

state
diamond
trader

REPUBLIC OF SOUTH AFRICA

PRESENTATION OF 2022-2023 CORPORATE PLAN TO THE PORTFOLIO COMMITTEE ON MINERAL RESOURCES AND ENERGY

April 2022

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01 STATE DIAMOND TRADER OVERVIEW

BACKGROUND

Who we are

- A state owned entity established in 2007 in terms of section 14 of the Diamond Act 56 of 1986 to operate in the diamond industry to support and facilitate growth in local diamond beneficiation.
- The SDT is categorized as a schedule 3B entity in terms of the Public Finance Management ACT 1 of 1999 (PFMA)

OUR VISION AND MISSION






Vision

To be the catalyst for the transformation and growth of the local diamond beneficiation industry.



Mission

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

OUR MANDATE

- 
- buy and sell rough diamonds for local beneficiation
 - promote equitable access to and beneficiation of the country's diamond resources
 - grow SA diamond cutting and polishing industry by increasing HDSA for beneficiation
 - address distortion created by excluding previously disadvantaged groups from economic participation (transform diamond industry)
 - purchase up to 10% of the run of mine from SA producers



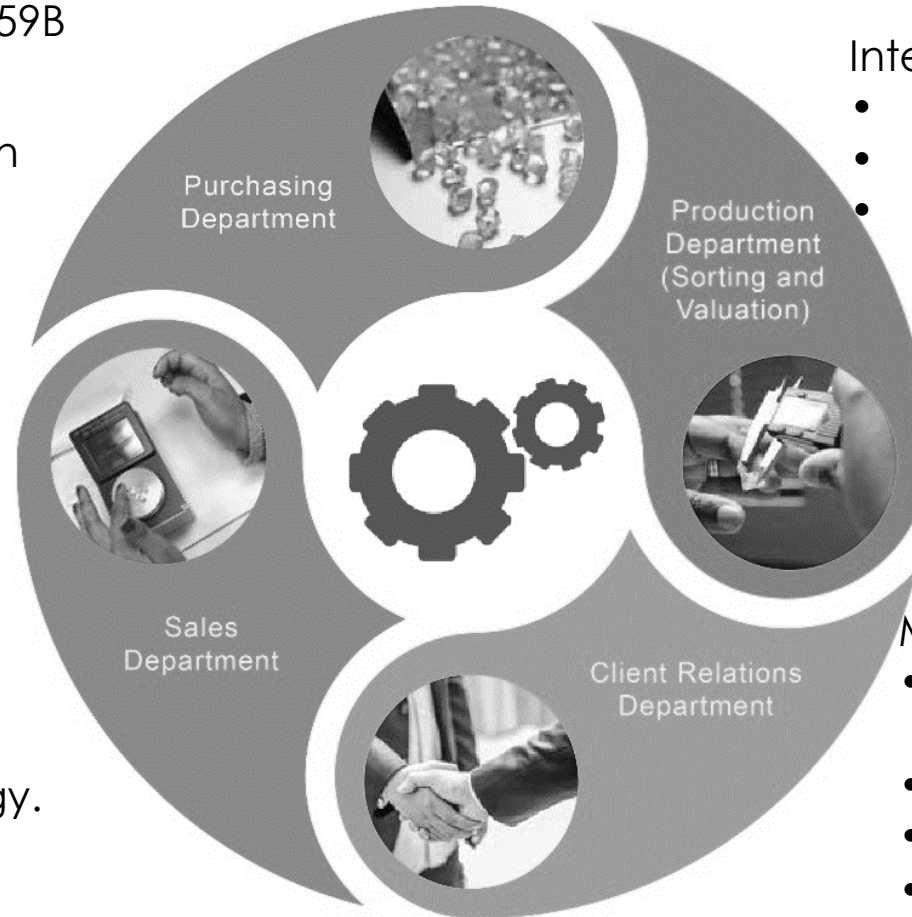


02 OUR OPERATIONS

Our Operations

State Diamond Trader (SDT) purchases are initiated through a process set out in Section 59B of the Act.

- Inspections done through producers.
- Once completed GDV varies prices.
- SDT accept, reserves, or declines the purchase.



Deals with allocations:

- Allocate diamonds to clients.
- Follow SDT sales strategy.
- Observe compliance.

Internal process for sorting and evaluation:

- Pricing of rough diamonds.
- Inventory management.
- Financial reporting.

More about customer base:

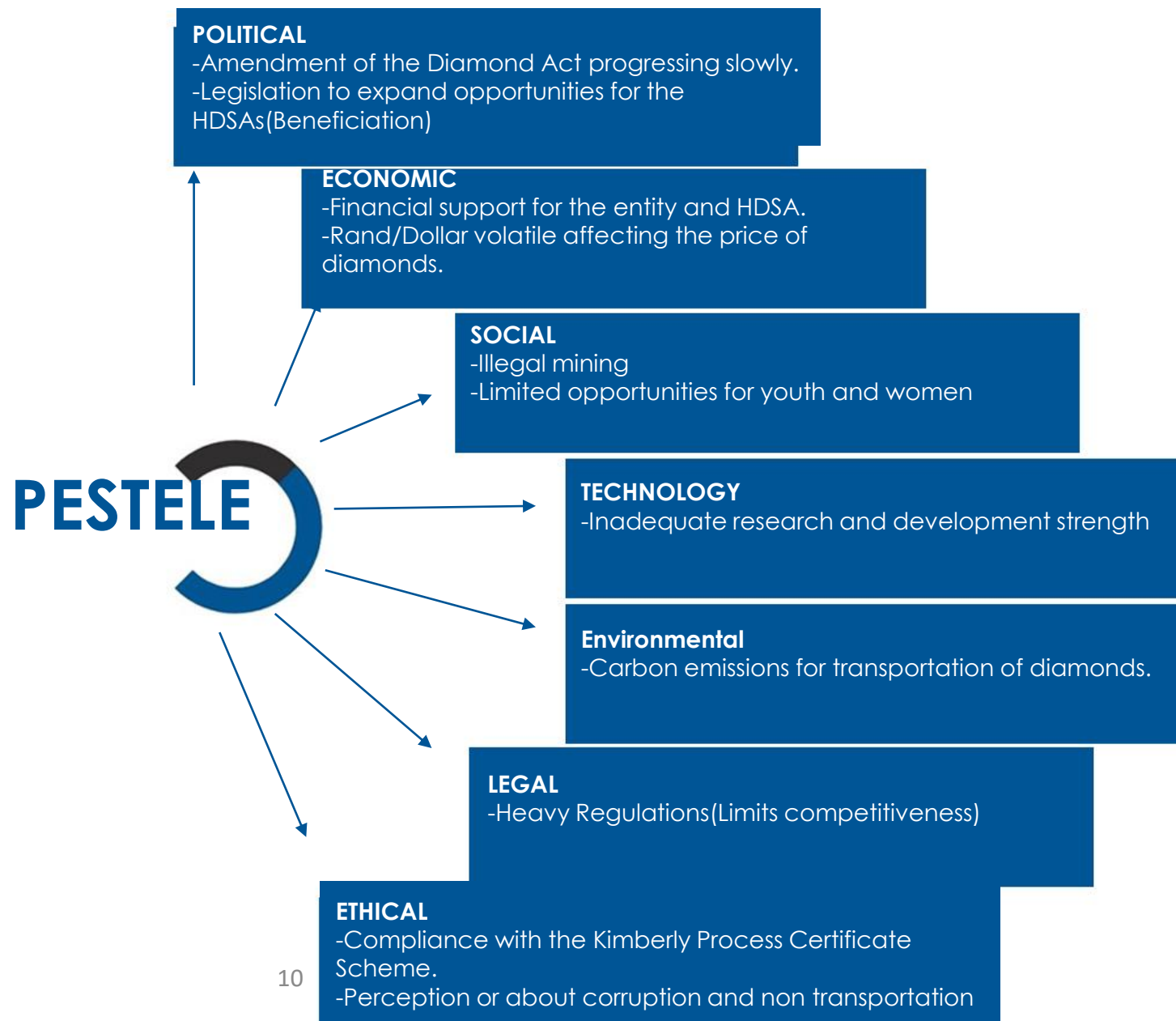
- Maintain clients record.
- Compliance.
- Factory visits.
- Stakeholder relations.



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SITUATIONAL ANALYSIS

External situational Analysis (PESTELE)



STRENGTH

- ✓ Working within legislation, mandate.
- ✓ Sound relationship between the board and management.
- ✓ Technically skilled staff on diamond sourcing and valuation.
- ✓ Existing Policies, including SOP.
- ✓ Purchases agreement with producers.
- ✓ Sound financial discipline.
- ✓ Eminent relationships with clients and other stakeholders.

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WEAKNESS

- ✓ Lack of funding for the entity also affected
 - Inadequate human resources
 - Lack of tools for technical purpose like Mach and equipment
 - Inadequate systems and resources for technology, research and development
 - Inadequate records management
- ✓ Sustainability of the current Business model
- ✓ Fully dependent on levels of producer productions

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THREATS

- ✓ Lack of funding
- ✓ Delays in amending of the legislation.
- ✓ Substitution of rough diamonds by synthetics and/or lab-grown diamonds.
- ✓ Covid-19 and closure of markets
- ✓ Further reduction in production
- ✓ Pricing
- ✓ Illegal diamond producers
- ✓ Decline in beneficiation
- ✓ Global market decline
- ✓ Non-compliant Producers
- ✓ Volatile Market conditions
- ✓ Geographical tensions

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OPPORTUNITY

- ✓ To source suitable rough diamonds from other diamond producing countries
- ✓ Opportunity to collaborate with other entities or stakeholders on issues of mutual interest like
 - Mintek and CSIR on research and development
 - Training and Development including EDP (MQA, Tertiary institutions and
 - Marketing South African diamonds both locally and internationally (Proudly SA, Brand SA, Producers, clients and other State entities)
 - Enterprise Hub with DMRE, SADPMR and clients
 - Increase compliant producers
 - Stronger stakeholder Management

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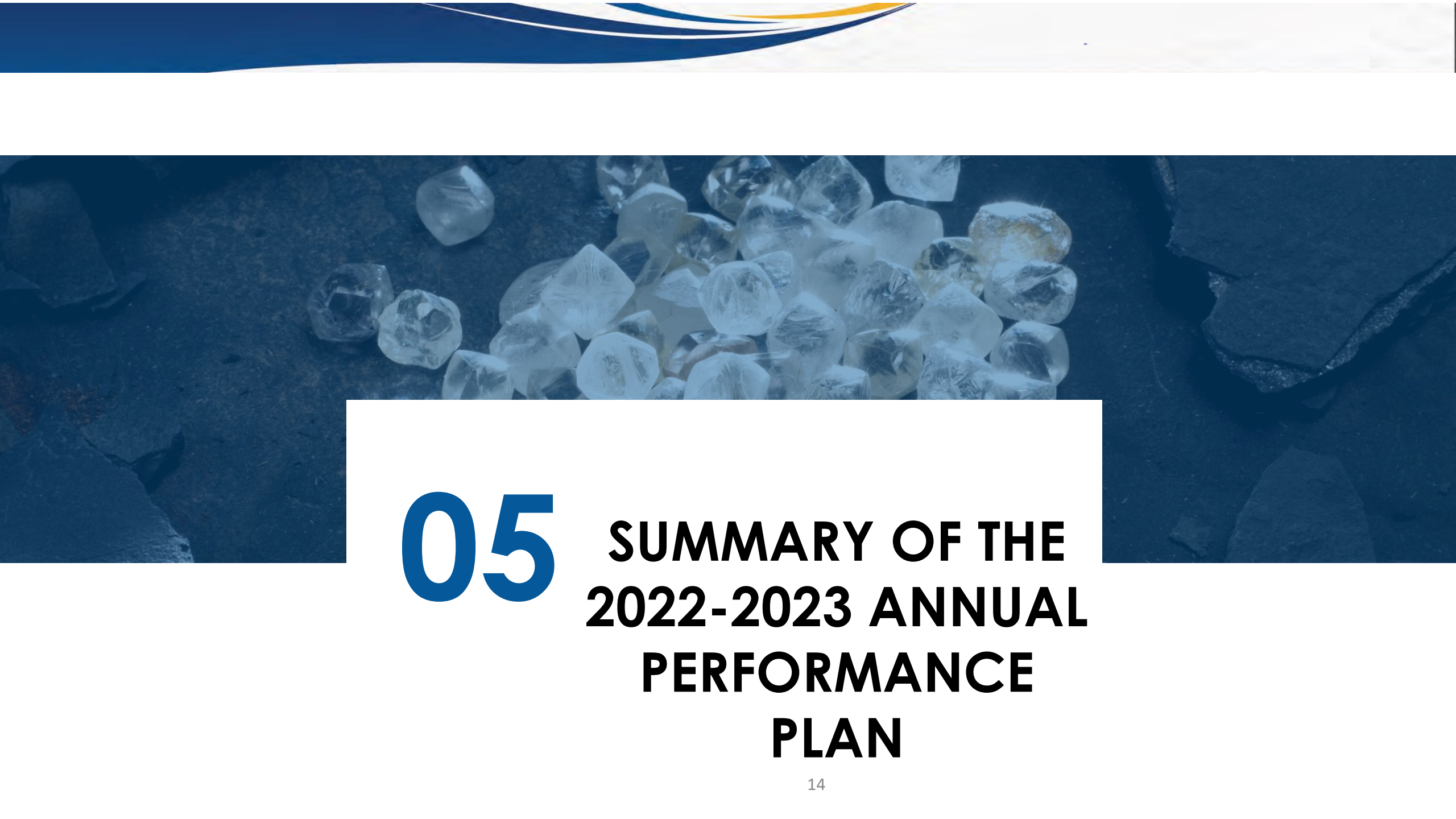


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SUMMARY: ALIGNMENT TO NDP, GOVERNMENT PRIORITIES AND DMRE OUTCOMES

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NDP OUTCOMES	GOVERNMENT PRIORITIES	DMRE PRIORITIES	OUTCOMES	OUTCOME INDICATOR
Outcome 4 Decent employment through inclusive economic growth	Priority 1 A capable, ethical and Developmental State	Transformed minerals sector	A transformed and inclusive diamond beneficiation industry that ensures an increased black ownership and participation in the sector	To grow and transform the diamond industry
Outcome 5 A skilled and capable workforce to support an inclusive growth path	Priority 2 Economic Transformation and Job creation		A capable workforce and developmental industry	Contribute to training and skills development
Outcome 12 An efficient, effective and development oriented public service and an empowered, fair and inclusive citizenship	Priority 2 Education, Skills and Health	Increase investment in the minerals and mining sector	A knowledge based and innovative organization	Collaborate in promoting and investing in research and innovation for sustainable development of the diamond beneficiation industry
			Improved corporate performance, accountability and transparency	Promote good corporate governance and improve internal processes and procedures
	Priority 7 A better Africa and world		A financially viable and sustainable entity	To provide strategic financial support and management for the sustainability of the entity



05 SUMMARY OF THE 2022-2023 ANNUAL PERFORMANCE PLAN

SUMMARY OF 2022/2023 APP

The state Diamond Trader has 26 Annual Target for this financial year categorised as follows:

KEY ISSUES	ANNUAL TARGETS
Core Functions (Trading)	<ul style="list-style-type: none"> To increase the current purchase of rough diamonds to 4,5% To increase rough diamonds sold to HDSA to R67 million To increase the supply of carats to clients to 148 carats To recruit 5 Enterprise Development Programme To improve internal security
Good governance	<ul style="list-style-type: none"> Review Corporate Governance manual To review and strengthen the delegations register To review and implement Fraud and Prevention policy and plan Compliance with legislative matters on PFMA checklist, corporate Plan, Budget, Quarterly and annual reports and Risk Register.
Financial Management and sustainability	<ul style="list-style-type: none"> Improve financial stability by obtaining financial credit
Institutional Capacity	<ul style="list-style-type: none"> To comply with the submission of WSP Training of employees and allocation of bursaries Enhance employees wellness programmes including OHS
Core Functions (Trading)	<ul style="list-style-type: none"> To improve our technology Collaborate with relevant stakeholders on research and development
Research and Development	<ul style="list-style-type: none"> To improve relationships with stakeholders Marketing the entity Brand and Reputation management
Stakeholder Management	



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ENTITY KEY CHALLENGES

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Funding for SDT

Financial model for operations while growing local diamond beneficiation industry

Rough Diamonds

Average of 15% of South African rough diamond production is desired by clients

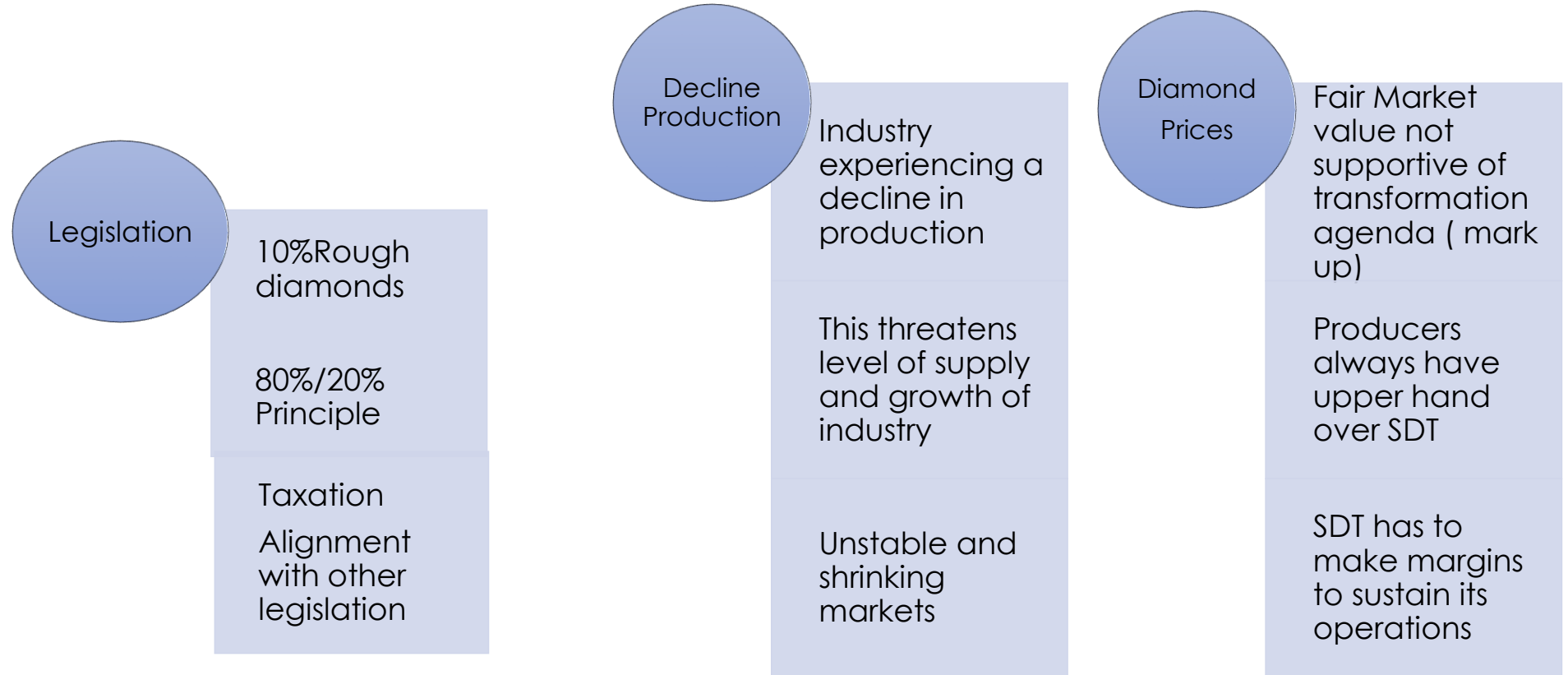
Clients

Clients do not receive suitable rough diamonds as a result of the run of mine provisions

Lack of start-up funding and no funding from commercial banks

Inability to allocate required Rough diamonds to all clients due to limited accessibility.

ENTITY KEY CHALLENGES





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KEY RISKS, MITIGATION AND MARKET TRENDS

KEY RISKS AND MITIGATIONS

NO	Key Risks	Risk Mitigations
1.	Delays in policy review by government impacting the delays in the amendments to the Diamonds Act.	Submit inputs to DMRE on proposed amendments on legislation.
2.	The presence of illegal miners in the diamond trade space.	Make a presentation to DMRE on non-compliance producers. Legitimising illegal miners and promo
3.	Risk of inadequate funding.	To apply for credit facility for SDT. Implement the Business Plan
4.	Fraud and corruption at SDT	Review policies relating to ethics and good conduct, and Conduct fraud, and awareness workshops for staff.
5.	Interruptions in Business continuity	Finalise the Business Continuity plan
6.	The decline in diamond production	Explore the possibility of purchasing from other diamond producing countries
7.	Lack of training in the market and introducing of new players in the market (especially the youth and women)	Partner with relevant institutions to mitigate this risk
8.	Global demand and supply of synthetic diamonds	Collaborate with SADPMR, DMRE and Diamond Industry stakeholders on issues relating to synthetic diamonds
9.	SDT is currently operating on a construction site.	OHS programme to be conducted quarterly.
10.	Risk of lawsuits	The entity has put in place legal matters and relevant policies and procedures
11.	Non-compliance with SCM legislation	Conduct SCM training for staff. Conduct vetting for SCM officials. SCM policies and procedures are approved. Approval and implementation of code of conduct.

MARKET TRENDS

The diamond industry is a very volatile industry which means that forecasting how a financial year would pan out, is a very difficult exercise. The demand for polished diamonds is solely dependent on consumer emotions and pockets, which in turn results in them wanting and being able to purchase meaningful diamond jewelry for loved ones. The following factors impact forecasting diamond trends:

- Economies of countries- GDP growth- inflation rates, etc.
- Stable geopolitical environments
- Consumer demand
- Supply and demand for rough
- Supply and demand for polish
- Manufacturing capacity
- Rough and Polish pricing



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BUDGET ALLOCATION

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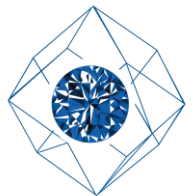
STATE DIAMOND TRADER FIVE YEAR BUDGET					
SUMMARY OF STATEMENT OF COMPREHENSIVE INCOME					
	2022/23	2023/24	2024/25	2025/26	2026/27
Revenue	826,466,467	842,995,796	859,855,712	877,052,826	894,593,883
Less Cost of Sales	793,753,999	809,647,079	825,858,921	842,395,944	859,264,700
Gross Profit	32,712,468	33,348,717	33,996,792	34,656,882	35,329,183
Less Operating costs	30,113,404	31,229,465	32,827,611	34,510,599	36,428,858
Salaries	16,373,030	17,195,170	18,061,003	18,972,920	20,079,262
Leases	1,191,470	1,529,946	1,637,042	1,751,635	1,874,249
Computer and other IT	980,000	1,029,000	1,080,450	1,134,473	1,191,196
Travel	2,700,000	2,835,000	2,976,750	3,125,588	3,281,867
General Expenses	6,773,506	6,440,182	6,762,191	7,100,300	7,455,315
Professional Fees	2,095,397	2,200,167	2,310,176	2,425,684	2,546,969
EBIT	2,599,064	2,119,253	1,169,181	146,283	(1,099,675)
Finance Income	2,598,217	2,699,025	2,816,263	2,907,150	2,968,644
Finance Expense	(867,000)	(910,350)	(955,868)	(1,003,661)	(1,053,844)
(Net Loss)/Net Profit	4,330,281	3,907,928	3,029,576	2,049,773	815,124

BUDGET ASSUMPTIONS

- Revenue only consists of rough diamonds and the forecast is based on market conditions and the production level of the producers.
- The revenue is expected to increase marginally over the next five years.
- Gross profit margin percentage will remain stable at 4% over the budget period.
- Operating costs are expected to increase by at least 5% for the next five years.
- Finance expense relates to interest to be incurred on credit facility
- The entity will make a minimum profit over the next five years.



THANK YOU



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