciation	(460 933)	(403 146)	(671 892)	(1 170 779)	(200 622)	(2 907 372)
<b>Year ended 31 March 2016</b>						
<b>Opening net carrying amount</b>	<b>71 289</b>	<b>378 619</b>	<b>471 952</b>	<b>96 610</b>	<b>352 484</b>	<b>1 371 012</b>
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)
Additions	-	-	-	-	-	-
Depreciation	(22 153)	(65 131)	(95 567)	(68 707)	(48 323)	(299 880)
<b>Closing net carrying amount</b>	<b>49 137</b>	<b>313 488</b>	<b>376 385</b>	<b>27 904</b>	<b>304 161</b>	<b>1 071 133</b>
Gross carrying amount	460 933	651 505	953 425	1 171 791	456 463	3 694 117
Accumulated depreciation	(411 796)	(338 017)	(577 040)	(1 143 888)	(152 302)	(2 623 043)

2017  
R

2016  
R

## 7. INVENTORY

	20 320 813	24 095 119
Cost of inventory	<b>20 320 813</b>	<b>24 095 119</b>

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

	<b>1 526 259</b>	<b>540 877</b>
Prepayments	556 705	107 789
Other receivable	85 917	224 059
SARS receivable: VAT receivable	807 347	163 877
Accrued interest	76 290	45 152

### 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

	<b>32 475 726</b>	<b>22 443 828</b>
FNB operational accounts	3 030 563	4 490 791
Petty cash	3 000	3 000
FNB call accounts	27 290 919	15 933 822
Standard Bank call account	2 151 244	2 016 215

### Interest rate risk

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

## 10. LOANS AND BORROWINGS

This note provides information about the contractual terms of the revolving credit facility held with the Industrial Development Corporation (IDC). The credit facility available to the State Diamond Trader is R100 million. 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 the use of the facility during the year is as follows:

### Analysis of revolving credit facility:

Amount drawn	70 232 297	89 049 506
Amount paid	(70 232 297)	(89 049 506)
Balance on revolving credit facility	-	-

2017  
R

2016  
R

## 11. TRADE AND OTHER PAYABLES

	<b>1 429 042</b>	<b>1 503 722</b>
Accrued expenses	122 103	155 947
Creditors	816 206	820 165
Leave accrual	490 734	312 035
Vat payable	-	215 575

### Liquidity risk

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

## 12. INCENTIVE BONUS PROVISION

	<b>557 204</b>	<b>504 921</b>
Opening balance	504 921	-
Amount paid	(506 549)	459 019
Adjustment made	555 576	45 902

The provision has been calculated by taking the actual performance bonus paid in 2015/16 and adjusting it by 10%, taking into account the fact that salaries have been adjusted by 7.5% in the prior year.

## 13. REVENUE

Revenue consists of sales of rough diamonds to local beneficiators	<b>722 723 434</b>	<b>460 417 568</b>
<b>Cost of sales</b>	<b>(698 676 269)</b>	<b>(447 472 306)</b>
Opening inventory	24 095 119	20 786 232
Purchases	694 503 245	450 509 541
Security and transport costs	398 717	271 652
Less: Closing inventory	20 320 813	24 095 119

## 14. OTHER INCOME

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

<b>Other income</b>	<b>1 265 930</b>	<b>3 790 557</b>
Donations: De Beers Consolidated Mines	205 109	2 567 004
Sponsorships and other income	814 100	1 162 153
Other income	246 721	61 400

2017  
R

2016  
R

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

Audit fees	868 235	759 027
Remuneration for services rendered:		
Board fees	480 728	596 434
Compensation of employees	10 956 722	9 776 035
Depreciation	284 388	299 880
Operating lease charges	550 936	480 132
Salaries – donations	205 109	2 567 004
Use of De Beers assets and diamond equipment	-	-

## 16. FINANCE INCOME

Interest received	2 276 840	1 418 778
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## 17. FINANCE EXPENSES

	(549 058)	(1 221 298)
Finance fees on IDC facility	117 393	135 181
Interest charged by: IDC	431 665	1 086 117

## 18. CASH GENERATED FROM OPERATIONS

<b>Net income / (loss) before taxation</b>	<b>7 147 841</b>	<b>(3 067 055)</b>
Adjusted for:		
- Depreciation	284 388	299 880
- Interest expense	549 058	1 221 298
- Interest received	(2 276 840))	(1 418 778)
- Other income	-	-
- Donations received – De Beers Consolidated Mines	(205 109))	(2 567 004)
	205 109	2 567 004
<b>Adjusted net profit before taxation</b>	<b>5 704 447</b>	<b>(2 964 655)</b>
Changes in working capital:		
- Decrease/(increase) in trade and other receivables	(985 382)	4 645 346
- Decrease/(increase) in inventory	3 774 306	(3 308 887)
- (Decrease)/increase in trade and other payables	(38 550)	95 948
	<b>2 750 374</b>	<b>1 432 407</b>
Cash generated from operations	<b>8 454 821</b>	<b>(1 532 246)</b>



2017  
R

2016  
R

## 19. COMMITMENTS

### Operating leases – as lessee (expense)

#### Minimum lease payments due

- Within one year	568 489	572 789
- In second to fifth year inclusive	244 414	859 313
	<b>812 903</b>	<b>1 432 102</b>

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

## 20. RELATED PARTIES

The State Diamond Trader is wholly owned by the national government of the Republic of South Africa represented by the Minister of Mineral Resources. The State Diamond Trader is a Schedule 3B public entity in terms of the PFMA. It therefore has a significant number of related parties, including other state-owned entities, government departments and all other entities within the national sphere of government.

The State Diamond Trader, in the ordinary course of business, enters into various agreements with other parties within the national sphere of government. The significant transactions (in the normal course of business) and balances outstanding at 31 March 2017 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 IDC for use as working capital from time to time and the outstanding balance on the facility at year end was nil. The total amount drawn and repaid during the year amounted to R70 232 297.

### 20.1 Remuneration

#### Executive management

**5 770 739**

**4 178 851**

The following is the executive management of the State Diamond Trader.

Ms PN Zikalala-Mvelase

Ms N Danisa

Ms N Sibeko

Mr C Van Der Ross (Mr Van Der Ross was seconded from De Beers from November 2007 to 31 May 2017 – he was permanently employed with the State Diamond Trader with effect 1 June 2016.)

2017 R	2016 R
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### Non-executive members

Ms DD Mokgatle (Chairperson: term expired on 31 August 2016)	37 412	148 407
Mr SM Motloung	72 632	120 829
Ms NF Mpuntsha (term expired on 31 August 2016)	20 764	70 127
Mr TS Montoedi (term expired on 31 August 2016)	30 729	107 283
Mr MA Luhlabo (term expired on 31 August 2016))	37 557	126 972
Ms ZP Manase (term expired on 31 August 2016))	-	22 816
Mr MJ Casterns (Chairperson effective 1 September 2016)	52 578	
Mr G du Plessis (effective 1 September 2016)	37 091	
Mr MW Mabapa (effective 1 September 2016)	34 145	
Mr NM Diseko (effective 1 September 2016)	37 060	
Mr L Mabece (effective 1 September 2016)	15 481	
Dr M Matlou (effective 1 September 2016)	45 029	
Ms M McMaster (effective 1 September 2016)	34 506	
Mr F Mokoena (effective 1 September 2016)	25 745	
<b>Total</b>	<b>480 727</b>	<b>596 434</b>

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

Mr GL Rapoo  
 Ms S Mohale  
 Mr I Goondiwalla  
 Ms ST Nxumalo  
 Major-General NH Mokoena  
 Mr K Menoe  
 Mr B Dekka

## **21. SUBSEQUENT EVENTS**

There were no subsequent events identified for reporting purposes.

## **22. SEGMENT REPORTING**

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

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

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

The State Diamond Trader generates its revenue from the sale of rough diamonds and it operates in one geographic area that is Johannesburg. Hence, its revenue and expenses are not divided into segments; as a result, no segmental reporting is done in the financial statements.

## **23. CONTINGENT LIABILITIES**

The State Diamond Trader is not aware of any contingent liabilities that existed as at 31 March 2017.

## **24. CONTINGENT ASSET**

The State Diamond Trader is not aware of any contingent asset that existed as at 31 March 2017.

## 25. IRREGULAR EXPENDITURE

### 25.1 Reconciliation of Irregular expenditure

	2017 R	2016 R
Opening balance	75 137	-
Add: Irregular expenditure relating to current year	31 344	75 137
Less: Prior year amounts condoned	(75 137)	-
Less: Current year amounts condoned	-	-
Less: Amounts recoverable (not condoned)	-	-
Less: Amounts not recoverable (not condoned)	-	-
<b>Irregular expenditure awaiting condonation</b>	<b>31 344</b>	<b>75 137</b>

#### Analysis of awaiting condonation per age classification

Current year	31 344	75 137
Prior years	-	-
<b>Total</b>	<b>31 344</b>	<b>75 137</b>

#### Details of irregular expenditure – current year

Incident	Disciplinary steps taken/criminal proceedings	Amount
Preference points to be utilised on evaluation not included in the request for quotation.	None as there was no financial loss	31 344
		<b>31 344</b>

#### Details of irregular expenditure condoned

Incident	Condoned by (condoning authority)	-
		-

#### Details of irregular expenditure recoverable (not condoned)

Incident		-
		-

#### Details of irregular expenditure not recoverable (not condoned)

Preference points to be utilised on evaluation not included in the request for quotation.	<b>31 344</b>
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## 26. DETAILS OF UNRECOGNISED COMMITMENTS

Companies	Amount
Tsebo Cleaning Services	99 391
SAB&T Chartered Accountants Incorporated	260 577
Protea Coin Group (Pty) Ltd	300 475
Steiner Hygiene (Pty) Ltd	8 137
MPVS Construction CC	17 243
SAGE Pastel Payroll	115 170
ICAS Employee and Organisational Enhancement Services SA	12 768
Ram International Insurance Brokers	204 167
March (Pty) Ltd	31 177
Motswako Office Solutions	20 356
GIB Insurance Brokers	4 439
<b>Total</b>	<b>1 073 900</b>





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