



ALEXKOR

**Briefing by the Alexkor Board to the Portfolio Committee on
Public Enterprises on its Annual Report, Financial Statements
and General Feedback for 2015/16**

16 November 2016

Table of Contents

- Overview of the Company
- Financial Performance
- HR & Transformation
- Supply Chain
- Environmental Issues



ALEXKOR

Overview of the Company

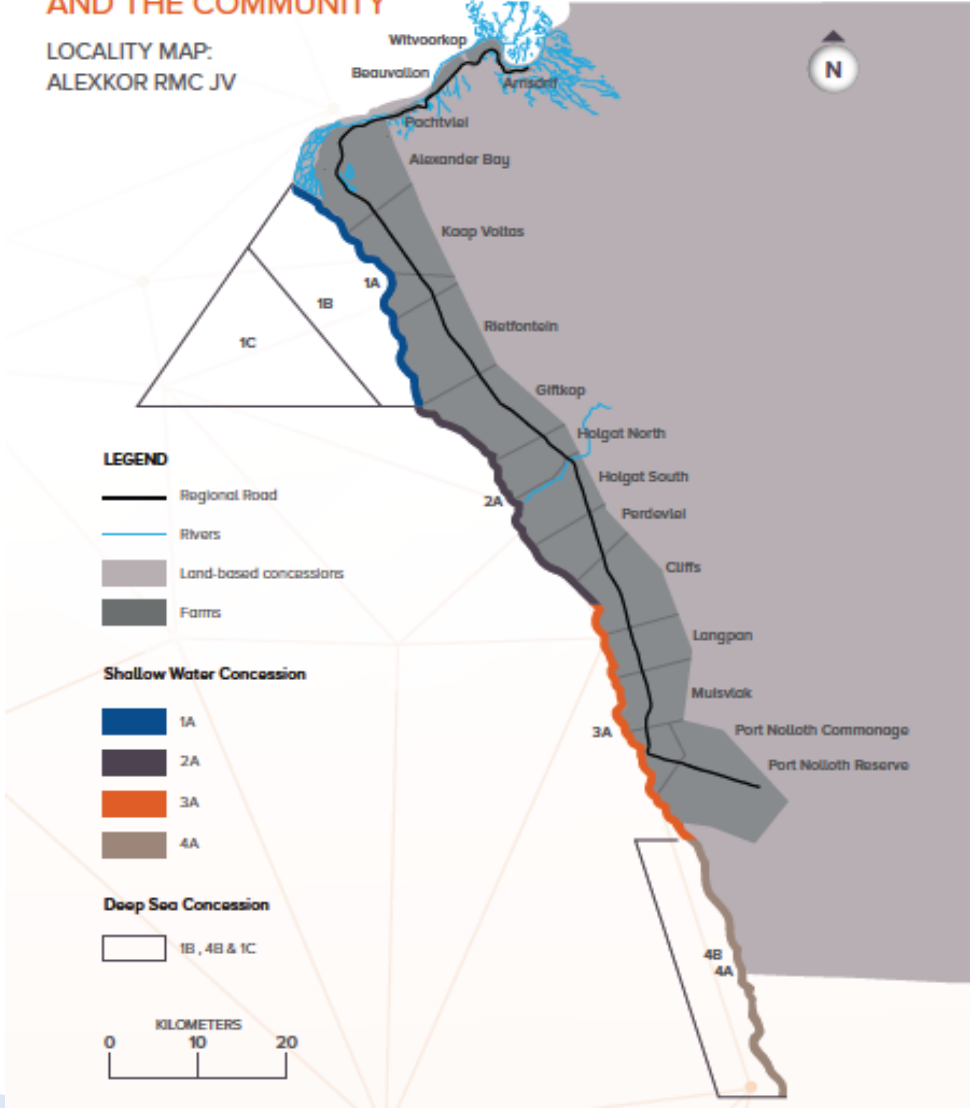
Company Overview

- 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 Operations (Alexkor RMC JV) and the Alexkor corporate unit.
- The core business of Alexkor is the mining of diamonds on land, along rivers, on beaches and in the sea along the north-west coast of South Africa. These activities are complemented by geology, exploration, ore reserve planning, rehabilitation and environmental management.
- While Alexkor is not perceived as a strategic asset in the national sense, it has significant strategic importance for the Namaqualand – Richtersveld region.
- Alexkor's distinctive competencies are its quality of diamonds and its unique land and mineral resources. Over the life of the mine approximately 10,000,000 carats of gemstone quality diamonds have been recovered.

Company Overview

MAP OF OPERATIONS REPRESENTING THE POOLED ASSETS OF BOTH ALEKKOR SOC AND THE COMMUNITY

LOCALITY MAP:
ALEKKOR RMC JV



Company Overview



Company Overview - Deed of Settlement (DoS)

The Deed of Settlement & the Unanimous Resolution is a binding agreement between the Richtersveld Community, Alexkor, the Government of the Republic of South Africa which emanated from the land claim filed by the Richtersveld Community.

The Order of Court states in clause 6: “By consent the State shall procure that Alexkor shall perform its obligations in terms of the Deed of Settlement & the Unanimous Resolution & that Alexkor shall be in a financial position to do so.

Principles of the DoS and UR:

Alexkor's land mining rights to be transferred to the RMC and Alexkor to retain its marine mining rights

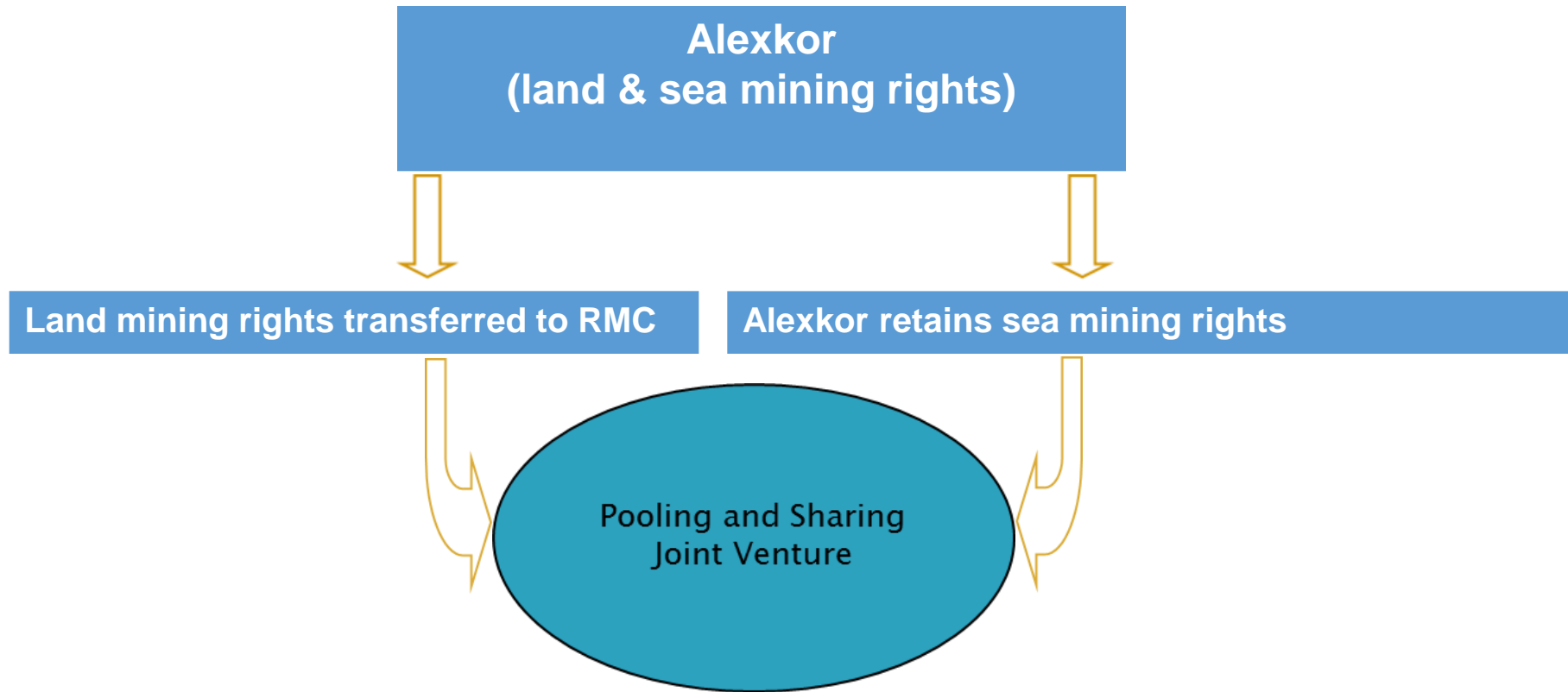
Alexkor and RMC will form a “Pooling and Sharing Joint Venture” (the PSJV) and put their respective marine mining rights and land mining rights under the control of a JV for purposes of mining both the marine and land diamond resources

Participation interest (Alexkor 51% & RMC 49%)

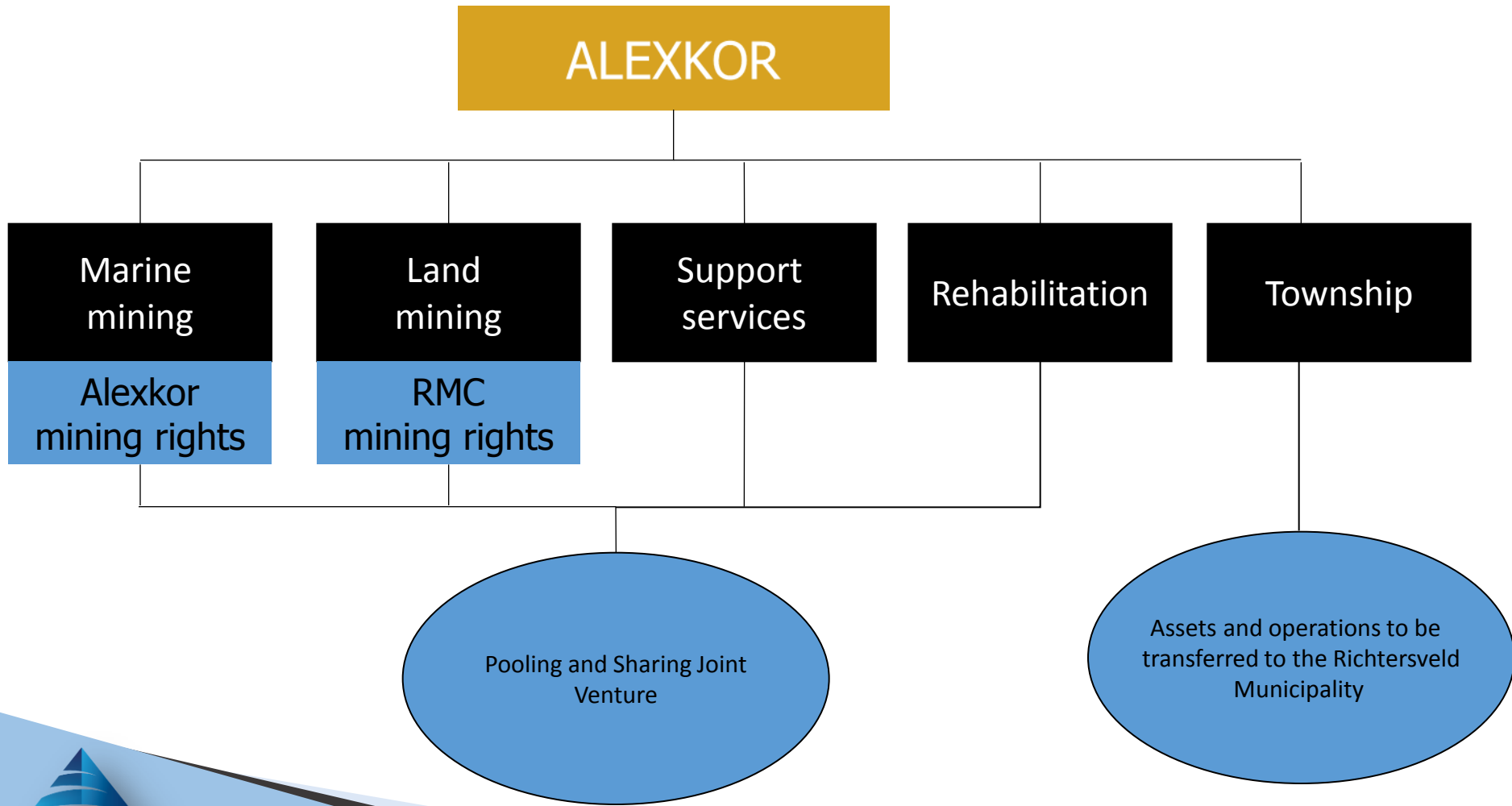
Alexkor and RMC will furthermore pledge its land and marine mining rights to the PSJV

Alexkor's movable assets relating to its agricultural and maricultural businesses to be transferred to the Richtersveld Community.

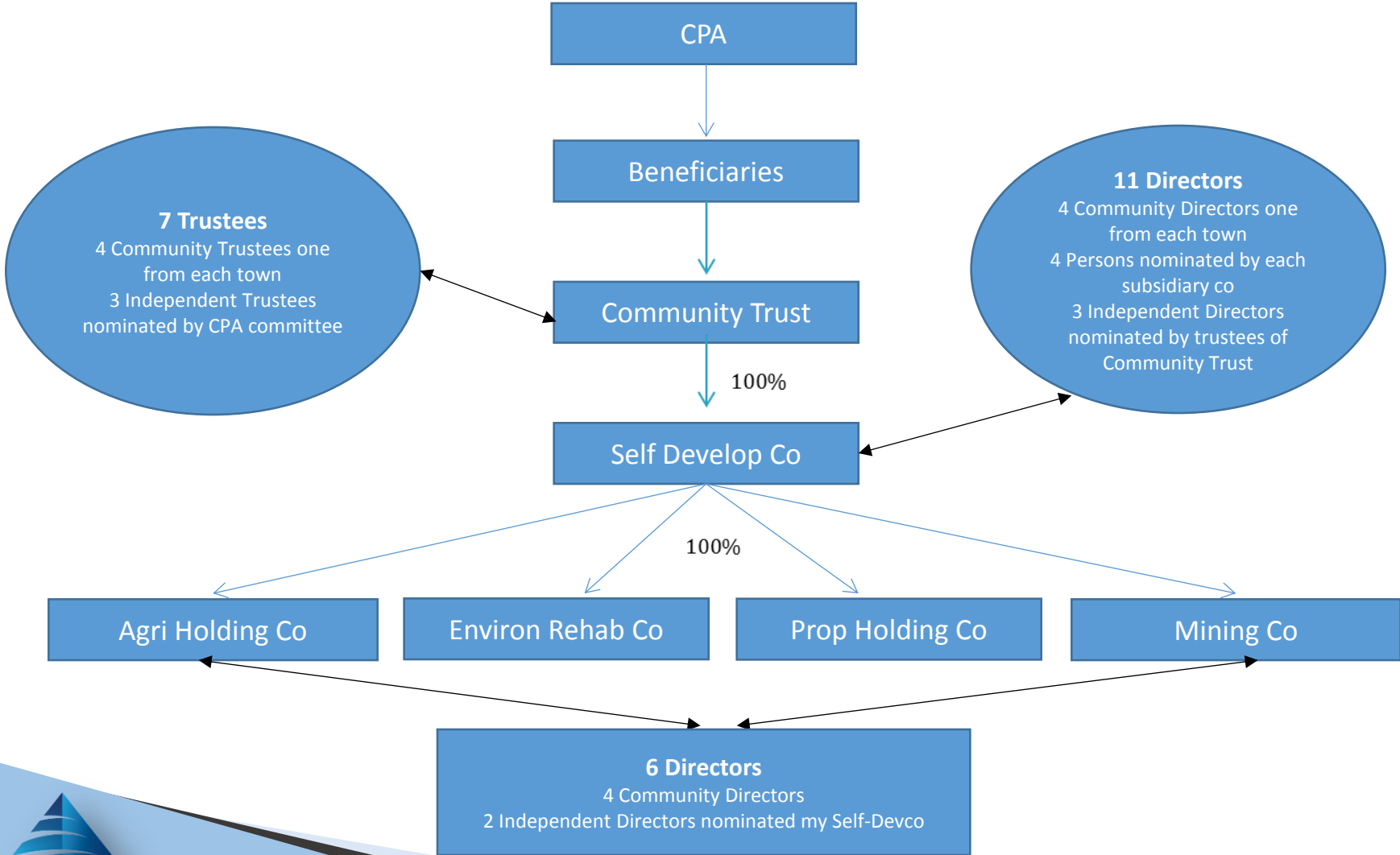
Formation of the PSJV-07 April 2011



Structure



RICHTERSVELD CPA COMMUNITY STRUCTURES



Chronology of Implementation of DoS & UR

Condition	Date	Status
Sign MOU	05 Oct 06	✓
Sign DoS	22 Apr 07	✓
Sign UR	31 Aug 07	✓
Make DoS court order	09 Oct 07	✓
Obtain PSJV approval from Competition Authority	06 Apr 11	✓
Register land mining right in name of RMC	06 Apr 11	✓
Form PSJV and Joint Board	07 Apr 11	✓
Appoint an EXCO to manage the PSJV	2012 →	✓

National Development Plan and New Growth Path

The NDP and NGP Goals

In addressing the challenges facing South Africa the NDP and NGP objectives are to:

- Attack poverty by creating wealth and equity for communities;
- Stimulate economic growth and enhance opportunities for regional cooperation and trade; and
- Create sustainable economies; and
- Provide government with a revenue base to enhance economic diversification and skills development.

Alexkor's Value Contribution

Alexkor's Strategy is aligned with NDP objectives which intend to:

- Leverage state capabilities to improve sustainability and economic viability;
- Secure the economic future of the community and stakeholders it serves; and
- Enhanced coordination between SOCs to unlock real value in support of the NDP and NGP goals.

History

Shareholder Mandate

When the previous Board was appointed in September 2012, the mandate given to it was as follows:-

Commercial imperatives:-

- Stabilise the mine
- Increase carat production
- Job creation
- Explore and invest in non-mining opportunities

Socio-economic imperatives:-

- Continuous engagement with the community
- Training and development

This mandate has largely remained unchanged.

Achievements of the Board as regards the PSJV

- Development of the Muisvlak Plant
- Extracting value by the introduction of coffer dams and an optical sorter
- 10 million investment in a mobile prospect plant to complement the exploration program
- Expansion into mining nodes 2 and 3
- Mid-water mining desktop study completed to be followed by survey of the sea bed
- IMDSA deep sea mining commenced on 18 April 2016 in concessions 1C and 1B

Achievements of the Board as regards Alexkor Corporate Offices

- The office restructuring and Voluntary Severance Packages (VSPs) were successfully concluded
- There are now 5 permanent staff members employed at Alexkor head office
- Corporate offices has moved to The Woodlands Office Park in Woodmead precinct at a significantly lower rental

Alexkor SOC – mandate and challenges

- The Minister had requested, at the Special AGM of August 2015, that the Company prepare a business case for the coal beneficiation strategy.
- Management has embarked on completing a Due Diligence Study on a coal beneficiation company, scheduled for completion by end January 2017. However, Alexkor will continue to sweat its existing assets as well as identify other diamond opportunities outside of the Richtersveld
- Diamond beneficiation (the art of cutting and polishing) is severely lacking in RSA and Alexkor sees this as an ideal opportunity to enter into this space. To this end Alexkor, together with its marketer, SSI, will investigate opportunities to establish a diamond beneficiation factory in Kimberley.
- The immediate challenges for the Company lies in the fact that it has operational cash available for the next eight (8) months, commencing November 2016. However, the mining of the mid – waters is expected to commence in the Q4 and the company is expected change its bottom line figures from **red** to **black**.



ALEXKOR

**Annual Financial Statements
for the year ended 31 March 2016**

Contents

1. Alexkor SOC - Predetermined Objectives
2. PSJV - Key Performance Indicators
3. Overview of Financial Management and Controls
4. Annual Financial Statements
5. Other financial matters
6. Forward - Looking

Alexkor SOC - Predetermined Objectives

Alexkor SOC had 19 approved targets for the year, with 5 key performance indicators (KPI) subsequently being deferred. Of the 14 remaining KPIs, only 11 (79%) were fully achieved.

Alexkor SOC - Predetermined Objectives

ELEMENT OF STRATEGIC INTENT	KEY PERFORMANCE AREA	KEY PERFORMANCE INDICATOR	UNIT OF MEASURE	2015/16 FY Target	2015/16 FY Actual	Variance: Actual vs. Target	Comments
Alexkor /PSJV sustainability	Diamond Production	Ramp up to full Muisvlak production	Carats produced	80 320 carats	45 492 carats	34 828	Not achieved. Mining operations impaired by lack of accurate geological information. Exploration programme initiated to upgrade the confidence level of the inferred resource.
		Initiate exploration of the remaining mining nodes	Board Approval	Commence exploration on Node 2 (Voltas/Kortdoor n) by 31 March 2016	Independent contractor has been appointed to drive the exploration process		Achieved
		Implementation of IMDSA contract	Mining rights approval/carats produced	120 000 carats	0	(120 000)	Partly achieved. The contract was signed and approved, even though the target for carat production was not achieved.

Alexkor SOC - Predetermined Objectives

ELEMENT OF STRATEGIC INTENT	KEY PERFORMANCE AREA	KEY PERFORMANCE INDICATOR	UNIT OF MEASURE	2015/16 FY Target	2015/16 FY Actual	Variance: Actual vs. Target	Comments
Alexkor /PSJV sustainability		Exploration of shallow water channels	Signed Contract	Commence mining shallow water channels and determine the average grades and extent by 31 March 2016	Two companies have been appointed on the exploration of coffer dams in the shallow water channels.	N/A	Achieved.
	Financial ratios	Current Ratio	Ratio	>2:1	3.9:1	1.8:1	Achieved
		Cash Ratio	Ratio	>1:1	3.8:1	2.7:1	Achieved
Rehabilitation obligation	Implement and execute a five-year rehabilitation plan	Finalise and approve rehabilitation plan by the Committee. Execution of the plan	Deadline	Execute the plan as per the approved plan	Process with DEA has begun and within the timelines	N/A	Achieved

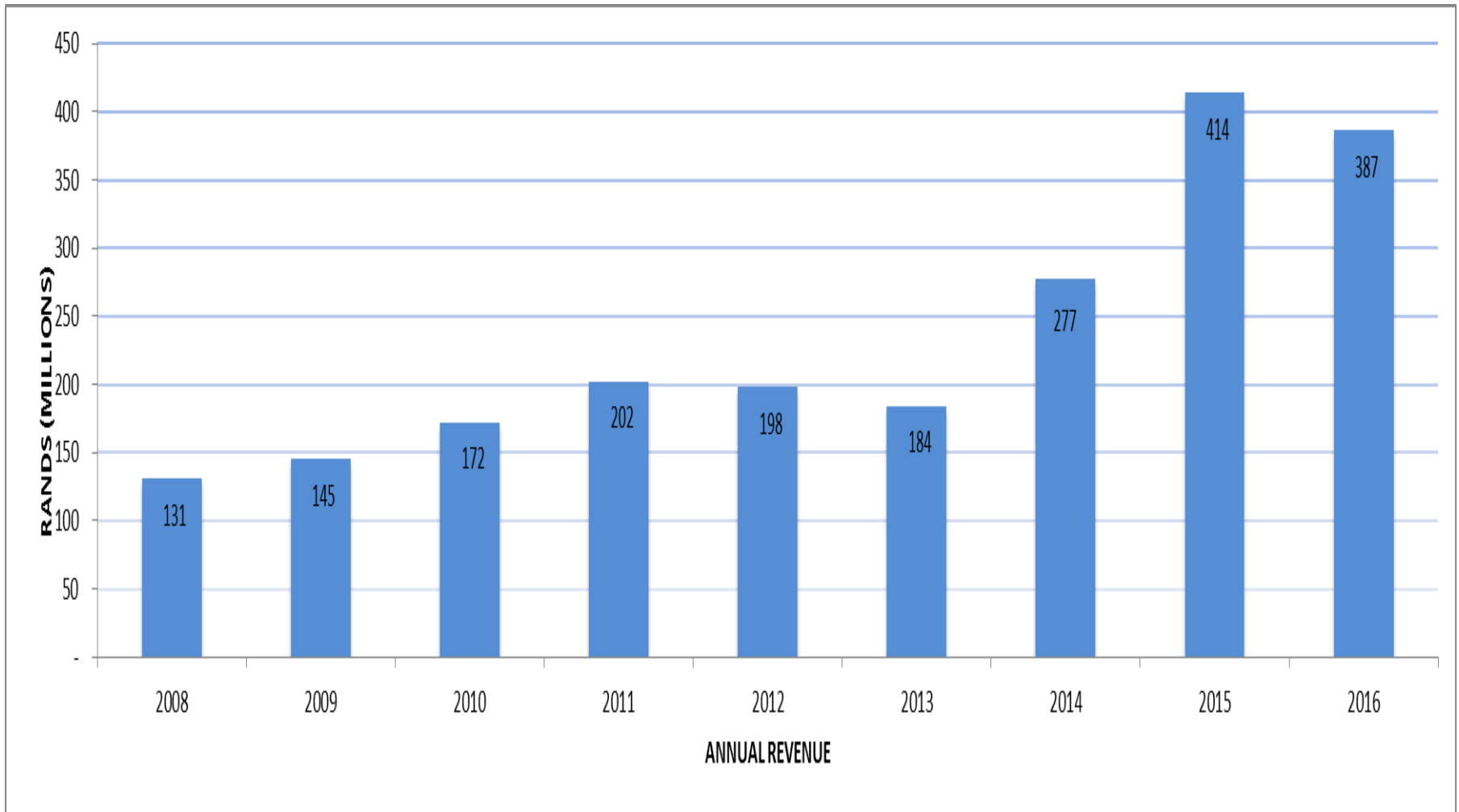
Alexkor SOC - Predetermined Objectives

ELEMENT OF STRATEGIC INTENT	KEY PERFORMANCE AREA	KEY PERFORMANCE INDICATOR	UNIT OF MEASURE	2015/16 FY Target	2015/16 FY Actual	Variance: Actual vs. Target	Comments
PSJV sustainability	Safety	Lost time injury frequency rate	Rate	0.57	0.18	0.39	Achieved
		Fatalities	Number	Zero	1	1	Not achieved. A contractor employee was fatally injured whilst driving a light vehicle when he lost control and overturned the vehicle.
	Revenue	EBITDA	Rands	R10 million	R25 million	R15 million	Achieved
Socio-economic Indicators	Skills development	Training spend	% of personnel costs	3%	3%	-	Achieved
	Total procurement	Local BEE % of total spend	%	60%	62%	2%	Achieved
		Local content	%	80%	100%	20%	Achieved
	CSI	CSI policy	Deadline/ Rands	R3 million	R3.8 million	R800 000	Achieved

PSJV - Key Performance Indicators

- Diamond revenue decreased by 7% from R414m in 2015 to R387m for the year ending 31 March 2016.
- Production achieved 45 492 (2016) vs 80 320 carats target
- A net profit of R6m (2016) was achieved for the year (2015: R18m)
- EBIDTA of R24m (2016) for the year (2015:R37m)

Revenue Growth



Overview of Financial Management and Controls

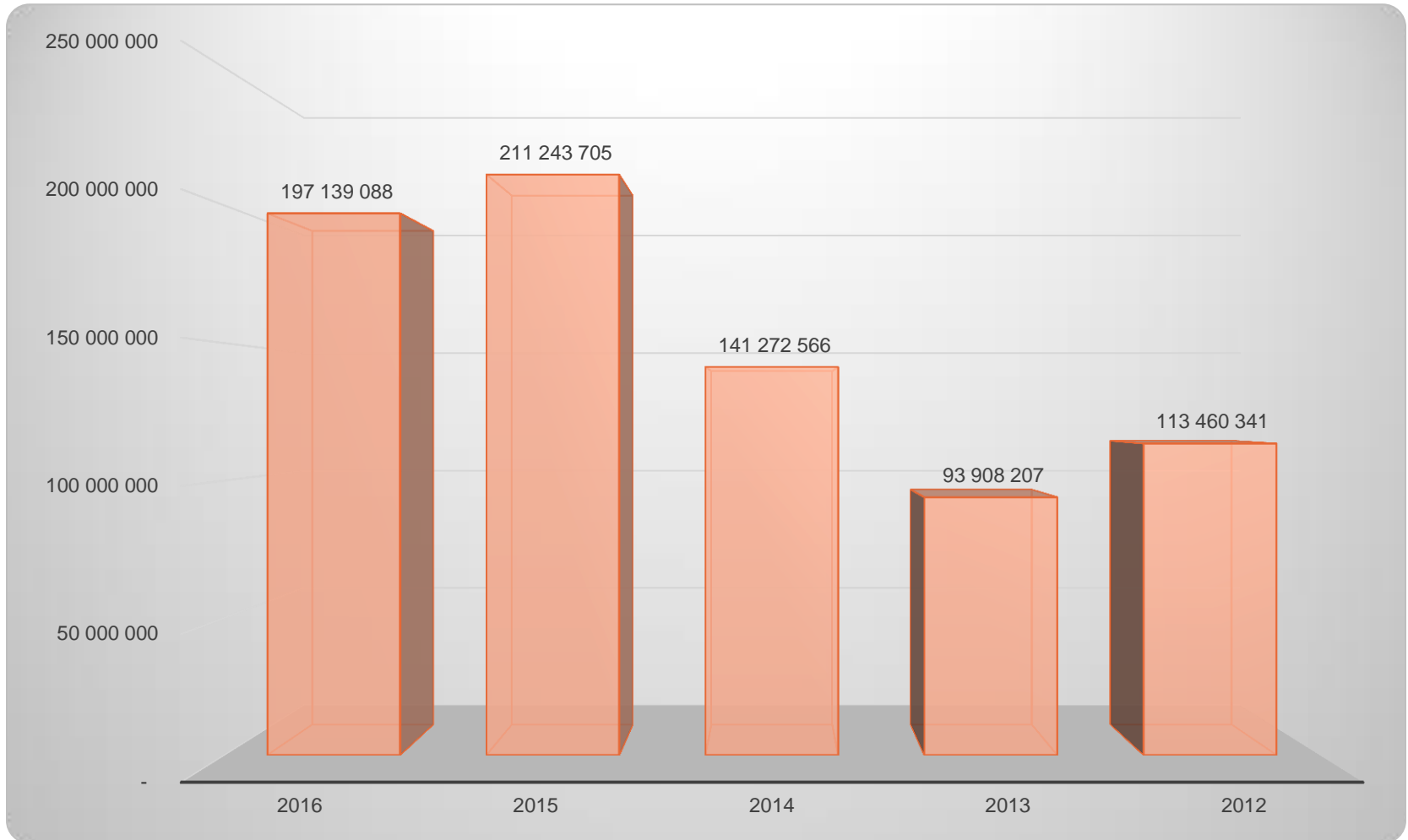
- AFS for both Alexkor SOC and PSJV have been prepared on a going concern basis

- The external auditor's opinion was unmodified

- An emphasis of matter paragraph included non compliance with PFMA in the following areas:
 - Irregular expenditure of R6.9m
 - Non effective management of fruitless and wasteful expenditure of R200k

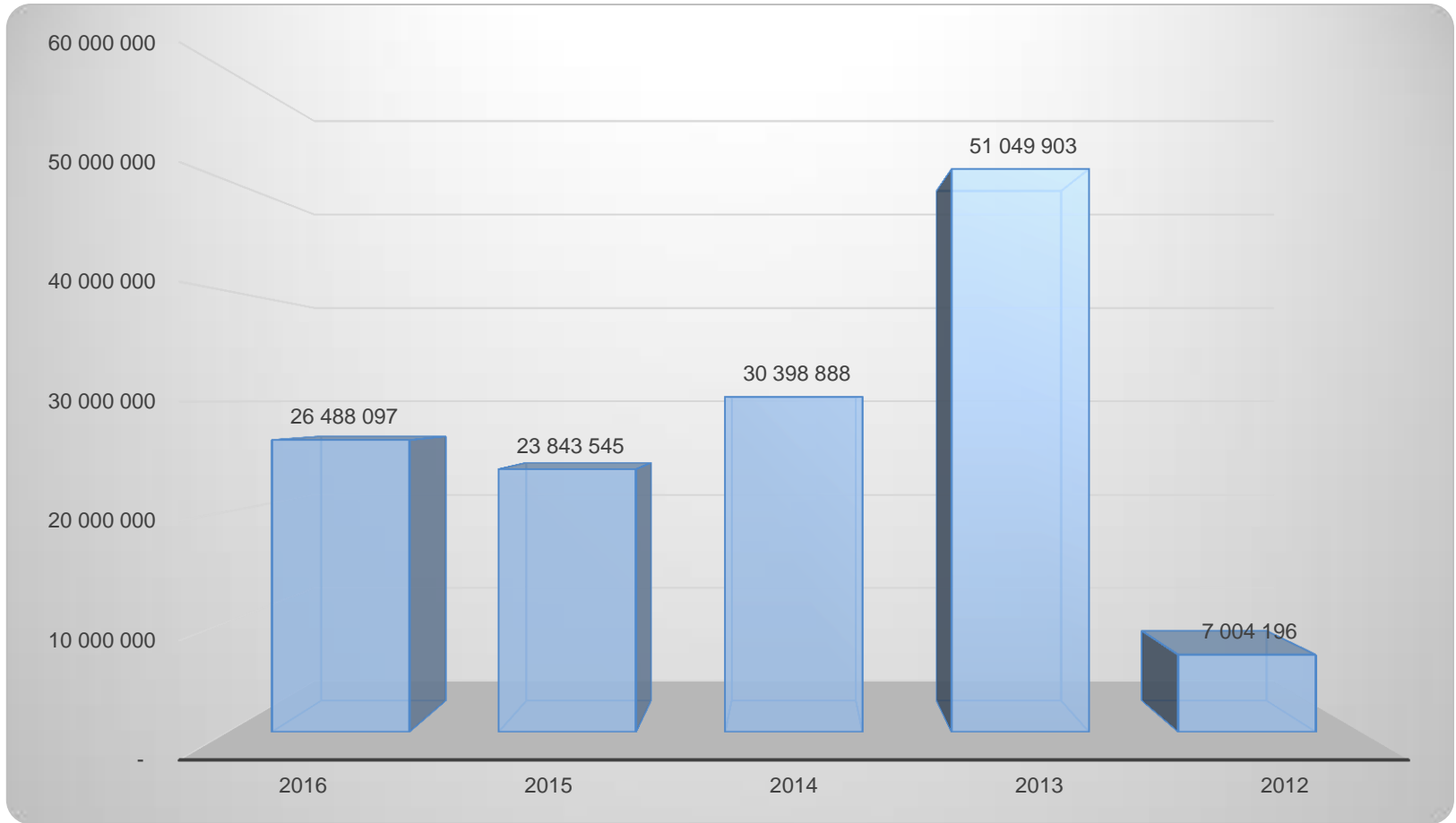
Statement of Comprehensive Income- Revenue

Revenue decreased by 7% mainly in line with less carat production



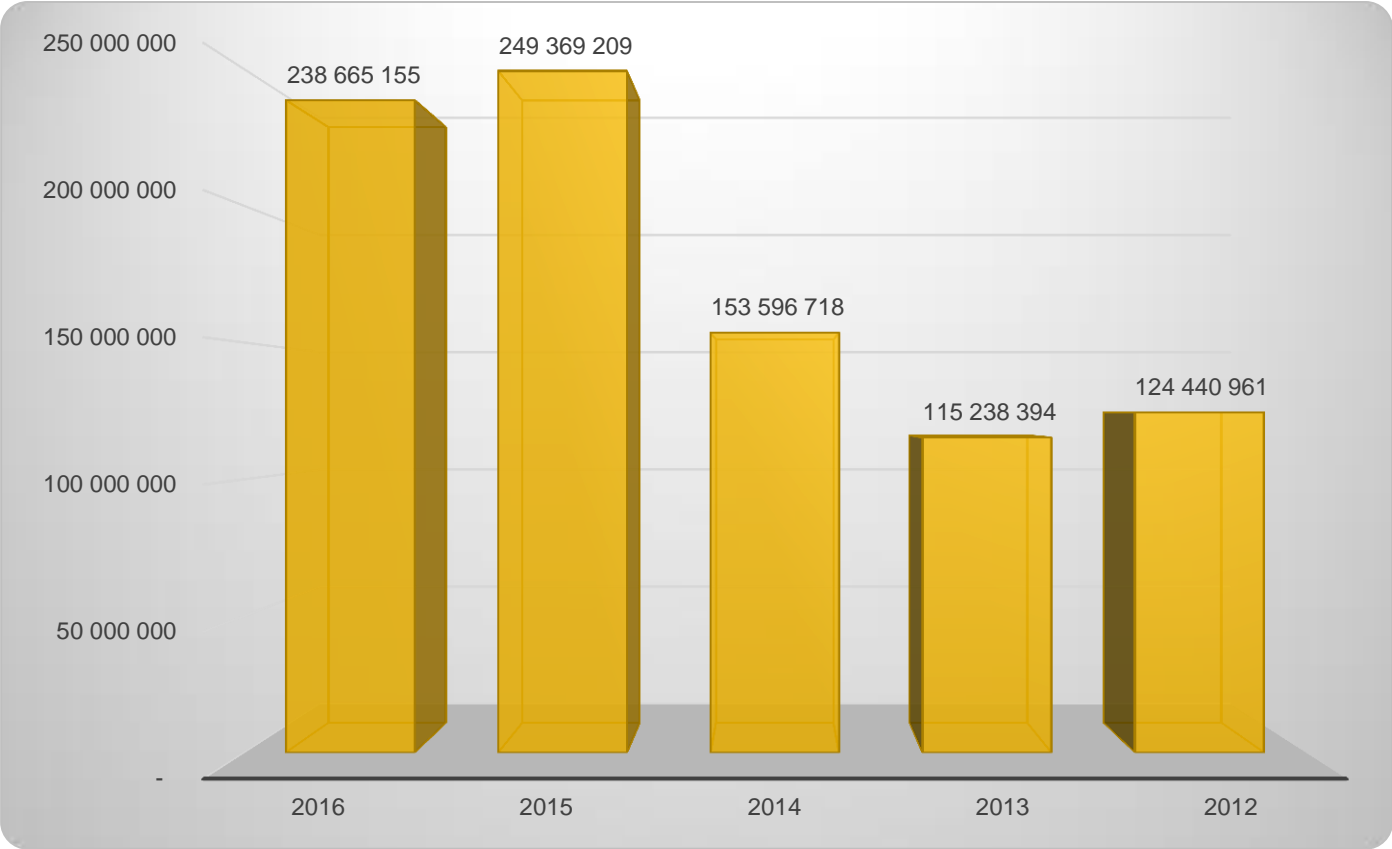
Statement of Comprehensive Income- Net Finance Income

Net income increased by 11% due to favorable interest rate



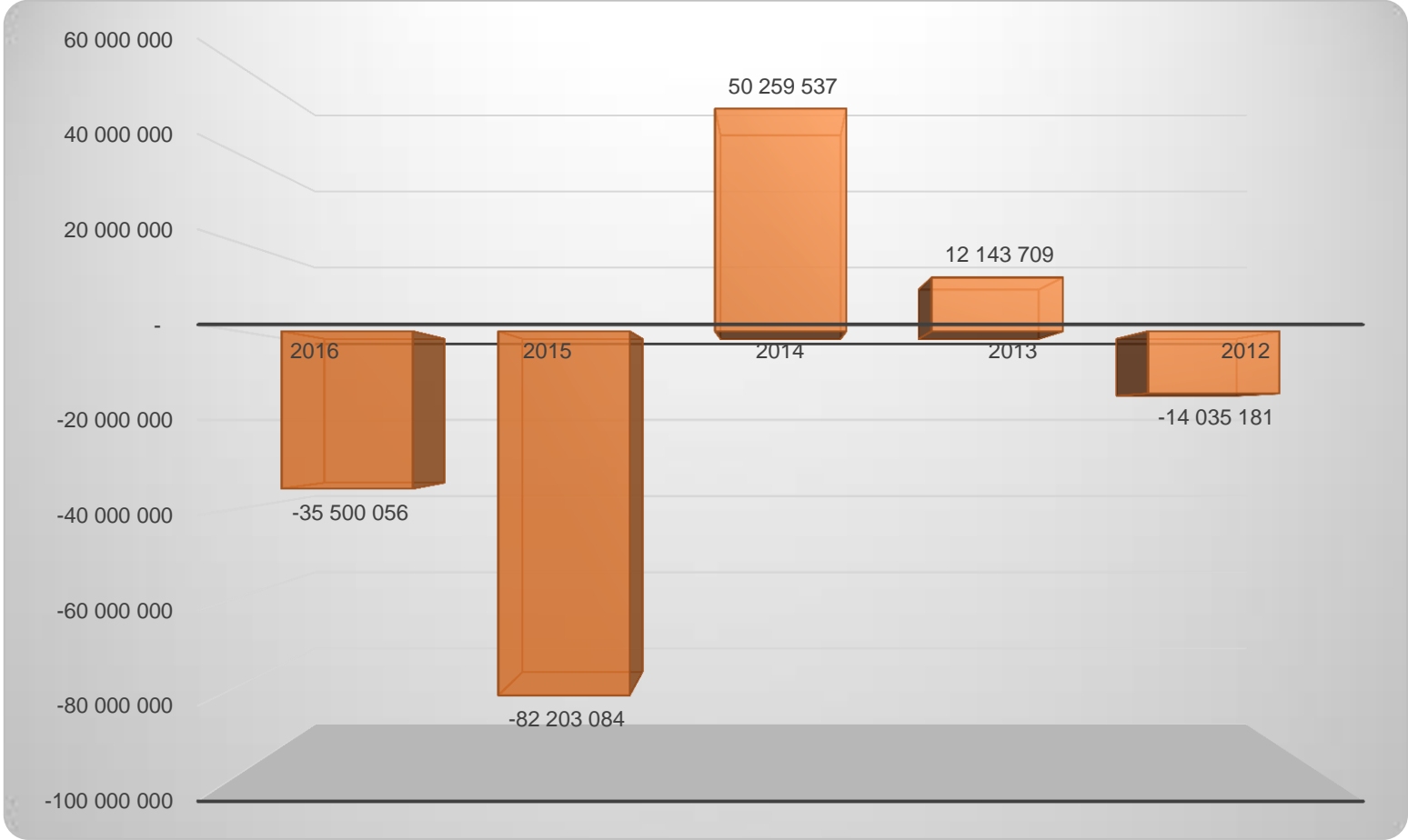
Statement of Comprehensive Income - Cost of sales

Cost of sales decreased by 4% is in line with lower carat production



Statement of Comprehensive Income – (Loss)/Profit for the year

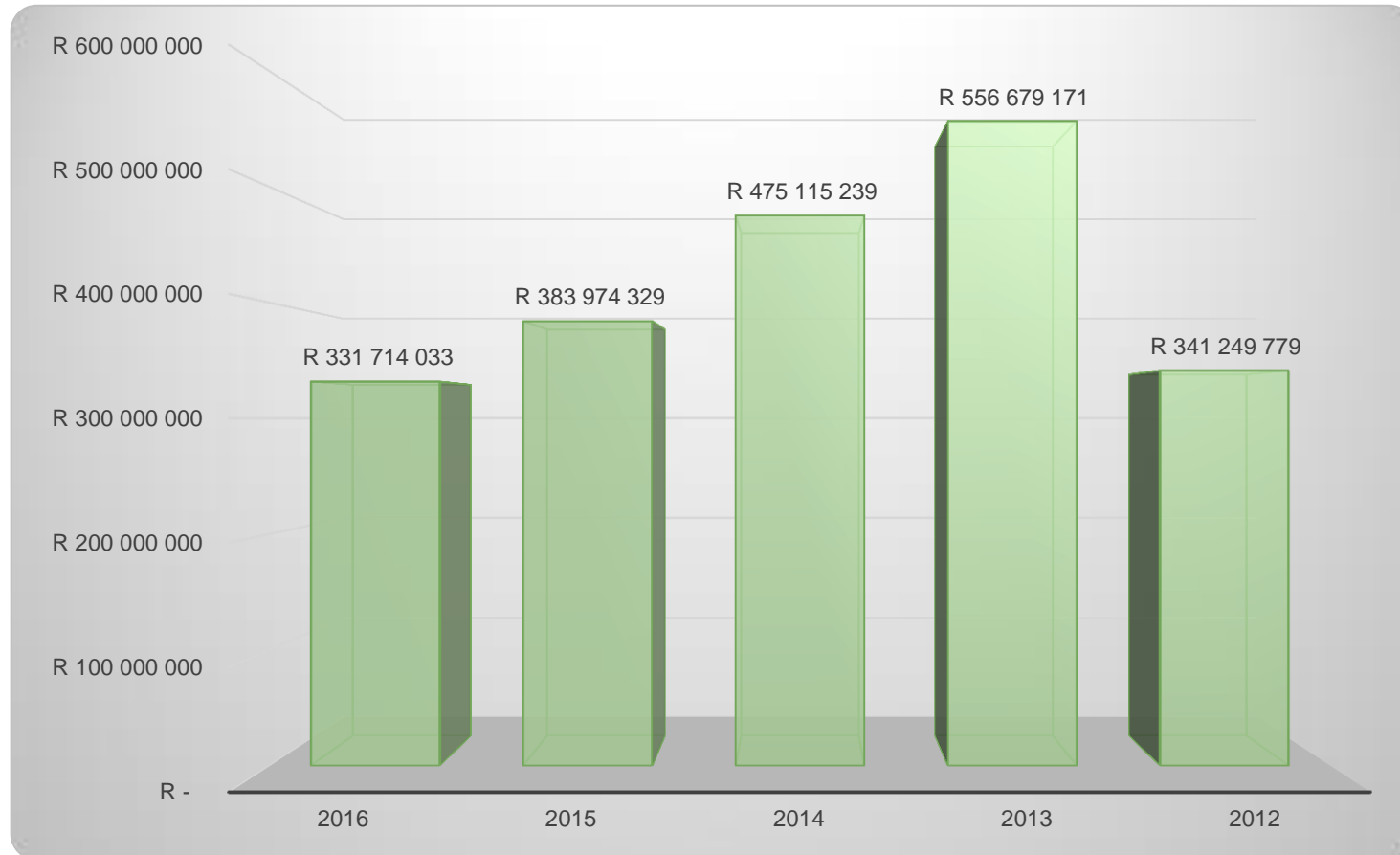
Loss has narrowed by 56% compared to the previous year



Statement of Financial Position - Cash and Cash Equivalents

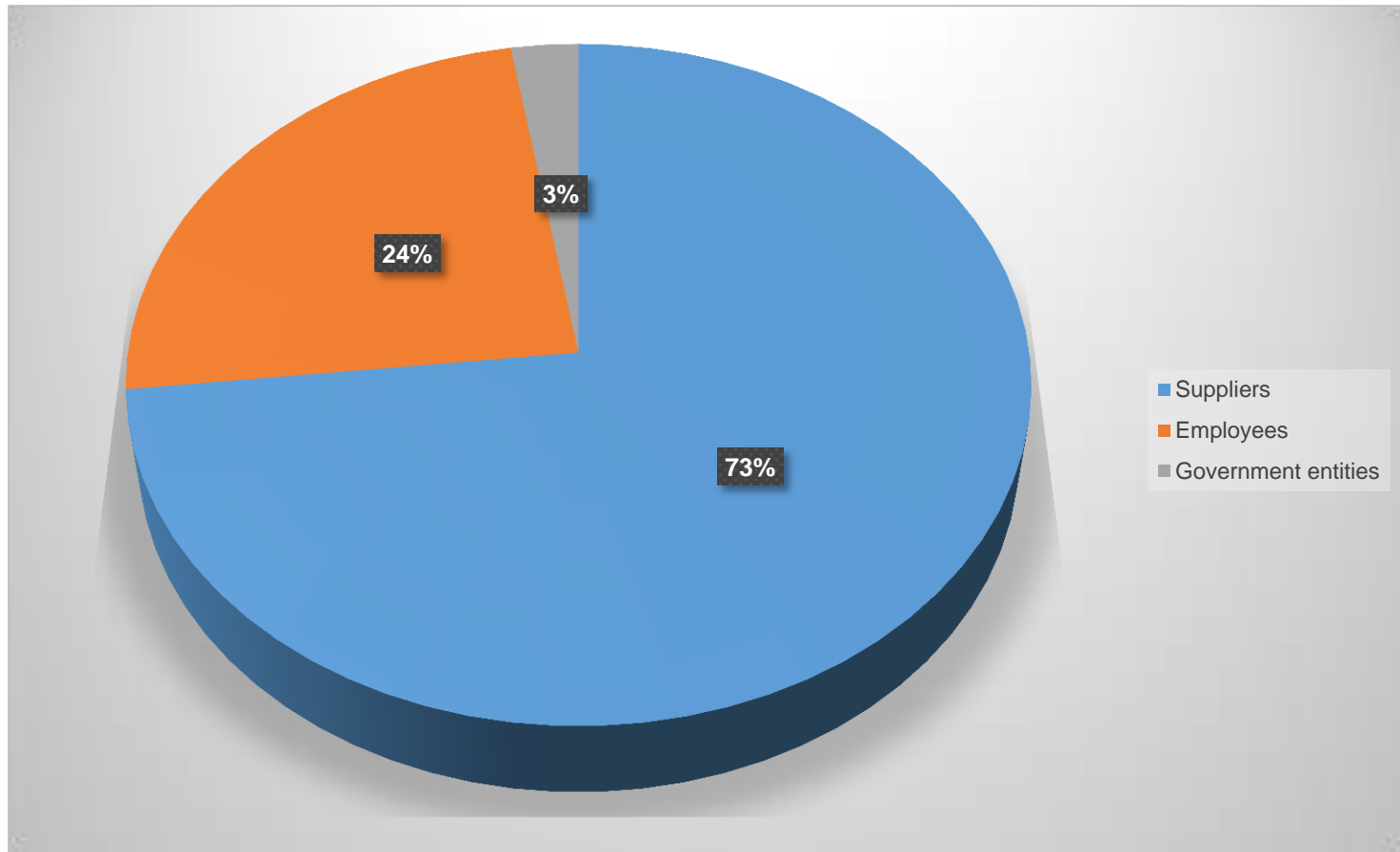
Cash has reduced due to:

- deployment of restricted cash to its intended use, and
- operational cash was not replenished by cash distribution from PSJV



Value Added Statement (Rand – based)

Despite sustaining losses, there was value created for suppliers, employees and Govt entities



Other Financial Matters

Contingent Liabilities at 31 March 2016

- Nabera mining

No provision was made for the above case as the matter has a prescribed allocation should legal action be pursued by Nabera

Borrowings and Guarantees as at 31 March 2016

- The company has no Borrowings nor does it have Guarantees from the Shareholder

Dividends

- No dividends declared

Forward Looking

Dealing with the operational cash flow challenges for 2016/17:

- Excess amount of R45 million MTEF allocation earmarked for Rehabilitation Liability was released for operations as approved by the Board
- Cash distribution agreement has been entered into with the PSJV to regulate the loan repayment and cash distribution
- Medium-term funding options are being explored
- Appointment of three independent directors on the board of the RMC to ensure that the business and functioning of the PSJV is unencumbered



ALEXKOR

HR and Transformation

Introduction

The SE&HR Committee was originally established in April 2012 through a merger of the existing Remuneration Committee and the new mandatory Social and Ethics Committee:

The Committee currently consists of Mr T. Matona as Chairperson, Ms Z. Ntlangula, Ms H. Matseke and Mr J. Danana effective August 2015.

The Committee is responsible for the social and ethical governance of the Company, including remuneration and human resources functions and responsibilities of the Board.

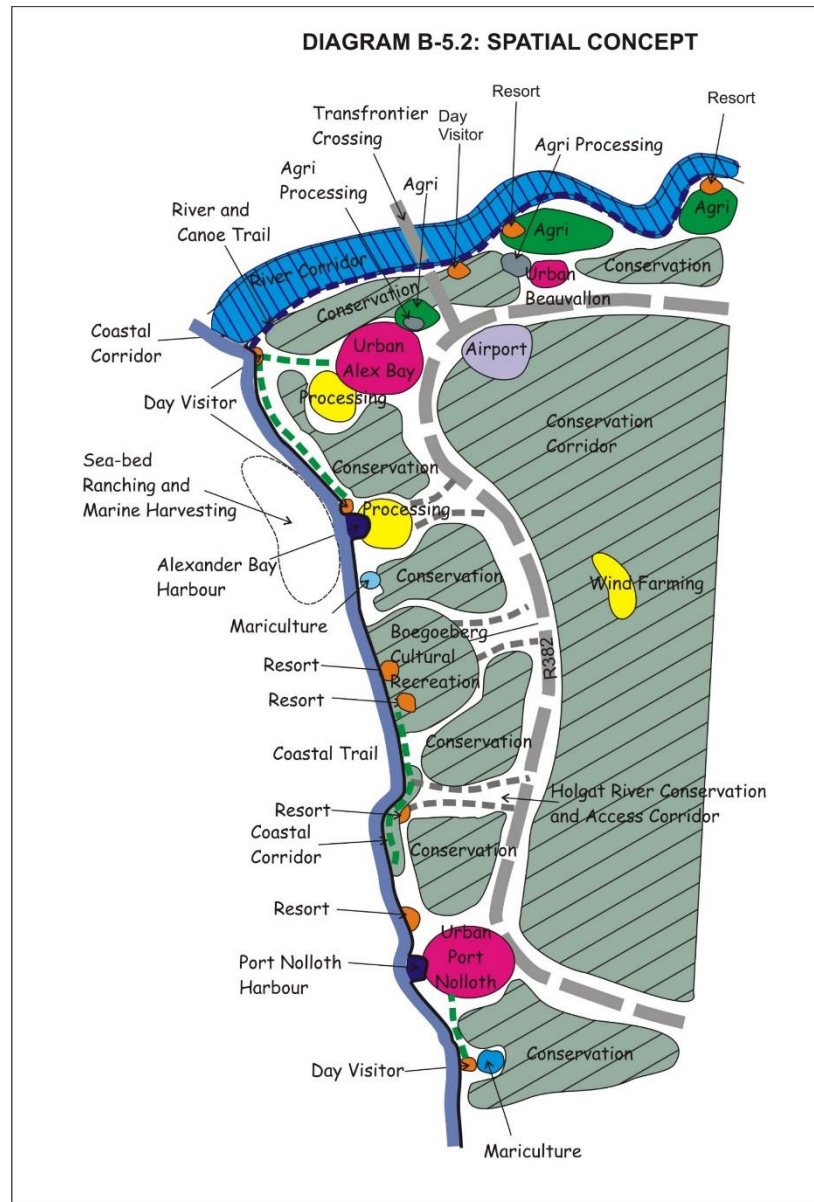
Job Creation

	Number of Employees			
	2013	2014	2015	2016
Alexkor RMC JV – Permanent	88	230	280	290
Alexkor RMC JV – Temporary	29	36	55	41
Alexkor SOC – Permanent	27	58	39	38
Alexkor SOC – Temporary	26	28	26	24
Alexkor RMC – Contractors	703	821	665	685
Total	873	1173	1065	1081

Corporate Social Investment

Period	CORPORATE SOCIAL INVESTMENTS (CSI)	SOCIAL AND LABOUR PLAN (SLP)
January to December 2013	R 1 512 356.52	No amounts were spent on SLP
January to December 2014	R 2 247 574,68	R 376 269
April 2015 to March 2016	R 2 542 507	R 2 067 426
TOTAL	R 6 302 438,2	R 2 443 695,00

Medium – Long Term Sustainability



The year under review

Re-structuring at Head Office and new appointments

- ✧ Cost containment measures were implemented to ensure sustainability of the business.
- ✧ To this end all the policies and procedures of the organisation have been updated to ensure alignment with best practice and latest developments in all relevant legislations and industry norms.
- ✧ During the current financial year we will focus on developing and retaining our talent, and create an environment that will maximize the potential of employees and the company.
- ✧ In line with the cost containment measures, through a process of Voluntary Severance Packages (VSP), the following positions were made redundant and/or personnel replaced:
 - 1 CEO
 - 2 2 x Executive PA
 - 3 GM HR
 - 4 GM Technical

New Appointments:

- ✧ Mr Vimal Bansi was appointed as the Acting CEO effective 1 March 2016
- ✧ Ms Zodwa Mbele was appointed CFO effective 1 April 2016 replacing the Acting CFO who resigned from the company in January 2016.
- ✧ Mr Jacques Bonnet was appointed Financial Manager effective 2 May 2016 replacing Mr Linda Kotta



ALEXKOR

SUPPLY CHAIN

Enterprise Development

71 Mining contracts were awarded of which 43 (60.5%) were awarded to Historically Disadvantaged Individuals as at 31 March 2016.

The contractors are from the Richtersveld and the surrounding towns within the Northern Cape Province.

Contract revenue paid out to BEE compliant companies was R195m, which includes R51m to 100% Black-owned companies for the 12 months ended 31 March 2016.



ALEXKOR

ENVIRONMENTAL ISSUES

Rehabilitation Plan

- Alexkor SOC LTD was required, as per the DoS, to rehabilitate all areas that were disturbed and which requires rehabilitation, prior to the formation of the PSJV.
- A woman (black-owned) consulting company was contracted to draft a legacy rehabilitation implementation plan.
- The rehabilitation implementation plan has been completed.
- The plan includes removal of asbestos - contaminated material from Alexander Bay and also the demolition of old and dilapidated buildings. To this end an open tender was advertised and which will close on 11th of November 2016



ALEXKOR

CHALLENGES FOR THE YEAR TO COME

Challenges for the year to come

The Board and Management have a number of challenges to overcome in the year ahead namely:-

- ✧ Lack of adequate working capital as a result of poor carat production.
- ✧ Lack of resource capacity following corporate office restructuring.
- ✧ Full and final implementation of the Deed of Settlement.
- ✧ Resolution of Community issues.
- ✧ IMDSA (m/v Ya Toivo) experiencing technical difficulties which has negatively impacted on marine carat production.

Challenges for the year to come

The PSJV Challenges:

- ✧ Community issues exacerbated by the delay of the payment of the R45 million to community beneficiaries.
- ✧ RMC/CPA/Propco not properly constituted which has resulted in the delay of the R45 million payment as mentioned above.
- ✧ Poor land carat production which has had a negative impact on the income statement. In mitigation thereof, a high level exploration program has been implemented which will drive the mining process.
- ✧ Optimal marine carat production is never guaranteed as the Atlantic ocean influences the number of boat days (formerly known as 'sea days').
- ✧ The OHMS plant had to be de-commissioned due to it being operationally unsafe

Thank you