



ALEKKOR

INTEGRATED  
ANNUAL REPORT  
TWENTY 13



# INTEGRATED ANNUAL REPORT

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# COMPANY DETAILS

<b>Registered name:</b>	Alexkor SOC Ltd
<b>Registration number:</b>	1992/006368/06
<b>Website address:</b>	<a href="http://www.alexkor.co.za">http://www.alexkor.co.za</a>
<b>External Auditors:</b>	Nexia SAB&T 119 Witch-Hazel Avenue Highveld Technopark Centurion 0157 Tel: 012 682 8800 Contact: Sophy Kleovoulou
<b>Internal Auditors:</b>	Outsourced Risk and Compliance Assessment 42 Wierda Road West Wierda Valley Sandton 2196 Tel: 011 384 8108 Contact: Danie Jacobs
<b>Bankers:</b>	Investec Bank Limited Grayston Drive Sandton  First Rand Bank Limited (First National - and Rand Merchant Bank Limited) Fredman Drive Sandton  Nedbank Limited Main Street Johannesburg
<b>Company Secretary:</b>	Ms Jane Mbatia (LLM) (MBA)

## ALEXKOR SOC LTD HEAD OFFICE:

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4th Floor  
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## ALEXKOR RMC JV OPERATIONAL OFFICE:

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8290

**Postal address:** Private Bag x5  
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Alexander Bay  
8290

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# LIST OF ABBREVIATIONS

Acronyms	Description
AGM	Annual General Meeting
AFS	Annual Financial Statements
Alexkor	Alexkor SOC Limited
CEO	Chief executive officer
CFO	Chief financial officer
CPA	Communal Property Association
DBSA	Development Bank of South Africa
DMR	Department of Mineral Resources
DMS	Dense Media Separation
DoS	Deed of Settlement
DPE	Department of Public Enterprises
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EMP	Environmental Management Plan
IDC	Industrial Development Corporation
IFRS	International Financial Reporting Standards
IMDSA	International Mining and Dredging South Africa (Pty) Ltd
LED	Local Economic Development
LOM	Life-of-mine
LTI	Lost Time Injury
LTIFR	Lost Time Injury Frequency Rate
MOI	Memorandum of Incorporation
MTEF	Medium Term Expenditure Framework
NEMA	National Environmental Management Act
PAA	Public Audit Act of South Africa
PFMA	Public Finance Management Act
PRMAL	Post-Retirement Medical Aid Liability
PSJV	Pooling and Sharing Joint Venture/Alexkor RMC JV
RMC	Richtersveld Mining Company
RVC	Richtersveld Community
SAMREC	South African Mineral Resource Committee
the Board	Alexkor SOC Ltd's Board of Directors

# OVERVIEW



**A**lexkor was established in terms of the Alexkor Limited Act, No. 116 of 1992, and amended by the Alexkor Amendment Act, No. 29 of 2001. Alexkor is a listed schedule 2 public entity wholly owned by the government through the Minister of Public Enterprises being the shareholder representative. The company has two divisions or business units, which are the Alexander Bay Mining (Alexkor RMC JV) and the Alexkor corporate unit. The mining division is the core business of the company, exploiting a large land-based diamond resource and extensive diamondiferous marine deposits.

Created by statute and a state-owned company, Alexkor is expected to comply with the Constitution of the Republic of South Africa Act, No. 108 of 1996 (the Constitution) and other legislation, such as the National Environmental Management Act, No. 107 of 1998 (NEMA), Public Finance Management Act, No. 1 of 1999 (PFMA), and the Treasury Regulations (TR) passed in terms of the PFMA, etc.

## VISION

We will be a competitive, progressive, forward-looking organisation with a conscience.

## MISSION

To operate a growing, profitable and sustainable mining organisation that contributes to the developmental needs of the communities.

We will achieve this by:

- Turning Alexkor SOC Ltd (Alexkor) around into a viable dynamic mining company
- Focusing on organic growth at Alexander Bay
- Acquisition of new opportunities
- Creating a sustainable, healthy, safe and environmentally responsible organisation
- Caring for people, providing sound leadership and building credible processes
- Building strong relationships with all our strategic partners

## CORE VALUES

Alexkor subscribes to five key values. Each value is described as follows:

### Integrity

We will always deliver on our promise

### Professionalism

We will always strive for the highest possible standards

### Accountability

We will always take full responsibility for the outcomes of our behaviour

### Dedication

We will be focused, goal oriented and not sidetracked

### Dynamic

We will be highly energetic, creative and innovative

## STRATEGIC OUTCOMES-ORIENTATED GOALS

Refer to item 7.1 In the directors' report for a list of Alexkor's strategic outcomes-orientated goals.

## 1. CONSTITUTIONAL MANDATES

The Constitution is the supreme law of the Republic and any law or conduct inconsistent with it, is invalid, and the obligations imposed by it must be fulfilled. One of Alexkor’s mandates is to give effect to the Constitution by contributing to the socioeconomic upliftment of the regions in which it operates.

## 2. LEGISLATIVE MANDATES

Alexkor’s core business is the exploitation of diamond resources on a commercially viable basis, and to contribute towards the socioeconomic upliftment of the community in which it operates.

### OVERVIEW OF RELEVANT LEGISLATION AND POLICIES REGULATING ALEKKOR

Key legislation and policy frameworks
Alexkor Act, No.116 of 1992 (and as amended in 2001)
Public Finance Management Act, No. 1 of 1999
Employment Equity Act, No. 55 of 1998
Minerals and Petroleum Resources Development Act, No. 28 of 2002
Mine Health and Safety Act, No. 29 of 1996
The Mining Charter
Income Tax Act, No. 58 of 1962

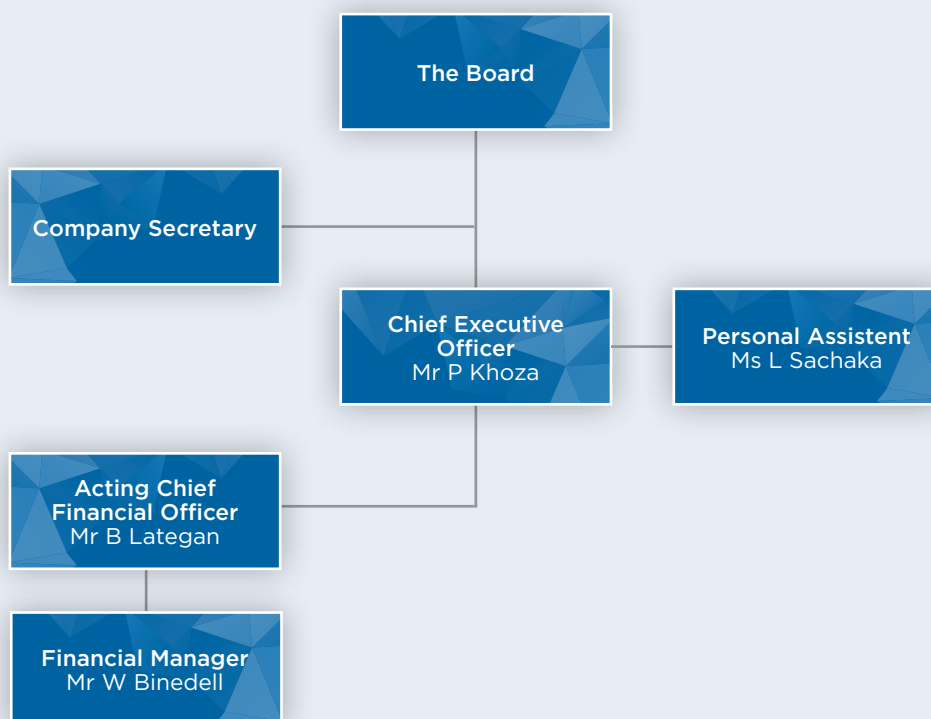


Figure 1: Alexkor’s current management structure



# EXECUTIVE MANAGEMENT



## EXECUTIVE MANGEMENT

Mr R Bagus  
CHAIRMAN

Mr P Khoza  
CHIEF EXECUTIVE OFFICER

Mr B Lategan  
ACTING CHIEF  
FINANCIAL OFFICER



# BOARD OF DIRECTORS



## BOARD OF DIRECTORS

Back row (left to right)

**Ms S Zilwa**  
NON-EXECUTIVE  
MEMBER

**Mr D Mkhwanazi**  
NON-EXECUTIVE  
MEMBER

**Mr B Grobbelaar**  
NON-EXECUTIVE  
MEMBER

Front row (left to right)

**Ms Z Ntlangula**  
NON-EXECUTIVE  
MEMBER

**Dr R Paul**  
NON-EXECUTIVE  
MEMBER

**Mr M Bhabha**  
NON-EXECUTIVE  
MEMBER

**Dr N Mohutsioa-Mathabathe**  
NON-EXECUTIVE  
MEMBER

## CHAIRMAN'S FOREWORD



*The new Alexkor board members who were tasked by our shareholder to turnaround operations and give impetus to a new strategic direction, in a very short time achieved incredible results.*

### DIAMOND MARKET OUTLOOK

The outlook for the global diamond market remains positive. A shortage of rough diamond supply is expected over the next ten years as demand continues to grow whilst global production remains constant.

Markets in Japan and Europe grew slower than expected. However, demand in China and India grew quicker than consumer spending and will continue to support prices in the short to medium term. We expect the market to remain favourable for at least the next five years with prices for both rough and polished diamonds to rise at an average rate of at least 5% per annum.

Locally, the De Beers Group accounted for most of South Africa's rough diamond production. In 2010 the company's output increased to 7.56 million carats from 4.8 million carats in 2009. The Namaqualand Mine suspended production in March 2010, and marine mining equipment was moved to Namibia and marine operations produced just over 33 000 carats.

The Trans Hex Group's local operations generated an R88.2 million pre-tax profit, down from R114.6 million in the previous year. This was largely due to a 20% decline in production. It is expected that the acquisition of Namaqualand Mines from De Beers will increase their bottom line earnings substantially.

### A NEW BEGINNING WITH MANY CHALLENGES

Halfway through the 2012/13 financial year the new Alexkor board took office, facing challenging circumstances. We were confronted with some stark

***“We say to one another: I cannot be without you, without you this South African community is an incomplete community, without one single person, without one single group, without the region or the continent, we are not the best that we can be...”***

***National Development Plan - 2030***

realities from a business with significant economic challenges.

The team identified the following critical problem areas that required immediate intervention and action:

- The Pooling and Sharing Joint Venture (PSJV) profitability is severely eroded due to a loss-making position for more than ten years;
- A breakdown in management structures and procedures that compromised corporate governance;
- Significant decline in production and employment; and
- A hostile environment driven by a significant loss of trust in community structures.

Many of these issues were created by the practicalities of managing an unincorporated joint venture structure, without the assigned authority to directly influence management direction.

Our ultimate goal is to support the PSJV management team to improve profitability and reduce operational cost. This will enhance the community's sustainability and secure economic growth and job creation. To achieve this we will focus on substantially increasing diamond production. We are working effortlessly to restore management structures and operational procedures to ensure good corporate governance; this is a critical priority to restore trust in the community structures that oversee our partnership.

We have extensively engaged all four towns in the Richtersveld community with valuable and unequivocal support from our Deputy Minister at the Department of Public Enterprises (DPE). Many bridges with the community were rebuilt and relationships based on mutual trust and respect were established. Many

constructive community projects were revived as a result of this.

## ALEXKOR'S FUTURE STRATEGY

Our new strategy is a radical departure from the past to transform Alexkor into a diversified mining company that will ensure the long-term sustainability of our mining operations. The strategy embraces four key elements, namely:

- Unlocking value from the PSJV;
- Extract value from African diamond mining opportunities;
- Utilise Alexkor's core mining capability to supply coal to Eskom and reduce their coal supply risk; and
- Develop lime resources to supply Eskom.

## UNLOCKING VALUE OF THE PSJV

As a key priority we have provided dedicated and direct management support to the PSJV in order to improve operational efficiency and profitability with the aim to secure the community's long-term economic viability and sustainability.

We have invested significant effort to change business mindsets to reduce costs and increase profitability. The optimisation of critical business processes was fundamental to ensure sound corporate governance and to instil prudent commercial practices within the PSJV.

Our goal is to increase production output to 70 000 carats per annum by the end of the next financial year. To achieve this the board has taken a decision to be firmer in dealing with poor performing contractors; whilst rewarding achievers with more opportunities to unlock value.

Increased production is also underpinned by the monitoring of sea-days versus production throughput, stone size distribution analysis, security upgrades, and the introduction of middle-water mining. We are also implementing a deep-sea mining agreement with International Mining and Dredging South Africa (Pty) Ltd (IMDSA), one of two companies in the world with deep-sea mining capability. Deep-sea mining will commence in 2014 and we will unlock significant value.

No land-based mining has taken place since the court settlement. We need to intensify our focus on land mining to mitigate declining marine production. We have appointed a contractor to conduct comprehensive land-based exploration in order to determine the true potential of our diamond resource. This will provide mining operations with a firm indication of the reserve and potential within all concession areas. Future mining operations can thus be planned in a methodical manner to ensure maximum throughput at optimum efficiency levels.

***“Therefore, in 2030, we experience daily how: We participate fully in efforts to liberate ourselves from conditions that hinder the flowering of our talents.”***

***National Development Plan - 2030***

Land-based mining operations at Muisvlak and the commissioning of a new plant between December 2013 and January 2014 will create an additional 200 jobs and will contribute 40 000 carats per annum to our target. The utilisation of new optical sorting technology, which is significantly more efficient than current processes, will unlock additional value from existing mine dumps and will contribute a minimum of 2 500 carats per annum.

## AFRICAN DIAMOND MINING OPPORTUNITIES

It is a strategic imperative for Alexkor to develop long-term revenue sources beyond Alexander Bay’s expected life-of-mine (LOM). The best practice is to hedge revenues against the cyclical nature of the diamond industry and reduce the effects of price volatility. Geographical diversification, underpinned by higher grade resources, is one of the most effective strategies to reduce the effects of market volatility.

## DIVERSIFICATION STRATEGY

Alexkor will actively seek new mining opportunities that will deliver revenue streams beyond diamonds independently of PSJV operations. This will secure future growth and sustainability and will enable the company to effectively address its legacy obligations and liabilities.

We will actively explore mining opportunities for downstream beneficiation that will broaden economic participation, contribute to job creation, develop mining skills, and ensure the sustainable development of the communities and stakeholders we serve.

The Alexkor board has been given the mandate to qualify and quantify mining opportunities for investment consideration. An immediate and urgent opportunity exists to focus on securing thermal coal supply for power generation.

Eskom faces a critical and significant shortfall in strategic coal supply that will jeopardise efforts to ensure energy supply to our industries. It is estimated that significant new coal capacity will be required by 2019 to offset energy demand.

The major mining companies are currently reluctant to commit resources and capacity to supply Eskom with perceived low value thermal coal. Although global demand generates much needed export revenue and profits for their shareholders, it also substantially increases Eskom’s long-term coal supply risk.

We can significantly contribute to the development of new coal supply sources by utilising mining methods, processes, technologies and skills that are well within our current core capability. This initiative can effectively focus on supplying coal grades that are suitable for power generation within a win-win commercial model with Eskom.

## DEVELOPING EMERGING MINERS

Estimated coal requirements for power generation will reach 2 billion tons by 2033, of which about half is still unsecured. There is no option for any back-up plan to secure future coal requirements. Eskom will have to ensure that new mines are opened with a preference to procure coal from emerging black miners. Investment requirements for new coal mines will be obtained from an established mining fund and the consolidation of existing junior coal mining companies.

Alexkor’s diversification strategy supports these initiatives that will broaden economic participation, secure employment, stimulate local investment, and unlock underutilised resources. We will provide market

***“Within this mixed economy we reaffirm the active and interventionist role of the state in ensuring economic development. It must be a state that has the capacity to intervene in the economy to lead development”***

***President Jacob Gedleyihlekisa Zuma  
12 January 2013***

access and mining expertise to emerging black miners that will create significant economic value for local communities.

Various emerging black miners expressed interest to partner with Alexkor in developing coal opportunities. We believe that these opportunities will create a viable second tier mining industry in South Africa.

## LIME MINING OPPORTUNITY

High grade limestone supply to Eskom is critical for flue gas desulphurisation operations. We are in the process of developing a strategic lime business case to supply Eskom and will report on this progress shortly. There is also substantial demand for lime in other industries like steel and construction.

## FINANCIAL REVIEW

Alexkor is delighted to report an after-tax profit of R29.7 million for the 2013 financial year. This is mainly derived from interest earnings and a small but positive contribution from PSJV operations. We anticipate that the PSJV contribution will significantly increase in the next financial year due to increased production and exploration activities.

Alexkor is in a position to meet its operating costs during the normal course of business, and we are confident that Alexkor will be able to secure significant operating assets in the next financial year. We will finalise our business case to acquire new mining assets for consideration by our shareholder. The board will ensure that proper due diligence and care is exercised during this process.

## REHABILITATION

The company is currently attending to the land rehabilitation backlog and is employing over 70 employees in this regard. An amount of R200 million has been awarded to Alexkor for this project.

## TOWNSHIP ESTABLISHMENT

Alexkor, as part of our responsibility to ensure the implementation of the Deed of Settlement (DoS), has successfully completed all required township infrastructure upgrades and will transfer authority to the respective provincial and local authorities. This effort required extensive focus and energy to ensure success and often constrained our ability to focus on core mining operations.

## EXPANDING STRATEGIC RELATIONSHIPS

During the next financial year we will focus on building and expanding strategic relationships with sister state-owned corporations and in particular Eskom and Transnet. We will also engage the Department of Mineral Resources (DMR) and the state-owned mining company to coordinate coal mining efforts and secure their support of our strategy.

We will also continue to enhance the relationship with the Richtersveld community, because their economic sustainability and prosperity is our ultimate goal and responsibility.

## FUTURE OUTLOOK

We anticipate an exciting new year ahead with the company entering an era where it will actively drive value creation and prosperity in the Richtersveld and Namaqualand region.

We are positive and excited about the immediate future of Alexkor. In a very short time the board and management team made a huge impact in the turnaround of Alexkor and the PSJV. Better management of marine contracts, expanding land-based mining operations at Muisvlak and the commissioning of an optical sorter will produce significant results in the short term. We are also in



the process of negotiating better prices for our rough diamonds, which will have a positive impact on future revenues.

Our diversification strategy will undoubtedly require funding and we will explore different financing mechanisms and investment sources, and we will endeavour not to burden the fiscus with Alexkor's growth opportunities. The board will follow a prudent process to qualify and quantify each business case to ensure good corporate governance and oversight.

We have appointed Mr Percival Khoza, one of the leading mining executives in South Africa, to champion the future growth of Alexkor. His vast knowledge and experience in gold, diamond and coal mining is of immense benefit to the executive team. The credibility of our current management team provides Alexkor with the ability to attract the best skills from the mining industry to fill critical positions. We have finalised the team which will add more than 60 years of mining experience to the executive.

## FAILURE IS NOT AN OPTION.

The development of the Richtersveld, Alexander Bay and Port Nolloth communities has been neglected for many years and in the ten years since the settlement the community regressed rather than progressed. Failing to turn around the situation will have a material socioeconomic impact on the Alexander Bay community and surrounding region.

For this reason failure is not an option and we will work diligently with total dedication to ensure the success of our turnaround initiatives. The community can be assured of our continued and unequivocal support.

## THANK YOU

I wish to thank our shareholder for the continued support, guidance and trust in our board and management team to deliver this massive turnaround task.

A special word of thanks to Honourable Minister Malusi Gigaba, whose powerful vision of the future and insightful guidance and support is of huge value to Alexkor.

Also the Honourable Deputy Minister Mr Bulelani Gratitude Magwanishe for his guidance and unconditional support during the past year. His commitment, knowledge and understanding are phenomenal in ensuring the future success of not only Alexkor, but also the sustainability of the Richtersveld community.

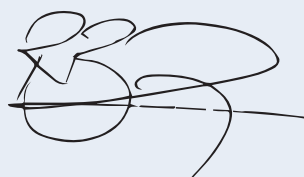
We are truly grateful for the support received from the team at the Department of Public Enterprises and in particular the Director General, Mr Tshediso Matona, Deputy Directors General Mr Kgathatso Tlhakudi and Ms Matsietsi Mokholo, Acting Director General Simphiwe Makhathini and their respective teams, including Chief Directors Ms Orcilla Ruthnam and Mr Weekend Bangane.

To my fellow board members who, regardless of many legacy challenges, are always available to face this difficult and important task. Having to oversee the implementation of a restitution plan makes it particularly challenging, and your effort is duly noted and appreciated.

Our Alexkor management team and in particular Percy for his sturdy leadership and guidance, and the valued support and immeasurable efforts from our chief financial officer (CFO) Berno Lategan.

We are also hugely grateful to Mr Mervyn Carstens and the management team at the PSJV for their excellent support and contribution. We would not have been able to achieve so much, in such a short time, without the constructive engagement and support from the PSJV board in allowing us to contribute to the PSJV turnaround. Your immense contribution is the basis of the positive outlook in this annual report.

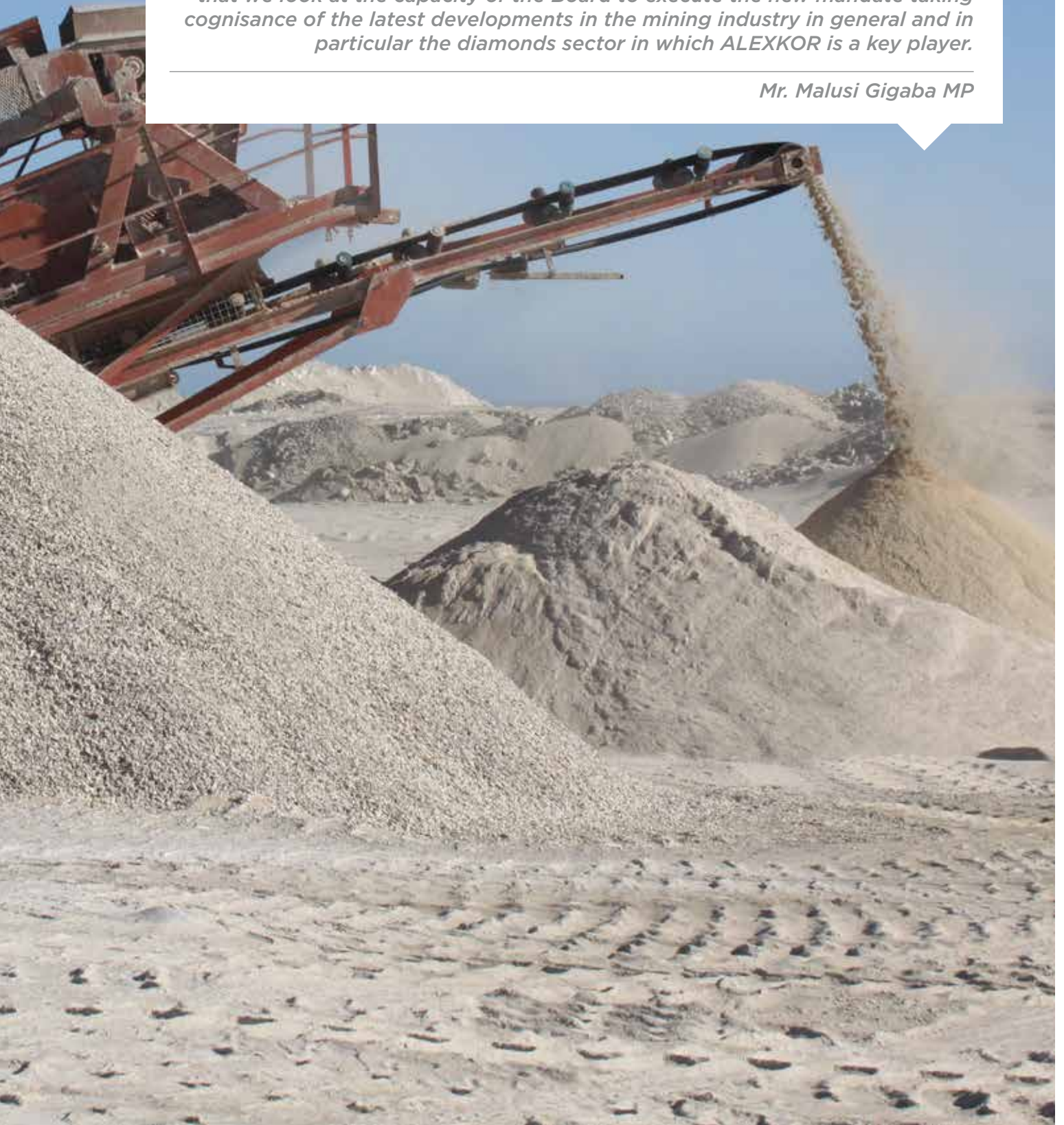
We are excited about Alexkor's future and are looking forward to a prosperous year with the continuous support of an excellent team at Alexkor under Percy and with Mervyn's leadership and guidance at the PSJV.



**Rafique Bagus**  
Chairman

*I wish therefore to encourage the Board to explore the role that ALEXKOR can play in beneficiation value chain in pursuance of national strategic objectives. As the Shareholder Representative, the recent challenges have necessitated that we look at the capacity of the Board to execute the new mandate taking cognisance of the latest developments in the mining industry in general and in particular the diamonds sector in which ALEXKOR is a key player.*

*Mr. Malusi Gigaba MP*





# CHIEF EXECUTIVE OFFICER'S OVERVIEW

*Alexkor is progressing positively on all stipulations set by the Deed of Settlement.*

Most of the key management positions at the PSJV were filled, all four phases of the Alexander Bay township upgrade were completed, the rehabilitation team acquired its first group of personnel and Alexkor received its medium term expenditure framework (MTEF) allocation. Our financial position was vastly improved as a result of the R350 million recapitalisation by the shareholder. These funds were utilised to attend to Alexkor's liabilities with regards to rehabilitation, post-retirement benefits and other obligations that arose from the DoS.

## ALEXKOR SOC LIMITED REVIEW

Our head office operations are managed independently from the PSJV, and the main focus and priority is to provide leadership, guidance and oversight in unlocking value from the PSJV through cash preservation, cost saving practices, revised exploration activities and to give effect to the specific conditions of the DoS.

Alexkor investigated new diamond mining opportunities in the Northern Cape and North West provinces to expand on its diamond operations. A new board was appointed at Alexkor's annual general meeting (AGM) in September 2012.

Due to changes in the executive authority along with the limited cash available to Alexkor's disposal, the process was stopped to reconsider Alexkor's position and strategic outlook.

I took office on 4 March 2013 and I'm extremely grateful to the Honourable Minister Mr Malusi Gigaba for his trust and the opportunity afforded to contribute to Alexkor's future success. Mr Berno Lategan acted in the position of chief executive officer (CEO) and we are extremely thankful for his valued contribution.

Alexkor's future strategy was reviewed during June 2013 and approved by the minister. This gave us the mandate to explore diversification into strategic commodities like coal and limestone that are crucial to the country's power generation strategy. The initiative will be underpinned by a revised corporate structure, business plan and alignment of SOC-SOC relationships during the 2013/14 financial year.

## FINANCIAL PERFORMANCE

The Alexkor's financials incorporate our 51% interest in the PSJV's operations. It was proportionately consolidated on a line by line basis and disclosed as such in the records of Alexkor. The company's total comprehensive income for the year was R29.7 million (2012: R5.9 million), mainly due to the interest accumulated on surplus cash funds. Cash and cash equivalents increased to R556.6 million (2012: R341.2 million) and capital and reserves increased to R402.5 million (2012: R22.8 million). The Post-Retirement Medical Aid Liability (PRMAL) was settled in full (2012: R46.9 million) and the rehabilitation trust funds increased to R109.5 million (2012: R48.1 million).

Alexkor had no income generating operations and therefore it still remained with an operating loss of R20.7 million (2012: R19.1 million). The PSJV realised a small profit of R4.7 million (2012: R9.1 million). Production of diamonds in the PSJV was down to 35 358 carats (2012: 37 016 carats). More information on the financial information is disclosed as part of the annual financial section at the back of this report.

## PSJV INITIATIVES

Operations in Alexander Bay accumulated a small profit for the second year running. Even though cash was not generated throughout the two years, mining activities have been stable and management has been positioning itself to benefit from future operations to come once the land concessions are in full operation. Most of the senior management positions were filled during the year, including a new CEO, CFO, mineral resource manager and the security manager.

A contractor was appointed and the exploration process started on the land concessions. An exploration report detailing inferred resources was finalised on the southern parts of Alexander Bay, and the Muisvlak

exploration project commenced, which entailed a national tender process to erect a 200 ton per hour Dense Media Separation (DMS) plant. This tender was awarded during the last quarter of the financial year and the building of the plant is currently in progress with full hot commissioning thereof expected to be finalised during the last quarter of the 2014 financial year. Production of diamonds is expected to increase to 70 000 carats per annum within the next two years.

The sustainability of the mining operations within Alexander Bay is crucial to the existence of the community in the Richtersveld and its four surrounding towns. The DoS limits Alexkor's executive authority to intervene directly in PSJV operations. Our PSJV engagement is led by three non-executive members of the Alexkor board and three board members of the Richtersveld Mining Company (RMC). Alexkor endeavours under these circumstances to give full effect to the DoS whilst ensuring that operations at the PSJV are commercially sound and benefit all stakeholders.

## HISTORICAL DISTURBANCES - REHABILITATION

Our priority for the past year was to establish a solid base and methodology to reintroduce vegetation. The netting and vegetation methods proved to be successful and will be implemented on a bigger scale going forward. We have appointed a rehabilitation supervisor from the region and she completed her training successfully; she commenced employment with Alexkor in November 2012.

Part of the MTEF allocation was applied towards the rehabilitation shortfall that was mainly due to the difference between cash available in the rehabilitation trust fund and estimated future liability. We are confident that sufficient funds are available to attend to all historical environmental disturbances in the Alexander Bay region.

A comprehensive and optimised five-year execution plan is currently being developed for effective implementation towards the last quarter of the 2014 financial year. This will result in additional job creation, development of environmental management skills, and restoring the area's ecosystem.

## TOWNSHIP UPGRADE

All four phases of the township upgrade were completed with the successful commissioning of the waste water treatment facility. The quality of the work was outstanding and management is adequately satisfied that the project adhered to all relevant regulatory standards and requirements. These services will now be transferred to the Richtersveld municipality and Alexkor has been engaging the relevant authorities to ensure a smooth transition and we hope to conclude this before the end of the third quarter of the 2013/14 financial year.

The transfer and registration of the properties to the Richtersveld Communal Property Association (CPA) is finalised. The surveyor general's map has been reconciled with the initial maps from the DoS and all applicable servitudes have been communicated to the relevant parties. We expect proclamation of the township in November 2013 and the process of property registration can be initiated in line with the targets set out in the shareholder's compact for 2014.

## MTEF ALLOCATION

Alexkor applied for funding through the MTEF process as compensation for material losses as a result of the land claim settlement. Alexkor ceded 49% of its operations in Alexander Bay to the RMC and effectively ceded management control to the PSJV board in line with the DoS. Identified assets with a total value in excess of R200 million were transferred to the Richtersveld CPA. An additional R45 million settlement was agreed for the 10-year lease of the residential properties. This was settled in part by the MTEF allocation, and we are in the process to request full and final settlement of the remainder.

Alexkor received R350 million on 31 December 2012 to settle all outstanding liabilities and obligations in terms of the DoS. The PRMAL was settled, VAT and capital gains tax issues arising from the DoS were dealt with and funds were put aside to address the rehabilitation shortfall, as well as the residential lease of the Alexander Bay properties.

The allocated funds were received in the form of equity and the sole shareholder, the government represented by DPE, issued shares in this regard in line with its revised Memorandum of Incorporation (MoI). The allocation stabilised Alexkor's financial position to more or less where it was before the land claim process started.

## CONCLUSION AND ACKNOWLEDGEMENTS

We are adequately positioned to take advantage of current opportunities to build an economically viable and sustainable mining company.

The PSJV's exploration process is close to being finalised, the Muisvlak plant is being erected and all senior positions have been filled. The township handover will be concluded by the end of the year and the rehabilitation project is well on its way. Most of Alexkor's legacy issues have been sufficiently dealt with and our balance sheet has been strengthened significantly.

We believe that a viable diversified mining business case can be made, and are confident that in partnering with Eskom, as part of the DPE family, we can enhance the security of coal supply to power stations in order to meet the energy requirements of industry.

Alexkor is committed to transformation and in partnership with emerging black miners can secure jobs, broaden economic participation and positively contribute to the wealth of all our stakeholders and the communities we serve in South Africa.

I would like to thank the chairman and the board of directors for the support and direction they have given in positioning this organisation to contribute to the needs of the country.



**Percy Khoza**  
Chief Executive Officer





# PERFORMANCE INFORMATION

## STATEMENT OF RESPONSIBILITY FOR PERFORMANCE INFORMATION FOR THE YEAR ENDED 31 MARCH 2013

The board is responsible for submitting a report on predetermined objectives as required by the Public Finance Management Act (Act No.1 of 1999). The report on predetermined objectives was approved by the board of directors on 25 July 2013 and is signed on its behalf by:



**P Khoza**  
CHIEF EXECUTIVE OFFICER



**R Bagus**  
CHAIRMAN

### BACKGROUND TO THE 2013 REPORT ON PREDETERMINED OBJECTIVES

The predetermined objectives reported on in the report below were agreed in the shareholder's compact and corporate plan for 2013. Targets also included objectives from the PSJV's operations in Alexander Bay. With the replacement of the board of directors in September 2012 at Alexkor's AGM, the minister provided the new board with the opportunity to review and amend its existing targets.

The board reviewed its targets during its strategic sessions in December 2012 and all necessary changes were incorporated in its report on predetermined objectives for March 2013. The minister approved all changes in line with what was agreed during the

AGM in September 2012. The audit conclusion on the performance against predetermined objectives is included in the report to management, with material findings being reported under the predetermined objectives heading in the report on other *legal and regulatory requirements* section of the auditors' report in the financial statements.

In addition to the standard report, a table was also included at the end of the report to indicate the revised objectives, along with reasons on why the targets were amended. A total of 30 objectives were identified (carat production accounted for one target only) for the year ending March 2013. Almost all (28 of the 30) objectives were achieved, resulting in a 93% success rate (2012: 66% success rate). The two targets that were not achieved are listed below:

Ref	Objective per report	Target	Actual outcome	Variance	Comments
5.1	Lost time injuries	6 injuries	10 injuries	4 injuries	Four additional injuries occurred during the year. However, working procedures have been revised and implemented to prevent them from happening again.
6.2	Increase learners in scarce skills	5 artisan trainees	4 artisan trainees	1 artisan trainee	The shortage in artisan trainees was mitigated by increasing the sector specific trainees from the intended four trainees to seven in total.



## PERFORMANCE OVERVIEW

No.	Objective	Key performance indicator	Unit of measure
<b>1.</b>	<b>Stakeholder perspective</b>		
1.1	Contribute towards socioeconomic upliftment	Contribution towards training, transport, subsistence, library costs, sport fields and food supplies for security and cleaning personnel. This also includes donations and sponsorship for community initiatives, educational assistance and community employment	Monetary value (R's)
1.2	Completion of the township upgrade	Completion of all four phases in line with the predetermined municipal standards	Deadline (Month)
1.3	Manage and maintain non-core businesses	Town maintenance budget and final date of township upgrade - (loss)	Monetary value (R's)
		Guesthouses and fuel station budget - profitable	Monetary value (R's)
<b>2.</b>	<b>Financial performance</b>		
2.1	Maintain production levels on land and marine mining in Alexander Bay (PSJV)	Achievement of budgeted carat production	Total carats
			Land carats
			Marine carats
			Beach carats
2.2	Budgeted financial information	Cash (out)/inflow from operating activities - PSJV	Monetary value (R's)
		Cash (out)/inflow from operating activities - Alexkor	Monetary value (R's)
		Diamond sales from the PSJV (revenue)	Monetary value (R's)
		EBITDA - PSJV	Monetary value (R's)
		EBITDA - Alexkor	Monetary value (R's)
2.3	Consolidated capital funding	Replacement of capital equipment - PSJV	Monetary value (R's)
		Replacement of capital equipment- Alexkor	Monetary value (R's)

\*\*Non-core operations include the guesthouse and fuel station that will be transferred to the CPA. Both of these operations are currently managed by the PSJV.



2013 target	Actual YTD	Comments
4.05 million	4.7 million	Alexkor's contribution to the improvement of the socioeconomic conditions is important to the community as a result of significant job losses during previous years and limited new employment opportunities in the region.
March 2013 ##	Achieved	The 4th phase regarding the waste water works was completed in March. This was also the last phase to be completed and all contracts are now within their retention periods.
(2.2 million) ##	(1 million)	Alexkor had savings due to the efficient recouplement of electricity and rent.
0.55 million**	0.83 million	Improved controls and better management of cost contributed to higher than expected profits.
34 550 ##	35 358	The total amount of carats produced was achieved for the year. The biggest contribution came from the marine concessions as a result of the increase in available sea-days of 22 (2012: 8 sea-days)
10 000	5 229	
18 550	22 699	
6 000	7 430	
(64.4 million) ##	34.9 million	Cash was positive due to lack of exploration expenses and the sale of diamonds just before year-end. 51% was included into the accounts of Alexkor.
(18.6 million) ##	(10.1 million)	Alexkor settled its PRMAL which resulted in a higher than expected outflow of cash (R29 million). The amount has been excluded from the actual YTD figure for comparative reasons as it was funded from the MTEF allocation, which resulted in a zero effect on the total cash movement.
182.2 million ##	184.1 million	The target was achieved as a result of the favourable currency throughout the year, as well as the fact that production targets have been met. 51% of the revenue was included into the accounts of Alexkor.
0.4 million ##	7.8 million	The target was achieved due to a positive variance on sundry income and operational costs. 51% of the amount was included into the accounts of Alexkor.
(15.2 million)	(14.7 million)	Alexkor had a positive variance to budget for the year and therefore achieved its target.
8.1 million ##	8.1 million	Capital expenditure was in line with the budget. 51% of the amount was included into the accounts of Alexkor.
0.6 million ##	0.6 million	Capital expenditure was in line with the budget

No.	Objective	Key performance indicator	Unit of measure	
<b>3.</b>	<b>New mining opportunities (Alexkor corporate)</b>			
3.1	Explore new diamond mining opportunities inside and outside the borders of South Africa to secure new revenue streams to ensure future existence, sustainability, growth and to enable it to effectively address its obligations and liabilities.	Advance with at least two new mining opportunities. These opportunities must be taken to an advanced stage of legal and financial due diligence phase. The opportunities must be presented to the board where a decision must be taken on how to progress with the opportunities should they prove to be viable and sustainable to satisfy Alexkor corporate's needs.	Deadline (Month)	
<b>4.</b>	<b>Expansion of mining operations in Alexander Bay (PSJV)</b>			
4.1	Development of mining plan to optimise expansion of mining areas	Land-based: Complete the resource estimation in the Muisvlak and Kaap Voltas areas by contractor	Deadline (Month)	
		Land-based: Board to evaluate the potential of the Muisvlak and Kaap Voltas projects and to advance with an identified project	Deadline (Month)	
		Land-based: Conclude contract with a contractor for the resource estimation in all the other key areas identified in the mine area.	Deadline (Month)	
		Marine-based: Submit application for the mining rights to DMR for the 1C concession	Deadline (Month)	
		Marine-based: Complete all contracts with the IMDSA to enable commencement of exploration and sampling on the 1C concessions	Deadline (Month)	
<b>5.</b>	<b>Health, safety and environmental matters</b>			
5.1	Minimise accidents and/or injuries on the mine	LTIFR (injury rate)	Safety index	
		LTI accidents/incidents	Number of accidents	
		Minor incidents	Safety index	
		Fatal accidents	Number of fatalities	

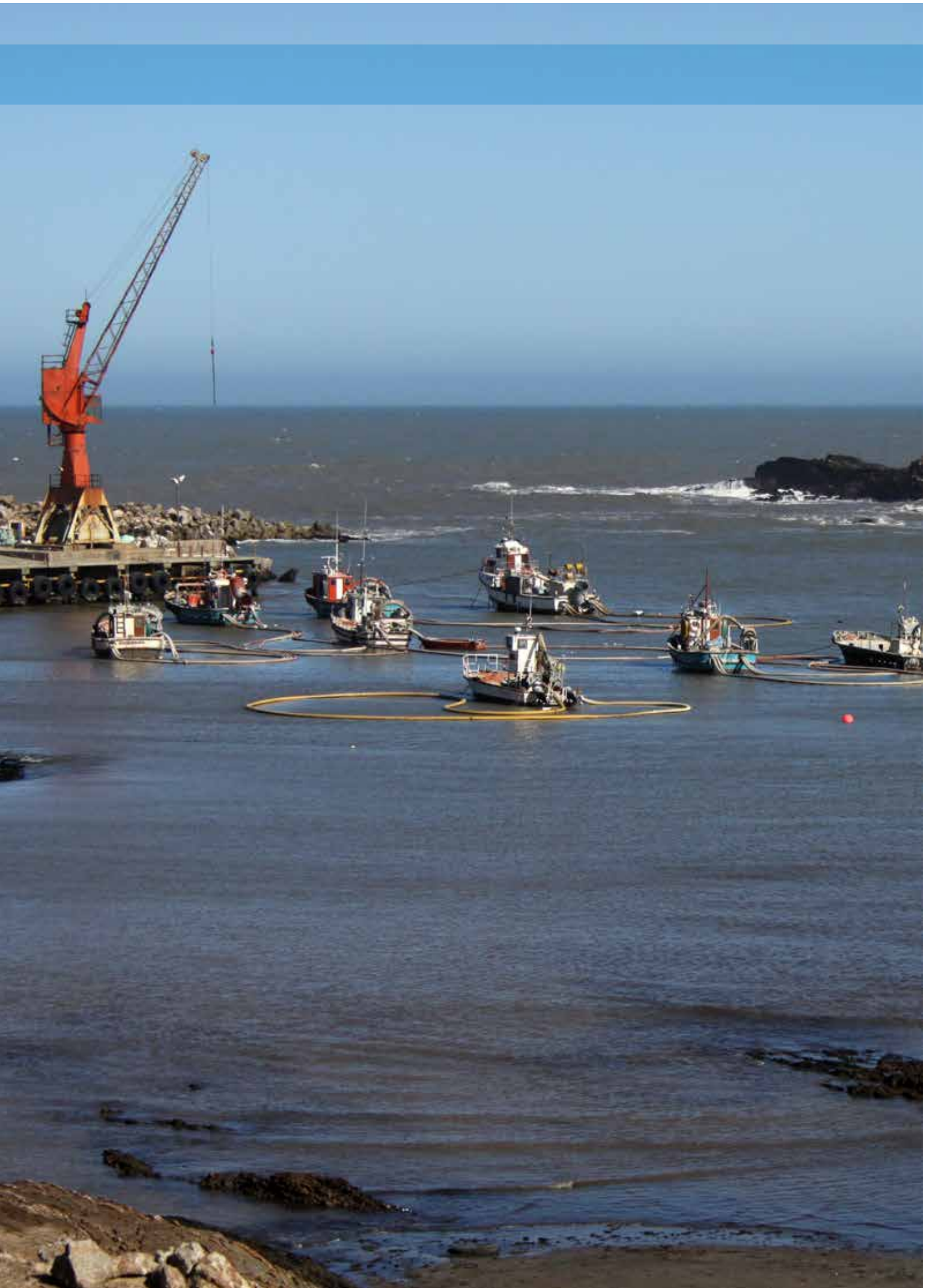
2013 target	Actual YTD	Comments
March 2013	Achieved	Alexkor pursued more than two opportunities, but due to the lack of funding it was not possible to commence negotiations.
March 2013 ##	Achieved	The contractor finalised the report and submitted it to management.
March 2013 ##	Achieved	The board evaluated the projects and approved it to proceed to tender.
March 2013 ##	Achieved	A contract was concluded with the contractor and signed.
December 2012	Achieved	The application was submitted to DMR.
March 2013 ##	Achieved	All contracts have been concluded and signed.
0.8 ##	0.65	Target achieved
6	10	Due to unforeseen accidents the targets were not achieved.
0.627	0.32	Target achieved
0	0	3 161 fatality-free production shifts have been recorded at 31 March 2013.

No.	Objective	Key performance indicator	Unit of measure	
<b>5.</b>	<b>Health, safety and environmental matters (<i>Continued</i>)</b>			
5.2	Compliance with the environmental management plan (EMP) of the mine	Execution of the requirements in terms of the EMP. Rehabilitation work in accordance with Alexkor's rehabilitation plan. Restoring the impact of the disturbances in the vicinity of the Boegoeberg and stabilisation of the Muisvlak dust plumes.	Restoring the impact of the disturbances in the vicinity of the Boegoeberg and stabilisation of the Muisvlak dust plumes. Contributions towards the rehabilitation trust fund	
5.3	Appointment of environmental officer	To identify and employ a specialised and qualified candidate with knowledge of the area to effectively address the rehabilitation area.	Sign a contract of employment with Alexkor	
<b>6.</b>	<b>Skills development</b>			
6.1	Training spend (PSJV)	% of personnel costs	2% of payroll	
6.2	Increase learners trained in scarce and critical skills (PSJV)	Total learners in system in 2012/13 financial year.	Engineering trainees Artisan trainees Sector specific trainees	
6.3	Sponsoring a bursar (recruited from DPE) to study at an accredited tertiary institution for a degree that will enhance services in the mining sector	Assistance will include but is not limited to tuition and examination fees, full registration fee, accommodation and food, text books and pocket money. Period will cover a minimum of four years.	Monetary value (R's)	

## The indicated targets were revised and amended from the original set targets (shareholder's compact 2013 – signed by the minister) as per the table below. The adjusted targets are indicated next to the original targets below, along with the motivation for the revisions.

	2013 target	Actual YTD	Comments
	4 million	4.4 million	Target achieved in order to mitigate the rehabilitation liability and to restore the environment to its natural condition. Expenses included diesel, salaries and wages, netting and steel.
	9 million	9 million	Alexkor also made an additional investment of R50 million to the rehabilitation trust from its MTEF allocation.
	December 2012 ##	November 2012	Alexkor appointed a suitable and qualified female from the region.
	0.48 million	0.52 million	Target achieved
	1	1	Target achieved
	5	4	Not achieved
	4	7	Target achieved
	R50 000	R54 497	The variance is due to the timing of the payments to the bursar. However, it is envisaged that the payments will be around R50 000 per year.

No.	Objective per report	Unit of measure	Original target	Revised target	Reason for revised target
1.2	Completion of all four phases in line with the predetermined municipal standards	Deadline (Month)	December 2012	March 2013	The 4th phase regarding the waste water works was delayed due to disputes relating to the licence.
1.3	Town maintenance budget and final date for transfer to the Richtersveld Community (RVC) - (loss)	Monetary value (R's)	(1.2 million)	(2.2 million)	An increase in cost with the extension of the period in rendering services in the town until handover to the municipality
		Deadline (Month)	December 2012	March 2013	As indicated in point 1.2
	Guesthouses and fuel station budget and final date for transfer to the RVC - profit	Monetary value (R's)	Profitable	R550 000	Target was amended to be measurable
2.1	Achievement of budgeted carat production	Total carats	35 550	34 550	Witvoorkop's production was excluded as it became clear that no mining would take place during the year
	Achievement of budgeted carat production	Witvoorkop carats	1 000	Removed	See explanation above
2.2	Cash (out)/inflow from operating activities - PSJV	Monetary value (R's)	(63.5 million)	(64.4 million)	Updated budget for the new board suggested new figures
	Cash (out)/inflow from operating activities - Alexkor	Monetary value (R's)	(1.6 million)	(18.6 million)	The delay in the transfer of the town has prevented the close of cost centre as per 2012 corporate plan.
	Diamond sales from the PSJV (revenue)	Monetary value (R's)	186.9 million	182.2 million	A deduction of the 1 000 carats as per 2.1
	EBITDA - PSJV	Monetary value (R's)	1.3 million	0.4 million	A deduction in revenue as per 2.2 influenced revised EBITDA figures
2.3	Replacement of capital equipment - PSJV	Monetary value (R's)	12.9 million	8.1 million	Expansions were not going to materialise in the 2012/13 year
	Replacement of capital equipment - Alexkor	Monetary value (R's)	0.5 million	0.6 million	Increased prices with regards to maintenance equipment
4.1	Submit application to DMR for the 1C concession in terms of the deep-sea contract	Deadline (Month)	December 2012	March 2013	The process was scrutinised and broken down by the new board in various specific deliverables that were realistic due to the complexity of process of each.
5.1	LTIFR (injury rate)	Safety index	0.546	0.8	A more realistic and market related ratio was approved.





# CORPORATE GOVERNANCE REPORT

Alexkor's corporate governance is guided by the Public Finance Management Act, No. 1 of 1999, as amended (PFMA); the Companies Act, No. 71 of 2008 as amended (Companies Act); King Code on Governance 2009 (King III Report) and international best practice on corporate governance. Alexkor also takes into account various recommendations of previous corporate governance and internal control investigations carried out at Alexkor. The company strives to apply the principles and guidelines of the King III Report, which it deems appropriate for the company.

## SHAREHOLDING

Alexkor remains a state-owned enterprise with 100% shareholding by the government of South Africa, with the Minister of Public Enterprises being the executive authority.

## ALEXKOR BOARD OF DIRECTORS

The financial year commenced with the board of directors (the board) from the previous years, the majority of which were appointed in September 2008 for a three-year term. The term was extended during the 2010 AGM for the second term. The board comprised five non-executive directors and the acting chief executive officer, pursuant to the termination of the contract of the former chief executive officer in September 2011. This board, under the chairmanship of Mr Reginald Muzariri, comprised of Dr Roger Paul, Dr Viola Makin, Mr Claude Towell and Ms Simangele Ngoma.

During the 2012 AGM the board, with the exception of Dr Roger Paul who was retained for continuity and institutional knowledge, was rotated. A new board, under the chairmanship of Mr Rafique Bagus, was appointed on 8 September 2012. The other members of the new and current board are Dr Roger Paul, Dr Nono Yvonne Mohutsioa-Mathabathe, Mr Mohammed Bhabha and Ms Zukiswa Ntlangula.

## RESPONSIBILITIES OF THE BOARD

The duties and responsibilities of Alexkor's board are embodied in the company's Memorandum of Incorporation (MoI) as amended from time to time, national legislation including Alexkor's enabling act, as well as corporate governance best practice. The board

provides the executive management with clear strategic direction, as documented in the company's strategic and corporate plans.

The board ensures that it effectively monitors all managerial and company decisions and transactions by receiving quarterly reports detailing all significant operational, risk, financial and non-financial occurrences. Active monitoring is also facilitated through regular board and sub-committee meetings. Details of the number of board meetings and attendances, by the former and current board are contained in the table on pages 30 to 32.

Through the company's delegation of authority framework policy, the board delegates certain powers and functions to management, whilst retaining material decision-making powers. Due regard is also given to those powers prescribed by legislation, such as the PFMA, either in consultation with, or with the approval by the shareholder and/or the Minister of Finance.

In addition to the monitoring of operational performance, the board also monitors the performance of management through the social, ethics and human resources committee. The board also fulfils this role even in relation to the PSJV board, which operates as a sub-committee of the board of Alexkor. Systems have been put in place for regular reporting and sharing of information between the board of Alexkor and the PSJV board.

All directors, in addition to having been inducted, have also undertaken site visits at Alexander Bay and are therefore familiar with the internal operations of the company.

In terms of the directors' and officers' indemnity cover, Alexkor's directors and officers are covered for liability, loss or damage arising from the normal course of exercising their duties as directors. This cover excludes the normal legal exclusions as contained in the Companies Act, such as fraud and recklessness.

The board is committed to operating within the highest standards of professional ethics by ensuring that all material and potential conflicts of interests between a director and the company are recorded and addressed according to the provisions of the Companies Act. These matters are also reported to the shareholder at annual

general meetings. The board also conducted, as it does annually, an independent evaluation of its effectiveness during the financial year under review. The board further conducts on-going education programmes to keep abreast of the developments in legislation and particularly within the mining sector.

## BOARD SUB-COMMITTEES

The board has appointed the following sub-committees:

### **Audit and Risk Committee**

(Chairman: Ms S Ngoma and subsequently Dr R Paul)

### **Tender Committee**

(Chairman: Mr C Towell and subsequently Dr N Mohutsioa-Mathabathe)

### **Social, Ethics and HR Committee**

(Chairman: Dr V Makin and subsequently Miss Z Ntlangula)

### **Rehabilitation Committee**

(Chairman: Dr R Paul)

### **PSJV Board**

(Acting Chairman: Mr R Muzariri and subsequently Mr R Bagus)

## AUDIT AND RISK COMMITTEE

During the earlier part of the year under review, the audit and risk committee was constituted by three non-executive directors of the board and chaired by a non-executive member of the board, Ms S Ngoma, who has vast experience in auditing. During the 2012 AGM held on 8 September 2012, pursuant to the rotation of the former board, a new audit and risk committee comprising of Dr R Paul, Miss Z Ntlangula and chaired by Ms JN Jiyane was appointed. Ms Jiyane, who was also appointed to the PSJV board and who chaired the PSJV audit and risk committee, resigned in November 2012. To ensure compliance with the provisions of the Companies Act relating to the committee's complement, whilst in consultation with the shareholder on the appointment of an additional board member, the board filled that vacancy by appointing Mr Bhabha to the committee and Dr Paul was appointed as acting chairman of the committee in November 2012.

The audit and risk committee is established in accordance with the guidelines in the King III Report and the provisions of the PFMA. In keeping with its duties contained in the King III Report and the Treasury Regulations passed under the PFMA, the committee considers all financial requirements prior to these being presented to the board for approval and onward submission to the shareholder and/or National Treasury and other prescribed stakeholders. The committee continues to monitor the role of the internal and external auditors and signs off on the annual financial statements prior to submission to the board. Both the external and internal auditors have unrestricted access to the audit and risk committee. A report by the committee on the duties that it has carried out during the financial year under review is contained in page 50 to 51.

Members and attendance at the committee's meetings during the period under review appear in the table on page 30 to 32.

## SOCIAL, ETHICS AND HUMAN RESOURCES COMMITTEE

The social, ethics and remuneration committee was established in April 2012 in terms of the requirements of section 72(4) read with regulation 43 of the Companies Act, which prescribe the establishment of mandatory social and ethics committees by various types of companies, including state-owned entities. This committee was formed through a merger of the existing remuneration committee and the mandatory social and ethics committee, thus the new merged committee was renamed the social, ethics and the human resources committee. This committee initially consisted of three non-executive directors of the board, and was chaired by Dr V Makin during the earlier part of the financial year. After the 2012 AGM, a new committee under the chairmanship of Ms Ntlangula was appointed, with Mr Bagus, Dr Mohutsioa-Mathabathe and Mr Bhabha being the additional members.

Therefore the committee fulfils the social and ethical responsibilities of the company as contemplated in section 72(4) read with regulation 43 of the Companies Act, as well as the remuneration and human resources functions and responsibilities of the board. The committee is required to report on the activities that it

has undertaken during the financial year under review at every AGM. This was done during the financial year under review and this practise will continue in the following years.

The table on page 31 depicts members and attendance at the social, ethics and remuneration committee meetings during the year under review.

## REHABILITATION COMMITTEE

The rehabilitation committee consisted of three non-executive directors for the earlier and latter part of the financial year under review and remains under the chairmanship of Dr Roger Paul. The committee administers the rehabilitation trust fund, oversees the amendment of the EMP and its submission to the DMR. The committee also monitors the on-going rehabilitation of the mined areas at Alexander Bay, as required by national environmental legislation.

The table on page 31 depicts members and attendance at rehabilitation committee meetings for the year under review.

## ALEXKOR MEETINGS

### SCHEDULE OF ATTENDANCE AT BOARD MEETINGS

Member	11-May-12	24-Jul-12	14-Aug-12	8-Sep-12 (AGM)	8-Sep-12 (SGM)	11-Nov-12	6&7-Dec-12	20-Feb-13
Mr RT Muzariri	P	P	P	P	Retired	Retired	Retired	Retired
Ms S Ngoma	P	P	P	P	Retired	Retired	Retired	Retired
Dr V Makin	P	P	P	P	Retired	Retired	Retired	Retired
Mr C Towell	P	P	P	P	Retired	Retired	Retired	Retired
Mr R Bagus	n/m	n/m	n/m	n/m	P	P	P	P
Dr R Paul	P	P	P	P	P	P	P	P
Dr N Mohutsioa-Mathabathe	n/m	n/m	n/m	n/m	P	P	P	P
Mr M Bhabha	n/m	n/m	n/m	n/m	P	P	P	P
Ms N Jiyane	n/m	n/m	n/m	n/m	P	P	Resigned	Resigned
Ms Z Ntlangula	n/m	n/m	n/m	n/m	P	P	P	P
Mr B Lategan (acting CEO)	P	P	P	P	P	P	P	P

## TENDER COMMITTEE

The tender committee consisted of three non-executive directors of the board for the earlier and latter part of the year under review. The committee was initially chaired by Mr C Towell and upon rotation of the board, Dr Mohutsioa-Mathabathe was appointed as the new chairman of this committee. Depending on the expertise, skills and knowledge required to adjudicate on a specific tender, members of management are invited to join the committee and they also attend the meetings on an invitational basis. Since the establishment of the PSJV and the transfer of the mining operations to the PSJV, the board only holds tender committee meetings when necessary to discuss the business relevant to Alexkor as an independent entity. As such, only one meeting was held during the financial year under review.

The table on page 32 depicts members and attendance at tender committee meetings for the year under review.

## BOARD MEETINGS

Board meetings are held at least once a quarter and thereafter when the board deems it necessary. The board also holds one strategy meeting within a financial year.

**SCHEDULE OF ATTENDANCE AT AUDIT AND RISK COMMITTEE MEETINGS**

Member	11-Apr-12	10-May-12	16-Jul-12	14-Aug-12	02-Nov-12	11-Feb-13
Ms S Ngoma	P	P	P	P	Retired	Retired
Mr C Towell	P	P	P	P	Retired	Retired
Dr R Paul	P	P	P	P	P	P
Ms Z Ntlangula	n/m	n/m	n/m	n/m	P	P
Ms N Jiyane	n/m	n/m	n/m	n/m	P	Resigned
Mr M Bhabha	n/m	n/m	n/m	n/m	n/m	P
Mr B Lategan (acting CEO)	P	P	P	P	P	P

**SCHEDULE OF ATTENDANCE AT SOCIAL, ETHICS & HUMAN RESOURCES COMMITTEE MEETINGS**

Member	10-May-12	13-Aug-12	05-Nov-12	12-Feb-13
Dr V Makin	P	P	Retired	Retired
Mr RT Muzariri	P	P	Retired	Retired
Mr C Towell	P	P	Retired	Retired
Mr R Bagus	n/m	n/m	P	A
Ms Z Ntlangula	n/m	n/m	P	P
Dr N Mohutsioa-Mathabathe	n/m	n/m	P	P
Mr M Bhabha	n/m	n/m	A	P
Dr R Paul *	n/m	n/m	n/m	P
Mr B Lategan (acting CEO)	P	A	A	A

**SCHEDULE OF ATTENDANCE AT REHABILITATION COMMITTEE MEETINGS**

Member	11-May-12	12-Feb-13
Mr RT Muzariri	P	Retired
Mr C Towell	P	Retired
Dr Paul	P	P
Mr Bhabha	n/m	P
Ms Z Ntlangula	n/m	P
Mr B Lategan (acting CEO)	P	A

\* These directors received a special invitation

n/m = not members

A = apology

P = present

## SCHEDULE OF ATTENDANCE AT TENDER COMMITTEE MEETINGS

Member	14-Aug-12
Mr R Muzariri	P
Mr C Towell	P
Dr R Paul	P
Ms S Ngoma n/m *	P
Mr B Lategan (acting CEO)	P

## ALEXKOR RMC JV MEETINGS

## SCHEDULE OF ATTENDANCE AT BOARD MEETINGS

Member	18-May-12	31-Jul-12	30-Oct-12	30-Jan-13
Mr R Muzariri	A	P	Resigned	Resigned
Mr C Matthews	P	P	P	P
Mr W Diergaardt	P	P	P	P
Ms S Ngoma	P	P	Resigned	Resigned
Mr R Paul	P	P	A	P
Mr M Solomon	P	A	A	A
Mr R Bagus	n/m	n/m	P	P
Ms N Jiyane	n/m	n/m	P	Resigned
Mr M Carstens (CEO)	n/m	n/m	P	P

## SCHEDULE OF ATTENDANCE AT TECHNICAL COMMITTEE MEETINGS

Member	20-Jun-12	01-Nov-12	24-Jan-13
Mr M Solomon	P	P	A
Mr W Diergaardt	P	P	P
Dr R Paul	P	A	P
Mr R Bagus	n/m	n/m	A
M Carstens (CEO)	n/m	P	P
Deon Bowers (MRM)	n/m	P	P

## SCHEDULE OF ATTENDANCE AT AUDIT AND RISK COMMITTEE MEETINGS

Member	31-Jul-12
Ms S Ngomo	P
Mr R Paul	P
Mr C Matthews	P

\* These directors received a special invitation

n/m = not members

A = apology

P = present

## STAKEHOLDER COMMUNICATION

The past financial year was characterised by continuous interaction and engagement between the shareholder and the board, and more so with the appointment of the new board. Through this interaction and engagement the shareholder is well informed of all significant business activities of the company and the activities that happen at the PSJV in which the company has the a major interest. Through this engagement and interaction, the shareholder is able to monitor the performance of the company and the activities of the board. The board accordingly expresses its appreciation for the consistent support by the Minister, the Deputy Minister, the Director-General and officials of the DPE.

The company also consults and communicates with all other stakeholders, including the local communities, regional and national political structures, as well as organised labour.

## DIRECTORS' REMUNERATION

The remuneration of the executives and non-executive directors of the company remains guided by the SOC Remunerations Guidelines, 2007. The social, ethics and human resources committee considers the remuneration of the non-executive directors, as well as the executives and make recommendations to the shareholder. The shareholder then decides on the remuneration of the non-executive directors. The social, ethics and human resources committee evaluates the remuneration of the CEO and senior management, and makes its proposals in that regard to the board. The shareholder and the board jointly determine the remuneration of the CEO, whilst the board, in consultation with the CEO, determines the remuneration of senior management.

Details of the remuneration structure appear on page 109.

## COMPANY SECRETARY

During the year under review, the board appointed Ms Nozuko Mxunyelwa, who assisted the board with company secretarial functions on a consultancy basis. With Ms Mxunyelwa's resignation in December 2012, the board has been engaged in a search for a

permanent and full-time company secretary to fill that vacancy. An offer was made to the successful candidate, Ms Jane Mbatia who accepted the position on 14 March 2013.

The company secretary is independent and fully empowered by the board to perform her function in that she reports directly to the non-executive chairman. Amongst other duties the company secretary ensures the company adheres to all legislative, regulatory and shareholder requirements by advising the board on all legislation and governance issues affecting the company. She also satisfies the board that its meeting proceedings and resolutions are properly recorded, communicated and implemented. The company secretary also provides new directors with appropriate induction and access to a specifically required training programme to help them execute their duties diligently and effectively.

## CODE OF ETHICS

Alexkor subscribes to the highest levels of professionalism and integrity in conducting all its business dealings with its stakeholders. The company continually strives to reinforce a culture of openness, honesty and responsibility in order that the conduct of its directors, management and employees is beyond reproach. The board and the company are committed to a code of ethical and moral behaviour encompassing fairness and honesty; transparency to all stakeholders; no tolerance for fraud or any form of corrupt activity; and no conflict of interest in any decision or action affecting the company.

## RISK MANAGEMENT

Alexkor has in place a risk management policy and framework developed in line with the risk management framework issued by DPE. A risk assessment is performed by the senior management team, and a detailed risk matrix is developed and presented to the board on a quarterly basis where all the material risks in the entity are identified and documented. These risks are then reviewed and rated on their impact and likelihood along with the necessary mitigating factors to address these risks. Once the enterprise-wide risk assessment is performed the results are captured into the risk management policy and framework and transferred to

an adequate risk register (risk matrix) for continuous monitoring and updating.

The mitigation actions will be implemented and reported on a quarterly basis to ensure that the major risks are effectively managed in compliance with the risk management policy. The risk matrix will also be reviewed in light of the amendments to the strategic document.

## FRAUD PREVENTION

Alexkor's fraud prevention plan was submitted as part of its corporate plan for the year under review. The plan is being implemented and the board regards the implementation of the plan a priority. Any fraudulent and corrupt activities that may arise are addressed at Alexkor's quarterly audit and risk committee meeting. No such findings occurred during the year.

In addition, Alexkor has a fraud hotline, also known as a "whistle-blowing" facility, which is a simple yet effective management tool to enable concerned employees in an organisation, as well as third parties associated with the company, to report fraudulent, corrupt and unethical practices in the workplace. The hotline is part of KPMG's ethics line and is an accredited hotline service provider (EthicSA). This line has been implemented at both Alexkor and PSJV level.

The board is of the view, based on the information and explanations given by management, that the above controls provide reasonable assurance that any fraud and material misstatements will be detected.

## CORPORATE COMMUNICATION

Alexkor regularly informs its shareholder, through quarterly reports and ad hoc dialogue with DPE officials, and through the AGM, on the business of the company, in line with its statutory and regulatory obligations.

## INTERNAL AUDIT

The outsourced internal audit function focused on high risk high impact areas based on the risk profile of the entity.

The committee considered the effectiveness of internal audit, approved the one-year operational internal audit plan and monitored adherence of the internal audit to its annual programme. Key areas covered included compliance, strategic, operational and financial activities.

The audit committee is satisfied that the internal audit function is operating effectively and that it has addressed the risk pertinent to the entity and its audits.

## THE EFFECTIVENESS OF INTERNAL CONTROL

The system of internal controls is designed to provide assurance that assets are safeguarded and that liabilities and working capital are efficiently managed. In line with the PFMA and corporate governance good practice requirements, internal audit provides the audit and risk committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes.

From the internal auditors' various reports, the audit report on the annual financial statements (AFS) and the management letter of the Auditor-General South Africa, except for the reported matters in the AFS, it was noted that no significant material non-compliance with prescribed policies and procedures and regulations has been reported. Accordingly, we can report that the systems of internal control for the period under review were effective and efficient.



## BOARD CHARTER

The board continues to implement the board charter, the objective of which is to assist the board and executive management in carrying out their functions as prescribed by the Alexkor Limited Act, the PFMA, the Companies Act and King III. The charter provides the terms of reference of the board and its committees including the delineation of the roles, functions and responsibilities and powers of the board, the committees and the executive management. It clearly spells out the policies and practices of the company in respect of matters such as corporate governance, declarations of interest, conflicts of interest, board meeting documentation and procedures and the nomination, appointment, induction, training and evaluation of the board and its committees.

The charter seeks to ensure that the board and the executive management exercise stewardship at all times and uphold the highest degree of ethics in all forms of their conduct.

# PSJV OPERATIONS

## FINANCIAL OVERVIEW

Alexkor RMC JV posted a net profit of R4.7 million (budget was R0.5 million) in its second year of operations. Diamond sales were 36 157 carats against 35 090 in 2012.

## REVENUE

Income from sale of rough, gem-quality diamonds remains the PSJV's primary revenue source. The PSJV sells its diamond stock on the South African International Diamond Exchange (SAIDEX) to local and international buyers. In this manner the PSJV is able to maximise the potential revenue stream, as prices are determined by the domestic and foreign markets rather than by single buyers.

Diamond prices are denominated in US Dollar (USD), with the result that the rand/dollar exchange rate determines the actual Rand value of the PSJV's cash inflows. During the year under review the average exchange rate was R8.70/\$1 compared to a budgeted average rate of R7.80/\$1, resulting in an increase of 11.5% compared to budget.

Diamond revenue for the PSJV for the year amounted to R184.1 million compared to budgeted revenue of R182.2 million. A total of 35 358 carats were produced during 2012/13, against a budgeted production of 34 550 carats. However, the revenue from the higher exchange rate was countered by the drop in stone sizes due to increased production from the south and the re-treating of final recovery tailings.

## FINANCIAL MATTERS AND CASH FLOW

Alexkor RMC JV achieved an operating profit of R3.6 million in its second year of operations.

Alexkor RMC JV acquired property, plant and equipment assets to the value of R8.1 million during the financial year. Diamonds to the value of R16.8 million were included in inventory due to a sale that was scheduled for post-year-end.

Cash and cash equivalents amounted to R42.2 million. However, it is important to note the cash on hand figure

included approximately R25 million that was paid out to contractors on 3 April 2013. The PSJV received R20 million in the previous financial year to attend to its working capital requirements. Therefore, the cash balance has been consistent around that figure, but cash generation is expected to come in future periods.

Total liabilities in the PSJV consisted mainly of a R20 million inter-company loan (working capital transfer) from Alexkor and provisions towards the contractors that were paid shortly after year-end. The inter-company loan is interest-free.

## CAPITAL EXPENDITURE

Capital expenditure amounting to R8.1 million was incurred compared to a budget of R8.1 million. Emphasis was placed on maintaining the current asset base and minimising capital expenditure to critical items. This was also done with a view of ensuring sufficient cash to finance the business' operational requirements. It is anticipated that more capital expenditure will be incurred as part of exploration and the planned Muisvlak project in 2013/14.

## NON-CORE OPERATIONS

### GUESTHOUSES

The business unit operates the guesthouses Af-en-Toe, Frikkie Snyman and Uitsig, and provides cleaning services and meals for mine contractors residing in Lieflot and Oranjeweg numbers 3, 4 and 5. For the year under review, a profit was achieved and this is expected to continue in the next financial year. A greater effort is needed to attract more tourists and increase external cash income, as the mine contribution to income is currently more than the income derived from tourists. In the past year the focus to contain costs and improve efficiencies within the required purchases contributed to the small profits.

### FUEL STATION

This business unit is to be transferred to the community once there is a declared willingness to take over the operation. During the past financial year the fuel station was profitable, which should continue in the

next financial year. The contribution to overall sales from the mine itself is such that if withdrawn, the filling station may not be able to continue making a profit. It is therefore also important to maintain the current levels of operations at the fuel station to ensure that the CPA receives a well maintained business on date of transfer.

### HEALTH AND SAFETY

No fatalities occurred during the year under review.

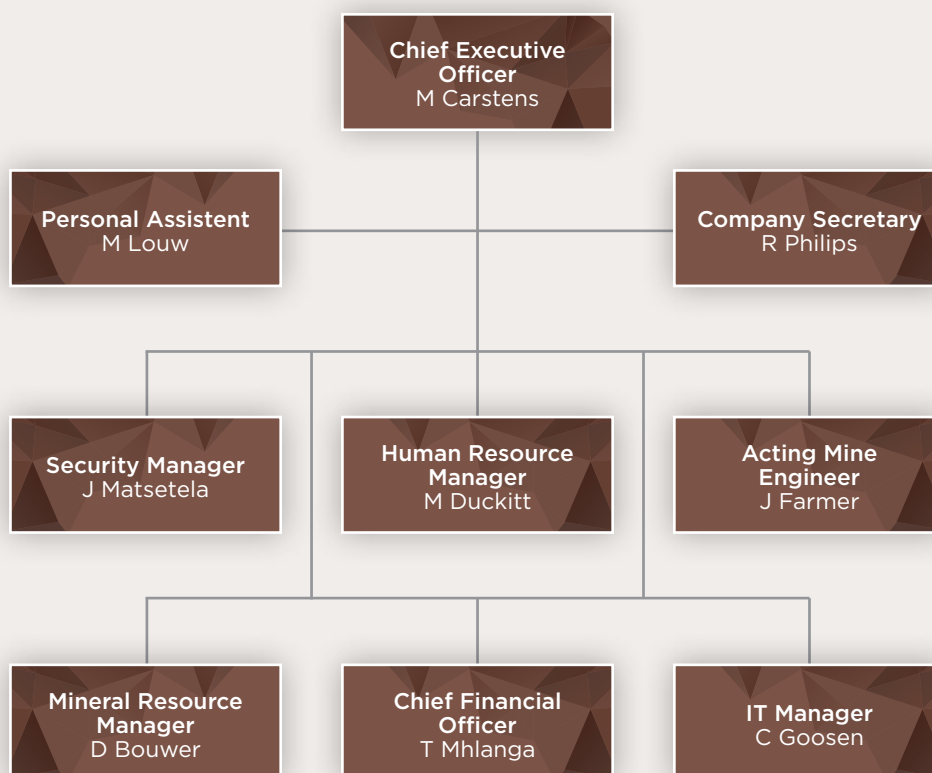
The company remains focused and committed to health and safety of the employees and contractors. Fatality-

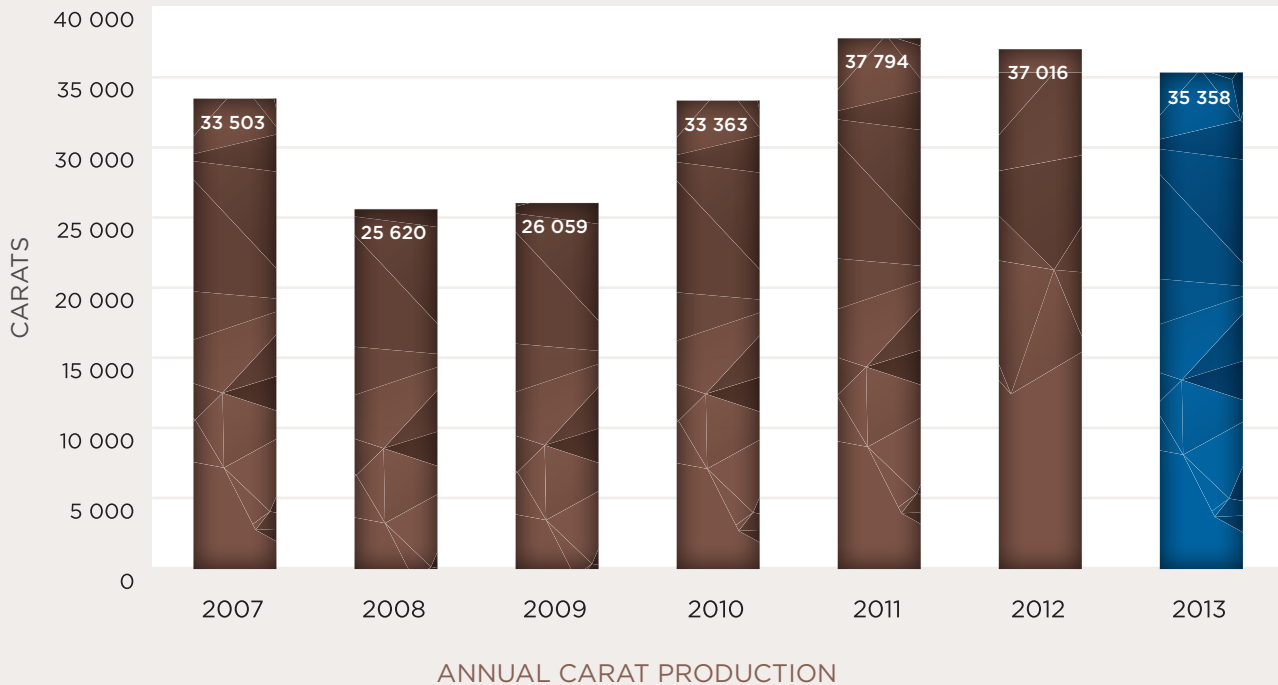
free production shifts (FFPS) of more than 3 000 shifts were reached during the year. The lost time injury frequency rate (LTIFR) of 0.65 and a minor injury rate of 0.32 were achieved during the reporting period.

### MINING OPERATIONS

The mining operations at the PSJV are still based on a contract mining model. This includes land mining, beach mining and marine mining. The JV's executive members were strengthened with the appointments of a full-time chief executive officer (CEO), chief financial manager, mineral resources manager, security manager and company secretary.

### PSJV ORGANOGRAM AS AT 31 MARCH 2013





## PRODUCTION

Actual carat production for the year amounted to 35 358 against 37 016 in the previous financial year. The deficit is due mainly to the underperformance of the land contractors.

## MARINE PRODUCTION

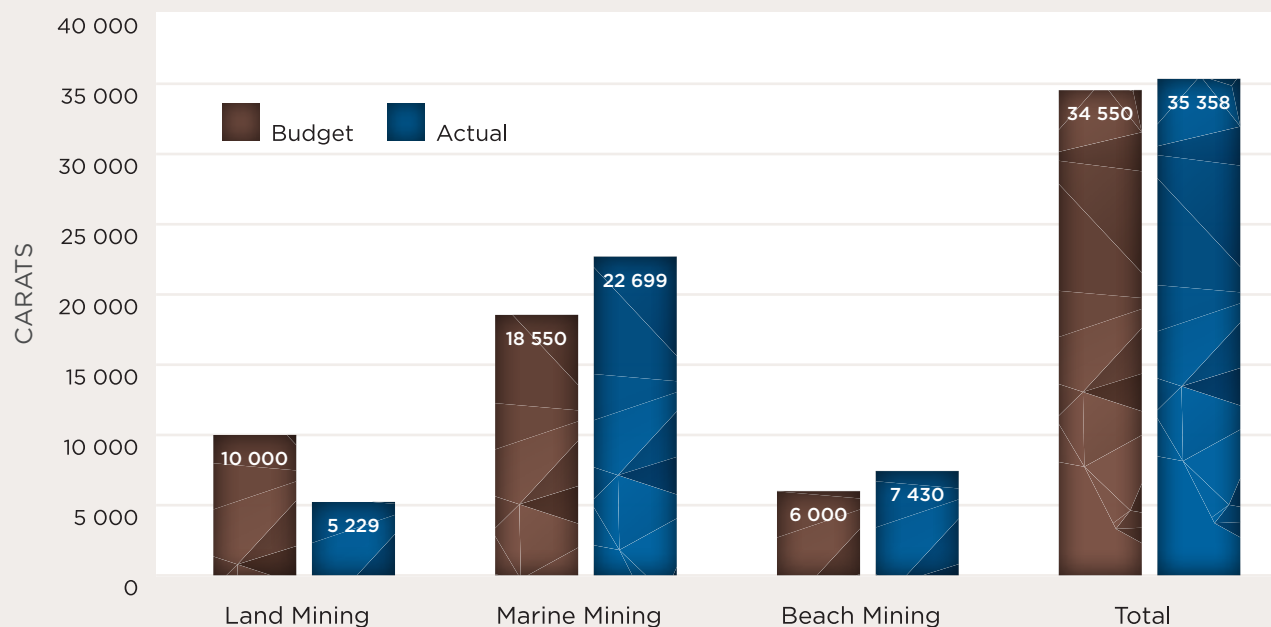
The marine mining was the main contributor towards the carat production for the 2012/13 financial year. This can be linked directly to the increase in sea-days from eight in the previous year to 22 during the current financial year. Marine mining achieved 22 699 carats for the financial year against the budgeted 18 550 carats (22% over target). Marine production achieved 20 148 carats in the previous year, although only eight sea-days were achieved. This is a clear indication that the marine operators are struggling to achieve good carat recovery, which is a result of the intense mining conditions within the marine concessions. The stone sizes that were achieved during the financial year were 0.57 carats per stone, in line with the 0.56 carats per stone in the previous year.

## BEACH MINING

During 2011/12 financial year management introduced the beach mining operations as a new sector to the operations. The beach mining operation targeted those areas that are overlain with thick overburden and cannot be accessed by traditional shore units. It proved to be lucrative, producing 7 724 carats against the budgeted 4 800 carats last year. This trend continued in the 2012/13 financial year with the beach miners contributing 7 430 carats against a budget of 6 000 carats, i.e. 1 430 carats (24%) more than projected. Beach mining achieved an average stone size of 0.51 carats per stone in line with the 0.52 carats per stone in the previous financial year.

## LAND PRODUCTION: LAND CONTRACTORS

The land mining operations were very disappointing, contributing only 5 229 carats of the projected 10 000 carats that was budgeted for the 2012/13 financial year. This is a deficit of 7 771 carats and therefore only 52% of the target. The lack in production was due mainly to the exclusion of the southern portions of the mine.



CARAT PRODUCTION PER SECTOR

The stone sizes achieved for the land contractors were 0.64 carat per stone compared to 0.52 carats per stone the previous year. This is a direct result of the areas the land contractors mined in the north (larger stone sizes), and the recovery of single larger stones. Witvoorkop had its challenges and did not contribute any material production during the year. However, this concession is expected to produce high quality stones in the next financial year. The stone size for Witvoorkop is 0.96 carat per stone on average as would be expected for the fluvial gravel.

This is the second year that the PSJV has been operating, and management is confident it can improve its production result during the 2013/14 financial year.

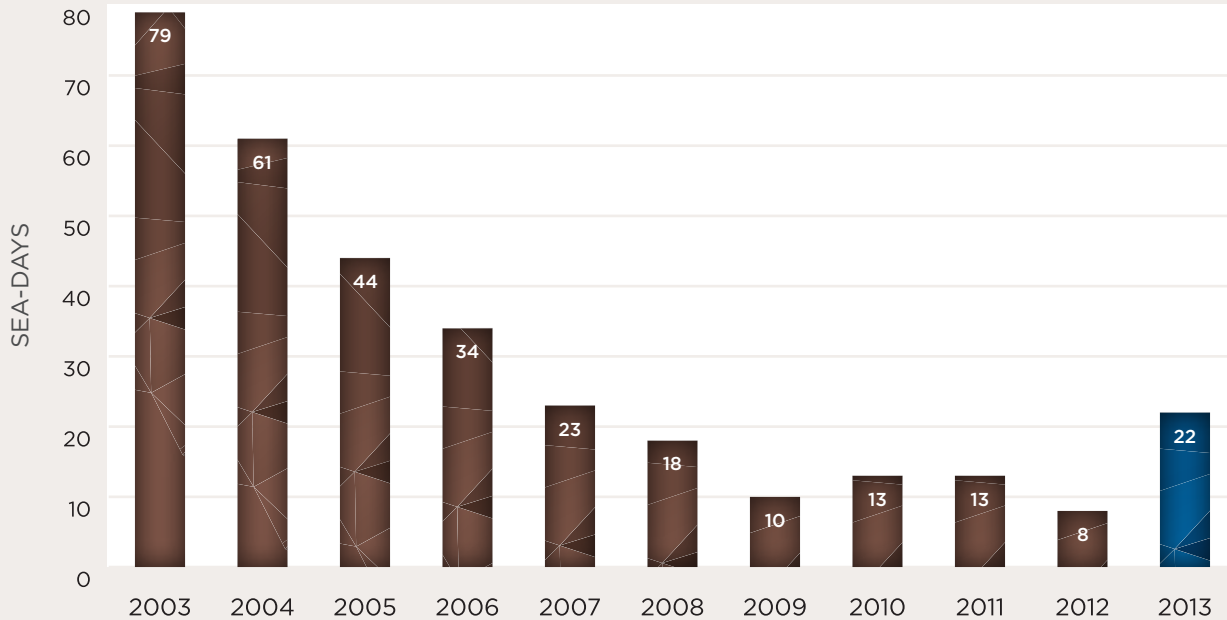
New land-based and marine projects are being developed. New technologies and mining methodologies are also being introduced to increase production within the scope of the Mine Health and Safety Act, as well as the requirements stipulated by DMR and Environmental Affairs. Therefore the executive committee of the PSJV is confident that production can be increased in 2014 irrespective of the weather conditions that have a significant effect on the carat production of the marine section. More land-based projects are planned to counteract the environmental effect on production.

## MINERAL RESOURCES

Alexkor RMC JV has appointed a contractor to perform a due diligence on the land-based mineral resources. The contractor completed this process and prepared a report that was finalised on 26 April 2012. However, this was an estimation only, and the contractor is currently in the process of finalising a detailed due diligence report on the whole lease area. The contractor was requested to re-estimate the Muisvlak and Kaap Voltas portions to identify a mining node for the PSJV.

The contractor's re-estimation of the Muisvlak portion identified a mineral resource of 270 000 carats at an average grade of 4.10 carats per hundred tons according to the South African Mineral Resource Committee (SAMREC) standards of reporting such mineral resource. A "mineable" mineral resource based on generic direct costs was also calculated and a mining node was identified, due to its low stripping ratios and potential to be developed as the new land-based mining project for the PSJV.





## SEA DAYS\*

\* A sea-day is defined as when more than 50% of the production units (sea vessels) leave the harbour in a day to dive for diamonds in the marine concessions.

The contractor is currently in the process of re-estimating the rest of the ore body for eventual economic extraction together with identifying other mineral resources areas for future exploration. This project will be finalised by the end of December 2013.

The PSJV is currently in the process of acquiring an optical sorter to re-treat the old final recovery tailings.

IMDSA has been contracted to perform exploration and prospecting in deep-sea concession 1C. They sampled the area and will prepare a due diligence report once they have obtained all the necessary data.

## DIAMOND MARKET

The 2012/13 financial year was characterised by a world economy that remained fairly depressed and sluggish, naturally affecting diamond prices negatively. Similar conditions are expected to continue in the 2013/14

financial year, however a weakened Rand currency against the Dollar will contribute towards increased revenue. Long-term forecasts show that the supply of diamonds will outstrip demand, resulting in a steadily improving market for diamonds in the medium to long-term.

## DIAMOND PRICES

Diamond prices remained consistent at \$658 per carat (2013) against \$660 per carat for the previous financial year. Alexkor's diamond prices have historically been higher due to the production in the northern portions of the land concession, but have since been getting weaker, due mainly to also utilising all of the concession areas in the southern areas. The consistent diamond prices over the last two years can largely be attributed to the slower than anticipated economic recovery of especially the European economies.

# HUMAN RESOURCES & SOCIAL DEVELOPMENT

## INTRODUCTION

The Alexkor RMC JV regards human resources management as being focused on all aspects pertaining to the management of work-related functions and the people involved. Consequently to ensure the company gets a fair return on investment on its human capital, it amongst others re-engineered its business and operating practices, and achieved the objective of building a sustainable business during the year under review.

The human resources function plays a pivotal part in labour practice and human rights, as well as the philosophy behind the Alexkor RMC JV's corporate social responsibility in developing surrounding communities.

In the coming year the company will endeavour to attract and retain the best talent and skills to create human resources systems that would maximise the potential of employees and the company.

## STAFF COMPLEMENT

As at 31 March 2013 the staff complement was:

Permanent employees	115
Temporary & casual employees	55
External contractors & other	703
<b>TOTAL</b>	<b>873</b>

Given the geographical challenges and the location of the mine, we experienced difficulty in attracting highly skilled individuals in the region to fill critical positions.

However, we were successful in attempts to recruit highly qualified and experienced individuals to fill high profile positions such as the CEO, mineral resources manager and company secretary positions. All these candidates were locally sourced and play pivotal roles in the turnaround strategy that the company is committed to in terms of its corporate plan for 2013/14.

Going forward, with the planned Muisvlak operations, the challenge remains to acquire the necessary skills to successfully commission those operations. However, we are confident of being able to meet our manpower requirements for future operations.

## REMUNERATION

The Alexkor RMC JV subscribed to the Peromnes job evaluation method and engaged Deloitte Consulting to benchmark salaries payable in the Northern Cape province and to recommend job specific remuneration within different levels.

Recommendations were made to the Alexkor RMC JV remuneration committee within these benchmarks.

Salaries are paid based on the total package concept, and the remuneration policy developed by the company is based on a remuneration philosophy that offers equal rates of pay for male and female employees of equal qualifications and experience.

During the period under review salaries paid to employees amounted to R25 million. Payments to the marine, land-based and other contractors for the period under review amounted to R114.5 million.

## INDUSTRIAL RELATIONS

We had continuous engagements with organised labour in an endeavour to ensure smooth running of all operations. The two representative unions with which the company has recognised agreements are the National Union of Mineworkers (NUM) and the United Staff Association of South Africa (UASA).

Various engagement structures, i.e. the NUM and UASA committee, selection committee, the employment equity and skills development committee and the housing committee were utilised to engender communication between management and the workforce.

Relationships between organised labour and management remained cordial and we were fortunate not to experience any industrial action during the review period.

Union memberships are indicated in the table below:

NUM	60,5%
UASA	23.9%
Non-affiliates	15.6%

For the period under review ten disciplinary cases were conducted and are detailed in the table below:

NO	OUTCOME
1	Not guilty
2	Written warnings
3	Final written warnings
4	Dismissals

The company was challenged by two ex-employees on the procedural fairness of the disciplinary action taken and successfully defended itself at the Commission for Conciliation Mediation and Arbitration (CCMA).

No grievances were lodged during the year under review.

The annual substantive negotiations with organised labour resulted in a salary increment of 6.5% on total cost to company (TCTC). Negotiations were frank and

no elements of unreasonableness were displayed by any of the parties during negotiations.

## HUMAN RESOURCES DEVELOPMENT

Significant strides have been made towards the empowerment of existing employees. The PSJV remains committed to developing skills within the existing environment to enable growth opportunities for current personnel into senior positions within the PSJV's structures.

For the year under review the company offered employees and members of local communities opportunities to participate in:

- Learnerships;
- Internships;
- Bursaries;
- Skills development programmes; and
- Acquisition of portable skills.

The table below depicts the areas in which the company assisted employees to acquire requisite skills in order to be able to fill future positions and to appropriately deal with management challenges going forward:

COURSE	RACE	GENDER	INSTITUTION
Junior Engineer	C	M (employee)	Black Mountain - in preparation for the GCC (DMR)
BSc Geology	C	F (bursar - community member)	University of Western Cape
BCom Honors	C	F (employee)	Unisa
Elementary Surveying	C	M (employee)	Spiro Surveying Services
Human Resources Management	C	F (employee)	FET College Namaqualand
Office Management	C	F (employee)	FET College Namaqualand
Human Resources Manager	C	M (community)	Internal Mentorship Programme
Executive Chef	C	F (community)	Internal Mentorship Programme
Labour Relations	C	M (employee)	Lyceum College

## COMMUNITY PORTAL TRAINING:

### ACADEMIC LEARNERSHIPS

An amount of R609 241 has been expended on various training initiatives, including in-house training and bursary contributions to community members. This excludes the one percent skills development levy.

As a further initiative to enhance the education transformation process in the Richtersveld area, the Alexkor RMC JV partnered with three schools by sponsoring salaries of the mathematics and science teachers, as it remains committed to the general upliftment of not only our own employees, but also to the communities in which we operate.

### EMPLOYMENT EQUITY (EE)

COURSE	RACE	GENDER	INSTITUTION
Fitting & Turning (apprentice)	C	M (employee)	Kathu FET/Technical Training Centre
Electrician (apprentice)	C	M (employee)	Kathu FET/Technical Training Centre
Auto Electrician (Section 28)	C	M (employee)	Northlink FET Cape Town
Electrician (Section 28)	C	M (employee)	FET College Namaqualand
Electrician (Section 28)	C	M (community)	FET College Namaqualand
Diamond Evaluating Course	C	F (employee)	DTCSA
Human Resources Manager	C	M (community)	Internal Mentorship Programme
Executive Chef	C	F (community)	Internal Mentorship Programme
Labour Relations	C	M (employee)	Lyceum College

Alexkor RMC JV views EE as a strategic priority and monitors progress closely in this regard. Most barriers that impede on the enhancement of EE numerical and other goals have been eliminated.

Alexkor RMC JV is representative of designated groups in all levels as depicted in the table below:

### EMPLOYMENT EQUITY MARCH 2013

OCCUPATIONAL LEVEL	NUMBER OF INCUMBENTS	MALE			FEMALE				% OF DESIGNATED GROUP
		AM	CM	WM	AF	IF	CF	WF	
Senior Management	7	2	3	1	1				86%
Professionally Qualified	5		2				3		100%
Skilled	44		22	15			5	2	64%
Semi Skilled	54	2	44	4	1		3		93%
Unskilled	5	1	4						100%
<b>TOTAL</b>	<b>115</b>	<b>5</b>	<b>75</b>	<b>20</b>	<b>2</b>	<b>0</b>	<b>11</b>	<b>2</b>	<b>83%</b>

The following structures exist to augment EE in the workplace:

- Alexkor RMC JV has articulated human resource policies that do away with workplace discrimination and also engender management sensitising on stereotypes;
- A committee has been established to investigate and act on any workplace discrimination; and
- Management investigates any obstructive behavior within its ranks.

EE plans were submitted to the Department of Labour.

## SOCIAL RESPONSIBILITY

The Alexkor RMC JV's role as a transformation vehicle was noted from requests for social assistance, not only

from its employees, but also from the surrounding communities.

The company remains committed to supporting local entrepreneurs by offering business contracts in diamond extraction on both land and marine operations.

An amount of R839 138 was contributed towards social responsibility interventions that included donations, feeding schemes, educational assistance, sport development, transportation, youth development and HIV/Aids.

As part of its social responsibility initiatives the company also provided meals in the amount of R1.9 million to employees and contractors residing in the single quarters for the year under review.

### REVISED SOCIAL AND LABOUR PLAN BUDGET COMMITMENTS

	2013/14		2014/15	
	Plan	Budget	Plan	Budget
Commercial Diver Training	1	40 000		
Hyperbaric chamber operators and attendant courses	2	20 000		
Diving first-aid and emergency response	20	70 000	20	77 000
Skipper courses	1	4 500	1	4 950
Diving equipment technician	20	1 500		
Basic rigging and welding	1	20 000	20	22 000
Commercial diving supervisor		10 000		
Training				
<b>Sub-Total</b>		166 000		103 950
Accommodation		600 000		
Bursaries	2	115 000	3	126 500
Learners	6	514 800	7	660 660
ABET - Alexkor		8 000		13 200
ABET - Contractors		4 000		
Projects		825 800		1 528 000
<b>TOTAL</b>		2 233 600		2 432 310

## SOCIAL AND LABOUR PLAN (SLP)

The SLPs previously submitted to DMR were not feasible due to the lack of funding and budgetary constraints.

A revised SLP was submitted to DMR under a Regulation 44 application in which more realistic local economic development (LED) projects were proposed. The company consulted with all stakeholders, including the CPA, Richtersveld municipality and organised labour. The revised SLP was submitted to DMR on 19 November 2012 after representations were made to the DMR in Kimberley on 15 August 2012.

As at 31 March 2013 ministerial approval for the revised SLP has not been granted. It is anticipated that finalisation will in all probability be concluded by the end of the year in which time the implementation of the LED programmes can commence.

All LED projects identified are incorporated into the municipal IDP programme and amongst these are:

- Poverty alleviation;
- Capacity building;
- Improvement of quality of life of the communities;
- Job creation;
- Portable training skills;
- HR development;
- Sustainable and equitable provision of drinking water;
- Waste removal;
- Provisioning of sanitation services to communities;
- Healthcare; and
- Rural and land development.

The targeted communities are Kuboes, Eksteenfontein, Lekkersing and Sanddrift.

The following table depicts a 5-year plan in terms of the revised SLP budget commitment:

	2015/16		2016/17		2017/18		TOTAL	
	Plan	Budget	Plan	Budget	Plan	Budget	Plan	Budget
	1	48 400			1	58 564		146 964
								20 000
	20	84 700	20	93 170	20	102 487		427 357
	1	5 445	1	5 990	1	6 588		27 473
	1	1 815			1	2 196		5 511
	20	24 200	20	26 620	20	29 282		122 102
	1	12 100			1	14 641		36 741
		176 660		125 780		213 758		786 148
		2 000 000		1 400 000		2 000 000		6 000 000
	4	211 250	3	179 135	3	197 049	15	828 934
	7	726 726	5	571 000	4	502 480	29	2 975 666
		12 100		5 324		14 641		53 265
		2 420		10 648		2 928		19 996
		1 774 800		4 322 200		2 050 000		10 500 800
		4 903 956		6 614 087		4 980 856		21 164 809





# ANNUAL FINANCIAL STATEMENTS

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## LEVEL OF ASSURANCE

These financial statements have been audited in compliance with the applicable requirements of the Companies Act, No.71 of 2008.

# CHIEF EXECUTIVE OFFICER'S REPORT

FOR THE YEAR ENDED 31 MARCH 2013

I am pleased to present the audited financial statements representing the results of the company for the year ended 31 March 2013, with comparative results for the year ended 31 March 2012. Of the PSJV's operations 51% has also been proportionately consolidated into the accounts of Alexkor on a line by line basis. With IFRS 11 adopted early, the company re-evaluated its involvement in the PSJV and has reclassified the investment from jointly controlled asset to joint operation.

Alexkor reported an operating loss of R20.7m (2012: R19.1m) for the year, the main reason being the provisions for the environmental liability and the post-retirement medical aid that amounted to R13.5m (2012: R7.1m). The loss from discontinued operations amounted to R0.9m (2012: R1.6m) and included the expenses from town maintenance, as well as 51% of the profits from the guesthouses and fuel station. These operations are expected to be transferred by the end of 2013 as part of the town handover.

Profit for the year amounted to R29.7m (2012: loss of R14.0m) with interest received on surplus funds as the main attributable factor with R62.6m (2012: R23.2m). Operational cash increased to R139.4m (2012: R69.1). Restricted funds amounted to R406.3m (2012: R261.5m) and included the balance of the MTEF funds and government funds towards the PSJV, township establishment and the DoS MOU. Cash in the legal trust was at R10.8m (2012: R10.5m).

The PSJV achieved a gross profit of R7.0m (2012: R11.9m) for the year, resulting in a net profit for the year of R4.7m (R9.1m). The PSJV commenced on 7 April 2011.

Cash held in the rehabilitation trust increased to R109.5m (2012: R48.1m), and the pension fund surplus also increased to R16.3m (2012: R0.4) as a result of the recognition of the employer's unallocated surpluses in the pension fund. Shares were issued as part of Alexkor's MTEF allocation in the amount of R350 million and recognised

in share capital. The post-retirement medical aid liability was also settled during the year (2012: R46.9m).

Supply chain management processes and systems were in place, and overall we were satisfied with the outcome of Alexkor's procurement activities. We experienced some difficulties within the PSJV, but are confident these can be overcome by playing an active role within their operations. I refer to the chairman's and CEO's reports in the front section with regards to Alexkor's plans for the future and its expansion strategy.

Alexkor is expected to invest around R50m into the exploration activities within the PSJV. A plant is currently being built and we expect production to commence in January 2014. Carat production is expected to increase to 70 000 carats over the next two years. The funding comes from the initial contribution of R200m that was allocated specifically for the operations of the PSJV.

I would like to thank all the personnel at the PSJV who assisted Alexkor in finalising its financial information, especially the finance department. Thank you also to the team at Alexkor for going the extra mile to ensure Alexkor's sustainability and sound financial position. I am grateful for all your uncompromising efforts.



**Percy Khoza**  
Chief Executive Officer

# STATEMENT OF DIRECTORS' RESPONSIBILITY

FOR THE YEAR ENDED 31 MARCH 2013

The board of directors ("the board") is responsible for the preparation, integrity and fair presentation of the financial statements of Alexkor SOC Limited. The financial statements presented on pages 63 to 110 have been prepared in accordance with International Financial Reporting Standards, and include amounts based on reasonable and prudent judgements and estimates made by management.

The board acknowledges that it is ultimately responsible for the system of internal financial control established by the company and places considerable importance on maintaining a strong control environment. The focus of risk management in the company is on identifying, assessing, managing and monitoring all known forms of risk across the company.

The going concern basis has been adopted in preparation of the financial statements. The financial

viability of the company is supported by the financial statements.

The external auditors are engaged to express an independent opinion on the financial statements. The financial statements have been audited by the independent auditing firm, Nexia SAB&T, which was given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the board and committees of the board. The board believes that all representations made to the independent auditors during their audit were valid and appropriate. Nexia SAB&T's audit report is presented on page 52-54.

The financial statements were approved by the board of directors on 6 August 2013 and are signed on its behalf by:



**Percy Khoza**  
Chief Executive Officer



**Rafique Bagus**  
Chairman

## STATEMENT BY THE COMPANY SECRETARY

I, the undersigned, in my capacity as Company Secretary do hereby confirm that for the financial year ended 31 March 2013, Alexkor SOC Limited has lodged with the Registrar of Companies all such returns as are required in terms of the Companies Act, No. 71 of 2008, as amended, and that to the best of my knowledge such returns are true, correct and up to date.



**Berno Lategan**  
Company Secretary

# AUDIT AND RISK COMMITTEE REPORT

FOR THE YEAR ENDED 31 MARCH 2013

## REPORT OF THE AUDIT AND RISK COMMITTEE IN TERMS OF SECTION 94(7) OF THE COMPANIES ACT NO. 71 OF 2008

During the year under review, the audit and risk committee (the committee) performed its functions in accordance with section 97(7) of the Companies Act, No. 71 of 2008, as amended (the Companies Act) and the provisions of the PFMA, as amended PFMA. The committee has adopted appropriate formal terms of reference and has regulated its affairs in compliance with those terms of reference. These terms of reference were also reviewed during the course of the financial year under review, to ensure alignment with the provisions of the Companies Act, which came into effect in May 2011. The committee has discharged all its responsibilities as contained therein.

The committee of Alexkor SOC Limited (the company) which reports to the board of directors, comprises of three independent non-executive directors. The committee held four scheduled meetings and two special committee meetings for the year ended 31 March 2013.

In the conduct of its duties, the committee has performed the following activities:

- Agreed, in consultation with the shareholder, to proceed with the current registered external auditors for the company who, in the opinion of the committee, are independent of the company;
- determined the fees to be paid to the external auditors and the external auditors' terms of engagement;
- ensured that the appointment of the external auditors complies with the Companies Act and any other legislation relating to the appointment of auditors;
- determined the nature and extent of any non-audit services which the external auditors may provide to the company;
- pre-approved any proposed contract with the external auditors for the provision of non-audit services to the company;
- considered the independence and objectivity of the external auditors and ensured that the scope of its additional services provided to the company, was not such that they could be seen to have impaired their independence;
- received and dealt appropriately with any complaints (internal or external) relating either to the accounting practices and internal audit or to the content or auditing of its financial statements, or to any related matter;
- received and reviewed reports from both internal and external auditors concerning the effectiveness of the company's internal control environment, systems and processes;
- reviewed the reports of both internal and external auditors detailing their concerns arising out of their audits and requested appropriate responses from management which resulted in their concerns being addressed;
- considered the effectiveness of the internal audit, approved the one-year operational internal audit plan and monitored the adherence of the internal audit to its annual programme;
- reviewed and recommended for adoption by the company's board, such financial information that is publicly disclosed, which for the year included the annual report for the year ended 31 March 2013;
- made appropriate recommendations to the company's board regarding the corrective actions to be taken as a consequence of audit findings;
- reviewed the company's compliance with legal and regulatory provisions;
- reviewed the adequacy, reliability and accuracy of the financial information provided to management and other users of such information; and

- reviewed the effectiveness of the procurement policies and procedures of the company.

In the opinion of the committee, the internal controls of the company are considered appropriate to:

- meet the business objectives of the company;
- ensure the company's assets are safeguarded; and
- ensure that transactions undertaken are recorded in the company's accounting records.

Where weaknesses in specific controls have been identified, management has undertaken to implement the appropriate corrective action to mitigate the identified weaknesses.

The internal auditors and the external auditors have unlimited access to the chairman of the committee and they regularly hold separate meetings with

the members of the committee, at the exclusion of management. The chairman of the committee at the time of the AGM, Ms Ngoma, attended the AGM in order to answer any questions that could arise.

The committee has further evaluated the annual report for the year ended 31 March 2013 and considers that it complies, in all material respects, with the requirements of the PFMA, as amended, the Companies Act, and International Financial Reporting Standards. The committee recommended the adoption of the annual financial statements by the board of directors on 24 July 2013 during its special audit and risk meeting.



**Dr Roger Paul**

Acting Chairman of The Audit and Risk Committee



# INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 31 MARCH 2013

## INDEPENDENT AUDITOR'S REPORT TO PARLIAMENT ON THE ANNUAL FINANCIAL STATEMENTS

### INTRODUCTION

We have audited the annual financial statements of the Alexkor SOC Limited as set out on pages 63 to 110, which comprise the statement of financial position as at 31 March 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

### ACCOUNTING AUTHORITY'S RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMENTS

The board of directors which constitutes the accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) and the requirements of the PFMA and the Companies Act, and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the General Notice issued in terms thereof and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of

the annual financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the annual financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the annual financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of Alexkor SOC Limited as at 31 March 2013, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Public Finance Management Act of South Africa and the Companies Act of South Africa.

### EMPHASIS OF MATTERS

We draw attention to the matters below. Our opinion is not modified in respect of these matters

### RESTATEMENT OF CORRESPONDING FIGURES

As disclosed in note 3 to the financial statements, the corresponding figures for 31 March 2012 have been restated as a result of the early adoption of IFRS 11, Joint arrangements, with regards to the PSJV for the year ended, 31 March 2013.

### FRUITLESS AND WASTEFUL EXPENDITURE

As disclosed in note 34 to the annual financial statements, fruitless and wasteful expenditure to the amount of R146 980 (2012: R0) was incurred mainly in the form of late payment penalties and interest charges to SARS.

## ADDITIONAL MATTER

We draw attention to the matter below. Our opinion is not modified in respect of this matter.

## OTHER REPORTS REQUIRED BY THE COMPANIES ACT

As part of our audit of the financial statements for the year ended 31 March 2013, we have read the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between the reports and the audited financial. We have not audited the reports and accordingly do not express an opinion on them.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the PAA and the General Notice issued in terms thereof, we report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

### PREDETERMINED OBJECTIVES

We performed procedures to obtain evidence about the usefulness and reliability of the information in the report on predetermined objectives as set out on pages 18 to 26 of the annual report.

The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined,

verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.

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

There were no material findings on the report on predetermined objectives concerning the usefulness and reliability of the information.

### COMPLIANCE WITH LAWS AND REGULATIONS

We performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. Our findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the General Notice issued in terms of the PAA are as follows:

### ANNUAL FINANCIAL STATEMENTS

- The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by section 55(1) ((a) and) (b) of the PFMA. Material adjustments to the annual financial statements submitted for audit were made for property, plant and equipment and for the disclosure of fruitless and wasteful expenditure.

### PROCUREMENT AND CONTRACT MANAGEMENT

- Contracts were signed by Alexkor SOC Limited (Alexkor), which were awarded by the PSJV who should have been the signatory to these contracts, with mining contractors whose tax matters had not been declared by the South African Revenue Services to be in order as required by Treasury Regulations 16A9.1(d) and the Preferential Procurement Regulations. Alexkor has not made any payments to these mining contractors.

- As a result of the matter described in the preceding paragraph, Alexkor's procurement system/ processes did not comply with the requirements of a fair SCM system as per section 51(1)(a)(iii) of the PFMA, in that:-
  - The bids were not invited through a public advert in the Government Gazette as prescribed by the SCM policy.

#### EXPENDITURE MANAGEMENT

- The accounting authority did not take effective steps to prevent fruitless and wasteful expenditure, as required by section 51(1)(b)(ii) of the PMFA.

#### INTERNAL CONTROL

We considered internal control relevant to our audit of the annual financial statements, report on predetermined objectives and compliance with laws and regulations.

The matter reported below under the fundamentals of internal control is limited to the significant deficiencies that resulted in the findings on compliance with laws and regulations included in this report.

#### FINANCIAL AND PERFORMANCE MANAGEMENT

Management did not exercise oversight responsibility regarding financial reporting and compliance and related internal controls.

*Nexia SAB&T*

**Nexia SAB&T**

**Per: S. Kleovoulou**

**Registered auditor**

**Director**

**6 August 2013**

# DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2013

The board of directors (the board) is pleased to present its report for the financial year ended 31 March 2013. This report and the audited financial statements comply with the requirements of the Public Finance Management Act, No. 1 of 1999, as amended (PFMA). In promoting the concepts of corporate governance, the board has included additional information about the company's strategic objectives, the impact on the operations and future sustainability of the PSJV with the RMC on Alexkor SOC Ltd (Alexkor or the company), as well as other important matters.

## 1 BACKGROUND

Alexkor has been an operating diamond mine since 1928, having started trading as the "Staats Alluviale Delwerje". The mine was commercialised on 1 May 1989 and changed its name to the Alexander Bay Development Corporation. This structure remained in place until 2 November 1992 when it was incorporated under the Alexkor Limited Act, No. 116 of 1992, as amended, and traded as Alexkor Limited. The government of the Republic of South Africa, through the Minister of Public Enterprises, holds the entire issued share capital of the company and in addition to being governed by the Companies Act, No 71 of 2008, as amended (the Companies' Act), the company also falls under the ambit of the PFMA as it is listed as a Schedule 2 Public Entity. With the coming into effect of the Companies Act in May 2011, the company's name has changed to Alexkor SOC Limited.

The Richtersveld community successfully instituted a land claim against Alexkor (and the government of South Africa) and on 14 October 2003 the Constitutional Court held that the community was entitled to restitution for the land. A memorandum of understanding (MoU), which stipulated the in-principle agreements on the nature and extent of the intended restitution, was signed on 29 October 2006 after settlement negotiations had been completed. The formal and binding DoS was signed on 22 April 2007, and was made an order of court in October 2007.

In compliance with the requirements of the DoS, the land mining rights was transferred to the RMC, which is the operating entity of the communal property association CPA. Furthermore, Alexkor's marine mining rights and

the land mining rights of the RMC are pooled and shared by a joint venture operation, named the Alexkor RMC JV (PSJV) by the mutual consent of both parties, with 51% of any profits before taxation accruing to Alexkor. The PSJV commenced operation on 7 April 2011. The balance of the 49% is for the benefit of the CPA through the RMC.

As part of the land claim settlement an amount of R200 million was made available by the state for the recapitalisation and exploration activities of the PSJV. These funds are specifically ring-fenced for this purpose and cannot be utilised by Alexkor for any other projects. These funds will be utilised for the intended purpose once the strategic plan has been approved. An amount of R20 million has already been utilised within the PSJV as working capital.

A tender process was successfully concluded and a contractor appointed during the year to commence with the initial exploration phase in the PSJV, in order to start exploration activities on land within the Alexander Bay region. The consultants have recommended that test mining be undertaken in the northern end of the Kaap Voltas area to increase the accuracy of the resource estimation, and the tender process is underway. A contract was also awarded in November 2012 to re-estimate the mineral resources of the remainder of the property and is scheduled to be completed by December 2013.

Alexkor also completed the planned township upgrade and all projects have commenced their respective retention periods. Alexkor is currently in a position to transfer the services of the town to the Richtersveld municipality and have been engaging with them to ensure smooth transition.

## 2 NATURE OF BUSINESS

The PSJV is controlled by an independent board of six directors (three nominated by each party to the joint venture) and managed by an independent executive management team that resides in Alexander Bay. This management team reports directly to the independent PSJV board. The members representing Alexkor on the PSJV board are also members of the Alexkor board.

Alexkor only shares in profits or losses that may arise in the joint venture operations, but has no outright control of the joint venture. Alexkor and the PSJV are two distinct and separate entities and operate independently of each other.

The main business of the PSJV is the economic exploitation of diamonds from the pooled marine and land mining rights in the Alexander Bay area. The current mining operations comprise of low-scale land operations due to exploration activities, and shallow and deep water marine mining that is currently performed by mining contractors appointed by the PSJV.

### 3 BOARD OF DIRECTORS

For the period under review, four of the five members of Alexkor's board of directors have been replaced in September 2012 during the AGM. Five additional non-executive directors, including a new chairman, were appointed and effectively started in office on 7 September 2012. One of the new members then resigned in December 2012. Therefore the composition of the board, with respect to the non-executive directors, remained at five members, the same as in the previous financial year. The acting CFO took over the vacant position of the CEO and has been acting in this capacity since 23 September 2011. A permanent CEO was appointed on 4 March 2013. The board is awaiting the appointment of a full complement of three additional directors with the consent of the Minister of Public Enterprises. The appointment of a permanent CFO is also in progress.

The board meets at least once every quarter and retains full and effective control over the company's business, and monitors executive management through a structured approach to reporting and accountability.

All directors receive regular information about the company in order to equip them to actively participate in board meetings. Members of the board also have unrestricted access to management and the company secretary for any further information they require. None of the current directors has any interest in the share capital of the company, or in any contracts entered into by the company, as disclosed by the statutory records of

the company and representations made by the directors to the company. Disclosure of remuneration in terms of section 55 of the PFMA and Treasury Regulation 28.1.1 is provided in note 32 to the financial statements.

The directors of the company during the year are shown as follows:

Name	Changes	
	Appointed	Resigned/ contract expired
Mr Reginald Muzariri	April 2008	September 2012
Dr Roger Paul	April 2008	Still appointed
Dr Viola Makin	April 2009	September 2012
Mr Claude Towell	April 2009	September 2012
Ms Simangele Ngoma	September 2009	September 2012
Mr Rafique Bagus	September 2012	Still appointed
Dr Nono Yvonne Mohutsioa-Mathabathe	September 2012	Still appointed
Mr Mohammed Bhabha	September 2012	Still appointed
Ms Zukiswa Ntlangula	September 2012	Still appointed
Ms N Jiyane	September 2012	December 2012

### 4 SHARE CAPITAL

Alexkor received R350 million in the form of equity on 31 December 2012 as part of its MTEF application. Par value shares were converted to no par value shares and additional shares were issued to the sole shareholder. The total share capital of Alexkor amounts to R400 million. Details of the authorised and issued share capital are disclosed in note 13 of the financial statements.

### 5 SHAREHOLDER

The government of the Republic of South Africa, through the Minister of Public Enterprises, is the sole shareholder of the company.

## 6 DIRECTORS' RESPONSIBILITY IN RELATION TO THE ANNUAL FINANCIAL STATEMENTS

The company's directors are responsible for the preparation and fair presentation of the annual financial statements (AFS), comprising the Statement of Financial Position as at 31 March 2013, the Statements of Comprehensive Income, Changes in Equity and Cash Flows for the year then ended, and the Notes to the Financial Statements, which include a summary of accounting policies and other explanatory notes, in accordance with IFRS and in the manner required by the Companies Act.

The annual financial statements contained in pages 63-66, reflect the financial performance, position and cash flow results of the company's operations for the year ended 31 March 2013.

## 7 CORE OBJECTIVES

### 7.1 STRATEGIC OBJECTIVES

The main strategic objective defined by the board in the 2013 Corporate Plan was to conclude implementation of the court order of 9 October 2007, which incorporates the DoS between the Richtersveld community, the government and Alexkor, whilst implementing a number of focused initiatives to return the company's overall operations to a profitable status.

These initiatives included, inter alia:

- The establishment and commencement of the Alexkor RMC JV and operating the current activities in Alexander Bay on a profitable basis, as well as reducing costs whilst exploring strategies that will ensure long-term viability.
  - Commence with the exploration in the onshore and offshore mining and prospecting areas in Alexander Bay. The intention of the exploration is to provide a sound footing and basis to increase mining from land operations and to stabilise mining from the marine areas for the foreseeable future.
  - Finalise the township upgrade in line with municipal standards. The upgrade included the water networks, electrical reticulation, mechanical and electrical pumping and waste water treatment.
- The initiatives listed above were monitored in the Report on Predetermined Objectives and were reported on a quarterly basis. In addition to the DoS obligations stated above, Alexkor's overall strategy for continued sustainability includes the following strategic objectives:
- To secure and expand the Alexkor operations into new diamond and other mining opportunities inside and outside the borders of South Africa in order to ensure that Alexkor becomes a profitable and sustainable company by:
    - focusing on current business sustainability, marine and land based diamonds in Alexander Bay through five identified projects, namely shallow water mining, land mining, beach water mining, middle water mining and deep water exploration;
    - finalising the Africa strategy through completing a concept study on alluvial diamonds in Africa; and
    - expanding and diversifying into other mineral opportunities, including investigations into the strategic feasibility of entering into coal as a future diversification strategy.
  - Develop and implement strategies for securing additional funding for projects through state-owned entities and/or open financial institutions.
  - Optimise and execute a roll-out plan in terms of the historical rehabilitation liability. This will result in additional employment opportunities for the local community.
  - Make Alexkor an employer that responsibly invests in and promotes the interest and well-being of its employees (sustainable livelihood and strengthening the skills and human resource base), the community (social development) and the environment in which it operates and does business.
  - Transformation and people development, to create a working environment that is conducive to increased productivity and an organisation that is aligned to government policies and best practice.



These objectives have been addressed in the key performance indicators (KPI) and will be reported on once the overall strategy has been approved.

## 7.2 DISCONTINUED OPERATIONS

In line with the company's obligation to exit the non-core business activities pursuant to the DoS, the Alexander Bay trading operations are in the process of being discontinued. The process started during the 2008 financial year and management expects it to be completed by the 2014 financial year when the township establishment will be transferred to the relevant parties.

The process for transfer of the Alexander Bay properties has started in consultation with the CPA and other relevant stakeholders. Non-core operations, including the guesthouses and fuel station, will be managed by the PSJV on behalf of the CPA and negotiations with the municipality are ongoing to ensure smooth transition of all related services.

## 8 NEW BUSINESS DEVELOPMENT

Alexkor has been in the process of identifying new projects to expand its mining operations and diamond resource. Its previous operations in Alexander Bay are now being managed within the PSJV under a separate management team and independent PSJV board. Alexkor is therefore compelled to investigate other new business opportunities to generate alternative revenue streams to enable growth and to ensure sustainability. Alexkor received a mandate from the minister to pursue these opportunities should they prove viable.

Alexkor's focus in the past financial year was in South Africa and all potential projects were located in the Northern Cape and North West provinces. Projects included kimberlite deposits, dumps and tailings, existing operations, as well as greenfield opportunities. Numerous site visits were done and detailed due diligent processes followed after some of the opportunities were shown to be prospective. However, Alexkor encountered challenges with finance, and given its insolvent balance sheet it was almost impossible to secure adequate financial support to fund any of these projects. Alexkor also had the obligation of attending to current liabilities

that precluded it from investing its cash reserves into new potential opportunities.

However, this changed when Alexkor received the R350 million allocation in terms of its MTEF application on 31 December 2012. All liabilities are to be settled and all outstanding obligations from the DoS are to be addressed from this allocation. This improves Alexkor's balance sheet significantly, and with all the liabilities settled and attended to, Alexkor can now focus on growth, development and expansion. As a priority Alexkor will invest resources into its 51% interest in the PSJV to improve profitability in support of sustainability. We are confident that the expansion on the land mining, especially the Muisvlak region, will yield the necessary profit and employment to address the immediate needs in the area.

Although the Alexkor Act makes provision to pursue any mining opportunities, Alexkor acknowledges that it will need to amend its memorandum of incorporation (MOI) and strategic intent to include other minerals, instead of only disclosing its intention to focus on diamond opportunities alone. Alexkor will prospect other minerals as well and incorporate them into its MOI and strategic intent as part of its business strategy.

Beneficiation of product is currently a subject of focus for the government, and as such forms part of Alexkor's expansion strategy. Planning towards beneficiation of product was investigated and many practical challenges have been experienced to date. Alexkor will pursue its beneficiation strategy in line with an increase in its production profile on land operations where there is a planned minimal involvement of independent contractors. Alexkor will continue to explore initiatives in this regard with respect to its broader strategic expansion objectives.

After consultation with its shareholder, the DPE, all parties are positive that Alexkor is in a position to raise funding to finance prospective deals. Alexkor will engage with the Industrial Development Corporation (IDC) and Development Bank of South Africa (DBSA) again to negotiate terms, and will also engage with private institutions to explore avenues of possible project funding. Alexkor will engage with its shareholder

on a frequent basis in relation to potential opportunities and funding to ensure timeous execution should the opportunity arise.

## 9 MEDIUM-TERM EXPENDITURE FRAMEWORK APPLICATION

Alexkor received R350 million on 31 December 2012. This amount has been earmarked for the settlement of the costs for the right of occupation of the residential properties in Alexander Bay, tax related issues, as well as environmental and post-retirement medical aid liabilities. Alexkor's shareholder determined that the allocation of funds was not intended for investment into new business opportunities.

## 10 DIVIDENDS

No dividends have been paid, proposed or declared during the period under review.

## 11 BORROWINGS

In terms of the company's MOI, its borrowing powers are determined by the board from time to time. The company currently does not have any borrowings.

## 12 INTERNAL CONTROL

Internal controls are designed to provide reasonable, but not absolute, assurance as to the reliability of the financial statements and to adequately safeguard, verify, and maintain accountability of assets, and to prevent and detect misstatements and losses.

The internal audit function is outsourced and provides an independent appraisal designed to examine and evaluate the company's activities. In particular, internal audit is charged with examining and evaluating the effectiveness of the company's operational activities in light of the attendant business risks and the system of internal operation and financial controls. Any major weaknesses detected are brought to the attention of the audit and risk committee, the external auditors and management for their consideration and remedial action.

Alexkor's executive management recognises the importance of a strong internal control environment, both in terms of mitigating core business risks and in

ensuring compliance with legislation. Additionally, management recognises the need to ensure compliance in terms of the PFMA. Management adopts a proactive approach to addressing audit concerns that have been raised over the years. At the same time, management has recognised that in certain areas breakdowns in internal controls have occurred, especially with respect to PFMA requirements. Wherever possible, management will ensure that internal control weaknesses are addressed to ensure that repeated findings of non-compliance no longer occur. There is a recognition that in the PSJV, where there has not previously been a requirement to adhere to the PFMA, certain frameworks are required to ensure that a future compliance environment is maintained.

It is internal audit's assessment that overall control structures designed, implemented and maintained by management are adequate and effective. Internal audit's assessment is that additional policies could be implemented and that existing procedures within Alexkor and the PSJV could be enhanced to ensure compliance in terms of the PFMA.

Alexkor has a fraud hotline, also known as a "whistle-blowing" facility, which is a simple yet effective management tool to enable concerned employees in an organisation, as well as third parties associated with the company, to report fraudulent, corrupt and unethical practices in the workplace. The hotline is part of KPMG's ethics line and is an accredited hotline service provider (EthicSA). This line has been implemented at both Alexkor and PSJV level.

The board is of the opinion, based on the information and explanations given by management that the system of internal control provides reasonable assurance that the financial records may be relied upon for the preparation of the financial statements.

## 13 SHAREHOLDER'S COMPACT

A shareholder's compact was signed between the board and the executive authority for the period under review. Performance objectives are captured within the compact and are reported against the outcomes on a quarterly basis.

## 14 LITIGATION STATEMENT

There were no significant changes in the status of the on-going litigation cases against the company by Nabera (Pty) Ltd and Ruslyn Mining and Plant Hire (Pty) Ltd. Management has assessed the impact of the litigation matters on the financial statements and in consultation with the company's legal representatives, no additional provision has been made in the financial statements for these claims.

The company instituted a claim against the government of the Republic of South Africa and others for compensation in respect of assets it transferred to the Richtersveld CPA in settlement of the land claim. The land settlement claim was principally against the State, and Alexkor, as owner of the assets subject to the restitution claim, was cited as an affected and interested party. Alexkor was obliged to claim a quid pro quo for the assets transferred to the community. Therefore Alexkor instituted a claim for compensation in the sum of R202 million for the assets so transferred.

Full detail of the litigation has been disclosed in note 28 and note 29 to the financial statements.

## 15 ENVIRONMENTAL MATTERS

Environmental matters are overseen by an environmental sub-committee of the board. The rehabilitation committee continuously reviews the environmental operations and policies of the company and recommends mitigating strategies and activities to limit the impact of mining operations on the environment, as well as to actively address historical damage.

A study conducted by an independent environmental management consultant estimated the total gross liability to amount to R268.7 million as at 31 March 2013 (2012: R258.0 million). This included the historical liability of Alexkor to the value of R268.5 million along with the 51% portion of the total liability of the PSJV of R0.2 million. The company makes monthly contributions towards a duly registered rehabilitation trust fund, and the funds held in the trust amounted to R109.5 million as at 31 March 2013 (2012: R48.1 million), resulting in a currently unfunded rehabilitation liability of R159.0 million (2012: R209.9 million). The unfunded portion is currently

held in cash and will be structured to the advantage of Alexkor's operations going forward. Further details with regards to the rehabilitation liability are provided in note 16 to the annual financial statements.

The company has submitted an updated revised EMP to the DMR for approval. All conditions for the revised EMP set by DMR have been met. Monthly contributions to the environmental rehabilitation trust fund continued and an additional R50 million was invested into the trust from the allocated MTEF funds.

The re-vegetation research project in the vicinity of the Boegoeberg area has been completed, but the long-term effectiveness of the process remains uncertain. The progress report compiled by the research company has been inconclusive and the parties have agreed that any future re-vegetation research will be conducted within the constraints of the Alexkor rehabilitation budget and as part of the current rehabilitation programme conducted by Alexkor. Re-vegetation and the re-vegetation research project will form part of the Alexkor rehabilitation programme in areas that have been identified as requiring urgent intervention.

The availability of aerial photography expected later during the year will provide the opportunity for a ground-truthed total recalculation of the rehabilitation liability, taking full cognisance of sand plume increases, sand plume control by netting over the past four years, and the detailed quantification of reduced liability that has come about since its initial determination in 2005/06 through natural re-vegetation of prospecting trenches and overburden dumps.

The impact of current mining activities on the environment are minimised with the concurrent backfilling of excavations where possible, minimising of access roads and erecting of nets in order to curb the movement of sand at the base and toe of the sand plumes. Alexkor will continue to address priority environmental issues around Boegoeberg and other areas as identified. With netting at the Boegoeberg area having achieved its aim through a reduction of decline of sand on the Boegoeberg slopes, Alexkor is satisfied that the annual expenditure on netting and re-vegetation is beginning to achieve the goal of avoiding increased costs for dust plume control. Any adjustments which may be required in future will

be made based on the pending ground-truthed photo-based quantum recalculation update during the year on receipt of the new photography. Alexkor will finalise its optimisation process for the rehabilitation execution plan in alignment with the amended EMP as accepted by the DMR.

## 16 GOING CONCERN

The board took cognisance of the losses suffered during the past number of financial years and has considered the impact thereof on the solvency of the company. Due to the substantial amount of cash available to meet its operating cash requirements and the rehabilitation liability shortfall (refer to note 16), the financial statements have been prepared on the going concern basis. Alexkor has no borrowings.

The cash balance available for operating cash requirements is R139.4 million as at 31 March 2013. The company budgeted for a total cash outflow of R11.4 million for the 2014 financial year based on the level of operational activities planned and capital expenditure. The available cash reserves are therefore more than sufficient to fund the cash requirements for the company for the next 12-month period ending 31 March 2014.

As of 7 April 2011 when the PSJV commenced, Alexkor has a 51% interest in the joint venture. We are of the opinion that these operations will be profitable in future and that after the period of exploration Alexkor will generate sufficient income through this venture to justify its stake in these operations.

The Minister of Public Enterprises also gave Alexkor a mandate to pursue other mining related opportunities for new business development outside the Alexander Bay region in order to expand on its mining operations. These opportunities are being investigated and decisions to proceed will be based on the viability and sustainability of such ventures. The board accepts the risks related to new business development and believes this expansion to be in the best interest of Alexkor's long-term sustainability going forward.

The directors have applied the liquidity and solvency test as required by the Companies Act, No. 71 of 2008. The board has every reason to believe that the company will have adequate resources in place to continue with operations for the foreseeable future.

## 17 PUBLIC FINANCE MANAGEMENT ACT, NO. 1 OF 1999

Except for the matters noted in the report of the independent auditors, no other material non-compliance to the Public Finance Management Act has been identified and/or reported.

## 18 AUDITORS

In accordance with the provisions of section 90(1) of the Companies Act, 2008, Nexia SAB&T Inc. were appointed and will continue in office for the next three years in terms of the tender that has been awarded to them following the shareholder's approval during the AGM in September 2012. Their first period under review would be the financial year ending 31 March 2013.

## 19 COMPANY SECRETARY

Ms Nozuko Mxunyelwa was acting in the position of the company secretary on an outsourced basis for the financial year under review and resigned in January 2013. The position was vacant until the appointment of Ms Jane Mbatia on 22 April 2013.

## 20 REPORT ON PREDETERMINED OBJECTIVES

Alexkor produced a report on predetermined objectives for the 2013 financial year, outlining its targets and achievements for the period as set out in the signed shareholder's compact. The minister provided the new board the opportunity to amend and revise the targets set during the AGM in September 2012 to enable the new members to be accountable for their commitments. Minor changes were made and the revised targets were submitted to the shareholder for approval. The company endeavours to comply with all the regulatory and

reporting requirements that are currently in place and that may arise in future periods.

## 21 RISK MANAGEMENT

The relevant risks in Alexkor have been identified during the current financial year and addressed in terms of its risk management policy. The risk matrix was updated with new risks that were identified by the audit and risk committee and the board. Responsible individuals are allocated to all the risks identified in the report and are mitigated in the best possible ways. Alexkor updates its risks on a quarterly basis and discloses them as part of its quarterly reporting requirements.

## 22 NON-CURRENT ASSETS

Except for a change in accounting policy that affected the non-current assets as stated in note 3 to the financial statements, there have been no major changes in the nature of the non-current assets during the year under review.

## 23 BOARD EVALUATION PROCESS

During the previous financial year, the board resolved to conduct an independent assessment of its effectiveness. This was done for purposes of reporting at the previous AGM and also to assist the board in identifying areas of weaknesses in its performance and concomittant remedial interventions, where required. The board implemented various remedial interventions to improve all the weaknesses identified in the previous assessment.

Another follow-up assessment was done during July 2012, with a vast improvement in most of the problem areas identified previously. Overall the Alexkor board and committees were found to be functioning well. The board also continues to identify areas requiring on-going education for itself, as part of the board evaluation process and development.

## 24 EVENTS AFTER REPORTING PERIOD

As part of the land claim settlement an amount of R200 million was made available by the State for the recapitalisation and exploration activities of the Alexkor RMC JV. A contractor was appointed in April 2012 to commence with the initial exploration phase in the PSJV, in order to start exploration activities on land within the Alexander Bay region. Refer to note 33 for details.

## STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 MARCH 2013

		2013	2012
	Notes	R	R
<b>ASSETS</b>			
<b>Non-current assets</b>			
		167 708 131	92 435 028
Property, plant and equipment	5	31 567 329	32 956 258
Intangible assets	6	227 729	427 466
Cash held in rehabilitation trust	8	109 521 614	48 115 544
Pension fund surplus	15.1	16 351 000	451 000
Loan to joint venture	9	10 040 459	10 484 760
<b>Current assets</b>			
		576 080 229	352 231 771
Inventories	10	13 117 734	8 494 922
Trade and other receivables	11	6 283 324	2 487 070
Cash and cash equivalents	26.2	556 679 171	341 249 779
<b>Non-current assets classified as held for sale</b>			
	12	162 434 882	162 434 882
<b>TOTAL ASSETS</b>		<b>906 223 241</b>	<b>607 101 681</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
		402 559 561	22 853 852
Share capital	13	400 000 000	50 000 000
Accumulated loss		(155 525 331)	(185 231 040)
Revaluation reserve	14	158 084 892	158 084 892
<b>Non-current liabilities</b>			
		268 751 103	304 963 995
Retirement benefit obligation	15.2	-	46 950 000
Environmental rehabilitation liability	16	268 751 103	258 013 995
<b>Current liabilities</b>			
		234 912 577	279 283 834
Trade and other payables	17	234 912 577	278 994 058
Taxation payable	25	-	289 776
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>906 223 241</b>	<b>607 101 681</b>



## STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2013

		2013	2012
	Notes	R	R
Revenue	18	93 908 207	113 460 341
Cost of sales	19	(115 238 394)	(124 440 961)
<b>Gross loss</b>		<b>(21 330 187)</b>	<b>(10 980 620)</b>
Administration expenses	20	(1 075 263)	( 974 427)
Other expenses	21	(61 019 987)	(63 249 615)
Other income	16	76 254 476	63 318 984
Provision for environmental rehabilitation liability	15	(10 737 109)	(1 356 015)
Provision for retirement benefit obligations	22	(2 804 275)	(5 886 394)
<b>Operating loss</b>		<b>(20 712 345)</b>	<b>(19 128 087)</b>
Net finance income		51 049 903	7 004 196
Finance income	23	62 603 407	23 293 750
Finance expense	24	(11 553 504)	(16 289 554)
<b>Profit/(Loss) before income tax</b>		<b>30 337 558</b>	<b>(12 123 891)</b>
Taxation	25	289 776	(289 776)
<b>Profit/(Loss) for the year from continuing operations</b>		<b>30 627 334</b>	<b>(12 413 666)</b>
Discontinued operations (net of income tax)			
Loss for the year from discontinued operations	27	(921 625)	(1 621 515)
<b>Profit/(Loss) for the year</b>		<b>29 705 709</b>	<b>(14 035 181)</b>
<b>Other comprehensive income:</b>			
Government grants recognised in equity		-	20 000 000
<b>Other comprehensive income for the year, net of tax</b>		<b>-</b>	<b>20 000 000</b>
<b>Total comprehensive income for the year</b>		<b>29 705 709</b>	<b>5 964 819</b>

## STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2013

	Share capital	Accumulated loss	Revaluation reserve	Total
	R	R	R	R
<b>Balance as at 1 April 2011</b>	50 000 000	(191 195 859)	158 084 892	16 889 033
Total comprehensive income for the year		5 964 819		5 964 819
Profit/(loss) for the year	-	(14 035 181)	-	(14 035 181)
Other comprehensive income	-	20 000 000	-	20 000 000
<b>Balance as at 1 April 2012</b>	50 000 000	(185 231 040)	158 084 892	22 853 852
Total comprehensive income for the year	-	29 705 709	-	29 705 709
Profit/(loss) for the year	-	29 705 709	-	29 705 709
Other comprehensive income	-	-	-	-
Increase share capital	350 000 000	-	-	350 000 000
<b>Balance as at 31 March 2013</b>	400 000 000	(155 525 331)	158 084 892	402 559 561
<b>Note</b>	13		14	

## STATEMENT OF CONSOLIDATED CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2013

	Notes	2013	2012
		R	R
<b>Net cash (out)/inflow from operating activities</b>		(21 429 576)	1 335 341
Cash flow (to)/from operating activities	26	(70 411 346)	(3 753 274)
Cash flow from discontinued operations	27	( 921 625)	(1 621 515)
Interest received	23	61 456 899	22 999 684
Interest paid	24	(11 553 504)	(16 289 554)
<b>Net cash outflow from investing activities</b>		(3 560 140)	(9 964 547)
<i>Expenditure to maintain operating capacity</i>			
Purchase of property, plant & equipment	5	(3 573 767)	(9 653 481)
Disposal of intangible assets		76 047	-
Purchase of intangible assets	6	( 62 420)	( 311 066)
<b>Net cash in/(out)flow from financing activities</b>		240 419 108	(88 232 569)
Loan granted to joint venture	9	444 302	(10 484 760)
Shares issued	13	350 000 000	-
(Increase) in rehabilitation trust investment	8	(61 406 070)	(11 188 513)
Government funded obligations utilised	17.1	(60 168 748)	(82 726 650)
Interest received on government funded obligations	17.1	11 549 624	16 167 354
<b>Net increase/(decrease) in cash and cash equivalents</b>		215 429 392	(96 861 775)
<b>Opening cash and cash equivalents</b>		341 249 779	438 111 554
<b>Closing cash and cash equivalents</b>	26.2	556 679 171	341 249 779
<b>The cash and cash equivalents balance is reconciled as follows:</b>			
Operational cash		139 477 469	69 152 546
Recapitalisation funds (MTEF)		201 136 731	
Cash held in legal trust		10 897 527	10 564 046
Cash held for government funded obligations		205 167 444	261 533 187
<b>Total cash and cash equivalents</b>	26.2	556 679 171	341 249 779

# ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH 2013

## 1. PRINCIPLE ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below and are consistent with those of the previous financial year except for the change in accounting policy as explained in note 3.

### 1.1. STATEMENT OF COMPLIANCE

The financial statements for the year ended 31 March 2013 have been prepared in accordance with International Financial Reporting Standards (IFRS) and the PFMA, as amended.

### 1.2. BASIS OF PREPARATION

The financial statements are prepared under the historical cost convention, modified by the revaluation of land and buildings. The financial statements are presented in South African Rands. The accounting policies have been consistently applied to all the periods presented.

Treasury Regulation 28.1.6 requires that in terms of section 55(1)(b) of the PFMA, public entities shall prepare financial statements in accordance with generally accepted accounting practice, i.e. statements of GAAP (SA GAAP). The company applied for and received approval from the Office of the Accountant-General to depart from the requirements of the PFMA and prepare its financial statements in accordance with IFRS.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. It also requires management to exercise its judgement in the process of applying the company's accounting policies. 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 the notes below. 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.

### 1.3. JOINT ARRANGEMENTS

Joint arrangements are arrangements whereby the company has joint control, established by contracts requiring unanimous consent for decisions about the activities that significantly affects the arrangement's returns. They are classified and accounted for as follows:

- Joint operation: when the company has rights to the assets and obligations for the liabilities relating to an arrangement, it accounts for each of its assets, liabilities and transactions, including its share of those held or incurred jointly, in relation to the joint operation.
- Joint venture: when the company has rights only to the net assets of the arrangement, it accounts for its interest in using the equity method, as for associates.

### 1.4. PROPERTY, PLANT AND EQUIPMENT

The cost of an item of property, plant and equipment is recognised as an asset when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably.

Land and buildings relating to non-core activities are shown at fair value less subsequent depreciation for buildings. Land is not depreciated. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at historical cost less accumulated depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation commences when the assets are ready for their intended use.

Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

# ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH 2013

Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

■ Buildings	10 years
■ Plant and equipment	5 - 10 years
■ Motor vehicles	3 - 5 years
■ Furniture, fittings and equipment	3 - 5 years
■ Computer equipment	4 years
■ Computer software	3 - 5 years

The assets' residual values and useful lives are reviewed at each statement of financial position date and, if appropriate, adjusted. Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

The depreciation charge for each period is recognised in profit or loss unless it is included in the carrying amount of another asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited to other comprehensive income and accumulated in the revaluation surplus in equity. The increase is recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in profit or loss in the current period. The decrease is debited in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other (expenses)/income' in profit or loss. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

## 1.5. INTANGIBLE ASSETS

### Computer software

An intangible asset is recognised when it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. Intangible assets that are acquired by the company are stated at cost less accumulated amortisation and impairment losses.

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of the intangible assets. The estimated useful life for computer software is 4 years. The amortisation period and the amortisation method for intangible assets are reviewed every period-end.

## 1.6. IMPAIRMENT OF NON-FINANCIAL ASSETS

At each reporting date, the company reviews the carrying amount of its property, plant and equipment to determine whether there are any events or changes in circumstances indicating that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment (if any). The recoverable amount is the higher of fair value less cost to sell and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount. Any impairment is first recognised against any existing revaluation reserves; where after the balance of the impairment (if any) is recognised immediately as an expense.

Where impairment subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment

been recognised for the asset in prior years. A reversal of impairment is recognised as income immediately.

## 1.7. FINANCIAL INSTRUMENTS

The company classifies its financial instruments in the following categories:

- Loans and receivables
- Available for sale financial assets
- Financial liabilities measured at amortised cost

The classification depends on the purpose for which the financial instruments were acquired. Classification is reassessed on an annual basis. Management determines the classification of its financial instruments at initial recognition

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. When a financial liability is not recognised as fair value through profit or loss it is recognised as 'Other financial liabilities' and measured at amortised cost.

### Initial recognition and measurement

Financial instruments are recognised initially when the company becomes a party to the contractual provisions of the instruments. The company classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement. Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through profit or loss, transaction costs are included in the initial measurement of the instrument

### Subsequent measurement

Loans and receivables and financial liabilities at amortised cost are subsequently measured at amortised cost using the effective interest method.

Available-for-sale financial assets are subsequently measured at fair value. This excludes equity investments for which a fair value is not determinable, which are measured at cost less accumulated impairment losses.

Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in equity until the asset is disposed of or determined to be impaired. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in profit or loss as part of other income.

### Derecognition

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

### Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

### 1.7.1. TRADE AND OTHER PAYABLES

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade and other payables are classified as other financial liabilities measured at amortised cost.

### 1.7.2. TRADE AND OTHER RECEIVABLES

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised

# ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH 2013

cost using the effective interest method, less provision for impairment. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Impairment of trade and other receivables is established when there is objective evidence as a result of a loss event that the company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The impairment is recognised in the profit or loss within 'other expenses'. When a receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries are credited against 'other income' in profit or loss.

Trade and other receivables are classified as loans and receivables.

## 1.7.3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. These are initially and subsequently recorded at fair value.

Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position. These are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash that are earmarked for specific purposes (restricted cash balances) is included in cash and cash equivalents, but disclosed separately in the notes to the annual financial statements.

## 1.7.4. LOANS TO/(FROM) GROUP COMPANIES

These include loans to and from holding companies, fellow subsidiaries, subsidiaries, joint ventures and associates and are recognised initially at fair value plus direct transaction costs.

Loans to group companies are classified as available for sale financial assets. Loans from group companies are classified as financial liabilities measured at amortised cost.

## 1.7.5. CASH HELD IN REHABILITATION TRUST

The company has an obligation to rehabilitate the environment as a result of environmental disturbances caused by its mining activities. The company makes monthly contributions towards a duly registered rehabilitation trust fund to fund the environmental rehabilitation obligation.

The cash held in the rehabilitation trust is a long-term investment and classified as an available-for-sale financial asset.

## 1.8. IMPAIRMENT OF FINANCIAL ASSETS

The company assesses at year-end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the company uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principle payments;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease may not yet be identified with the individual financial assets in the company.



The company first assesses whether objective evidence of impairment exists. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

## 1.9. INVENTORIES

Inventories are valued as follows:

- diamonds are valued at the lower of weighted average cost or net realisable value;
- parts and consumable items are valued at the lower of weighted average cost and net realisable value.

In all cases, obsolete, redundant and slow moving stock is identified and written down to net realisable value. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The cost of inventories is determined principally on the average cost basis. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. The cost of product inventories comprises the direct cost of production which includes mining and production overheads, depreciation and amortisation, but excludes transport costs.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised.

## 1.10. SHARE CAPITAL

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Ordinary shares are classified as equity.

## 1.11. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Judgements in applying accounting policies and key sources of estimation uncertainty

Many of the amounts included in the financial statements involve the use of judgement and/or estimation. These judgements and estimates are based on management's best knowledge of the relevant facts and circumstances, having regard to prior experience, but actual results may differ from the amounts included in the financial statements. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### Impairment of non-financial assets

The recoverable amount of each asset or cash-generating unit is determined as the higher of the asset's fair value less costs to sell and its value in use in accordance with the accounting policy. When such events or changes in circumstances impact on a particular asset or cash-generating unit, its carrying value is assessed by reference to its recoverable amount being the higher of fair value less costs to sell and value in use (being the net present value of expected future cash flows of the relevant cash-generating unit). The best evidence of an asset's fair value is its value obtained from an active market or binding sale agreement. Where neither exists, fair value less costs to sell is based on the best information available to reflect the amount the company could receive for the asset or cash-generating unit in an arm's length transaction.

# ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH 2013

## Impairment of financial assets

At each reporting date the company assesses all financial assets, other than those at fair value through profit or loss, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the company, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment. Impairment losses are recognised in profit or loss.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised. Reversals of impairment losses are recognised in profit or loss except for equity investments classified as available-for-sale. Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

## Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The company uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the company for similar financial instruments.

## Environmental rehabilitation liability

Provision is made for the anticipated costs of future restoration and rehabilitation of mining areas from which natural resources have been extracted. Provision is made for the anticipated costs of future restoration and rehabilitation of mining sites to the extent that a legal or constructive obligation exists. These provisions include future cost estimates associated with reclamation, plant closures, waste site closures, monitoring, demolition, decontamination, water purification and permanent storage of historical residues. These future cost estimates are discounted to their present value.

The calculation of these provision estimates requires assumptions such as application of environmental legislation, plant closure dates, available technologies and engineering cost estimates. A change in any of the assumptions used may have a material impact on the carrying value of rehabilitation provisions.

## Retirement benefit obligations

An asset or liability in respect of defined benefit pension or medical plans is recognised on the statement of financial position in accordance with the accounting policy. The present value of a defined benefit obligation is dependent upon a number of factors that are determined on an actuarial basis.

## Taxation

Judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The company recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences

will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the company to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the company to realise the net deferred tax assets recorded at the end of the reporting period could be impacted.

### 1.12. UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

In terms of section 55(2)(b)(i) of the Public Finance Management Act, 1999 the financial statements must include particulars of any irregular and fruitless and wasteful expenditure.

Section 1 of the Public Finance Management Act, No. 1 of 1999, as amended, defines irregular expenditure as expenditure, other than unauthorised expenditure, incurred in contravention of or that is not incurred in accordance with a requirement of any applicable legislation, and defines fruitless and wasteful expenditure as expenditure that was made in vain and would have been avoided had reasonable care been exercised.

All unauthorised, irregular, fruitless and wasteful expenditure is accounted for in profit/loss in the period in which they are identified.

### 1.13. EMPLOYEE BENEFITS

#### Pension fund

The company only had defined contribution plans during the year. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution

plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The company operates one pension fund for its employees. The scheme is generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations.

The liability recognised in the statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

To the extent that, at the beginning of the financial year, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in profit or loss over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised. Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time, which are amortised on a straight-line basis over the vesting period. Any surplus of plan assets over plan liabilities are only recognised as an asset if the

# ACCOUNTING POLICIES

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company has a vested right in the surplus, such as an approved surplus apportionment scheme.

For the defined contribution plan, the company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

## Other post-retirement obligations

The company provides post-retirement healthcare benefits to their retirees employed before 1 May 1989. IAS 19 states that the current service cost should be recognised as a periodic expense in operating profit and should be matched to the benefit received during the working life of the employee. The current service cost should include the expense for benefits received by the employee currently in service and the cost of funding the employee when no longer in service.

The projected liability is based on actuarial assumptions about the future. These assumptions are set to be realistic and individually justifiable. However, the actual experience of the beneficiaries of Alexkor will vary from these assumptions. These variations emerge at each valuation as actuarial gains or losses. IAS 19 allows a number of methods for the recognition of these gains and losses. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions are charged or credited to profit or loss in the period in which they arise. Any actuarial gains and losses are recognised immediately in profit or loss. The approach taken in the valuation complies with the guidelines issued by the Actuarial Society of South Africa with regards to reporting on post-employment healthcare provision and is consistent with the requirements of IFRS in terms of IAS 19.

## Termination benefits

Termination benefits are payable when employment is terminated by the company before the normal retirement date, or whenever an employee accepts

voluntary redundancy in exchange for these benefits. The company recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than twelve months after the statement of financial position date are discounted to their present value.

## Leave accrual

Employee entitlements to annual leave are recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave as a result of services rendered by employees up to reporting date.

## 1.14. TAXATION

The income tax expense represents the sum of the current tax charge and the movement in deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. Tax payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income and expense that are taxable or deductible in other years and items that are not taxable or deductible.

## Current income tax

Current income tax assets and liabilities for the current periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of comprehensive income.

## Deferred income tax

Deferred taxation is provided using the balance sheet liability method on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases for tax purposes. However, the deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination, which at the time of the transaction neither affects accounting nor taxable profit or loss. Deferred taxation is calculated using taxation rates that have been enacted or substantially enacted at the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. The effect on deferred taxation of any changes in taxation rates is recognised in the statement of comprehensive income in the year in which the change occurs, except to the extent that it relates to items previously charged or credited directly to equity.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

## 1.15. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

Non-current assets (or disposal groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less cost to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use. The condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

## 1.16. PROVISIONS

Provision for environmental restoration, restructuring costs and legal claims are recognised when the company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

## 1.17. LEASES

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.

## 1.18. REVENUE RECOGNITION

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the company's activities. Revenue is shown net of value-added tax, returns, rebates and discounts. The company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the company's activities as described below.

### Sale of diamonds

Revenue from diamond production is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer and the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

# ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH 2013

## Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a loan and receivable is impaired, the company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

## 1.19. COST OF SALES

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

## 1.20. GOVERNMENT GRANTS

Government grants are accounted for at the earlier of the date when the funds are transferred or when there is reasonable assurance that the grant will be received and the company will comply with the conditions attaching to them. Distinction is made between the following types of government grants:

- Government grants received/receivable as compensation for expenses already incurred are accounted as a credit in profit or loss and disclosed as other income;
- Government grants received/receivable for the purpose of giving immediate financial support to the company with no related future costs are recognised as income in the period it becomes receivable; and
- Government grants received for specific purposes are expensed in reporting periods in which the related expenditure is incurred.

Unutilised government grants received for specific purposes are recognised as other liabilities at the end of each financial year.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

## 2. NEW STANDARDS AND INTERPRETATIONS

### 2.1. STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE

The company has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the company's accounting periods beginning on or after 1 January 2013 or later periods:

- IAS 1 (Amendment) Presentation of Financial Statements (effective for financial periods beginning on/after 1 July 2012) – The amendment requires entities to separate items presented in other comprehensive income (OCI) into two groups based on whether or not they may be recycled to profit or loss in the future. *Management is in the process of assessing the impact.*
- IAS 19 (Amendment) Employee Benefits (effective for financial periods beginning on/after 1 January 2013) – The amendments eliminates the option to defer the recognition of actuarial gains and losses, streamlines the presentation of changes in assets and liabilities arising from defined benefit plans, including the requirement that remeasurements be presented in other comprehensive income, and enhances the disclosure requirements for defined benefit plans to provide better information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans. *Management is in the process of assessing the impact.*
- IAS 27 (Revised) Separate Financial Statements (effective for financial periods beginning on/after 1 January 2013) – IFRS 27 contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity elects or is required by local regulations to present separate financial statements. The standard requires an entity preparing separate financial statements to account for those investments at cost or in accordance with IFRS 9 Financial Instruments. *Management is in the process of assessing the impact.*
- IAS 32 (Amendment) Offsetting of Financial Assets and Financial Liabilities (effective for financial periods beginning on/after 1 January 2014) – The application guidance of IAS 32 has been amended to clarify some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position. The amendments do not change the current offsetting model in IAS 32, but clarify that the right of set-off must be available today – that is, it is not contingent on a future event. It also must be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendments also clarify that gross settlement mechanisms (such as through a clearing house) with features that both (i) eliminate credit and liquidity risk and (ii) process receivables and payables in a single settlement process, are effectively equivalent to net settlement; they would therefore satisfy the IAS 32 criterion in these instances. Master netting agreements where the legal right of offset is only enforceable on the occurrence of some future event, such as default of the counterparty, continue not to meet the offsetting requirements. *Management is in the process of assessing the impact.*
- IFRS 1 (Amendment): First-time Adoption of International Financial Reporting Standards – Guidance on Government Loans (effective for financial periods beginning on/after 1 January 2013). The amendment provides guidance on how a first-time adopter would account for a government loan with a below-market rate of interest when transitioning to IFRS. *This will not be applicable to Alexkor.*
- IFRS 7 (Amendment): Financial Instruments: Disclosures - IFRS 9 Transitional Disclosures (effective for financial periods beginning on/after 1 January 2015) – The amendment requires additional disclosure on the transition from IAS 39 to IFRS 9. This additional disclosure is only required when an entity adopts IFRS 9 for financial periods beginning



# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

on/after 1 January 2013. If an entity adopts IFRS 9 for financial periods beginning on/after 1 January 2012 and before 1 January 2013, the entity can either provide the additional disclosure or restate prior periods. The additional disclosure highlights the changes in classification of financial assets and financial liabilities upon the adoption of IFRS 9. *Management is in the process of assessing the impact.*

- IFRS 7 (Amendment): Financial Instruments: Disclosures – Offsetting of Financial Assets and Financial Liabilities (effective for financial periods beginning on/after 1 January 2013) – The amended disclosures will require more extensive disclosures than currently required under IFRS. The disclosures focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset. *Management is in the process of assessing the impact.*
- IFRS 9 Financial Instruments (effective for financial periods beginning on/after 1 January 2015) – IFRS 9 published in November 2009, addresses classification and measurement of financial assets. It uses a single approach to determine whether a financial asset is measured at amortised cost or at fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The standard requires a single impairment method to be used, replacing the numerous impairment methods in IAS 39 that arose from the different classification categories. The standard also removes the requirement to separate embedded derivatives from financial asset hosts.

IFRS 9 was amended in October 2010 to incorporate financial liabilities. The accounting and presentation for financial liabilities and for derecognising financial instruments has been relocated from IAS 39, 'Financial instruments: Recognition and measurement', without change, except for financial liabilities that are designated at fair value through profit or loss. The amendment introduces new requirements that address the problem of volatility in profit or loss (P&L) arising from an issuer choosing to measure its own debt at fair value. With the new requirements, an entity choosing to measure a liability at fair value will present the portion of the change in its fair value due to changes in the entity's own credit risk in the other comprehensive income (OCI) section of the income statement, rather than within P&L.

In December 2011 the effective date of IFRS 9 was delayed. The original effective date for annual periods beginning on/after 1 January 2013 has been delayed to annual periods beginning on/after 1 January 2015. The amendment also modifies the relief from restating prior periods, in that if IFRS 9 is adopted for reporting periods: beginning before 1 January 2012, comparatives need to be restated nor does the additional disclosure requirements of IFRS 7 need to be provided; beginning on/after 1 January 2012 and before 1 January 2013, either the additional disclosure required by IFRS 7 must be provided or the prior periods need to be restated; beginning on/after 1 January 2013, the IFRS 7 additional disclosure is required but the entity need not restate prior periods. *Management is in the process of assessing the impact.*

- IFRS 13 Fair Value Measurement (effective for financial periods beginning on/after 1 January 2013) – IFRS 13 defines fair value, sets out a single IFRS a framework for measuring fair value, and sets out disclosure requirements on fair value measurements. *Management is in the process of assessing the impact.*
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine (effective for financial periods beginning on/ after 1 January 2013) – The Interpretations Committee was asked to clarify when and how to account for stripping costs (the process of removing waste from a surface mine in order to gain access to mineral ore deposits) to address diversity in practice. The interpretation clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods. *Management is in the process of assessing the impact.*

### 3. CHANGE IN ACCOUNTING POLICY

The company has early adopted IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*, as well as the consequential amendments to IAS 28 *Investments in Associates and Joint Ventures (2011)*, with a date of initial application of 1 January 2013.

As a result of the adoption of IFRS 11, the company has changed its accounting policy with respect to its interest in joint arrangements.

Under IFRS 11 the company classifies its interest in joint arrangements as either joint operations or joint ventures depending on the company's rights to the assets and obligations for liabilities of the arrangements. When making this assessment, the company considers the structure of the arrangements, the legal form of any separate vehicles, the contractual term of the arrangements and other facts and circumstances. Previously, the structure of the arrangement was the sole focus of classification.

The company has re-evaluated its involvement in its only joint arrangement and has reclassified the investment from jointly controlled asset to joint operation. Notwithstanding the reclassification, the investment continues to be recognised by applying proportionate consolidation. Joint operators are required to recognise their rights to assets and their obligations for liabilities in accordance with the relevant IFRS. The DoS states that the RMC shall not acquire any ownership in the Alexkor pooled assets therefore Alexkor has the right to the pooled assets.

#### Impact of change in accounting policy

The change in accounting policy has been applied retrospectively. The effect of the change in accounting policy is as follows:

	2013	2012
	R	R
(Increase)/decrease in loss on pooling of asset (other expenses)	-	3 863 760
(Increase)/decrease in depreciation (cost of sales)	(1 056 949)	(1 181 766)
Increase/(decrease) in comprehensive income	(1 056 949)	2 681 993
Increase/(decrease) in property, plant and equipment at cost	-	37 454 221
(Increase)/decrease in property, plant and equipment accumulated depreciation	(1 056 949)	(34 772 228)
Increase/(decrease) equity	(1 056 949)	2 681 993

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

## 4. FINANCIAL RISK MANAGEMENT

### 4.1. FINANCIAL RISK FACTORS

The principal financial risks arising from the company's continuing activities in diamond mining are those related to commodity price risk, currency risk, interest rate risk, credit risk and liquidity risk. The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potentially adverse effects on the company's financial performance. The company has various financial instruments such as trade debtors, trade creditors and cash, which arise directly from its operations. It is the company's policy not to trade in financial instruments.

	Carrying values		Fair values	
	2013	2012	2013	2012
	R	R	R	R
<b>FINANCIAL ASSETS</b>				
Trade and other receivables	5 568 001	2 264 198	5 568 001	2 264 198
Cash and cash equivalents	556 679 171	341 249 779	556 679 171	341 249 779
Cash held in the rehabilitation trust	109 521 614	48 115 544	109 521 614	48 115 544
<b>FINANCIAL LIABILITIES</b>				
Trade and other payables	232 037 706	268 503 540	232 037 706	268 503 540

### MARKET RISK

#### Foreign currency risk

The Diamond market is predominantly priced in United States Dollars (USD) which exposes the company to the risk that fluctuations in the ZAR/USD exchange rates may also have an impact on the current and future earnings. The sales price in Rand (ZAR) is determined on the date of sale, which limits the company's exposure to foreign currency risk subsequent to the sale of its diamond inventory.

The analysis of the company's sensitivity to exchange rates is based on an average foreign currency exchange rate for the year seeing as the sales price in Rand (ZAR) is determined on the date of sale and the currency fluctuates throughout the year. The average foreign currency for the year used in the analysis is that which the company considered reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2012, albeit that the reasonably possible foreign exchange rate variances were different, as indicated below.

As at 31 March 2013 a strengthening of the USD against all other currencies of 12% would have, on average, increased the net profit before tax with R 10.3 million (2012: 12.4 million). An equal change in the opposite direction would have caused an equal decrease on net profit before tax.

As at 31 March 2013 a strengthening of the USD against all other currencies of 9% would have, on average, increased the profit before tax with R8.5 million (2012: R10.2 million). An equal change in the opposite direction would have caused an equal decrease on net profit before tax.

## 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 4.1. FINANCIAL RISK FACTORS (CONTINUED)

#### COMMODITY PRICE RISK

The company's exposure to commodity price risk is limited to future transactions of diamond sales. Diamond price risk arises from the risk of an adverse effect on current or future earnings resulting from fluctuations in the price of diamonds as determined by the open market trading in diamonds.

As at 31 March 2013 a strengthening of the USD price per carat of 8%, with all other variables remaining constant, would have, on average, increased the net profit before tax with R 7.5 million (2012: R9.1 million). An equal change in the opposite direction would have caused an equal decrease on net profit before tax.

As at 31 March 2013 a strengthening of the USD price per carat of 10%, with all other variables remaining constant, would have, on average, increased the profit before tax with R9.3 million (2012: R11.3 million). An equal change in the opposite direction would have caused an equal decrease on net profit before tax.

#### Cash flow and fair value interest rate risk

The company is exposed to interest rate risk on deposits held at financial institutions. These deposits are held in current and other short term accounts on which interest is earned at variable interest rates.

At 31 March 2013, if interest rates on deposits had been 70 basis points higher with all other variables remaining constant, the pre-tax profit for the year would have been R5,0 million higher (2012: R2.9 million). An equal change in the opposite direction would have caused an equal decrease on net profit before tax.

At 31 March 2013, if interest rates on deposits had been 50 basis points higher with all other variables remaining constant, the pre-tax profit for the year would have been R3,3 million higher (2012: R1.9 million). An equal change in the opposite direction would have caused an equal decrease on net profit before tax.

#### OTHER FINANCIAL RISKS

##### Credit risk

The company's credit risk arises from cash and cash equivalents, deposits with banks and financial institutions and trade and other receivables.

- *Trade and other receivables*

The company trades only with recognised, creditworthy third parties. It is the company's policy that all customers who wish to trade on credit terms are subject to internal credit verification procedures. In addition, receivable balances are monitored on an on-going basis with the result that the company's exposure to bad debts is significant. The company's maximum exposure is equal to the carrying amount of trade and other receivables.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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## 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 4.1. FINANCIAL RISK FACTORS (CONTINUED)

#### OTHER FINANCIAL RISKS (CONTINUED)

An amount of R4 155 637 (2012: R3 842 235) in trade receivables were determined to be impaired. The company considered these receivables to be irrecoverable as the defaulted debtors have not reacted to follow-up payment requests and were subsequently handed over to the company's lawyers. Refer to note 11 for further disclosure.

- *Cash and cash equivalents*

The company's cash and cash equivalents are maintained at only three financial institutions which exposes the company to minimal credit risk as a result of credit concentration. The company limits its risk by dealing with, and maintaining its cash and cash equivalents, at well-established financial institutions of high quality and credit standing. The company's maximum exposure is equal to the carrying amount of cash and cash equivalents. Funds are principally held with Investec Bank, First Rand (Includes RMB and FNB) and Nedbank.

Funds are held at the following institutions:

	Cash balances	
	2013	2012
	R	R
Investec Bank Limited	318 800 490	229 730 666
Rand Merchant Bank Limited	311 741 979	140 643 513
First National Bank Limited	35 637 236	18 978 526
Nedbank Limited	13 084	4 622
<b>Total</b>	<b>666 192 788</b>	<b>389 357 327</b>

The credit ratings of these institutions can be summarised as follows:

	Credit rating	
	2013	2012
	R	R
BBB	347 392 299	159 622 039
BBB-	318 800 490	229 735 288
<b>Total</b>	<b>666 192 788</b>	<b>389 357 327</b>

#### Liquidity risk

The ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the company's short, medium and long-term funding and liquidity management requirements. The company manages liquidity risk by maintaining adequate cash reserves, and by continuously monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities.

## 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 4.1. FINANCIAL RISK FACTORS (CONTINUED)

#### OTHER FINANCIAL RISKS (CONTINUED)

The amounts disclosed in the table are the contractual undiscounted cash flows:

The following table sets out the cash flows of the company's liabilities that will be settled on a net basis into relevant maturity groupings on the remaining period at the statement of financial position date to the contractual maturity date.

	Contractual value R	0 - 3 months R	More than 3 months R
<b>As at 31 March 2013</b>			
Trade and other payables	232 037 706	26 842 854	205 194 853
<b>As at 31 March 2012</b>			
Trade and other payables	268 503 540	15 876 346	252 627 194

### 4.2. CAPITAL RISK MANAGEMENT

The company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for the shareholder and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The company is in the process of restructuring its operations as a result of the settlement of the land claim by the Richtersveld community and its mandate to pursue other mining opportunities. As a result, the company is not able to finalise a strategy in managing capital and determining an optimal capital structure. The company is in the process of determining its capital requirements to fund its continued operations along with new mining ventures.

The company will, consistent with others in the industry, monitor capital on the basis of the gearing ratio, when the restructuring is completed. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents.

Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt. The company currently does not have any borrowings.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

## 5. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Depreciation	Carrying Value	Cost	Accumulated Depreciation	Carrying Value
	2013	2013	2013	2012	2012	2012
	R	R	R	R	R	R
<i>Owned assets</i>						
Land and buildings	20 610 222	1 838 791	18 771 431	21 120 902	1 838 791	19 282 111
Plant and equipment	58 325 112	52 109 885	6 215 228	56 005 040	50 461 061	5 543 979
Motor vehicles	24 857 926	18 988 869	5 869 058	23 932 165	16 476 497	7 455 669
Furniture and fittings	1 197 187	1 129 616	67 571	1 193 754	1 073 063	120 691
Computer equipment	4 731 980	4 087 938	644 042	4 291 781	3 737 973	553 807
<b>Total</b>	<b>109 722 427</b>	<b>78 155 098</b>	<b>31 567 329</b>	<b>106 543 642</b>	<b>73 587 385</b>	<b>32 956 258</b>

## RECONCILIATION OF THE CARRYING VALUES OF PROPERTY, PLANT AND EQUIPMENT

	Carrying value at beginning of the year	Additions	Disposals/ Impairment	Depreciation	Carrying value at end of year
	R	R	R	R	R
<b>2013</b>					
<i>Owned assets</i>					
Land and buildings	19 282 111	-	(510 680)	-	18 771 431
Plant and equipment	5 543 979	2 493 594	(174 794)	(1 647 551)	6 215 228
Motor vehicles	7 455 669	1 069 083	-	(2 655 694)	5 869 057
Furniture and fittings	120 691	3 433	-	( 56 553)	67 571
Computer equipment	553 807	440 199	-	( 349 965)	644 042
<b>Total</b>	<b>32 956 257</b>	<b>4 006 308</b>	<b>(685 474)</b>	<b>(4 709 763)</b>	<b>31 567 329</b>

	Carrying value at beginning of the year	Additions	Disposals/ Impairment	Depreciation	Carrying value at end of year
	R	R	R	R	R
<b>2012</b>					
<i>Owned assets</i>					
Land and buildings	18 771 431	510 680	-	-	19 282 111
Plant and equipment	4 831 366	1 937 074	-	(1 224 461)	5 543 979
Motor vehicles	2 212 887	7 137 441	-	(1 894 660)	7 455 669
Furniture and fittings	172 292	6 740	-	( 58 341)	120 691
Computer equipment	764 291	61 546	-	( 272 029)	553 807
<b>Total</b>	<b>26 752 267</b>	<b>9 653 481</b>	<b>-</b>	<b>(3 449 491)</b>	<b>32 956 258</b>

A register containing the information required by Regulation 25(3) of the Companies Regulations, 2011, is available for inspection at the registered office of the company.



## 6. INTANGIBLE ASSETS

	Cost	Accumulated Amortisation	Carrying Value	Cost	Accumulated Amortisation	Carrying Value
	2013	2013	2013	2012	2012	2012
	R	R	R	R	R	R
<i>Owned assets</i>						
Computer software	1 909 811	1 682 083	227 729	1 905 544	1 478 078	427 466
<b>Total</b>	<b>1 909 811</b>	<b>1 682 083</b>	<b>227 729</b>	<b>1 905 544</b>	<b>1 478 078</b>	<b>427 466</b>

### RECONCILIATION OF THE CARRYING VALUE OF INTANGIBLE ASSETS

	Carrying value at beginning of the year	Additions	Disposals	Amortisation	Carrying value at end of year
	R	R	R	R	R
<b>2013</b>					
<i>Owned assets</i>					
Computer software	427 466	62 420	( 58 153)	( 204 005)	227 729
<b>Total</b>	<b>427 466</b>	<b>62 420</b>	<b>( 58 153)</b>	<b>( 204 005)</b>	<b>227 729</b>

	Carrying value at beginning of the year	Additions	Disposals	Amortisation	Carrying value at end of year
	R	R	R	R	R
<b>2012</b>					
<i>Owned assets</i>					
Computer software	311 074	311 066	-	( 194 674)	427 466
<b>Total</b>	<b>311 074</b>	<b>311 066</b>	<b>-</b>	<b>( 194 674)</b>	<b>427 466</b>

A register containing the information required by Regulation 25(3) of the Companies Regulations, 2011, is available for inspection at the registered office of the company.

## 7. JOINT VENTURES

The pooling and sharing joint venture (PSJV) named the Alexkor RMC JV was established on 7 April 2011. 31 March 2013 was its second year in existence. All mining operations previously performed by Alexkor are now performed in the joint venture.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

## 7. JOINT VENTURES (CONTINUED)

### 7.1 SUMMARY

The following amounts represent the assets, liabilities, income and expenses of the joint operations. The company has included its 51% interest in its financial statements:

	2013	2012
	R	R
<b>ASSETS</b>		
Non-current assets	10 692 814	10 036 429
Current assets	70 902 051	31 490 296
	<b>81 594 866</b>	<b>41 526 725</b>
<b>LIABILITIES</b>		
Long-term liabilities	20 925 262	21 397 470
Current liabilities	48 971 915	11 022 457
	<b>69 897 177</b>	<b>32 419 927</b>
<b>Net assets</b>	<b>11 697 689</b>	<b>9 106 798</b>
Revenue	184 133 739	168 711 247
Cost of sales	(177 099 080)	(156 755 592)
<b>Gross profit/(loss)</b>	<b>7 034 659</b>	<b>11 955 654</b>
Administration expenses	(2 041 125)	(1 708 822)
Other expenses	( 993 258)	(1 370 421)
Other income	35 088	-
Provision for environmental rehabilitation liability	( 434 529)	-
<b>Operating profit/(loss)</b>	<b>3 600 835</b>	<b>8 876 411</b>
Net finance income	334 691	( 109 409)
<b>Profit before income tax</b>	<b>3 935 526</b>	<b>8 767 003</b>
Taxation	-	-
<b>Profit for the year from continued operations</b>	<b>3 935 526</b>	<b>8 767 003</b>
Profit /(loss) for the year from discontinued operations	812 404	339 795
<b>Net profit for the year</b>	<b>4 747 930</b>	<b>9 106 798</b>
Cash flow from operating activities	37 114 594	(1 514 869)
Cash flow to investing activities	(6 227 117)	(10 979 360)
Cash flow from financing activities	( 906 738)	21 397 470
<b>Net cash flow</b>	<b>29 980 739</b>	<b>8 903 241</b>

The PSJV generated a net profit of R4.7 million. The substantial increase in the cash balance was due to a sale of diamonds just before year-end. A payment of R25 million was, however, made just after year-end towards the contractors resulting in the net cash flow to be just over R2 million for the year.

There are no contingent liabilities relating to the group's interest in the joint operations, and no contingent liabilities to the venture itself.

## 7. JOINT VENTURES (CONTINUED)

### 7.2 DETAILED ANALYSIS OF THE JOINT VENTURE IN THE STATEMENT OF COMPREHENSIVE INCOME

	Notes	Alexkor excluding PSJV R	51% share PSJV R	Inter-company Journals R	Alexkor including PSJV R
Revenue	18	-	93 908 207	-	93 908 207
Cost of sales	19	(22 913 417)	(91 420 620)	(904 356)	(115 238 394)
Personnel expenses		(2 928 737)	(12 838 971)	-	(15 767 709)
Consumables and maintenance		(6 439 693)	(4 590 146)	(213 850)	(11 243 689)
General expenditure		(6 583 421)	(6 125 387)	366 443	(12 342 365)
Depreciation & impairment		(1 144 973)	(2 856 855)	(1 056 949)	(5 058 777)
Revenue split contractors		-	(58 376 282)	-	(58 376 282)
Security services		-	(4 678 315)	-	(4 678 315)
Legal costs		(902 460)	( 178 475)	-	(1 080 935)
Other specialised services		(4 914 132)	(1 776 189)	-	(6 690 321)
<b>Gross profit / (loss)</b>		(22 913 417)	2 487 586	(904 356)	(21 330 187)
Administration expenses		(34 290)	(1 040 974)	-	(1 075 263)
Other expenses	20	(60 513 425)	(506 561)	-	(61 019 987)
Other income	21	76 236 582	17 895	-	76 254 476
Provision for environmental rehabilitation liability	16	(10 515 499)	(221 610)	-	(10 737 109)
Provision for retirement benefit obligations	15	(2 804 275)	-	-	(2 804 275)
<b>Operating profit/(loss)</b>	22	(20 544 324)	736 336	(904 356)	(20 712 345)
Net finance income		50 879 210	170 693	-	51 049 903
Finance income	23	62 428 882	174 525	-	62 603 407
Finance expense	24	(11 549 672)	(3 833)	-	(11 553 504)
<b>Profit before income tax</b>		30 334 887	907 029	(904 356)	30 337 558
Taxation	25	289 776	-	-	289 776
<b>Profit for the year from continued operations</b>		30 624 662	907 029	(904 356)	30 627 334
Discontinued operations (net of income tax)					
Profit /(loss) for the year from discontinued operations	27	(1 183 359)	414 326	(152 593)	(921 625)
<b>Profit for the year</b>		29 441 304	1 321 355	(1 056 949)	29 705 709
<b>Other comprehensive income for the year, net of tax</b>		-	-	-	-
<b>Total comprehensive income for the year</b>		29 441 304	1 321 355	(1 056 949)	29 705 709

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

## 8. CASH HELD IN REHABILITATION TRUST

	2013	2012
	R	R
Opening balance	48 115 544	36 927 031
Contributions	58 846 631	9 082 103
Interest received	2 559 440	2 106 410
<b>Total</b>	<b>109 521 614</b>	<b>48 115 544</b>

The cash held in rehabilitation trust will be utilised to fund the rehabilitation liability (refer to note 16).

## 9. LOAN TO JOINT VENTURE

	2013	2012
	R	R
Opening balance	10 484 760	-
Advances	3 357 206	10 484 760
Repayments	(3 801 508)	-
<b>Total</b>	<b>10 040 459</b>	<b>10 484 760</b>

This loan is neither past due or impaired and originated from the 49% of the loan to PSJV which is not controlled by Alexkor Ltd. The loan is unsecured, bears no interest and has no fixed terms of repayment.

## 10. INVENTORIES

The amounts attributable to the different categories of inventory are as follows:

	2013	2012
	R	R
Diamonds	8 594 824	4 051 986
Parts and consumable stores	4 522 910	4 442 936
<b>Total</b>	<b>13 117 734</b>	<b>8 494 922</b>

Diamond inventory was carried at the net realisable value as it was lower than the cost incurred to produce the diamonds.

## 11. TRADE AND OTHER RECEIVABLES

	2013	2012
	R	R
Trade receivables *	1 517 414	515 215
Loan to the Richtersveld Agricultural Holding Company *	2 100 443	2 100 443
Less: Provision for impairment of receivables	(2 100 443)	(2 100 443)
Total other receivables *	6 105 780	3 490 775
Less: Provision for impairment of receivables	(2 055 194)	(1 741 792)
Total prepayments †	715 324	222 872
<b>Total</b>	<b>6 283 324</b>	<b>2 487 070</b>

\* Financial assets

† Non-financial assets

### Movement in the provision for impairment of trade receivables

Balance at the beginning of the year	3 842 235	3 036 888
Impairment losses recognised/ (reversed)	313 402	2 201 216
Amounts written off as uncollectable	-	(1 395 869)
Balance at the end of the year	<b>4 155 637</b>	<b>3 842 235</b>

*Credit quality of trade and other receivables*

All debtors' payment terms are net thirty (30) days after invoice date unless otherwise agreed to by the seller and subject to the seller's determination regarding the buyer's qualification for credit.

Provision for the impairment of trade and other receivables is based on management's assessment of the recoverability of specific receivables, taking into account the history of default on payments and other available information to support the recoverability. Before accepting any new customers an assessment of the potential customer's credit quality is performed which is also used to set credit limits.

	2013	2012
	R	R
<b>Counter parties with no external credit rating</b>		
New customers	10 068	968
Existing customers with no defaults in the past	1 977 015	582 118
Existing customers with some defaults in the past	52 666	68 968
<b>Total</b>	<b>2 039 749</b>	<b>652 054</b>

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

## 11. TRADE AND OTHER RECEIVABLES (CONTINUED)

Trade and other receivables which are less than 4 months past due are not considered to be impaired. At 31 March 2013, R774 075 (2012: R3 972 798) were past due but not impaired. An impairment provision of R4 155 637 (2012: R3 842 235) was recognised against trade and other receivables

The ageing of the amounts past due but not impaired is as follows:

2013	Gross Amount	Impairment	Net Carrying Amount
Current/fully performing	2 039 749	(47 972)	1 991 778
30 - 60 days	2 775 799	(32 116)	2 743 683
60 + days	4 908 090	(4 075 550)	832 540
<b>Total</b>	<b>9 723 638</b>	<b>(4 155 637)</b>	<b>5 568 001</b>

2012	Gross Amount	Impairment	Net Carrying Amount
Current/fully performing	652 054	( 85 757)	566 297
30 - 60 days	1 184 699	( 125 649)	1 059 050
60 + days	4 269 680	(3 630 829)	638 851
<b>Total</b>	<b>6 106 433</b>	<b>(3 842 235)</b>	<b>2 264 198</b>

The creation and release of the provision for impaired receivables have been included in operating expenses in the statement of comprehensive income. Where there is no expectation of recovering additional cash, amounts charged to the allowance accounts are generally written off.

The maximum exposure to credit risk at reporting date is the carrying amount of each class of trade and other receivable mentioned above. The company does not hold any collateral as security.

## 12. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

2013	Fair Value at the beginning of the year	Impairment	Disposal	Fair Value at the end of the year
	R	R	R	R
Land and buildings	162 434 882	-	-	162 434 882
<b>Total</b>	<b>162 434 882</b>	<b>-</b>	<b>-</b>	<b>162 434 882</b>

2012	Fair Value at the beginning of the year	Impairment	Disposal	Fair Value at the end of the year
	R	R	R	R
Land and buildings	162 434 882	-	-	162 434 882
<b>Total</b>	<b>162 434 882</b>	<b>-</b>	<b>-</b>	<b>162 434 882</b>

## 12. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE (CONTINUED)

The land and buildings classified as non-current assets held for sale are those assets specifically identified in the land claim settlement agreement that will be transferred to the Richtersveld community once the township upgrade has been completed. The transfer is expected in the 2014 financial year.

## 13. SHARE CAPITAL

	2013	2012
	R	R
<b>SHARE CAPITAL</b>		
<i>Authorised</i>		
50 000 000 Ordinary shares	50 000 000	50 000 000
Increase of share capital	350 000 000	-
<b>400 000 000 Ordinary shares</b>	<b>400 000 000</b>	<b>50 000 000</b>
<i>Issued</i>		
Reported as at 1 April 2012	50 000 000	50 000 000
Shares issued	350 000 000	-
<b>Reported as at 31 March 2013</b>	<b>400 000 000</b>	<b>50 000 000</b>

Alexkor received R350 million via its MTEF allocation on 31 December 2012. This was a recapitalisation from the shareholder and shares were issued in this regard. Par value shares were converted to no par value shares to be aligned with Alexkor's amended MOL.

## 14. REVALUATION RESERVE

	2013	2012
	R	R
Revaluation of land and buildings (assets held for sale)	158 084 892	158 084 892
<b>Total</b>	<b>158 084 892</b>	<b>158 084 892</b>

The revaluation reserve will be transferred to accumulated loss once the assets held for sale are transferred to the relevant entities upon completion of the township handover in the 2014 financial year. There were no movements in the reserve during the year.

## 15. RETIREMENT BENEFIT OBLIGATIONS

### 15.1 PENSION FUNDS

All employees employed before 1 July 2003 were members of the defined benefit pension fund. All defined benefit members have, however, been converted to defined contribution members. There are no defined benefit liabilities left in the fund. The pension fund is governed by the South African Pension Funds Act of 1956 as amended. All employees appointed after the aforementioned dates are compelled to join the defined contribution fund. The actuarial valuation of the pension fund is performed using the projected unit credit method every third year and updates are performed for each financial year-end. The assets held for the pension plans are held separately from the



# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

## 15. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

### 15.1. PENSION FUNDS (CONTINUED)

company and administered independently, in accordance with the statutory requirements and are measured using period-end market values.

#### *Defined Benefit Pension Plan*

An estimation of the pension plan status was performed by independent consulting actuaries on 31 March 2013 using certain actuarial assumptions. The previous actuarial valuation was performed on 31 March 2012.

The following highlights the significant events or features of the fund that were taken into account in preparing this report:

- All of the defined benefit members transferred to the defined contribution section.
- The fund had no liabilities as at 31 March 2013.
- Any plan assets are valued at current market value as required by IAS 19. We used the actuarial surplus as at 31 March 2012 and projected this with expected cash flows and expected returns to 31 March 2013. The plan assets are creditor remote, meaning that should the company itself go insolvent, the creditors would not be able to access these assets held to back the post-employment retirement benefit liability.
- The trustees have agreed to allocate the surplus between the member surplus account and the employer surplus account with a 40:60 split. The employers' surplus contribution is disclosed in the statement of financial position. The surplus allocation was effected retrospectively at 31 March 2011. The trustees also approved the use of the Employer Surplus Account for the following purposes:
  - An employer contribution holiday in respect of the defined contribution portion of the fund.
  - A disability waiver.

#### MEMBERSHIP DATA AS 31 MARCH 2013

Active members: 131 (2012: 106)  
Pensioners: 174 (2012: 184)

#### *Valuation method*

The actuarial valuation method used to value the liabilities is the projected unit credit method prescribed by IAS19. Future benefits valued are projected using specific actuarial assumptions and the liability for in-service members is accrued over expected working lifetime.

The following key assumptions were used for the current valuation:

	2013	2012	2011	2010	2009
	%	%	%	%	%
<b>KEY ECONOMIC ASSUMPTIONS</b>					
Discount rate	7.00	8.25	9.00	9.00	9.00
Inflation rate	5.40	5.5	5.75	5.25	5.75
Salary increase rate	n/a	n/a	6.75	6.25	6.75
Expected rate of return on assets	7.00	8.25	9.00	9.25	9.25
Pension increase allowance	n/a	n/a	4.89	4.46	4.89

## 15. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

### 15.1. PENSION FUNDS (CONTINUED)

The salary increase rate was non-applicable since there were no defined benefit liabilities (hence no defined benefit active members) left in the fund. The pension increase rate is also non-applicable, due to the same reasons as above. Furthermore, pensioners were outsourced with effect from 31 December 2009.

Settlement accounting has been performed at 31 August 2010 in respect of the transfer of defined benefit members to the defined contribution section.

	2013	2012	2011	2010	2009
	R	R	R	R	R
<b>FUND STATUS</b>					
Fair value of plan assets	17 821 000	32 456 000	24 271 000	93 943 000	198 926 000
Present value of obligations	-	-	-	(64 470 000)	(141 595 000)
<b>Asset</b>	<b>17 821 000</b>	<b>32 456 000</b>	<b>24 271 000</b>	<b>29 473 000</b>	<b>57 331 000</b>
Unrecognised surplus - Paragraph 58 limit*	(1 470 000)	(32 005 000)	(24 271 000)	(29 473 000)	(57 331 000)
Asset recognised on the balance sheet	<b>16 351 000</b>	451 000	-	-	-
<b>MOVEMENT ANALYSIS</b>					
Opening balance of recognised asset	451 000	-	-	-	-
Net income/(expense) recognised in the income statement**	15 900 000	451 000	( 67 000)	( 526 000)	( 493 000)
Company contribution	-	-	67 000	526 000	493 000
Closing balance of recognised asset	<b>16 351 000</b>	451 000	-	-	-

\* The "paragraph 58 limit" ensures the asset to be recognised on the company's balance sheet is subject to a maximum of the sum of any unrecognised actuarial losses, past-service costs and the present value of any economic benefits available to the company in the form of refunds or reductions in future contributions.

\*\* The statement of comprehensive income's pension income was as follows:

	2013	2012
	R	R
Current service cost	(1 002 000)	-
Interest cost	-	-
Expected return on assets	1 980 000	2 184 000
Amortisations	14 922 000	(1 733 000)
(Expense)/Income	<b>15 900 000</b>	451 000

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

## 5. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

### 15.1. PENSION FUNDS (CONTINUED)

Ownership of surplus in a pension fund has historically been a contentious issue, but has now been addressed by way of the Pension Funds Second Amendment Act. The effects of the Pension Funds Second Amendment Act, 2001, are quite significant to entities sponsoring retirement funds, in that recognition of any assets in a retirement fund cannot be made by the company, unless it is either as a result of a surplus apportionment exercise, or if a fund's rules allow it. In terms of paragraph 58 of IAS 19, the asset to be recognised on the company's balance sheet is subject to a "maximum of: the total of any cumulative unrecognised net actuarial losses and past service cost; and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits shall be determined using the discount rate."

The Financial Service Board (FSB) approved the fund's surplus apportionment scheme on 7 November 2007. The approved surplus scheme was then overturned by the FSB in December 2009. A new surplus apportionment scheme was submitted and approved by the FSB on 26 April 2011.

The member surplus account amounted to R17 228 048 as at 31 March 2013. This amount has been excluded from the assets and the liabilities of the fund. The trustees will decide on the allocation of future surplus as and when it arises, hence we have limited the asset to the balance in the employer surplus account which was estimated as R16 351 000 as at 31 March 2013.

An employer contribution holiday of R1 170 000 million is expected for the period 1 April 2013 to 31 March 2014.

The movement in the defined benefit obligation during the year is as follows:

	2013	2012	2011	2010	2009
	R	R	R	R	R
Defined benefit obligation at the beginning of the year	-	-	64 470 000	141 595 000	141 918 000
Service cost	-	-	311 000	748 000	841 000
Member contributions	-	-	81 000	219 000	205 000
Liability settled	-	-	(65 008 000)	(115 603 000)	-
Interest cost	-	-	2 440 000	10 707 000	12 869 000
Actuarial (gain)/loss	-	-	19 000	7 314 000	(4 903 000)
Benefits paid	-	-	(2 224 000)	(5 517 000)	(9 008 000)
Risk premiums	-	-	( 89 000)	( 349 000)	( 327 000)
Past service cost	-	-	-	25 356 000	-
Defined benefit obligation at the end of the year	-	-	-	64 470 000	141 595 000

## 15. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

### 15.1. PENSION FUNDS (CONTINUED)

The movement in the fair value of plan assets during the year is as follows:

	2013	2012	2011	2010	2009
	R	R	R	R	R
Assets at fair market value at the beginning of the year	32 456 000	24 271 000	93 943 000	198 926 000	234 259 000
Expected return on assets	1 980 000	2 184 000	4 617 000	15 796 000	23 660 000
Member contributions	-	-	81 000	745 000	698 000
Company contributions	(1 002 000)	-	67 000	-	-
Risk premiums	-	-	( 89 000)	(349 000)	(327 000)
Benefits paid	(15 903 000)	-	(2 224 000)	(5 517 000)	(9 008 000)
Settlement	-	-	(71 804 000)	(115 603 000)	-
Actuarial gain/(loss)	290 000	6 001 000	(320 000)	(55 000)	(50 356 000)
Assets at fair market value at the end of the year	17 821 000	32 456 000	24 271 000	93 943 000	198 926 000

Estimated asset composition was as follows:

	2013	2012	2011	2010	2009
	%	%	%	%	%
Cash	38.11%	35.78%	40.62%	31.79%	31.79%
Equity	15.37%	33.76%	39.94%	48.87%	48.88%
Bonds	29.27%	8.41%	9.55%	3.61%	3.61%
Property	0.72%	1.94%	1.82%	0.00%	0.00%
Other	0.47%	1.13%	1.44%	1.32%	1.32%
International	16.06%	18.98%	6.63%	14.41%	14.40%
	100.00%	100.00%	100.00%	100.00%	100.00%
Actual return on assets	2 270 000	8 185 000	4 297 000	15 741 000	

The rate used to discount post-employment benefit obligations should be determined by reference to market yields at the balance sheet date on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields (at the balance sheet date) on government bonds should be used.

In Alexkor's opinion, there is no deep market in corporate bonds in South Africa and as such we have set our recommended assumption with reference to the perfect fit zero curve of medium duration, as compiled by the Bond Exchange of South Africa. This converts into an effective yield of 7% as at 28 February 2013. In terms of the accounting standards historical yields are less important and we consequently consider it appropriate to use the discount rate 7% per annum.

Alexkor has assumed the underlying future rate of consumer price inflation (CPI) to be 5.40% per annum. This assumption is in line with the SA Government's Monetary Policy target of 3% to 6% per annum.

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## 15. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

### 15.2 POST-RETIREMENT MEDICAL AID BENEFITS

Alexkor provided life-long post-retirement medical benefits for employees who commenced employment with the company on or before 1 May 1989 (currently in-service and subsequent retirees) and who have not elected to receive a voluntary severance package from the company.

An actuarial valuation was performed on 31 March 2013 (previous valuation was performed on 31 March 2012). Alexkor carried out a voluntary buy-out exercise where active members were offered lump sums in lieu of their post-retirement subsidy and pensioners were offered annuity policies through an insurance company. All of the pensioner and active members accepted the offers. Alexkor originally funded the payment of the active lump sums over five annual instalments.

The first instalment was made in December 2010, with the second one paid in December 2011 and the third one paid in December 2012. The remaining two instalments were then settled in advance with the allocated funds from the MTEF allocation in January 2013.

As at 31 March 2013, Alexkor's accrued liability is zero, down from R46 950 000 as at 31 March 2012. The actual expense for the year was R2 826 000.

	2013	2012	2011	2010	2009
	R	R	R	R	R
<b>FUND STATUS - TREND INFORMATION</b>					
Fair value of plan assets	-	-	-	-	-
Present value of obligations	-	46 950 000	58 436 000	90 180 000	135 321 000
<b>Present value of unfunded liability</b>	<b>-</b>	<b>46 950 000</b>	<b>58 436 000</b>	<b>90 180 000</b>	<b>135 321 000</b>
Unrecognised actuarial gains/losses	-	-	-	-	-
<b>Liability recognised in balance sheet</b>	<b>-</b>	<b>46 950 000</b>	<b>58 436 000</b>	<b>90 180 000</b>	<b>135 321 000</b>
<b>EXPERIENCE ADJUSTMENTS</b>					
In respect of Present Value of obligations	-	-	(308 000)	-	39 322 000
In respect of Fair Value of Plan Assets	-	-	-	-	-

### ACTUARIAL VALUATION

The post-retirement medical liability is actuarially valued every three years by an independent firm of consulting actuaries, unless there are major changes in the nature and extent of the post-retirement benefits. Due to the material changes in prior years, Alexkor has performed valuations annually. The liability was last valued on 31 March 2013 (previous valuation - 31 March 2012).

### VALUATION METHOD

The actuarial valuation method used to value the liabilities is the projected unit credit method prescribed by IAS19. Future benefits valued are projected using specific actuarial assumptions and the liability for in-service members is accrued over expected working lifetime. Any actuarial gains and losses are recognised immediately in profit or loss.

## 15. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

### 15.2. POST-RETIREMENT MEDICAL AID BENEFITS (CONTINUED)

Current and future pensioners have voluntarily accepted alternative benefit offers in lieu of post-employment medical contribution subsidies.

As such, the employer's post-employment medical health care liability over the past financial year has changed from a commitment to pay a portion of the members' post-employment medical scheme contributions to the following arrangements:

- funding the payment of active member lump sums over five annual instalments. The first three instalments were made in December 2010, December 2011 and December 2012 respectively. The remainder of the liability was settled during the 2013 financial reporting period upon receipt of the MTEF funds.
  - Should an active employee have resigned or be dismissed during the 5-year payment period, the employee would have forfeited the remainder of their outstanding payments.
  - Should an active employee have been retrenched, passed away or retired prior to the 5-year payment period passing, the outstanding instalments would have become payable at that point.
  - Should an active employee have been retrenched, passed away or retired prior to the 5-year payment period passing, the outstanding instalments would have become payable at that point.
- funding the payment of an annuity policy for pensioners over five equal annual premium payments. The first three instalments were made in November/December 2010, December 2011 and December 2012 respectively. The remainder of the liability was settled during the 2013 financial reporting period upon receipt of the MTEF funds.
  - The liability was previously valued as an annuity certain, using the assumed discount rate. The liability at 31 March 2013 was zero.

The following principles assumptions were used for the current valuation:

Valuation date	31 March 2013	31 March 2012	31 March 2011	31 March 2010	31 March 2009
Discount rate	n/a	6.4% p.a	8.75% p.a	9.25% p.a.	9.00% p.a.
Health care cost inflation	n/a	7.75% p.a	7.75% p.a	7.50% p.a.	7.50% p.a.
Expected retirement age *	n/a	60	60	60	60
Membership discontinued at retirement *	n/a	0%	0%	0%	0%

\* These assumptions were set in consultation with Alexkor.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

## 15. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

## 15.2. POST-RETIREMENT MEDICAL AID BENEFITS (CONTINUED)

Reconciliation of the net liability recognised in the balance sheet

	2013	2012	2011	2010	2009
	R	R	R	R	R
<b>Carrying value at the beginning of the year</b>	46 950 000	58 436 000	90 180 000	135 321 000	77 059 000
Expensed to post-retirement employee benefits	2 804 275	5 886 000	(9 600 000)	(38 040 000)	61 432 000
Current service cost	-	-	430 000	470 000	771 000
Interest on liability	2 681 000	4 770 000	8 108 000	11 841 000	5 850 000
Net actuarial (gain)/loss	123 275	1 116 000	(18 138 000)	(50 351 000)	54 811 000
Less: Contributions and changes in obligation	-	-	(4 775 000)	(7 101 000)	(3 170 000)
Effect of settlement *	(49 754 275)	(17 372 000)	(17 369 000)	-	-
<b>Carrying value at the end of the year</b>	-	46 950 000	58 436 000	90 180 000	135 321 000

\* The liability was settled during the 2013 financial reporting period upon receipt of the MTEF funds.

## 16. ENVIRONMENTAL REHABILITATION LIABILITY

The company has an obligation to rehabilitate the environment as a result of environmental disturbances caused by its mining activities. A provision is recognised for the estimated costs to rehabilitate the existing environmental disturbances as at year-end. The adjustment in the current year's provision was as result of the net inflationary adjustment of previous estimates, environmental disturbances caused during the financial year, less any rehabilitation of affected areas. The extent of sand plume increases during the year as result of past disturbances and the inevitable need to escalate control over these will result in the rehabilitation costs to escalate in future years to come. The required rehabilitation includes pebble stabilisation of sources, netting and possible reed grass re-vegetation.

The following table provides a reconciliation of the carrying value of the rehabilitation liability:

	2013	2012
	R	R
<b>Environmental liability</b>		
Opening balance	258 013 995	256 657 980
Inflationary increases	15 182 177	13 589 976
Rehabilitation work performed / assessed reduction in liability	(4 445 068)	(12 233 961)
<b>Total</b>	<b>268 751 103</b>	<b>258 013 995</b>

A study conducted by an independent environmental management consultant in April 2013 estimated the gross liability to amount to R268.7 million as at 31 March 2013 (2012: R258.0 million). The company makes monthly contributions towards a duly registered rehabilitation trust fund and the funds held in the trust amounted to R109.5 million as at 31 March 2013 (2012: R48.1 million), resulting in a currently unfunded rehabilitation liability of R159.0 million (2012: R209.9 million). The unfunded portion is currently held in cash and will be structured to the advantage of Alexkor's operations going forward.



## 16. ENVIRONMENTAL REHABILITATION LIABILITY (CONTINUED)

All new environmental disturbances resulting from the Alexander Bay region after the implementation of the PSJV would be the responsibility of the PSJV. The PSJV environmental liability as at year-end amounted to R 434 529 (consolidated into Alexkor at 51% resulting in an amount of R221 610).

The availability of aerial photography expected later during the year will provide the opportunity for a ground-truthed total recalculation of the rehabilitation liability, taking full cognizance of sand plume increases, sand plume control by netting over the past four years, and the detailed quantification of reduced liability, which has come about since its initial determination in 2005/06 through natural re-vegetation of prospecting trenches and overburden dumps.

The impact of current mining activities on the environment are minimised with the concurrent backfilling of excavations where possible, minimising of access roads and erecting of nets in order to curb the movement of sand at the base and the toe of the sand plumes. Alexkor will continue to address priority environmental issues around Boegoeberg and other areas as identified. With netting at the Boegoeberg area having achieved its aim through a reduction of decline of sand on the Boegoeberg slopes, Alexkor is satisfied that the annual expenditure on netting and re-vegetation is beginning to achieve the goal of avoiding increased costs for dust plume control. Any adjustments which may be required in future will be made based on the pending ground-truthed photo-based quantum recalculation update during the year on receipt of the new photography.

## 17. TRADE AND OTHER PAYABLES

		2013	2012
	Notes	R	R
<b>Trade and other payables</b>			
Trade payables *		24 472 814	11 681 212
Other payables *		1 186 782	1 574 698
VAT payable †		2 801 440	10 444 614
Income received in advance †		73 431	45 905
Government funded obligations *	17.1	204 008 071	252 627 194
Accruals *		2 370 040	2 620 435
Accrued leave *		1 144 258	959 134
Other accruals *		1 225 782	1 661 301
<b>Total</b>		<b>234 912 577</b>	<b>278 994 058</b>

\* Financial liability

† Non-financial liability

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

## 17. TRADE AND OTHER PAYABLES (CONTINUED)

### 17.1 GOVERNMENT FUNDED OBLIGATIONS

The company received funding from government for a number of specific projects and assistance in relation to the execution of the land claim settlement agreement, as well as assistance for other community projects.

The government funds received and utilised for specific projects are reconciled as follow:

	Opening balance at beginning of the year	Transfers received	Utilised during the year	Interest earned on investment of funds	Closing balance at the end of the year
	R	R	R	R	R
Township establishment	27 251 798	-	(17 583 903)	1 042 481	10 710 376
Costs related to DoS	12 758 369	-	(1 034 096)	823 754	12 548 027
PSJV recapitalisation *	212 617 028	-	(41 550 749)	9 683 389	180 749 667
Total government-funded obligations	252 627 194	-	(60 168 748)	11 549 624	204 008 071

\* The R41 million utilised during the year for PSJV recapitalisation relates to accumulated interest which was paid to Alexkor.

Township Establishment – The funding was granted for the establishment of a township for the Alexander Bay town as part of the implementation of the DoS. Significant capital is required to upgrade the services in the town, which include water and electricity supply to existing houses and other establishments, upgrade of the road infrastructure and other related activities.

The project consisted of four phases as disclosed below.

- Phase one of the township upgrade project which comprises of water network, sewer network, storm water control network, solid waste disposal and road works was completed in December 2011. Inspection with the municipality was done and all items on the snag list were completed.
- Phase two included the electrical reticulation upgrade project and the contractors established the site in March 2011. The project was completed in June 2012 after all the outstanding prepaid meters were installed.
- The tender for phase 3, mechanical and electrical pumping, was awarded in February 2011. This phase was completed in February 2012.
- The project for phase four, the waste water treatment works, was completed in March 2013, which was also the only outstanding phase from the Township upgrade projects.

The township upgrade has therefore been completed with the acceptance of the final completion certificate for phase 4 in March 2013. Alexander Bay therefore complies with the minimum standards of a municipal town in the Republic of South Africa. The retention period for the civil engineering and mechanical engineering projects (phase 1 and 2) has already expired and the snag list has been attended to. The electrical upgrade and engineering works were completed in August 2012.

Alexkor have spent R122 million on the project to date. The quality of the upgrade has been monitored over the retention periods of the phases and virtually all the infrastructure has been in operation for the last two years.

## 17. TRADE AND OTHER PAYABLES (CONTINUED)

### 17.1 GOVERNMENT FUNDED OBLIGATIONS (CONTINUED)

*Costs related to the DoS* – Funding was received from the DPE to assist Alexkor and the RVC with the cost to implement the DoS. The funds received were allocated as follows:

- Transaction cost: R11 million was received to cover Alexkor's own costs relating to the implementation of the land claim resolution. The balance will be utilised against the intended costs.
- Company establishment: R5 million was received on behalf of the RVC to be administered by Alexkor for the cost relating to the establishment of the business entities for the RVC in which the RVC's assets, mining and other activities will be managed. The balance will be utilised against the intended costs.
- RVC legal costs – R5 million was received on behalf of the RVC to be administered by Alexkor for the all the legal costs that the RVC would incur in the implementation of the DoS. The balance will be utilised against the intended costs.

*PSJV recapitalisation* – Funding of R200 million was received in 2009 (R100 million) and 2010 (R100 million) which represents Alexkor's initial cost contribution for the recapitalisation of the PSJV (prospecting, exploration and mining operations). These funds can only be used, with the consent of the Minister of the DPE, once the PSJV has been established and a development plan for the land assets has been accepted. The PSJV commenced during April 2011. R20 million was transferred to the PSJV during the 2012 financial year for working capital to assist the PSJV in their immediate needs towards their operational concerns. A detailed plan is in the process of being developed for the exploration and future mining activities in Alexander Bay.

## 18. REVENUE

	2013	2012
	R	R
Diamond sales	93 908 207	113 460 341

All revenue from continuing operations was generated through the sale of diamonds. All diamond sales were for the account of the PSJV from their operations in Alexander Bay. Alexkor had no other income generating operations apart from its 51% interest in the PSJV.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

## 19. COST OF SALES

Cost of sales consists of the following items:

	2013	2012
	R	R
Employee costs	15 767 709	13 767 497
Consumables and maintenance	11 243 689	3 732 094
General expenditure	14 022 365	16 402 984
Depreciation & impairment	5 058 777	3 602 227
Revenue split contractors cost	58 376 282	76 123 766
Security services	4 678 315	5 501 503
Legal costs	1 080 935	1 485 598
Other specialised services	5 010 321	3 825 293
<b>Total</b>	<b>115 238 394</b>	<b>124 440 961</b>

## 20. OTHER EXPENSES

	2013	2012
	R	R
Government transfers - specific expenditure incurred	60 168 748	62 726 650
Other expenses	851 239	522 965
<b>Total</b>	<b>61 019 987</b>	<b>63 249 615</b>

## 21. OTHER INCOME

	2013	2012
	R	R
Government transfers - specific expenditure incurred	60 168 748	62 726 650
Movement in pension fund surplus	15 15 900 000	451 000
Other income	185 729	141 334
<b>Total</b>	<b>76 254 476</b>	<b>63 318 984</b>

## 22. OPERATING (LOSS)/ PROFIT

Operating (loss)/profit is stated after:

	2013	2012
Note	R	R
Auditors' remuneration	1 819 184	1 113 727
External audit fees	1 128 214	1 084 657
Fees for other services	690 969	29 070
Internal audit fees	440 859	388 925
Fuel and oil	1 064 650	937 084
Electricity and water	1 064 295	5 636 587
Directors' emoluments	4 423 536	4 450 513
Mining royalties	( 260 358)	1 613 099
Insurance	904 985	406 733
Impairment losses recognised	316 243	2 201 216
Loss on pooling of assets in joint venture	-	3 863 760
Consultations *	4 857 651	3 599 183
Accounting services	1 132 675	1 201 671
Occupational health services	835 158	769 256
Other consultations	2 889 818	1 628 256

\* The remuneration of the acting CEO/CFO, previously disclosed as consulting fees, has been reclassified to directors' emoluments. The comparative figures have been reclassified which resulted in an increase in directors' remuneration and a decrease in consultations to the amount of R1 271 182.

## 23. FINANCE INCOME

	2013	2012
	R	R
Interest received from cash held in rehabilitation trust	2 559 440	2 106 409
Sundry interest	-	226 951
Interest received PSJV recapitalisation funds	41 528 726	-
Interest received on government funds	11 549 624	16 167 354
Interest received from cash held in bank	6 965 617	4 793 036
<b>Total</b>	<b>62 603 407</b>	<b>23 293 750</b>

## 24. FINANCE EXPENSES

	2013	2012
	R	R
Interest paid on government funds	11 549 624	16 167 354
Sundry interest expense	3 881	122 200
<b>Total</b>	<b>11 553 504</b>	<b>16 289 554</b>

Interest received on the government funds are shown as finance cost in this note as the interest received on these funds is allocated to the specific government funding obligation and increases the liability. (Refer to note 17.1)

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

## 25. TAXATION

### Major components of the tax expense:

	2013	2012
	R	R
<b>CURRENT:</b>		
Local income tax current period	-	289 776
Reversal of previous period over estimation	( 289 776)	
	( 289 776)	289 776

No deferred tax asset has been raised on the assessed loss and other deductible timing differences as the company has no reasonable expectation that the deductible tax differences will be utilised in the foreseeable future.

### Reconciliation of the tax expense:

#### Reconciliation between accounting profit/ (loss) and tax expense

	2013	2012
	R	R
<b>Accounting profit/ (loss)</b>	29 415 933	(13 745 405)
<b>Tax at the applicable rate of 28% (2012: 28%)</b>	8 236 461	(3 848 713)
<b>Tax effects of adjustments on taxable income</b>		
Income not subject to tax	(5 254 695)	( 913 379)
Expenses not deductible for tax purposes	5 590 935	3 406 080
Deductible contribution to rehabilitation trust	(16 477 056)	(2 542 989)
Section 12M deduction	(12 540 634)	-
Tax losses carried forward	(9 933 562)	( 589 962)
Capital expenditure carried forward	(14 636 677)	(14 636 677)
Capital expenditure for the year	(1 616 645)	-
Tax losses for which no deferred income tax asset was recognised	30 378 552	4 778 739
Capital expenditure for which no deferred income tax asset was recognised	16 253 322	14 636 677
Reversal of previous period over estimation	( 289 776)	-
<b>Total</b>	( 289 776)	289 776

	2013	2012
	R	R
Estimated tax losses	108 494 828	17 066 924
Estimated unutilised capital allowances	58 047 578	52 269 846
<b>Total</b>	166 542 406	69 336 770

## 26. NOTES TO THE STATEMENT OF CASH FLOWS

### 26.1. CASH GENERATED BY OPERATING ACTIVITIES

	2013	2012
	R	R
<b>Net profit/(loss) before taxation</b>	29 415 933	(13 745 406)
Adjustments for:		
Depreciation	4 913 768	3 644 165
Finance income	(62 603 407)	(23 293 750)
Finance costs	11 553 504	16 289 554
Movements in retirement benefit obligations	2 804 275	5 886 000
Movements in environmental rehabilitation liability	10 737 109	1 356 015
Movement in pension plan surplus	(15 900 000)	(451 000)
Cash flow from discontinued operations	921 625	1 621 515
Cash settlement on medical aid liability	(49 754 275)	(17 372 000)
Government grants recognised in equity	-	20 000 000
Impairment of equipment	252 932	-
Accounting profit on sale of intangible asset	(17 895)	-
<b>Taxation paid</b>	-	-
Payable at the beginning of the year	289 776	-
Income tax expense	(289 776)	289 776
Payable at the end of the year	-	(289 776)
<b>Movement in working capital</b>	(2 734 915)	2 311 634
(Increase)/ decrease in inventories	(4 622 812)	24 876 456
(Increase)/ Decrease in accounts receivable	(2 649 746)	4 298 225
Increase/(decrease) in accounts payable	4 537 643	(26 863 047)
<b>Total</b>	(70 411 346)	(3 753 274)

### 26.2 CASH AND CASH EQUIVALENTS

	2013	2012
	R	R
<b>Restricted cash and cash equivalents</b>		
Cash held in call account - government related funds	205 167 444	261 533 187
Cash held in trust - on-going litigations *	10 897 527	10 564 046
Recapitalisation funds (MTEF) funds	201 136 731	-
<b>Unrestricted cash and cash equivalents</b>		
Cash held in call account	139 477 469	69 152 546
<b>Total</b>	556 679 171	341 249 779

\* The cash held in the trust fund are ring-fenced for the Nabera case.

The government funds received will be utilised for specific projects (refer to note 17.1). The cash held in the trust for on-going litigations will be utilised for legal costs should the company's defence be unsuccessful (refer to note 28). Cash received from the MTEF allocation will be utilised towards specific projects as agreed with Treasury.



# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

## 27. DISCONTINUED OPERATIONS

	Alexander Bay Trading	Hospital	Airport	Total
	R	R	R	R
<b>Results from discontinued operations for the year ended 31 March 2013</b>				
Revenue	12 812 961	-	-	12 812 961
Expenditure	(13 726 313)	(8 273)	-	(13 734 587)
Operating loss	(913 352)	(8 273)	-	(921 625)
Taxation	-	-	-	-
Loss for the period	(913 352)	(8 273)	-	(921 625)
	R	R	R	R
<b>Results from discontinued operations for the year ended 31 March 2012</b>				
Revenue	12 787 494	-	-	12 787 494
Expenditure	(14 405 485)	(3 524)	-	(14 409 009)
Operating loss	(1 617 991)	(3 524)	-	(1 621 515)
Taxation	-	-	-	-
Loss for the period	(1 617 991)	(3 524)	-	(1 621 515)

	2013	2012
	R	R
Cash flow (to)/ from discontinued operations	(921 625)	(1 621 515)
Net loss before taxation	(921 625)	(1 621 515)

## 28. CONTINGENT LIABILITIES

### Nabera Mining

Nabera sued Alexkor and the government for alleged amounts resulting from a contract in terms of which Nabera managed Alexkor mining assets and operations for a period of two years, 1999-2001. Two claims were instituted by Nabera, namely a claim for management fees alleged to be due in terms of the contract, for the sum of R4.5 million and a claim for alleged value added to the mining assets over the management period. Both Alexkor and the government have resisted these claims and are of the view that Nabera added no value to the mining assets and that the calculation made in this regard is incorrect and based on wrong assumptions. The matter is ready for trial, but has not proceeded to trial because Nabera has failed to apply for a trial date. In consultation with the company's legal representatives, no provision has been made in the financial statements for this claim.

(Refer to note 26.2 for the cash held in a legal trust)

## 28. CONTINGENT LIABILITIES (CONTINUED)

### Ruslyn Mining and Plant Hire

Ruslyn instituted action for damages against Alexkor relating to a profit sharing agreement entered into on 22 June 2003. Ruslyn instituted three claims against Alexkor, firstly for damages suffered as a result of fraudulent misrepresentation, secondly a claim based on a supposed contract in which Ruslyn allege that it replaced the profit sharing contract concluded in 2004, and thirdly on Alexkor's refusal to release Ruslyn's equipment when it wanted to withdraw same from the mining area. The trial is partly heard with two court sessions having passed.

The second claim has been withdrawn. The trial is now centered on the alleged misrepresentation, and the action relating to the alleged impoundment of Ruslyn's equipment is still pending. After Ruslyn closed its case, Alexkor's attorneys lodged an application for dismissal of Ruslyn's first claim on the basis, amongst others, that Ruslyn did not prove its case as set out in its pleadings.

Ruslyn brought an application to amend its pleadings. The application for dismissal of Ruslyn claim and amendments of pleadings were argued during November 2009. During March 2010 judgement was delivered, and the application for amendment brought by Ruslyn was refused, and Alexkor's application for dismissal of the second claim was granted. Ruslyn has appealed the decision and the Supreme Court of Appeal upheld the appeal. In doing so, the court decided that absolution should not have been granted and the matter was, as a result, referred back to the High Court for further trial. The case is set down for August 2013. In consultation with the company's legal representatives, no provision has been made in the financial statements for this claim.

## 29. CONTINGENT ASSET

### South African Government

Alexkor instituted a claim against the government of the Republic of South Africa and others for compensation in respect of assets it transferred to the Richtersveld community in settlement of a claim instituted by the aforesaid community in terms of the Restitution of Land Rights Act 22, 1994. The claim was principally against the State, and Alexkor, as owner of the assets subject to the restitution claim, was cited as an affected and interested party.

As a public company, as well as a company listed in Schedule 2 of the Public Finance Management Act, 1999 as a major public entity, Alexkor was obliged to claim a quid pro quo for the assets transferred to the community. Alexkor therefore instituted a claim for compensation of the assets so transferred in terms of section 25 of the Constitution of the Republic of South Africa Act 108, 1996 in the sum of some R202 million.

The parties have commenced a process of mediation in an effort to resolve this matter amicably. A proposed settlement has been approved in principle, but the finalisation thereof is pending.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

## 30. GUARANTEES

The company's banker has issued guarantees on behalf of the company to the following:

	2013	2012
	R	R
Eskom	18 900	54 900
Department of Mineral Resources	314 000	110 000
<b>Total</b>	<b>332 900</b>	<b>164 900</b>

## 31. RELATED PARTIES

### 31.1. RELATED PARTY TRANSACTIONS

	2013	2012
	R	R
SAA	548 978	755 140
Eskom	7 106 117	8 243 122
SA Post Office	1 811 518	1 833 839
Sentech	62 160	66 854
Fin5 Inc	507 929	-
<b>Total</b>	<b>10 036 702</b>	<b>10 898 955</b>

### 31.2. RELATED PARTY RELATIONSHIPS

Alexkor holds a 51% interest in the Alexkor RMC JV.

The company is a state-owned entity and transactions with the following state entities occurred during the financial year:

- SAA
- Eskom
- SA Post Office
- Sentech

The CFO is a member of key management of Finfive Inc.

The nature of transactions with these entities has not changed significantly from previous years and all transactions are on an arm's length basis.

### 32. DIRECTORS' REMUNERATION

Name	Capacity	Fee for services as members	Basic Salary	Total 2012/2013	Total 2011/2012
<b>Executive management</b>					
Percy Khoza <sup>^</sup>	Chief Executive Officer	-	195 699	<b>195 699</b>	-
Berno Lategan <sup>^</sup>	Chief Executive Officer / Chief Financial Officer	-	1 680 000	<b>1 680 000</b>	1 271 182
K McClain <sup>^</sup>	Chief Executive Officer	-	-	<b>-</b>	1 117 976
<b>Non-executive</b>					
R Bagus #	Chairman	623 530	-	<b>623 530</b>	-
R Paul #	Non-executive director	515 739	-	<b>515 739</b>	369 522
N Mathabathe #	Non-executive director	131 260	-	<b>131 260</b>	-
Z Ntlangula #	Non-executive director	161 250	-	<b>161 250</b>	-
M Bhabha #	Non-executive director	128 927	-	<b>128 927</b>	-
N Jiyane #	Non-executive director	83 774	-	<b>83 774</b>	-
R Muzariri *	Chairman	519 395	-	<b>519 395</b>	907 490
Dr V Makin *	Non-executive director	85 106	-	<b>85 106</b>	234 894
S Ngoma *	Non-executive director	157 992	-	<b>157 992</b>	240 007
C Towell *	Non-executive director	140 864	-	<b>140 864</b>	309 442
<b>Total</b>		<b>2 547 837</b>	<b>1 875 699</b>	<b>4 423 536</b>	<b>4 450 513</b>

<sup>^</sup> The Chief Executive Officer is also an executive director of the company. Ms McClain's contract terminated on 22 September 2011. The Chief Financial Officer, Mr. Lategan, was then appointed to act in the vacant position from that date. Mr. Lategan was then replaced by Mr. Khoza on 4 March 2013 after almost 18 months in the position. Mr. Khoza's appointment is permanent for a period of five years.

# The new board of Alexkor was appointed during its AGM on 7 September 2012. Ms Jiyane subsequently resigned on 3 December 2012.

\* The previous board was replaced during Alexkor's AGM on 7 September 2012. Only Dr. Paul remained on Alexkor's board for another term.

### 33. EVENTS AFTER THE REPORTING PERIOD

#### Exploration

As part of the land claim settlement an amount of R200 million was made available by the state for the recapitalisation and exploration activities of the Alexkor RMC JV. A contractor was appointed in April 2012 to commence with the initial exploration phase in the PSJV, in order to start exploration activities on land within the Alexander Bay region.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2013

## 33. EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

The study commissioned by the PSJV to re-estimate the diamond resources in the Muisvlak and Kaap Voltas land areas was completed in November 2012. The SAMREC compliant diamond resource for Muisvlak and Kaap Voltas are 270 000 and 260 000 carats at average grades of 4.10 and 2.19 carats per 100 tons respectively. A joint desktop study by the PSJV and the consultants revealed that it is economically viable to upgrade the existing Muisvlak plant and commence mining. A tender process to erect the Muisvlak plant was initiated in January 2013 and finalised in April 2013, with the appointment of the successful bidder. It is anticipated that the plant will be commissioned toward the end of the year and will create approximately 100 new jobs. The expected costs for the erection of the plant is expected to be in the region of R50 million. This will be funded from the allocated R200 million, as disclosed in the paragraph above.

## 34. FRUITLESS AND WASTEFUL EXPENDITURE

The following material losses, through fruitless and wasteful expenditure have been identified as being reportable in terms of section 55(2)(b)(i) of the Public Finance Management Act, No. 1 of 1999, as amended, for the year under review:

	2013	2012
	R	R
Opening balance	-	-
Identified in the current year	146 980	-
Recovered	-	-
Losses written off	-	-
	146 980	-

### 2013

Fruitless and wasteful expenditure	Action taken	Losses identified	Losses recovered year to date	Losses written off	Recovery outstanding
SARS penalties (VAT)	Losses written off	141 289	-	-	141 289
SARS interest (VAT)	Losses written off	5 691	-	-	5 691
		146 980	-	-	146 980

A detailed reconciliation was done of the VAT due to/by SARS and controls were put in place to avoid future fruitless and wasteful expenditure. R137 432 of the SARS VAT penalties and interest was paid to SARS in October 2011, the accounting entry occurred in the current financial year, therefore the impact was identified in the current financial year.

The R137 432 was a result of administrative issues upon implementation of the PSJV in April 2011 whereby Alexkor submitted VAT returns on behalf of the PSJV. Alexkor is in the process of resolving the issues with SARS.

### 2012

No fruitless and wasteful expenditure occurred in the previous financial year except for the R137 432 mentioned above which was identified in the current year.

# NOTES

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