



ALEXKOR

Briefing by the Alexkor Board and EXCO

**Annual Report, Financial Statements and General Feedback
for the FY ended 31 March 2017**

Outline of Presentation

- 1. Company Strategy**
- 2. 2016/17 Performance**
- 3. Financial Performance**
- 4. Board Governance Matters**

The Year under Review: Key Focal Areas

The notable key areas considered are:

- **Management Structure – Acting positions of Executives (Stabilisation of management structures)**
- **Improve diamond production**
- **Stakeholder and community relationship management**
- **Cash management**

Vision and Mission Statement

Vision

To be a competitive, progressive, forward-looking organization with a conscience.

Mission

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

Strategy – Business Model

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.

- Alexkor applies extensive mining expertise and innovation to maximise value creation at our existing mining operations and to explore new mining opportunities
- Alexkor focuses on unlocking shareholder value while delivering sustainable socio-economic upliftment for the Richtersveld community
- Alexkor and the Pool and Sharing Joint Venture (PSJV) are two distinct and separate entities but operate interdependently
- 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 low-scale land operations and shallow and deep-water marine mining that are currently performed by mining contractors appointed by the PSJV.

Outcome of Strategy Session

During November 2016, an in-depth company strategy session was conducted. The primary outcomes (pillars) that were identified are:

- Increase land carat production
- Mid water strategy
- Exploring other diamond opportunities outside Richtersveld
- Coal beneficiation
- Diamond beneficiation
- Assessment of risk register

Outcome of Strategy Session

In addition to identifying the key pillars, there was general concurrence to:

- **Align Alexkor's strategy and optimise its business operations and in order to fulfil its mandate as a State Owned Company as per its Shareholder's compact;**
- **To explore options and agree on how to make Alexkor sustainable and profitable in the short to medium term as well as in the medium to long term;**
- **To review the current company organogram and re-align it to ensure that there is human resource stability and capacity within the company in order to deliver on it's mandate.**

Achievements at the PSJV

- R10 million investment in a mobile prospecting plant to complement the exploration program
- FY2017: record- breaking carat production (162 000 carats)
- Mid-waters mining: appointment of four marine contractors
- IMDSA deep sea mining commenced on 18 April 2016 in concessions 1C and 1B (112 000 carats produced)
- Commencement of negotiations with Vast Mineral Sands (mining of heavy minerals contained in dumps)

Achievements at the Alexkor Corporate Offices

- Corporate offices relocated to The Woodlands Office Park, Woodmead at a significantly lower rental in order to realise cost savings for the company
- Filling of key vacancies including the CEO, CFO, SCM Official and financial administrator based at the mine
- Completion of a due diligence and the coal beneficiation business case for which the results are encouraging. Pre-notification to the Minister is currently underway to be followed by PFMA S54 application to National Treasury to register Newco (“Alexcoal”) to establish a coal-washing facility
- Turnaround of the Company from a consolidated loss of R35,5 million (2016) to a consolidated profit of R6,049 million (2017)

FINANCIAL PERFORMANCE

1. Alexkor SOC - Predetermined Objectives
2. PSJV - Key Performance Indicators
3. Auditor's Opinion
4. Annual Financial Statements
5. Other financial matters
6. Forward - Looking

Alexkor SOC - Predetermined Objectives

The following KPIs were achieved during the year under review:

- **Current ratio : YTD actual was 3.59:1**
 - Alexkor has a good current ration which enables the entity to service its current debts
- **Operational cash buffer was R32 million**
 - Cashflow remains a challenge at Alexkor as it is highly dependent on the PSJV. Once the Honourable Minister has approved the S54 application to establish Alexcoal, we can progress on the establishment of a coal-washing facility.
- **Rental Income collected was 87% of budget**
 - Rental income from the properties is dependent on availability as contractors for the PSJV are provided accommodation without cost and there is further challenge of certain properties being illegally occupied and Alexkor has to manage the risk of eviction and negative publicity.
- **Rehabilitation obligation: Contractor appointed**
 - Rehabilitation of the environment will commence in the 2018 financial year.

PSJV - Key Performance Indicators

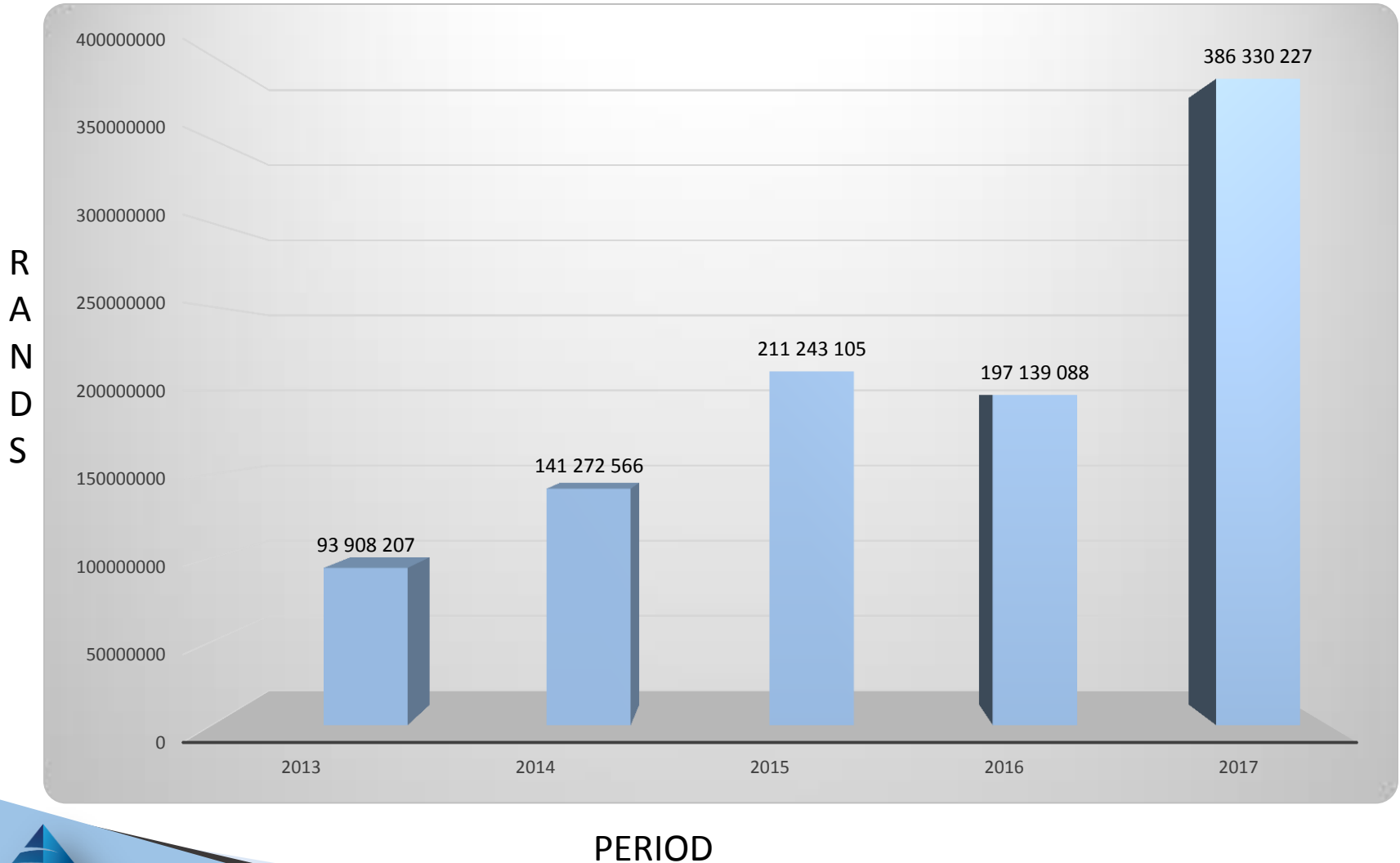
- PSJV achieved 11 out of the 22 performance target areas
- Diamond revenue increased by 41% from R386,5m to R758m, mainly due to production from IMDSA
- PSJV carat Production : 50 258 (2017) vs 45 493 (2016)
- IMDSA produced 112 047 carats in 2017
- A net profit of R34,09mil was achieved for the year (2016: R5,3mil)
- EBITDA of R50,5mil achieved for the year (2016: R34,9mil)
- Safety: Lost time injury frequency rate, achieved 0.14 vs 0.40 target

Auditor's Opinion

- AFS for both Alexkor SOC and PSJV have been prepared on a going concern basis
- The external auditor's opinion was modified
- An "Emphasis of Matter" paragraph included restatement of corresponding prior years' figures. The auditors were satisfied with the restatements made.
- The auditors highlighted that uncertainty exists that may cast doubt on the company's ability to continue as a going concern even though their opinion was not modified in this respect.

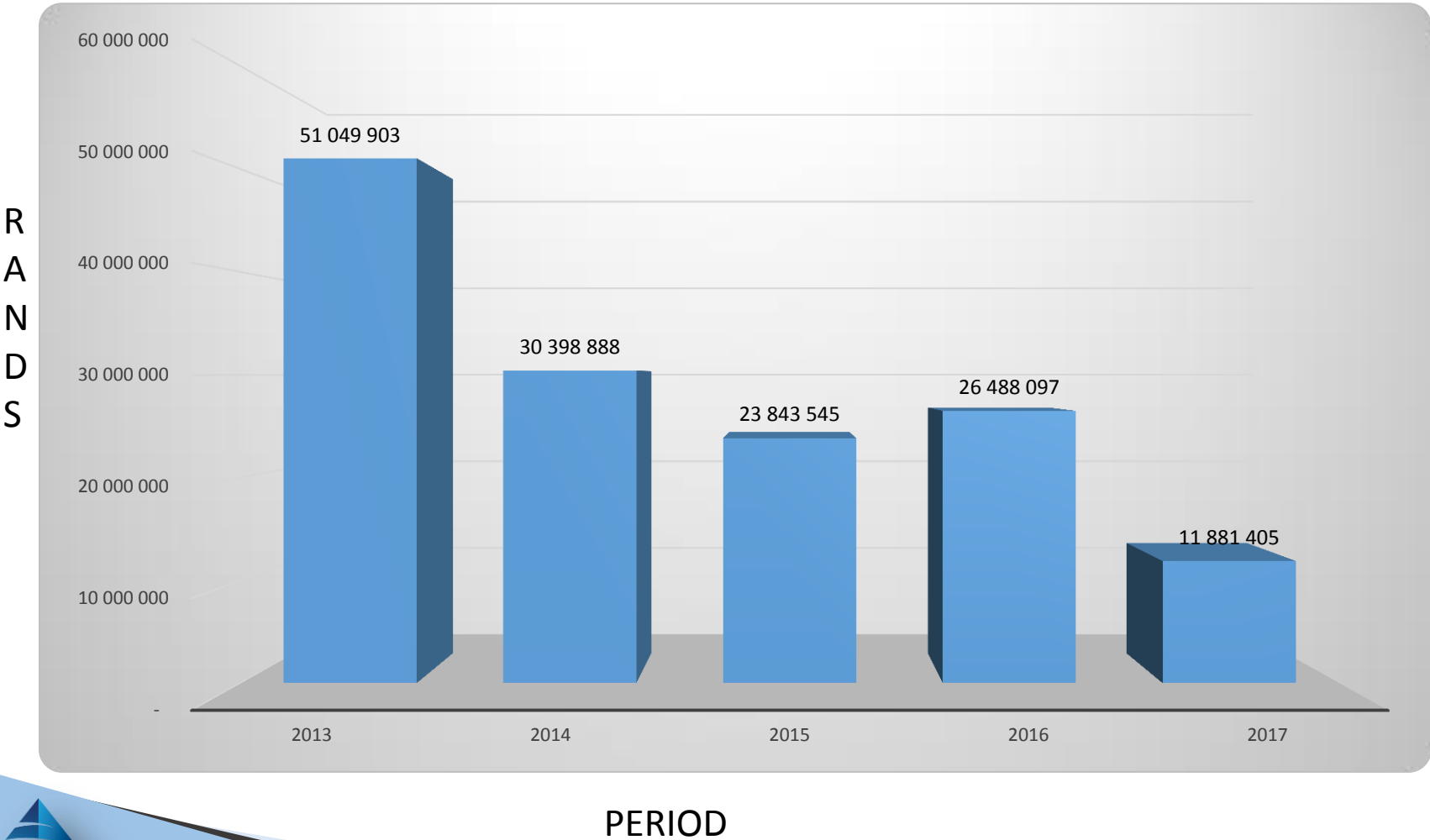
Consolidated Statement of Comprehensive Income : Revenue

2017 Revenue substantially increased due to production from IMDSA



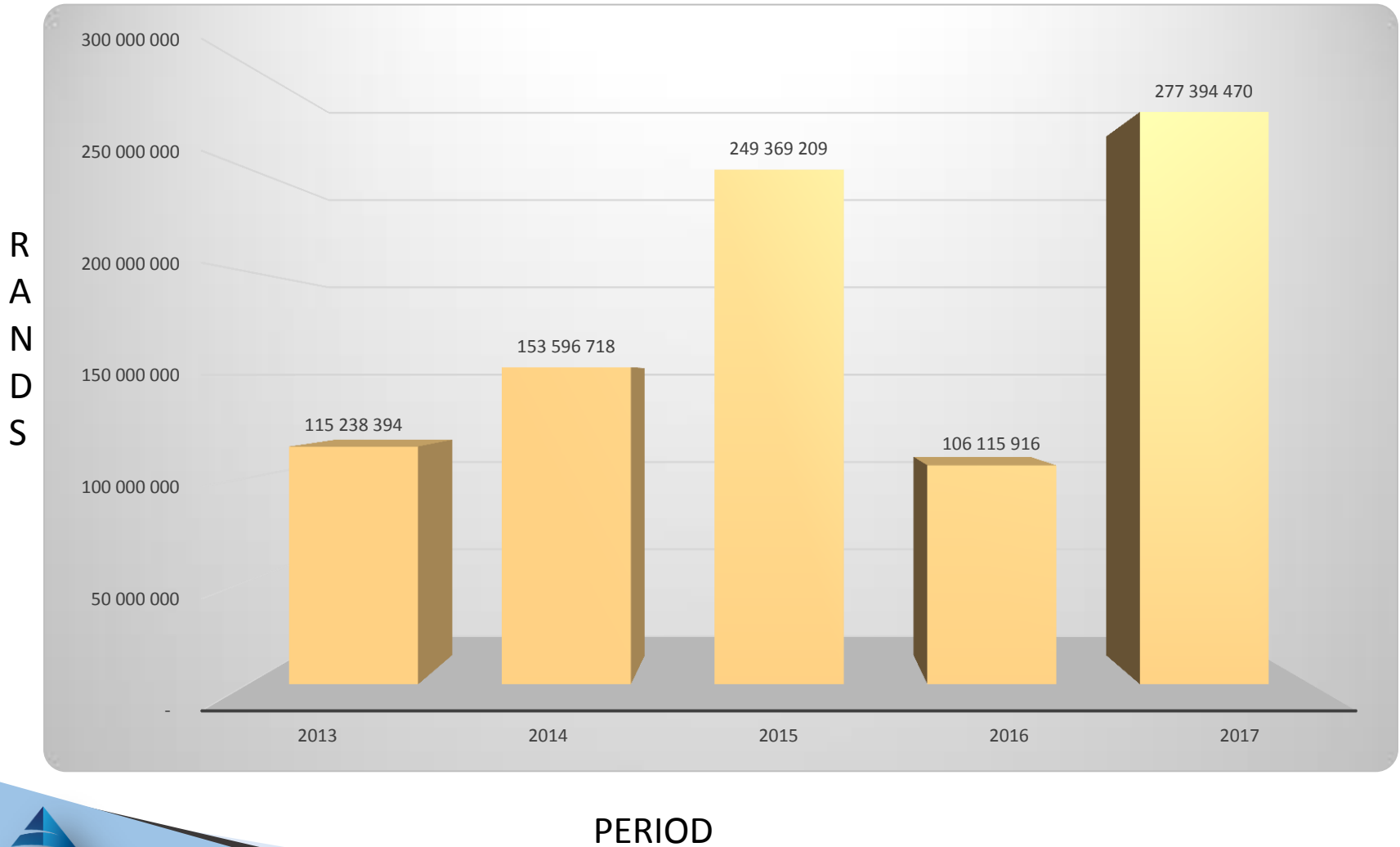
Consolidated Statement of Comprehensive Income : Net Finance Income

Net income is significantly lower due to the unwinding of discount on rehabilitation provision recognized under finance costs in the current year.



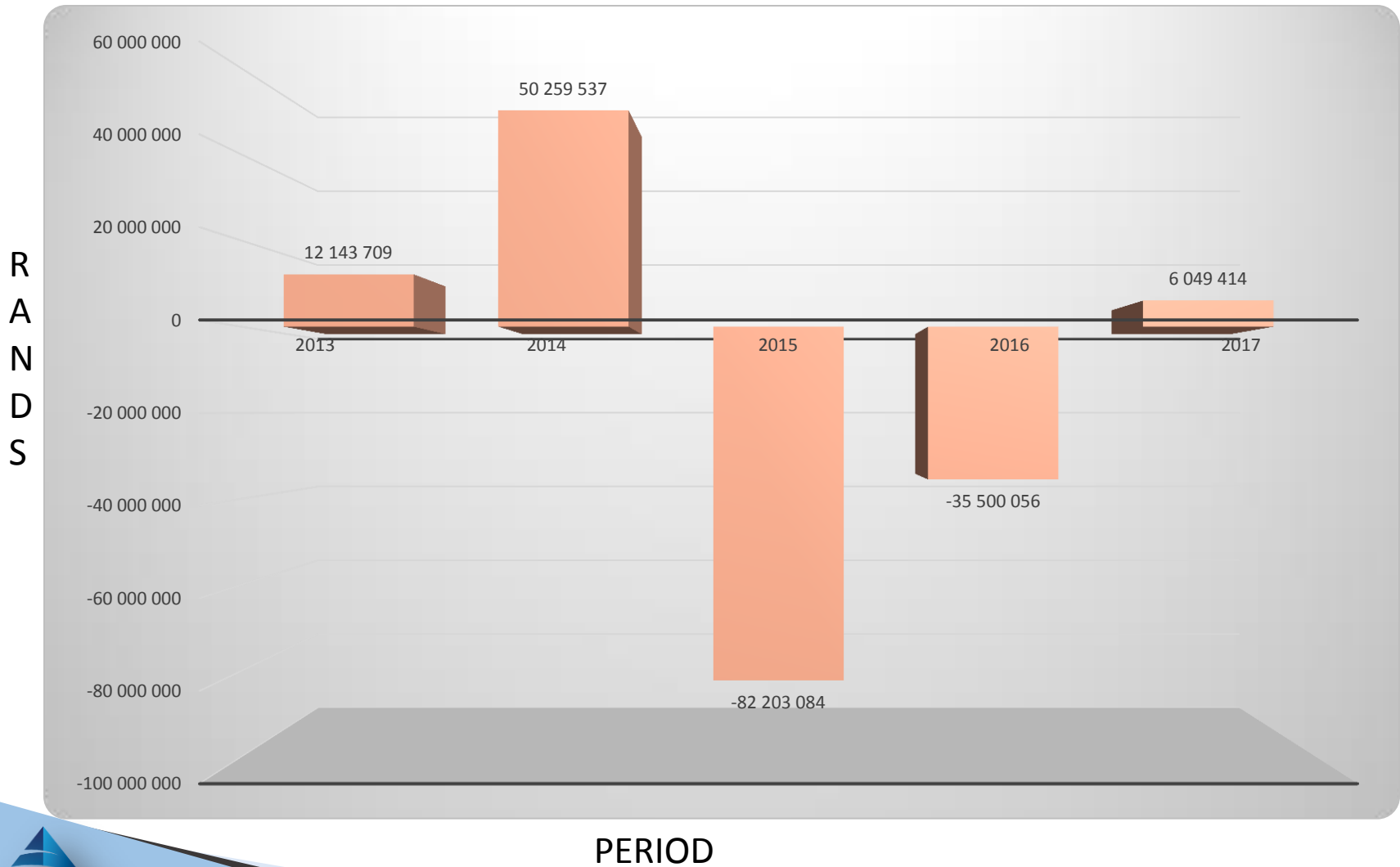
Consolidated Statement of Comprehensive Income : Cost of sales

Cost of sales increased due to costs primarily related to IMDSA production



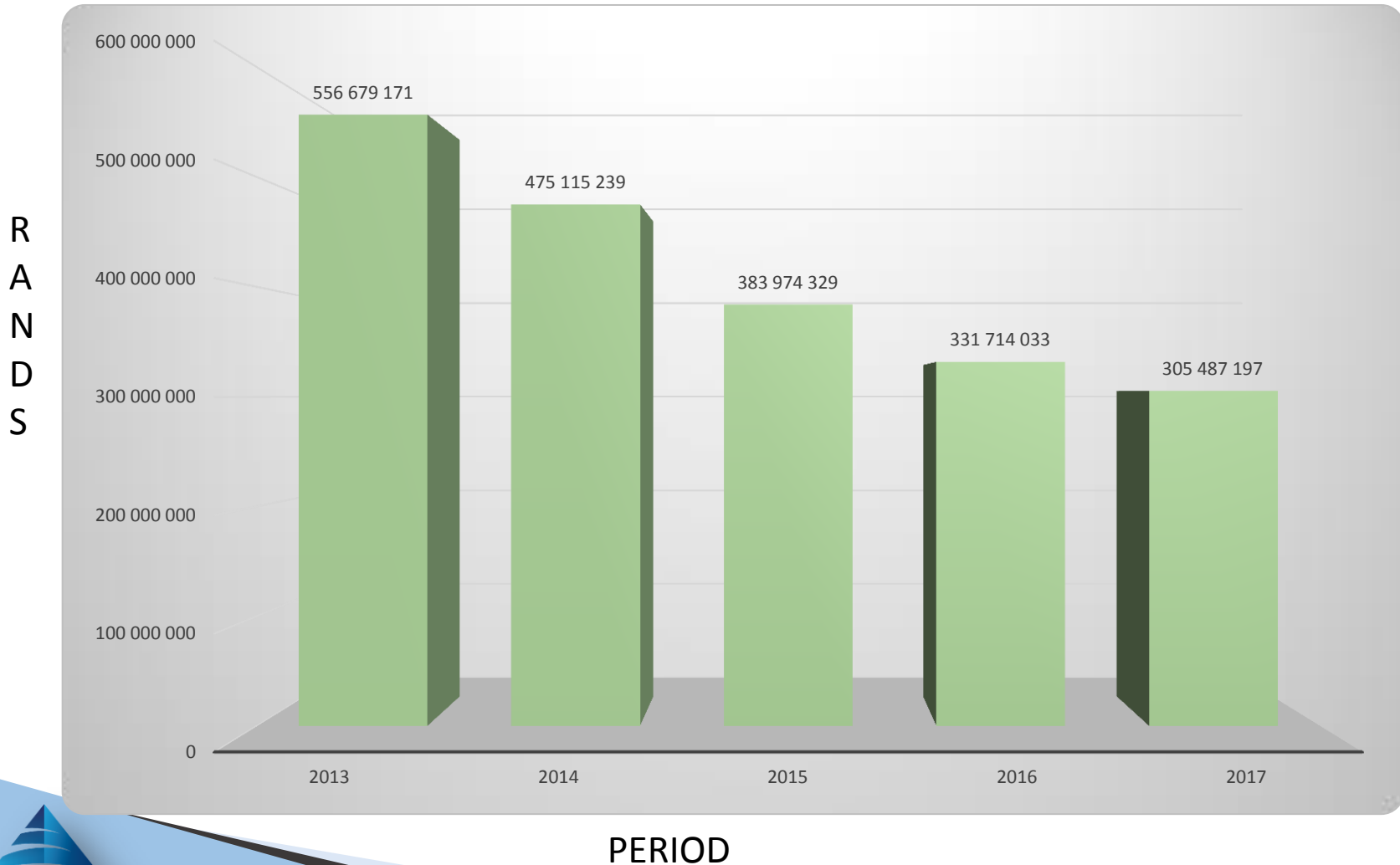
Consolidated Statement of Comprehensive Income : Profit/(Loss) for the year

Alexkor achieved a profit of R 6,049 million



Consolidated Statement of Financial Position : Cash and Cash Equivalents

Cash has reduced due to deployment of restricted cash to its intended use



Annual Financial Statements

Government Funded Obligations

Government Funds	Opening balance at beginning of the year	Utilised during the year	Interest earned on investment of funds	Closing balance at the end of the year
Township establishment	5 825 275	(676 202)	363 463	5 512 536
Costs related to Deed of Settlement	5 906 600	-	403 933	6 310 533
PSJV recapitalisation	57 522 687	(24 382 321)	6 522 612	39 662 978
Total government funded obligations	69 254 562	(25 058 523)	7 290 008	51 486 047

Annual Financial Statements

Mining Contractors (Local and Non – Local)

	Land	Marine
No. of Local Contractors	11	61
No. of Non-local Contractors	20	18
Revenue earned by Local Contractors (Rmillions)	14	72
Revenue earned by Non-local Contractors (Rmillions)	16	27

Above statistics as per FY 2016-2017

ECONOMIC UPLIFTMENT

Alexkor spend on human resources development

	R
Driving first aid and emergency response	18 648
Skipper courses	12 216
Learnerships	191 619
Experimental Learning	260 000
AET Training	129 040
Bursaries	519 870
Commercial diver programme	47 500
Maths and Science programme	66 888
TOTAL	<u>1 245 781</u>

Fruitless and Wasteful Expenditure at 31 March 2017

	2017	2016
Opening Balance	199,937	1,481,640
Current year	3,265,784	199,937
Losses written off	<u>-</u>	<u>1,481,640</u>
Closing Balance	<u><u>3,465,721</u></u>	<u><u>199,937</u></u>

The JV and Alexkor have one PAYE number, payments were incorrectly allocated by the JV. Payments were made late due to cashflow challenges and technical problems. Alexkor disputed the interest and penalties and was refunded R623 719 from SARS. Controls have been implemented to ensure that PAYE returns are timeously submitted and paid.

Alexkor did a cost analysis and based on the information, it was feasible to consider vacating the premises in Rosebank and obtaining a lease in Woodmead. The rental in Rosebank was R238k (including security cost) per month and the current lease cost R123k per month. Savings of R2.4m was realised and the cost of early termination of the lease was R1,2m giving Alexkor a R1.4m net savings. Further installation cost of R1.7 at book value was included in the fruitless and wasteful expenditure for the Rosebank premises.

Irregular Expenditure at 31 March 2017

	2017	2016
	R	R
Opening Balance	6,940,150	-
Current year	10,368,409	6,940,150
Losses written off	-2,872,495	-
Closing Balance	<u>14,436,064</u>	<u>6,940,150</u>

Irregular expenditure incurred was mainly as a result of documents that could not be traced as a result of historical contracts that were audited (Staff that had procured the contracts have since left Alexkor). The cost incurred has not been in vain as services were procured. Alexkor has since put in controls to ensure proper management of documentation.

Other Financial Matters at 31 March 2017

Contingent Liabilities

- **Rehabilitation Trust Distribution:** There is a risk that SARS may seek to treat the R10 million distribution by the Trust in the context of the penalty clauses. Certainty around this matter will only be clear once SARS has issued the tax assessment for the year.

Borrowings

- The Company currently does not have any borrowings.

Dividends

- No dividends were declared.

Guarantees

- Alexkor has a guarantee to the value of R564 029

Forward Looking

Managing the operational cash flow challenges for 2017/18:

- An amount of R45 million from the Medium Term Expenditure Framework was released for operations as approved by the Board after the Board consider the reports to support that there was sufficient provision for the rehabilitation liability
- PSJV committed to reimburse Alexkor for the loan on Initial Cost Contribution. The amount to repaid by the PSJA was agreed of R10m during the 2017/18 financial year.
- Appointment of three independent directors on the board of the RMC to ensure that the business and functioning of the PSJV is unencumbered

Directors and Prescribed Officers

- ✧ Ms Zodwa Mbele resigned as the CFO effective 7 October 2016 and was replaced Ms T Mhlanga as of 7 November 2016 in an acting capacity.

- ✧ Dr R Paul retired from the Board as at 30 September 2016 but was appointed as special advisor to the Board given his institutional knowledge of the Company and its environment.

- ✧ The Alexkor board has filled the following Executive vacancies:
 - ✧ CEO – Mr Lemogang Pitsoe (The CEO commenced at Alexkor on December 2017)
 - ✧ CFO – Adila Chowan (The CFO commenced at Alexkor on January 2018)

- ✧ The Board commenced with the process on 8 February 2018 to fill the position of the Corporate Services Manager and anticipates finishing the process by April 2018.

Board and Sub-Committee Composition

For the period under review, the structures for the Alexkor Board and PSJV for 2016/17 are as follows:

The ARC Committee

- Ms M Lehobye (Chairperson)
- Mr T Matona (member) and
- Mr T Haasbroek (member)

Social, Ethics and HR Committee

- Mr T Matona (Chairperson)
- Ms Z Ntlangula,
- Ms H Matseke, and
- Mr J Danana.

The Tender Committee

- Mr T Haasbroek (Chairperson)
- Ms Z Ntlangula and
- Mr J Danana.

The Rehabilitation Committee

- Mr T Haasbroek (Chairperson)
- Mr T Matona and
- Ms H Matseke

The PSJV Board

- Ms H Matseke (Chairperson)
- Mr T Haasbroek and
- Mr J Danana

The ARC Committee

- Mr T Haasbroek (Chairperson)
- Mr J Danana

The Tender Committee

- Mr J Danana (Chairperson)
- Mr T Haasbroek

The Technical Committee

- Mr J Danana (Chairperson)
- Mr T Haasbroek

The Remuneration Committee

- Mr T Haasbroek

The CEO attends the Alexkor and PSJV Committee meetings by invitation.

Board Fees Structure

- ✧ The Shareholder approved an annual cost of living adjustment of 6.1% for Non Executive Directors and 6.1% for the COO as the only permanent Prescribed Officer at the time of the 2017 AGM
- ✧ The rationale for the proposed increase is based on the fact that Alexkor is currently not in a position to retain employees through Short nor Long Term Incentive Schemes.
- ✧ The motivation for the increase of NED Board fees and salaries of the Executive Directors is based primarily on the need to ensure that the Board retains skilled and competent individuals, who add value in achieving the strategic objectives of Alexkor.
- ✧ The Board has historically set the fees for Directors based on the remuneration Guidelines of the DPE (“Guidelines”) and seeks to continue to do so, with specific reference to Category “C” SOC.

Non-Executive Directors Remuneration – Alexkor

Alexkor SOC Ltd (2016-17)- Actual

Chairperson of Board:

- A retainer fee of R 733 251 p.a.

Non-Executive of Board:

- A retainer fee of R 158 164 p.a.

Chairperson of ARC:

- A retainer fee of R 115 984 p.a.

Non-Executive of ARC:

- A retainer fee R 64 583 p.a.

Chairperson of other sub-committee:

- A retainer fee of R 79 080 p.a.

Non-Executive of other sub-committee member:

- A retainer fee of R 45 424 p.a.

Non-Executive Directors Remuneration – PSJV

PSJV (2016-17) - Actual

Chairperson of Board:

- A retainer fee of R 564 064 p.a.

Non-Executive of Board:

- A retainer fee of R 121 665 p.a.

Chairperson of ARC:

- A retainer fee of R 89 218 p.a.

Non-Executive of ARC:

- A retainer fee R 49 679 p.a.

Chairperson of other sub-committee:

- A retainer fee of R 55 176 p.a.

Non-Executive of other sub-committee member:

- A retainer fee of R 31 693 p.a.

Executive Directors Remuneration

Salaries for the past 5 financial years to date (2012 – 2017)

Position	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
CEO (Executive)	2 235 952	1 680 000	2 600 000	2 730 000	4 086 008*	1 774 000
CFO (Executive)	1 201 671	CFO/CEO (same person)	600 000	1 242 438	1 242 438	1 320 178
COO (Executive)	-	900 000	1 890 000	2 042 106	2 042 106	2 087 492
CLO (Executive)	-	810 000	1 701 000	1 224 431	1 224 431	-

* Includes voluntary severance package and leave cash out on resignation for Mr. P Khoza (former CEO)

Challenges to be addressed in the 2017/18 Financial Year (Alexkor and PSJV)

The Board and Management have a number of challenges to overcome in the year ahead, as identified by the Department of Public Enterprises.

- ✧ **Insufficient traction to fast track the implementation of the coal beneficiation project.**
- ✧ **Lack of adequate working capital as a result of poor land carat production.**
- ✧ **Uncertainty with IMDSA working the deep sea concessions, following the fire that occurred in April 2017.**
- ✧ **Lack of resource capacity following corporate office restructuring.**
- ✧ **Conclusion of remaining Deed of Settlement obligations and Township Handover**
- ✧ **Resolution of Community issues with assistance and support of the Department of Public Enterprises, Department of Rural Development and Land Reform etc.**
- ✧ **The Board to be adequately capacitated with the requisite skills and expertise including the appointment of a Chartered Accountant.**

Thank you