

ANNUAL REPORT **2015-16**



**STATE DIAMOND
TRADER**

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Minister`s Note to Parliament



SPEAKER OF PARLIAMENT

HONOURABLE SPEAKER

Annual Report of State Diamond Trader for the year ended 31 March 2016.

I have the honour, in terms of section 65 of the Public Finance Management Act No. 1 of 1999 (PFMA), to present the Annual Report of the State Diamond Trader for the year ended 31 March 2016

Hon. M Zwane

Minister of Mineral Resources

August 2016



OVERVIEW

It is my privilege to present you with the State Diamond Trader Annual Report for 2015/16 which sets out our recent achievements as well as the landscape of the State Diamond Trader as set out in our Strategic Plan for the next five (5) years.

I often refer to the State Diamond Trader as a “small organization with a big heart”. I say this because of the numerous developmental and visionary activities that the State Diamond Trader undertakes such as the Enterprise Development Project as well as the Hong Kong platform facilitated for its clients despite the many challenges it faces. While there are many challenges facing it and the industry at large, I am always proud of the work of the State Diamond Trader in support of and in striving to achieve our statutory mandate of not only buying and selling diamonds but that of ‘conducting necessary research and providing interventions to the industry.

Having said that, it has been our observation that the challenges facing the State Diamond Trader are entrenched in the founding legislation with issues such as the fact that it has to purchase on the basis of Run of Mine (ROM) while the South African market has specific types of diamonds that it cuts and polishes locally and its position of being a price taker in the purchasing process, being at the core of these. Despite these, and other market related challenges, the State Diamond Trader has managed to promote the beneficiation mandate as espoused in the founding legislation while running its operations on a commercial basis in order to fund its operations.

MARKET CONDITIONS

The State Diamond Trader has been reporting low sales volumes since October 2014. This is due to the market having continued on a downward trajectory throughout 2015 resulting in it not being able to purchase from the major local diamond producers and this had a marked impact on its revenues for the year. To that end, and in recognition of the impact the global diamond markets were having on its budget and trading activities, the Accounting Authority resolved to revise the targets in line with the projections coming through from

Chairperson`s Report

market assessments at the beginning of the financial year. The revised Annual Performance Plan and the Revised Budget were approved by the Accounting Authority and submitted to the Executive Authority for approval. Although approval by the Executive Authority had not been received, it should be noted that it is under these circumstances that the State Diamond Trader presents its Annual Report.

The State Diamond Trader has proven to be a resilient organisation, one that has a vision to be a catalyst for the transformation and growth of the local diamond beneficiation industry. At the beginning of the year the State Diamond Trader commenced with its strategy to grow the local diamond beneficiation industry and launched its Youth Enterprise Development Project with invaluable support by industry partners. It is intended that the youth participating in the project will be in a position to apply for Beneficiation licenses and become industry players in their own right. The project provides extensive training covering diamond factory experiential learning and college training on both diamond knowledge and business skills. The Board is proud of this achievement.

DIAMOND INDABA

One of the strategic activities of the State Diamond Trader has been to facilitate stakeholder engagement in the industry. To this end, during the year under review it launched a series of annual industry discussion platforms styled as the SA Diamond Indaba. The objective of these is to bring relevant stakeholders together to discuss ways of shaping the future of the diamond industry in South Africa and seek ways to contribute to the reversal of the trends that have brought about its decline. The Diamond Indaba is also intended to give an impetus to local beneficiation and industry transformation and will be used as a platform to plan the way forward towards the growth of the local diamond beneficiation industry.

THE SOUTH AFRICAN YOUNG DIAMOND BENEFICIATORS GUILD

The State Diamond Trader has also long held a vision that SMME's in the beneficiation industry must form an association in order to be able to speak with one voice regarding matters that impact on its growth and development. While the young entrepreneurs ably organised themselves into an association, the State Diamond Trader is proud sponsor of the launch of the The South African Young Diamond Beneficiators Guild ("the Guild) launched at the Inaugural Diamond Indaba in 2015. The State Diamond Trader continues to support and guide the Guild wherever possible.

CORPORATE GOVERNANCE

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

Chairperson`s Report

An effective and experienced Board is essential to the governance of the State Diamond Trader and we were delighted to be mandated to continue to provide oversight to the State Diamond Trader while the Executive Authority was in the process of ensuring that suitably skilled and qualified individuals are appointed as Board members of the entity in the new term.

To that end, during the year under review, the State Diamond Trader was a proud recipient of a Clean Audit Award awarded by the Auditor General.


We have provided a corporate governance overview in this Annual Report to demonstrate how the State Diamond Trader is governed. We have also provided an overview of the risks that could potentially prevent us from achieving the full potential of our strategy in this Annual Report.

IN CONCLUSION

On behalf of the Accounting Authority, I wish to thank the Executive Authority for the support received during the year under review in particular for enabling the current members of the Accounting Authority to see through some of the ideas conceived during its term come to fruition as the Board tenure nears its end. I also wish to thank my colleagues, the Board Members of the State Diamond Trader for their commitment to the mandate and vision of the State Diamond Trader and their support to me and guidance to the Executive throughout the year is most appreciated and evidenced in the ability of the State Diamond Trader to pursue the objectives it set itself.

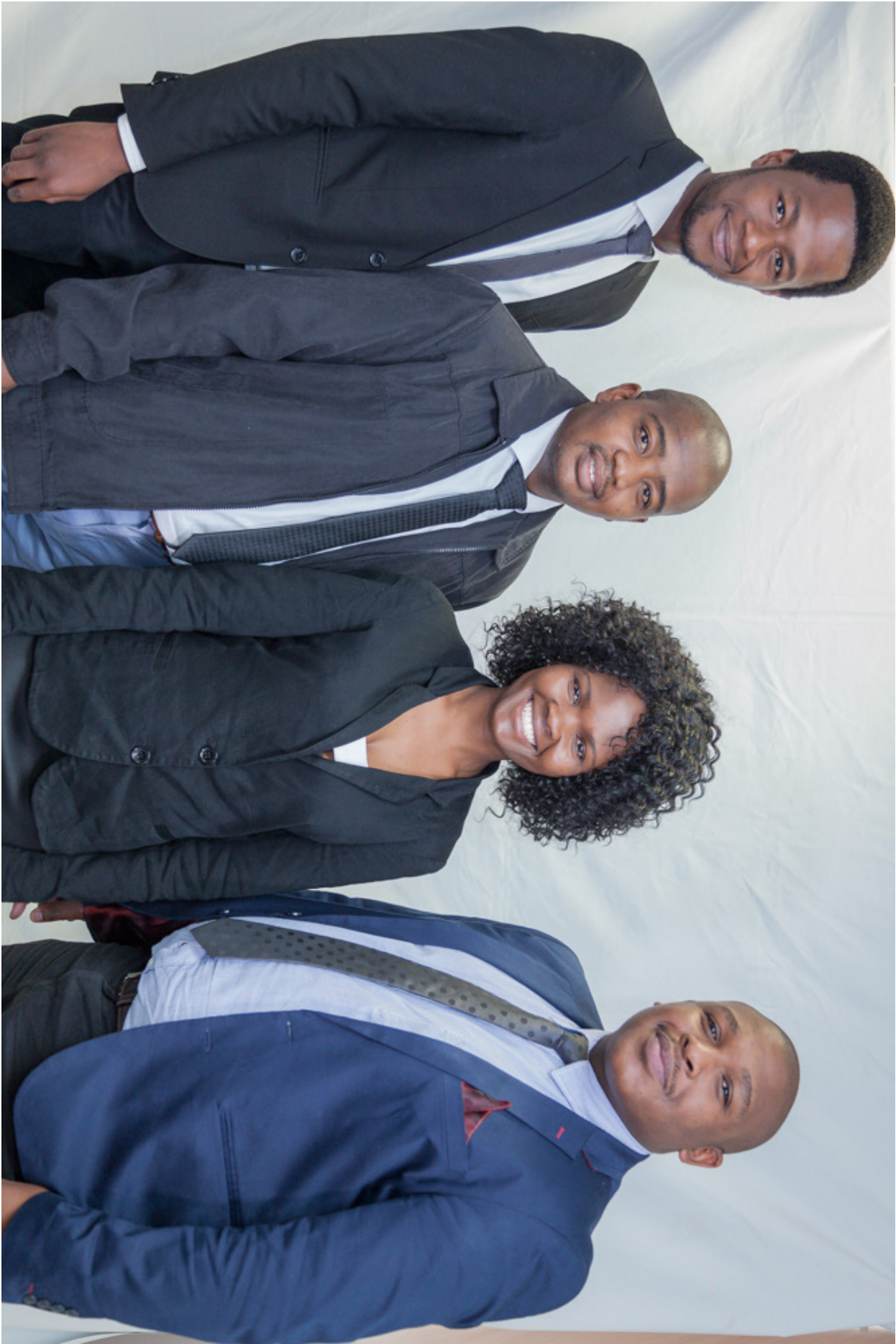
Lastly, I thank the employees of the State Diamond Trader under the able stewardship of the Chief Executive Officer, 2015/16 was indeed a busy year but they have worked tirelessly to fulfil the mandate of the State Diamond Trader in spite of the challenges faced by the industry and the segment of customers covered by the State Diamond Trader mandate; they have continued to find innovative ways for the future of the country's diamond beneficiation footprint. As I look back to the year, I am proud of the achievements of this small team that continues to enable the State Diamond Trader to punch above its weight. There is no doubt in my mind that the State Diamond Trader will continue to take its place in the history of the South African diamond beneficiation industry as we look into the future.

It has been a pleasure, honour, and privilege to have led the Board of the State Diamond Trader as it exercised oversight over the activities and governance of the entity.



Ms Dolly Mokgatle
Chairman
State Diamond Trader

Enterprise Development Groups



Enterprise Development Group 1

Chief Executive Officer's Report



OVERVIEW

The State Diamond Trader has been in existence for eight years now and continues to strive to be a “leading catalyst for the transformation of a sustainable diamond beneficiation industry”. Although the past eight years were mostly challenging and difficult, remarkable results were achieved. The State Diamond Trader continued to support the growth of its clients and ensured accessibility of rough diamonds to predominantly Historically Disadvantaged South African (HDSAs) as well as in facilitating skills development.

TRADING ENVIRONMENT

Throughout the financial year, the general market economic conditions were difficult and thus challenged the State Diamond Trader at most times. The prices of rough diamonds were in some cases higher than polished diamond prices resulting in manufacturers carefully monitoring the costs of their operations and embarking on downscaling operations with some even retrenching staff. The Rand/Dollar exchange rate on the other hand continued to influence the diamond trading decisions during the year. A number of deals concluded with both the suppliers and clients followed intense negotiations to achieve optimal prices.

Nonetheless, the fourth quarter of the financial year 2015/16 brought about improved performance where rough trading in both primary and secondary markets became much stronger than in the preceding months. The State Diamond Trader clients demanded more rough during this quarter. In constantly striving to execute its mandate and satisfy demand the State Diamond Trader was able to buy more quantities and sell to the clients with less difficulty. At the end of the financial year, sales to Historically Disadvantaged South African (HDSA) companies increased by 11% from R41 million to R46 million. This assisted in the delivery on the strategy for purchasing, sales and profitability.

As annually executed, the State Diamond Trader opened for new clients intake in September 2015. In total thirteen (13) companies applied to become clients of the State Diamond Trader and eight (8) were accepted into the Clientele Data Base. At the end of the financial year, the State Diamond Trader had 70 registered clients.

Chief Executive Officer's Report

The State Diamond Trader had previously identified the skills gaps mainly in HDSA clients which hampered their growth in business acumen. As a result the State Diamond Trader continued to ensure transformation in this regards. During the year a follow-up Marketing training session was facilitated in partnership with a recognised training institution. In total eleven HDSA clients participated in this workshop which focused on Entrepreneurial Development and the creation of Business and Marketing Plans. Positive feedback from the clients was received.

The State Diamond Trader, in partnership with the Department of Mineral Resources and other industry bodies successfully facilitated the Inaugural South African Diamond Indaba Conference in 2015. The main purpose of the Indaba was to provide a platform for the industry to discuss and address critical challenges facing the industry in South Africa. At this forum, issues including limited access to rough diamonds, lack of finance and difficulty in penetrating polished diamond markets, labour and productivity, were discussed.

Throughout the years, the State Diamond Trader has been promoting the South African diamond industry in order to ensure that it remains an attractive investment industry. During the Diamond Indaba Conference there was a Launch of the South African Young Diamond Beneficiators Guild (SAYDBG). The Guild is made up of predominantly black-owned small and emerging diamond manufacturers who have seen it necessary to change the future narrative of the South African diamond beneficiation industry.

State Diamond Trader further facilitated the national pavilion for the Hong Kong Diamond, Gem and Pearl show September 2015 with the financial assistance of the Department of Trade and Industry. Participation in this show ensures Better access to international markets, availability of networking opportunities and growth. This show gave entrepreneurs opportunities to showcase the Jewellery and Gem products and to further engage with potential investors. Previously most clients depended more heavily on the State Diamond Trader to hold their hand and ensure they apply for participation in trade shows internationally. It was noted this year that they independently went out and participated in various trade missions and shows such as China and London with minimal reliance on the State Diamond Trader.

For the past few years, participation at Jewelllex Africa, South Africa's Premier Jewellery Show has been reducing drastically due to multiple reasons given by the industry. In realisation of this and wanting to further promote the show, the State Diamond Trader worked with the Jewellery Council of South Africa, the show organisers, and offered to participate and thereby bring in more diamond companies. The State Diamond Trader introduced the concept of a "Diamond Pavilion" to be in line with international shows standards in an effort to add more value to the show. The expanded Jewelllex was a resounding success and the State Diamond Trader is proud of its contribution and of the partnership thus created and plans to maintain these for the good of the industry. This also provided a good platform for its clients to network with jewellers and provided exposure to their companies for future sales and business growth.

Through partnership with industry stakeholders, the State Diamond Trader embarked on its second Enterprise Development programme. This is done in an effort to grow and sustain diamond beneficiation in South Africa. The State Diamond Trader will further embark on more programmes of this nature in partnership with other industry stakeholders. These partnerships are invaluable to the State Diamond Trader.

Chief Executive Officer's Report

The State Diamond Trader facilitated 12 provincial promotional activities in five provinces during the year under review. These were facilitated in partnership with various provincial government departments, municipalities and industry stakeholders. Such activities are meant to raise awareness about diamonds, opportunities in diamond beneficiation, the functions and programmes of the State Diamond Trader and all the services offered by the various partners. In addition, it is also the intended to attract new entrants and entrepreneurs to the industry at large.

OPERATING ENVIRONMENT

As indicated in the financial statements, the State Diamond Trader made purchases amounting to R450 Million (compared with R396 million in 2014/15) which account for a gross revenue amounting to R460 million (R394 Million in 2014/15). While this may appear as some growth, the trading conditions were difficult throughout the year, 2015. It was only during the last quarter of the financial year that some respite came about and which may well be a short term phenomenon due mainly to re-stocking after the various holidays between November 2015 and February 2016. The whole industry, locally and globally, is banking on these favourable conditions to last and that every sector of the industry – from producers, traders, beneficiators to retailers – will be responsible in their dealings as caution in trading both rough and polished diamonds throughout 2016 will be of utmost importance.

HUMAN RESOURCES

The State Diamond Trader looks forward to having young people with disabilities for training as Diamond Valuers during the course of the coming financial year and hopefully extending their contracts to permanent positions after the three year training period. The support provided through staff secondments is coming to the end in 2016 and that will usher in a new period in the human resource and operational environment of the State Diamond Trader.

CONCLUSION

I extend my gratitude and appreciation to the Accounting Authority, Management and staff of the State Diamond Trader for the good results achieved despite the negative sentiments in the diamond markets. I further extend my gratitude and appreciation to all our stakeholder partners, our shareholder Department and all complying diamond producers.



Ms Futhi Zikalala Mvelase
Chief Executive Officer
State Diamond Trader



Enterprise Development Group 2

Accounting Authority



Accounting Authority

Mrs D.D. Mokgatle	Chairman
Ms P.N. Zikalala Mvelase	Chief Executive Officer
Mr I. Goondiwalla	Member
Mr T. Montoedi	Member
Ms Z Manase	Member - (Resigned in October 2015)
Mr S. Motlounq	Member
Mr L. Rapoo	Member
Ms S. Mohale	Member
Ms N. Mpuntsha	Member
Ms S. Nxumalo	Member
Mr M.A. Luhlabo	Member
Brig. N. Mokoena	Member



Mrs D.D. Mokgatle
Chairman



Mr S. Motloun
Member



Ms P.N. Zikalala Mvelase
Chief Executive Officer



Mr I. Goondiwalla
Member



Mr M.A. Luhlabo
Member



Ms S. Nxumalo
Member



Brig. N. Mokoena
Member



Mr T. Montoedi
Member



Ms N. Mpuntsha
Member



Ms S. Mohale
Member



Mr L. Rapoo
Member



Ms Z Manase
Member

COMPANY SECRETARY
Company Secretary Ms Nobule Sibeko

State Diamond Trader Staff Members



State Diamond Trader Staff Members

EXECUTIVE MANAGEMENT



Ms P.N. Zikalala Mvelase
Chief Executive Officer



Ms N. Danisa
Chief Financial Officer



Ms N. Sibeko
Legal Officer & Company Secretary

MANAGEMENT



Mr C. Van Der Ross
Sales Manager



Mr N. Mabaso
HR Officer



Mrs D. McBride
Finance & Administration Officer

STAFF MEMBERS



Mr B. Sekano
Senior Purchasing Officer



Ms S. Mashiloane
Senior Sales Officer



Mr G. Mance
Client Relations Officer



Ms K. Monama
Production Officer



Mr P. Bokaba
Finance Officer



Mr M. Nkotsoe
Creditors Clerk



Ms P. Fakude
Receptionist



Ms N.C. Mdludlu
Executive Assistant



Mr S. Lindi
Production Officer



Ms S. Govender
Sales Officer



Mrs S. Ndou
Sales Officer

Governance



THE ACCOUNTING AUTHORITY

The Board is the designated Accounting Authority and governs the State Diamond Trader in accordance with the Diamonds Amendment Act 29 of 2005 (the Act), the Public Finance Management Act, 1999 read with applicable Treasury Regulations and related legislation as well as the King Report on Corporate Governance in South Africa and Corporate Governance Manual of the State Diamond Trader aligned to King III.

The Board has governance structures focused on providing leadership and making recommendations to the Board within a framework of effective controls which enables risk to be assessed and managed throughout the organisation. No material issues were identified to suggest flaws in governance. The State Diamond Trader will continue to monitor and enhance current practices on an ongoing basis.

ACCOUNTING AUTHORITY COMPOSITION

All members of the Accounting Authority of the State Diamond Trader are non-executive members with the exception of the Chief Executive. Members of the Accounting Authority of the State Diamond Trader are appointed by the Minister in line with the Act to effectively manage and guide the activities of the State Diamond Trader based on their knowledge and expertise.

The term of office of a non-executive member is for a period not exceeding five years. Non-executive members may be re-appointed by the Minister for a period not exceeding three consecutive terms in office.

The role of the Chairman and that of the Chief Executive Officer are separate, with a clear division of responsibilities to ensure a balance of power and authority between them. The Chairman has no executive functions.

The effectiveness and performance of all members of the Accounting Authority is assessed annually. The Chairman of the Accounting Authority assesses the performance of the CEO, and the CEO annually reviews the performance of executive management.

REMUNERATION

Remuneration of members of the Accounting Authority is disclosed in the Annual Financial Statements.

ACCESS TO INFORMATION

The Accounting Authority has access to all information it may require and may, at the cost of State Diamond Trader, seek independent professional advice if necessary. Management provides the Accounting Authority and its committee members with timely and accurate information and documentation to fulfil its responsibilities.

MEETINGS

The Accounting Authority met five (5) times during the year under review.

Name of Member	29 April 2015	21 May 2015	29 July 2015	28 October 2015	28 January 2015
Mrs. D.D. Mokgatle (Chairman)	Present	Present	Present	Present	Present
Mr. I. Goondiwalla	Present	Present	Present	Present	Absent
Mr. T. Montoedi	Absent	Present	Present	Present	Present
Mr. S. Motlounq	Present	Present	Present	Present	Present
Mr. M.A. Luhlabo	Present	Present	Present	Present	Present
Ms. N. Mpuntsha	Present	Present	Present	Present	Present
Ms. Z. Manase	Present	Absent	Present	-	-
Mr. L. Rapoo	Absent	Absent	Present	Absent	Absent
Ms. S. Mohale	Absent	Present	Present	Absent	Absent
Ms. N. Mokoena	Present	Absent	Present	Absent	Absent
Ms. S. Nxumalo	Absent	Absent	Absent	Absent	Absent
Ms. F. Zikalala Mvelase	Present	Present	Present	Present	Present

Report of the Audit and Risk Committee





REPORT OF THE AUDIT AND RISK COMMITTEE

We are pleased to present our report for the year ended 31 March 2016.

The Audit and Risk Committee is a subcommittee of the Board with an objective of assisting the Accounting Authority with the responsibility of safeguarding assets, maintaining effective and efficient internal controls, reviewing the financial information and overseeing the preparation of the annual financial statements of the State Diamond Trader. The Committee operates in accordance with the statutory requirements of the PFMA. Further duties are delegated to the Committee by the Accounting Authority from time to time.

Audit and Risk Committee terms of reference

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

Audit and Risk Committee meeting attendance

The Audit and Risk Committee is independent and consisted of four members until the resignation of Ms. Z Manase in October 2015. The Committee consists of three members.

The Chief Executive Officer, Chief Financial Officer, Internal and External Auditors attend the meetings by invitation.

Accounting Authority Subcommittees Reports

During the year under review five (5) meetings were held.

Name of member	17 April 2015	28 May 2015	28 July 2015	15 October 2015	20 January 2016
Mr I. Goondiwalla (Chairman)	Present	Present	Present	Present	Present
Ms Z. Manase	Absent	Present	Present	-	-
Mr. T. Montoedi	Present	Absent	Present	Present	Present
Ms. S. Nxumalo	Present	Present	Present	Absent	Present

Role and Responsibilities

The Audit & Risk Committee's role and responsibilities include statutory duties as well as further responsibilities assigned to it by the Board. The Audit and Risk Committee executed its duties during the year under review.

External Auditors and Independence

The Committee is satisfied that the External Auditor, appointed in terms of the Public Audit Act, 25 of 2004 is independent. The Committee, in consultation with management, agreed to the audit strategy and budget for the year under review.

Officials from the office of the Auditor-General are invited to attend all Committee meetings and attended all meetings of the Committee during the year under review.

Financial Statements and accounting practices

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

Internal Financial Controls

The Audit and Risk Committee has overseen a process by which internal audit performed written assessments of the effectiveness of the State Diamond Trader's system of internal control, risk assessment, including internal financial controls.

Accounting Authority Subcommittees Reports

Governance of risk

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

Internal Audit

The Audit and Risk Committee is responsible for ensuring that the State Diamond Trader's internal audit function is independent and able to discharge its duties. Furthermore, the Committee oversees cooperation between the internal and external auditors and serves as a link between the Board and these assurance functions.

The internal audit function reports to the Committee and is responsible for reviewing and providing assurance on the adequacy of the internal control environment across the organisation's operations. During the year under review, the Committee approved the three year rolling internal audit plan.

Going Concern

The Annual Financial Statements of the State Diamond Trader were prepared on a going concern basis and the Accounting Authority is satisfied that the State Diamond Trader is financially sound and has adequate resources to continue operating for the foreseeable future.

In Conclusion

I wish to express my appreciation to the Accounting Authority, and to the members of the Audit and Risk Committee for their support and contributions during the year and to the Chief Executive Officer and her team (CFO and Internal Auditors) for their hard work. Finally I wish to thank the external auditors for their contribution in ensuring that our reports are audited in a fair and professional manner.

Mr I Goondiwalla

Chairman of the Audit & Risk Committee



HUMAN RESOURCES AND REMUNERATION COMMITTEE

The Objectives of the Human Resources and Remuneration Committee are to ensure that the State Diamond Trader discharges its responsibilities of attraction, motivation, development and retention of the required staff competencies. The Committee makes recommendations to the Accounting Authority in respect of issues of remuneration for staff and is tasked with monitoring the Remuneration Framework of the organisation.

HR and Remuneration Committee terms of reference

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

HR & Remuneration Committee meeting attendance

The Committee met four times during the year under review to review matters such as the State Diamond Trader Retention Strategy, the Organogram against the needs of the organisation and the remuneration framework.

Meeting Attendance

Name of member	08 July 2015	6 October 2015	8 December 2015	15 March 2016
Mr. S. Motloun (Chairman)	Present	Present	Present	Present
Mr. L. Rapoo	Absent	Present	Absent	Absent
Ms. N. Mpuntsha	Present	Present	Present	Present
Mr T. Montoedi	Present	Present	Present	Absent



TRADING AND DIAMOND INDUSTRY PROMOTION COMMITTEE

The objectives of the Trading and Diamond Industry Promotion Committee (Trading Committee) is to ensure that the State Diamond Trader meets its mandate which is to purchase and sell rough diamonds for beneficiation and contribute to the growth of the local beneficiation industry. The Annual Trading Report is presented in this Annual Report on page-23-31.

Trading Committee terms of reference

The Committee operates in accordance with the Terms of Reference approved by the Accounting Authority.

Trading Committee meeting attendance

The Committee met six times during the year to review and recommend to the Accounting Authority matters such as the Marketing Strategy Implementation Plan, the Sales Strategy Implementation Plan, quarterly Trading Report of the State Diamond Trader and Diamond Market Report.

Meeting Attendance

Name of member	12 May 2015	9 July 2015	1 October 2015	8 December 2015
Mr. M.A Luhlabo (Chairman)	Present	Present	Present	Present
Mr. S. Motloung	Present	Present	Present	Present
Ms. S. Mohale	Present	Absent	Absent	Absent
Ms. N. Mokoena	Present	Present	Present	Absent
Ms. T. Montoedi	Present	Present	Present	Present

Trading Report 2015-16



Trading Report 2015-16

Trading Summary and Annual Comparison

State Diamond Trader Sales by Client Segment 2015

	2015-16	2014-15	2013-14
SDT Inspected US\$	970,529,959	1,317,984,510	1,283,935.876
Carats inspected	7,726,850	7,885,298	8,339.781
US\$ per carat	125.60	167.14	153.95
No. of producers	14	12	12
No. of Inspections	136	145	134

SDT Purchases ZAR	450,509,541	396,728,675	527,791,954
% purchased**	3%	3%	4%
No of purchases	61	69	68
Carats	157,698.15	85,479.97	220,697.42

SDT Sales ZAR	460,417,568	394,321,101	554,863,725
COGS ZAR	447,472,306	381,150,996	538,458,752
GM ZAR	12,945,262	13,170,105	16,404,973
GM%	3%	3%	3%
Carats	158,127.82	85,426	230,188
No. of clients sold to	47	50	46

SDT Stock ZAR (31/03)	24,095,119	20,786,232	4,978,366
Ave age of Stock (days)	>200	77	5

*At producer values

**% purchased of goods inspected (by value)

It should be noted that although there has been a reduction of 2% by carats inspected, the value inspected dropped by 36% and the average price dropped by 33% in comparison to 2014/2015.

Although the value inspected decreased, purchases increased by 16% on the back drop of the number of purchases made from the producers decreasing from 69(2014/15) to 61 for the year under review.

Sales increased by 17% compared to the previous year; the Gross Margin remained similar and the carats sold increased by 85%. For the year under review, State Diamond Trader sold to 3 less clients compared to the previous year

The closing stock increased by 16% compared to the previous year.

End of Year Stock – Rough Diamond Inventory as of 31st March 2016

	Carats	ZAR Cost	Ex.Rate	US\$ Cost	Age (Days)
Stock as of 01/04/2015	1,439.25	20,786,232	11.50	1,807,001	238*
Purchases	157,698	450,509,541	14.67	30,704,796	
Sales (COGS)*	158,128	447,472,306	14,64	30,557.114	
Stock as of 01/03/2016	1,009.6	23,823,467	12.19	1,954,683	77

The State Diamond Trader's rough diamond inventory at year end was higher in value in comparison to the previous year, it should be noted though that the carats (volume) fell by 16%. This indicates that sale from the older stock was realised during 2015/2016. The following contributed to the stock:

1. The State Diamond Trader still has 6 large stones that were not sold at its pilot tender. The intention is to defend the value of these stones, selling them when market conditions improve and the correct prices can be achieved.
2. The remaining stock of R 14.9 million is from purchases made during the year under review
3. A Board resolution saw the abolishment of the Stock Holding Policy, this decision was taken to protect the cost of the stock in difficult markets and the Board felt that the stock holding policy was challenging to implement especially in the diamond industry that is constantly changing depending of the global economic climate.

Rough Diamond Markets

The global diamond market remained subdued and depressed for most part of 2015 with the continued slide in polished diamond prices and inversely the continued increases in rough prices. This trend resulted in manufacturers carefully monitoring the costs of their operations which resulted in a number of retrenchments and closure of some operations.

Despite the reduction in demand and resultant negative sentiment, diamond producers continued to demand high prices for rough diamonds - leading to the position where, in some instances, polished diamonds are priced below that of the rough required to manufacture them. This discrepancy between rough and polished diamond prices continues to erode the margins available to beneficiaries – which were already minimal.

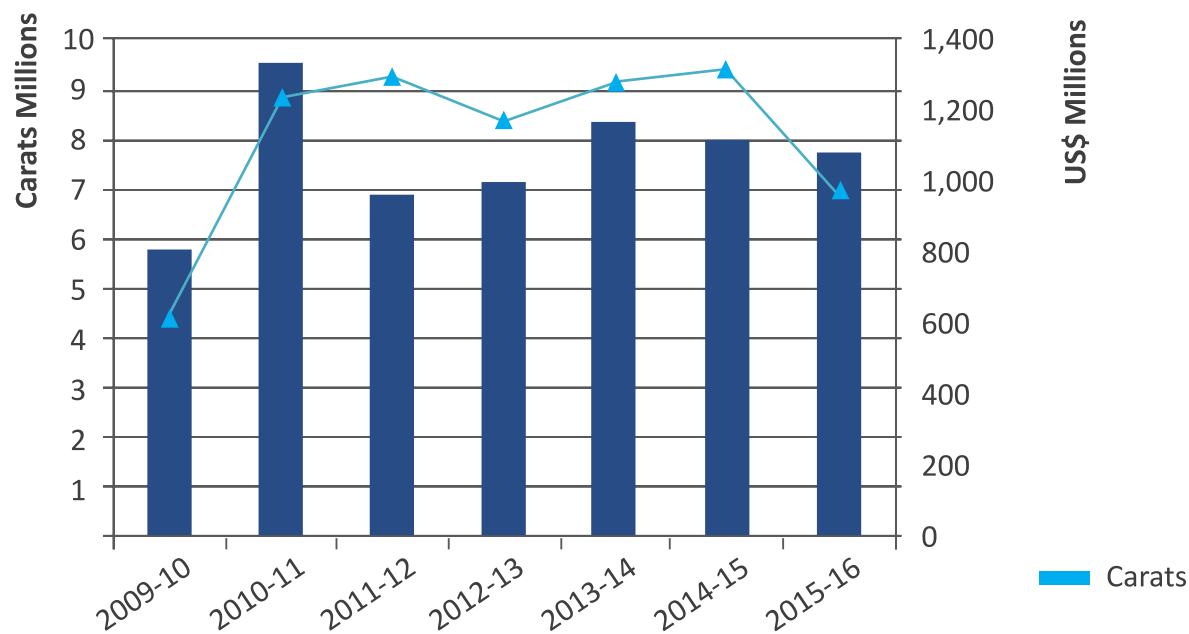
The beneficiation industry looked to diamond producers with the hope that they will reduce rough diamond prices to align them with polished prices. Although some reports indicated that there were price reductions during the year, the industry still hoped for better discounts. Nonetheless, the global diamond industry was subdued with activity in trading of selected goods in the secondary market.

South African Diamond Production – State Diamond Trader Inspections 2015-16

Trading activity at the State Diamond Trader is determined by the amount of rough diamonds produced in the country, with the legislation indicating the maximum quantity that can be purchased.

South African Diamond Production – State Diamond Trader Inspections 2015-16

State Diamond Trader Inspections (RSA Production) 2009-16



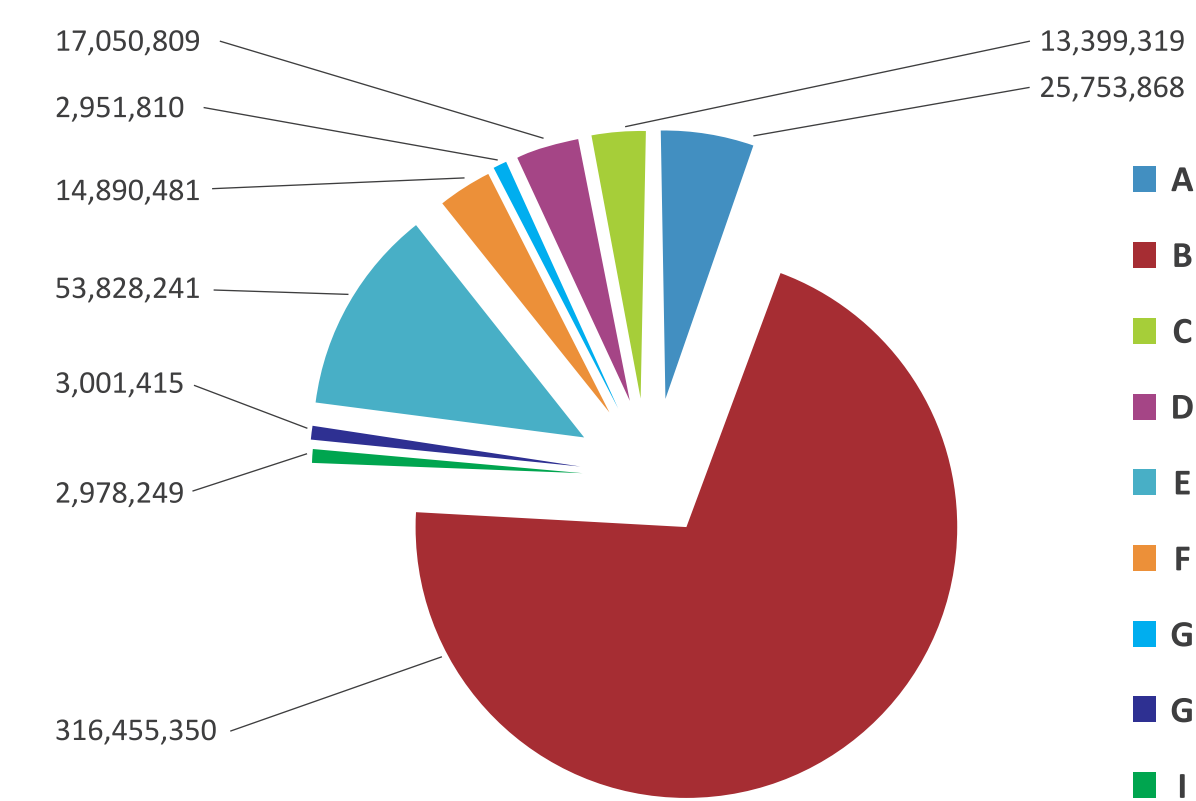
The falling average price indicates a reduction in the quality of rough diamonds produced and in particular those suitable for cutting and polishing in South Africa. This also indicated the subdued state of the diamond industry for the year under review

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

It should be noted that 2 more producers complied with the law in showing State Diamond Trader their productions, bringing the total compliant producers to 14. However, it is recorded that there are more than 14 registered diamond producers in the country and the lack of engagement with the State Diamond Trader by a large number of predominantly medium to small producers signifies a lack of compliance with the Diamond Act of 2005 on their part.

The State Diamond Trader continues to liaise with the SADPMR in terms of identifying non-compliant diamond producers, following-up with them directly when it is apparent that production is on-going.

State Diamond Trader Purchase 2015-2016 by Producers (ZAR)



The State Diamond Trader purchased rough diamonds from 9 producers during the course of the year.

The average price of diamonds purchased by the State Diamond Trader was US\$ 194.71 per carat compared to the US\$ 423 per carat of the previous year. This reflects;

1. The execution of the sales strategy in which State Diamond Trader was able to market those diamonds that is not preferred by its clients to beneficiate. This enables State Diamond Trader to supply suitable rough diamonds for local beneficiation
2. This also has a positive impact on State Diamond Trader’s commercial imperative.

In terms of volume (carats), the amount purchased increased by 84% when compared with the previous year. In terms of value (ZAR), the purchased amount increased by 25%. The increased purchase of volume (carats) and value is directly linked to the reduction in price for the rough diamonds by all producers.

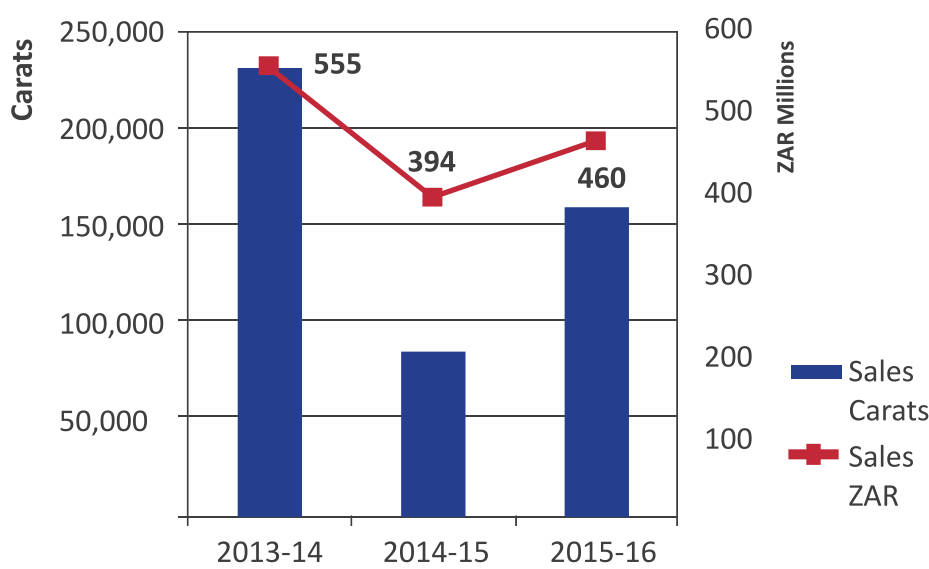
The State Diamond Trader is currently permitted to purchase up to 10% of South African diamond production by carats and value in order to meet its objectives in terms of supporting local beneficiation. However, during the course of 2015-16 the State Diamond Trader was able to purchase only 2% by carats and 3% by value of the rough diamonds it inspected under the terms of the Diamond Act.

Trading Report 2015-16

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

- 1. The reduction in demand and the prices that local beneficiators were willing to pay for rough diamonds due to the continued global market conditions.
- 2. The constraints placed on the State Diamond Trader in terms of purchasing Run of Mine selections.
- 3. The quantity of goods not preferred for beneficiation within South African Run of Mine productions.
- 4. The sales and pricing methodologies of the producers, placing selections outside of the State Diamond Trader’s capability to operate commercially – this includes the country’s largest producer from which the State Diamond Trader was able to purchase on only four occasions out of a possible ten.
- 5. The State Diamond Trader’s legislated position as a “price-taker”, in the inspection and purchasing of diamonds from the producers in terms of section 59B of the Act.

State Diamond Trader Sales 2015-16



State Diamond Trader sales rose by 85% in terms of carats sold, 17% by value, reflecting the price reduction of rough diamonds resulting in improved demand for rough diamonds during the fourth quarter of 2015/16.

In general, clients became extremely price sensitive during the year under review and this was due to the discrepancy between rough and polished diamond prices. Larger clients were unwilling to commit capital to purchasing rough diamonds when the demand for polished diamonds was weak and prices continued to decline.

Smaller clients continued to have limited bargaining power, found it increasingly difficult to find markets for their polished diamonds that would enable them to make a profit after the purchase of the rough diamonds and ancillary expenses.

Trading Report 2015-16

Summary and Budget Comparison 2015-16

SDT Budget v Actuals 2015-16

		2015 - 16 (ZAR)
		2015-16
Purchases	Budget	552,187,669
	Actual	450,509,541
	<i>Diff</i>	-101,678,128
	<i>Diff %</i>	-18%
Sales	Budget	574,274,922
	Actual	460,417,569
	<i>Diff</i>	-113,857,353
	<i>Diff %</i>	-20%

The State Diamond Trader was unable to achieve its budgeted purchases (difference of 18%) and sales targets (difference of 20%) due to;

1. Subdued market that experienced lack of demand for polished and resistance to the high prices of rough diamonds
2. The inability to purchase rough diamonds at the prices that could have resulted in sales to beneficiaries at the required margins.
3. A lack of demand from beneficiaries for rough diamonds from representative samples selected (Run of Mine) deemed not suitable for local beneficiation.

It should be noted that a 3% gross margin is in line with industry norms for a rough diamond trading entity such as the State Diamond Trader. The only way for the State Diamond Trader to effectively increase actual gross margin levels in order to offset any future rise in expenses is to increase revenue. Whilst the State Diamond Trader only purchased 3% of local production by value during the year, there is scope to do this. However, this requires the resolution of a number of trading issues, in particular pertaining to the nature of South African diamond production and the price at which the State Diamond Trader is able to purchase.

From a trading perspective, in order to mitigate these circumstances, which were outside of the State Diamond Trader's control, it continues to trade on the basis of;

1. Understanding rough diamond demand and price sensitivity of its clients.
2. Active Engagement with all compliant diamond producers

Trading Report 2015-16

3. Balancing clients' demands with State Diamond Trader's commercial imperative

As a result the State Diamond Trader was able to trade within its existing policy framework, albeit at lower levels than envisaged and considerably below the 10% of local diamond production as indicated within the legislation.

Sales by Client Segment 2015-16

State Diamond Trader Sales by Client Segment 2015-16

Segment	No. of Clients	Carats	ZAR Sales	ZAR Cost	GM	GM%	% of Sales (ZAR)
Growth & Transformation	3	7,542	42,712,577	41,789,792	922,785	2%	9%
Equitable Access	20	205	3,427,579	3,372,370	55,509	2%	1%
Niche and Large/Medium Bene.	19	85,743	348,127,580	338,580,993	9,546,587	3%	76%
Other	5	64,639	66,149,532	63,457,499	2,692,033	4%	14%
	47	158,128	460,417,569	447,200,654	13,216,915	3%	

Growth & Transformation = HDSA owned companies given preferential allocation in order to support business growth

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

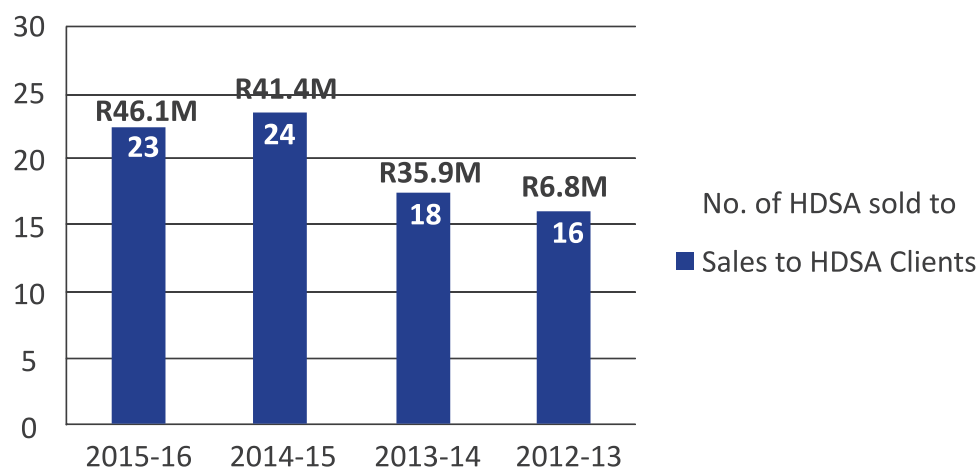
Niche and Large/ Medium Beneficiators = larger, non HDSA owned beneficiating companies that can purchase larger quantities and range of rough diamonds

Other = not on the State Diamond Trader's list of registered clients, companies sold to

The total number of clients that purchased rough diamonds from the State Diamond Trader during 2015-16 decreased from 50 (2014-15) to 47.

As per the State Diamond Trader's ability to market diamonds not preferred for beneficiation, sales of rough diamonds suitable for beneficiation made up 66% of total sales (by value) in 2015-16, compared to 73% in 2014-15. The decrease in suitable diamonds for beneficiation is attributed to the effective marketing of non-suitable diamonds

Sales to HDSA Clients



As can be seen from the above table, there has been a slight decrease in the number of HDSA clients that have purchased from the State Diamond Trader and a decrease in the quantity of rough diamonds sold to them. This is a direct reflection of the market conditions for the year under review; where a drop in demand for polished and high prices for rough diamonds was experienced.

The State Diamond Trader continues to facilitate the transformation of the diamond beneficiation industry by targeting HDSA clients that were previously unable to access rough diamonds produced in the country. Despite the challenging market conditions, during the course of the year;

- 1. The total value of sales to HDSA owned client segment rose from R41.4 million (2014-15) to R46.1 million, an increase of 11%.
- 2. The number of HDSA clients that purchased dropped slightly from 24 (2014-15) to 23.
- 3. Sales to companies with HDSA ownership made up 10% of the annual sales value, consistent with the previous year.
- 4. Use of the Primary Allocation Method – the State Diamond Trader’s preferred method of selling to small and HDSA owned beneficiaries– declined from 46% of total sales in 2014-15 to 20% in 2015-16. Which is once again reflective of market conditions for the year under review

State Diamond Trader Client Relations 2014-15

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

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

The State Diamond Trader's Registered Clients – Addition and Removal

The State Diamond Trader has an annual process to advertise for and register clients wishing to purchase from it. The purpose of registering clients is to ensure compliance, in particular to those relating to the laws of the country pertaining to the holding of a valid beneficiation licence and SARS Tax Clearance Certificate.

The 2015 process saw 13 clients apply- 8 were subsequently accepted - 4 of which are HDSA owned companies.

During 2015-16, the State Diamond Trader found cause to remove 5 clients from its list for compliance reasons.

The State Diamond Trader ended 2015-16 with 70 registered clients in the following segments:

Growth & Transformation (HDSA owned)	3
Equitable Access (HDSA owned)	29
Niche & Large/ Med. Beneficiators	38

Diamond Industry Development

The State Diamond Trader has a responsibility in terms of the Diamond Act;

"To promote the diamond industry through the necessary research, support and development as deemed necessary from time to time".

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

Support and Development of the industry

Enterprise Development Programme

1. Training continued for the first enterprise development programme which consisted of 5 trainees. They are currently in their second year of training.

2. The State Diamond Trader has also partnered with another local beneficiator which resulted in the intake of 3 trainees for its second enterprise development programme

Facilitation of skills training for HDSA clients

1. 11 HDSA clients participated in the marketing workshop facilitated by the State Diamond Trader.
2. 3 State Diamond Trader HDSA clients participated at the Global Entrepreneurship Week (external conference). The conference focused on entrepreneurial development in SMMEs.

The State Diamond Trader continues to support the industry at large with relevant interventions

Facilitate access to international and local exhibitions

1. Inaugural Diamond Indaba 2015

The State Diamond Trader in partnership with the Department of Mineral Resources and industry stakeholders successfully facilitated the Inaugural South African Diamond Indaba at the Sandton Convention centre bringing together diamond beneficiators, industry representative bodies, producers, unions and governmental institutions to discuss the challenges faced by the diamond industry.

2. Jewellex Africa 2015

Facilitated by the State Diamond Trader, with support from the Jewellery Council of South Africa and the DTI, 15 HDSA clients participated at the event - enabling them to showcase their businesses and potentially develop new markets.

3. Hong Kong Diamond, Gem and Pearl and Jewellery Show 2015

Facilitated by the State Diamond Trader, DTI funding for SA Pavilion was secured for a third year. 10 diamond beneficiators participated all of whom were State Diamond Trader clients (6 HDSAs). Although market conditions were unfavourable - clients did conclude sales but rather developed networks for future business.

4. The State Diamond Trader in partnership with DTI facilitated participation for three of its clients an Outward Trade Mission to Guangdong in China at the beginning of 2016

5. Denim and Diamonds

The State Diamond Trader participated and facilitated 1 HDSA client to exhibit at this inaugural local event that brings together fashion and jewellery designers to showcase their creative creations directly to the public.

6. State Diamond Trader in partnership with the Jewellery Council of South Africa and the DTI facilitated 3 HDSA clients to exhibit at the International Jewellery Show in London.

7. Provincial Promotional activities

Provincial Promotional Activities were undertaken in Gauteng 2; 1 in North West; 1 in Northern Cape; 2 in Limpopo and 4 in Kwa Zulu Natal. Such activities are to provide information on the State Diamond Trader and the diamond industry in general with the aim of attracting new entrants and entrepreneurs to the industry.

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

1. The State Diamond Trader continued conducting presentations to various funding institutions.
2. In addition, the State Diamond Trader continues to engage various stakeholders with regards to the funding of a diamond equipment hub. This is on the basis that much of the technology required within the industry is unaffordable to new entrants and SMMEs.

State Diamond Trader continues to support the industry at large with relevant interventions, developments and marketing

Performance Against Strategic Objectives



Performance Against Strategic Objectives

MANDATE

Promote the diamond beneficiation industry through research and development over the next phase of State Diamond Trader's existence.

VISION

Be a catalyst for the transformation and growth of the local diamond beneficiation industry.

MISSION

- Ensure acquisition of and equitable access to rough diamonds with particular focus on HDSAs
- Promote the growth of the diamond beneficiation industry through relevant interventions
- Establish and maintain a transformed client base of local diamond beneficiaries

VALUES

- We will respect the rights of our stakeholders and promote a caring attitude
- We will promote diversity and create an empowering working environment
- Commitment to mandate – it's promotion, defence and execution
- Agility – anticipation, proactive problem solving and resourcefulness
- Efficiency – professionalism and excellence in all that the State Diamond Trader does
- Innovation – continuous generation of new ideas and innovative thinking

STRATEGIC OBJECTIVES

- Contribute to the growth of the local diamond beneficiation industry
- Develop efficient means to market diamonds not suitable for local beneficiation
- Develop and acquire appropriate Financial and Human Resource capacity

Performance Against Strategic Objectives

STATE DIAMOND TRADER STRATEGIC OBJECTIVES LINKED TO DMR AND NATIONAL OUTCOMES

National Outcome	DMR Outcomes	SDT Strategic outcome
Decent employment through inclusive economic growth	Mineral Regulation	Promote the diamond beneficiation industry through research and development over the next phase of the State Diamond Trader's existence
Create a better South Africa and contribute to a better and safer South Africa	Mineral Regulation	Contribute to the growth of the local diamond beneficiation industry
Effective, efficient and development orientated Public Service	Administration	Develop and acquire appropriate financial and Human Resource capacity

LEGISLATIVE AND OTHER MANDATES

The State Diamond Trader's main business is to buy and sell rough diamonds in order to promote equitable access to and beneficiation of diamond resources. The main aim of the State Diamond Trader is to address distortions in the diamond industry and correct historical market failures to develop and grow South Africa's diamond cutting and polishing industry.

The State Diamond Trader is a state owned entity established in terms of Section 14 of the Diamonds Amendment Act, 29 of 2005. The company is classified as a Schedule 3b entity of the PFMA.

The State Diamond Trader sells to approve customers through the State Diamond Trader's application and approval process. The entity is eligible by law and proclamation to purchase up to 10% of the run of mine from all diamond producers in South Africa

Performance Against Strategic Objectives

MTSF Outcomes	DMR Strategic Outcomes	SDT Strategic Outcomes	STRATEGIC OBJECTIVE	KEY ACTIVITIES	PERFORMANCE MEASURES	TARGET 2015 - 2016	PERFORMANCE 2015 - 2016	VARIANCE 2015 - 16
Decent employment through inclusive growth	Equitable and sustainable benefit from mineral resources	1. A sustainable, growing and transformed diamond beneficiation industry	1. Contribute to the growth of the local diamond beneficiation industry	Implement Marketing Strategy – Market Research	Report on identified interventions by the SDT in order to grow the industry	Completed April 2015	The Market Research Report was finalised in March 2015 and approved in April 2015. It was then used as a point of reference at the SA Diamond Indaba later.	
				Host Diamond Indaba	Diamond Indaba held	Diamond Indaba By March 2016	The Diamond Indaba was held in October 2015 with over 200 delegates attending. The report on the proceedings was done.	
				Establish partnerships for the expansion of Jewelllex	Jewelllex as Diamond Trading Platform	Partnerships established March 2016	Partnerships were sourced with the main ones being the Jewellery Council of SA and its members as well as diamond companies for the Diamond Pavilion within Jewelllex 2015.	
				Implement the Marketing Strategy -Facilitate access to international and local exhibitions for clients	Client participation at Related Expos (number of clients)	Hong Kong 10 participating clients	The show was attended with both State Diamond Trader clients and jewellers, totalling 20 exhibitors, participating within the national pavilion in September 2015.	The number was exceeded as a result of the jewellers that also participated which was not envisaged at planning stage
						Jewelllex SA 10 client self-supporting/stand-alone participation	The aim of having self-supporting State Diamond Trader clients was realised with 10 clients who self-supported their participation	
						Facilitated participation in Other Expos	Facilitated the participation of clients at both the IUL London 6 - 8 September 2015 and China 19 - 26 March 2016	
					Increased revenues for SDT clients participating at local and international shows (%)	Establish baseline and reporting frameworks for participating clients	An extensive consultation process was done with clients who participate in the shows and a report on the baseline was done. This will be used to assess the contribution to the growth of their businesses over the medium to long term period.	

Performance Against Strategic Objectives

MTSF Outcomes	DMR Strategic Outcomes	SDT Strategic Outcomes	STRATEGIC OBJECTIVE	KEY ACTIVITIES	PERFORMANCE MEASURES	TARGET 2015 - 2016	PERFORMANCE 2015 - 2016	VARIANCE 2015 - 16
Vibrant, equitable, sustainable rural communities contributing towards food security for all	Transformed minerals sector			Implement Marketing Strategy - Conduct Provincial Promotional activities	Number of activities	5 promotional activities by March 2016	The State Diamond Trader conducted 10 promotional activities and this represents a success beyond the target.	The target was exceeded due to the positive reception received and partnerships created with the various stakeholders who participated.
A skilled and capable workforce to support an inclusive growth	Equitable and sustainable benefit from mineral resources	2. Diamond Industry Enterprise Development		Establish incubation programmes that will create platforms for SMME's to beneficiate diamonds	1 Incubation programme established for the development of existing HDSA businesses	Launch 3 year programme by March 2016	Three clients were selected from an identified group of five. Interviews were held with each of them on the new growth path being taken with them. Their progress will be reported on quarterly during the coming year and assessment done at the end of March 2017.	
A skilled and capable workforce to support an inclusive growth	Transformed minerals sector				1 Incubation programme established for the development of new industry entrants and entrepreneurs	Launch 3 year programme April 2015	The programme was launched and two groups of youth participants were placed in diamond beneficiation training in 2015 and are committed to this three year programme to December 2017. The Mining Qualifications Authority and two diamond industry stakeholders have partnered with the State Diamond Trader on this programme.	
				Facilitate industry specific business training for HDSA clients by relevant partners	Annual report on training facilitated	March 2016	Training on Marketing was agreed upon with HDSA clients and eleven clients were trained on marketing and contributed to the cost of the training.	

Performance Against Strategic Objectives

MTSF Outcomes	DMR Strategic Outcomes	SDT Strategic Outcomes	STRATEGIC OBJECTIVE	KEY ACTIVITIES	PERFORMANCE MEASURES	TARGET 2015 - 2016	PERFORMANCE 2015 - 2016	VARIANCE 2015 - 16
An efficient, effective and development-oriented public service	Efficient, effective and development-oriented department	3. Large Scale SA (HDSA) owned sustainable diamond cutting and polishing companies established	2. Increase sales of rough diamonds to HDSA beneficiaries	Identify changes to legislation	Board approved legislative amendment proposals	March 2016	The project on the research and drafting the desired amendment proposals was completed and was approved by the Board in April 2016.	
Decent employment through inclusive growth	Equitable and sustainable benefit from mineral resources			Implement Sales Strategy	Deliver improved revenue and actual gross margin	Achieved budgeted targets	While a GM of R13 million was achieved, the intended target of an improved GM was not achieved.	The global diamond market was unfavourable and as such the GM margin achieved was below the target.
Decent employment through inclusive growth	Transformed minerals sector				Amount of overall sales to HDSA beneficiaries	R50 million	By the end of the year, R46 million worth of diamonds had been sold to HDSA clients. This was below the target.	Difficult trading conditions as a result of poor performance in the global diamond markets ensured a missed target.
					No of HDSA clients sold to	20	23 HDSA clients actively purchased throughout the financial year.	Our objective is to sell to as many HDSAs as possible. At some point during the financial year, some producers decreased the price of rough due to the market conditions. This had a positive impact in this respect as more HDSA clients were able to afford to buy rough diamonds from the SDT.
Decent employment through inclusive growth	Transformed minerals sector				Increase total purchases to 5% of SA production	R710 million production purchased by March 2016	The targeted amount was not realised as only R450 million was achieved.	This higher target was set before the downward movement of the diamond market which continued on that trajectory for the whole of 2015. While a request for a downward revision of the targets was made upon a realisation of this, the approval process took much longer.

Performance Against Strategic Objectives

MTSF Outcomes	DMR Strategic Outcomes	SDT Strategic Outcomes	STRATEGIC OBJECTIVE	KEY ACTIVITIES	PERFORMANCE MEASURES	TARGET 2015 - 2016	PERFORMANCE 2015 - 2016	VARIANCE 2015 – 16
An efficient, effective and development-oriented public service	Efficient, effective and development-oriented department	4. Be an efficient, innovative and development oriented organisation (continuous learning environment)	3. Contribute towards youth skills development	Recruit youth with disabilities into 2-3 year diamond valuator trainee programmes	4 youth with disabilities recruited and trained	4 persons in training by March 2016	A resolution to postpone the appointment by a few months had to be made during the financial year.	The Board resolved to postpone implementation of this target to July 2016 due to the downturn in diamond markets experienced throughout 2015.
				Acquire accreditation for learnership programmes	Accreditation acquired	By March 2016	The State Diamond Trader was accredited and the implementation will begin as planned in the new financial year.	

Statement of Responsibility for Financial Statements



Statement of Responsibility for Financial Statements

Statement of responsibility by the directors, who constitute the Accounting Authority for the State Diamond Trader for the year ended 31 March 2016.

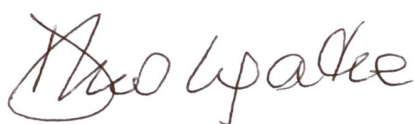
The responsibility of the Accounting Authority of the State Diamond Trader ranges from the maintenance of appropriate records to the preparation and integrity of the quarterly reports and financial statements. Through its committees and its regular meetings, the Accounting Authority is able to engage with the management on all areas of responsibility and make recommendations and decisions.

The Financial Statements presented herein represent the state of affairs of the State Diamond Trader, its financial results, its performance against predetermined objectives and its financial position at the end of the financial year. The financial statements have been prepared in terms of the South African Statements of Generally Accepted Accounting Practice, the Public Finance Management Act and the Treasury Regulations. The financial statements are thus based on appropriate accounting policies supported by reasonable and prudent judgments and estimates.

The Accounting Authority establishes policies and sets of standards that are designed to provide reasonable assurance against material misstatements and losses and this enables the Accounting Authority to execute its responsibilities as required. The State Diamond Trader maintains internal financial controls thereby to provide assurance regarding the management and maintenance of its assets and the integrity of its financial records. The internal policies are underpinned by its policy framework and the strategic objectives, which provide a strategic direction to management on the expected performance and the outcomes. These are regularly reviewed to ensure compliance and relevance.

It is the opinion of the Accounting Authority that based on the information available to date, the financial statements herein presented fairly present the financial position of the State Diamond Trader at 31 March 2016 and the results of its operations and cash flow information for the financial year end.

The financial statements which appear hereunder were approved by the Accounting Authority on 28 July 2016 and are signed on its behalf by:



Chairman of the Accounting Authority



Chairman of the Audit and Risk Committee

Report of the Auditor General to Parliament



Report of the Auditor-General to Parliament

Report on the financial statements

Introduction

1. I have audited the financial statements of the State Diamond Trader set out on pages 44 to 68, which comprise the statement of financial position as at 31 March 2016, the statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting authority's responsibility for the financial statements

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Statements of Generally Accepted Accounting Practice (SA Statement of GAAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA), and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the 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 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 financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the State Diamond Trader as at 31 March 2016 and its financial performance and cash flows for the year then ended, in accordance with the SA Statement of GAAP and the requirements of the PFMA.

Report of the Auditor-General to Parliament

Report on other legal and regulatory requirements

7. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

8. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected objectives presented in the annual performance report of the public entity for the year ended 31 March 2016:
- Objective 1: Contribute to the growth of the local diamond beneficiation industry, on pages 38 to 41
 - Objective 2: Increase sales of rough diamonds to HDSA beneficiaries, on pages 41 to 42
 - Objective 3: Contribute towards youth skills development, on page 42,
9. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).
10. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
11. I did not raise any material findings on the usefulness and reliability of the reported performance information for the following objectives:
- Objective 1: Contribute to the growth of the local diamond beneficiation industry
 - Objective 2: Increase sales of rough diamonds to HDSA beneficiaries
 - Objective 3: Contribute towards youth skills development

Additional matter

12. Although I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected objectives, I draw attention to the following matter:

Report of the Auditor-General to Parliament

Achievement of planned targets

13. Refer to the annual performance report on pages 38 to 42 for information on the achievement of the planned targets for the year.

Compliance with legislation

14. I performed procedures to obtain evidence that the entity had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Procurement and contract management

15. Quotations were awarded to bidders based on points given for criteria that was not stipulated in the original invitation for quotations, in contravention of the Preferential Procurement Regulations.

Internal control

17. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matter reported below is limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

Financial and performance management

18. Inadequate review and monitoring of compliance with laws and regulations.

Auditor-General

Pretoria

31 July 2016



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Accounting Authority's Report



Accounting Authority's Report

This is the eighth report by the Accounting Authority since its inception of the State Diamond Trader (SDT) and presents a summary of the activities for the financial year 2015/2016.

The report provides context to the financial performance of the State Diamond Trader's operations as detailed in the financial statements.

The State Diamond Trader was established in July 2007 in terms of section 14 of the Diamonds Amendment Act 29 of 2005. The objectives of the State Diamond Trader are to promote equitable access to and local beneficiation of diamond resources of South Africa. Whilst, the State Diamond Trader had set itself the objective of operating its business in a profitable and self-sustaining manner, the effects of market volatility and economic conditions continue to present challenges as these conditions directly affect performance.

Financial performance

Financial position

Revenue for the year of R460 417 568 reflects an increase of 17 % from the previous year (2015: R394 321 101). The increase was due to some improvement in the diamond markets experienced mainly during the last quarter of the year.

An average gross margin percentage of 3% was achieved.

Capital expenditure for the year amounted to R0 (2015: 47 409) as there were no assets acquired.

Administrative expenses increased from R19 130 104 the previous year to R20 000 354 in the current year. The increase is 4.54% which is immaterial and can be attributed to management efficiency in containing costs.

Inventory at the end of the financial year amounted to R24 095 119 (2015: R20 786 232). This is a direct confirmation of the depression in the demand for diamonds caused by poor performance in local and global diamond markets since mid 2014 and other economic conditions as already alluded in this report.

The net assets as at 31 March 2016 amounted to R46 113 487 (2015: R49 180 542). The fall in reserves is a net result of the unfavourable market conditions and fall in demand for the rough diamonds as is stated in the report.

Cash Flow Position

Cash resources at the end of the financial year amounted to R22 443 828 (2015: R23 778 597).

Going concern

The annual financial statements were prepared on the basis of going concern principle and the Accounting authority believes that the State Diamond Trader continues to be a going concern.

Subsequent Events

There were no subsequent events identified for reporting purposes.

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2016

	Notes	2016 R'0	2015 R'0
ASSETS			
<i>Non-current assets</i>		1 071 133	1 370 012
Property and equipment	6	1 071 133	1 370 012
<i>Current assets</i>		47 079 824	49 751 052
Inventory	7	24 095 119	20 786 232
Trade and other receivables	8	540 877	5 186 223
Cash and cash equivalents	9	22 443 828	23 778 597
TOTAL ASSETS		48 150 957	51 122 064
EQUITY AND LIABILITIES			
<i>Equity</i>		46 113 487	49 180 542
Retained income		46 113 487	49 180 542
<i>Non-current liabilities</i>		-	-
Operating Lease Rental Liability		-	-
<i>Current liabilities</i>		2 037 470	1 941 522
Loans and borrowings	10	-	-
Trade and other payables	11	1 503 722	1 859 029
Operating lease liability		28 827	82 493
Incentive bonus provision	12	504 921	-
TOTAL EQUITY AND LIABILITIES		48 150 957	51 122 064

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2016

	Notes	2016 R'O	2015 R'O
Revenue		460 417 568	394 321 101
Cost of sales	13	(447 472 306)	(381 150 996)
Gross profit		12 945 262	13 170 106
Other income	14	3 790 557	4 321 227
Administrative expenses		(20 000 354)	(19 130 104)
Profit/(Loss) from operating activities	15	(3 264 535)	(1 638 771)
Finance income	16	1 418 778	2 051 601
Finance expenses	17	(1 221 298)	(1 587 462)
Profit before income tax		(3 067 055)	(1 174 633)
Profit/(Loss) for the period		(3 067 055)	(1 174 633)
Total comprehensive income		(3 067 055)	(1 174 633)

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2016

	Retained Income/(Loss)
	R'O
Balance at 01 April 2014	50 355 176
Profit for the year	(1 174 634)
Balance at 31 March 2015	49 180 542
Profit/(Loss) for the year	(3 067 055)
Balance at 31 March 2016	46 113 487

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2016

	Notes	2016 R'O	2015 R'O
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated by operations	18	(1 532 246)	(23 111 782)
Interest paid		(1 221 298)	(1 587 462)
Interest received		1 418 778	2 014 609
Other Income from DBCM		-	44 976
Net cash inflow from operations		(1 334 766)	(22 639 659)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment		-	(47 409)
Net cash outflow from investing activities		-	(47 409)
CASH FLOWS FROM FINANCING ACTIVITIES			
Amount drawn during the reporting period		89 049 506	167 701 870
Amount paid during the reporting period		(89 049 506)	(167 701 870)
Net cash outflow from financing activities		-	-
Net increase in cash and cash equivalents		(1 334 766)	(22 687 068)
Cash and cash equivalents at the beginning of the period		23 778 594	46,465,662
Cash and cash equivalents at the end of the period		22 443 828	23 778 594

NOTES TO THE FINANCIAL STATEMENTS

Notes to the financial statements for the year ended 31 March 2016

1. Reporting entity

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

2. Basis of preparation

a) Statement of compliance

The financial statements have been prepared in accordance with, and comply with, South African Statements of Generally Accepted Accounting Practice (SA GAAP) and the Public Finance Management Act, 1999 (Act No 1 of 1999).

b) Basis of measurement

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

c) Functional and presentation currency

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

d) Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3(k) (Critical accounting estimates and judgments).

NOTES TO THE FINANCIAL STATEMENTS

e) Changes in accounting policies

The State Diamond Trader applies revised IAS 1 Presentation of Financial Statements (2007), which became effective as of 1 January 2009. As a result, the State Diamond Trader presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on amounts disclosed previously.

3. Significant accounting policies

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

a) Revenue

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

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

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

b) Finance Income and Expense

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

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

NOTES TO THE FINANCIAL STATEMENTS

c) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the cost of acquiring the inventory and other costs incurred in bringing them to the existing location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

d) Property and equipment

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

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

All property and equipment is stated at historical cost less accumulated depreciation and, if applicable, accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items and bringing the item to working condition for its intended use.

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

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

Asset category	Depreciation rate
Furniture and fittings	10%
*Computer hardware	20%
Security equipment	10%
Diamond equipment	10%
Leasehold improvements	Over the remaining period of the lease

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

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

NOTES TO THE FINANCIAL STATEMENTS

e) Financial instruments

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

(1) Classification

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

(2) Recognition

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

(3) Measurement

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

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

- *Cash and cash equivalents*
Cash comprises cash balances with banks. Cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. These are initially and subsequently measured at amortised cost.
- *Trade and other receivables (Accounts receivable)*
Trade receivables are initially stated at fair value and subsequently at amortised cost using the effective interest rate method. The recoverable amount of trade receivables is calculated at the present value of expected future cash flows discounted using the original effective interest rate inherent in the asset. Short-term receivables are not discounted.
- *Trade and other payables (Accounts payable)*
Trade payables are initially measured at fair value and are subsequently measured at amortised costs using the effective interest rate method. These are subject to normal trade credit terms and relatively short payment cycles. Trade and other payables are classified as other financial liabilities.

NOTES TO THE FINANCIAL STATEMENTS

(4) De-recognition

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

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

f) Operating leases

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

g) Provisions, contingent liabilities and contingent assets

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

h) Employee benefits

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

i) Income tax

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

j) Related parties

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

Related parties also include key management personnel, which are persons having authority and responsibility for planning, directing and controlling the activities of the State Diamond Trader, directly or indirectly, including any members of the accounting authority (whether executive or otherwise) of the State Diamond Trader.

NOTES TO THE FINANCIAL STATEMENTS

k) Accounting estimates and judgements

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

(1) Estimates of residual values and useful lives of equipment

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

(2) Contingent liabilities

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

l) Donations

Donations consist primarily of use of the De Beers staff seconded to the State Diamond Trader since 2007. Donations are intended to compensate expenses and to provide immediate financial support to the State Diamond Trader with no future related costs and are recognised as income in the period in which they are received and expensed, as they are used by the State Diamond Trader.

m) Irregular, fruitless and wasteful expenditure

Irregular expenditure means expenditure incurred in contravention of, or not in accordance with, a requirement of any applicable legislation, including the PFMA.

Fruitless and wasteful expenditure means expenditure that was made in vain and could have been avoided had reasonable care been exercised.

All irregular, fruitless and wasteful expenditure is charged against income in the period in which it is incurred.

NOTES TO THE FINANCIAL STATEMENTS

4. Financial Risk Management

Overview

The State Diamond Trader has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

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

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

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

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

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

Credit risk

Credit risk is the risk of financial loss to the State Diamond Trader if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the State Diamond Trader's receivables from customers.

Exposure to Credit Risk

The State Diamond Trader is not exposed to credit risk from its customers, as its policy is not to grant credit. Goods will not be released to the customer until payment has been received and cleared.

NOTES TO THE FINANCIAL STATEMENTS

Liquidity risk

Liquidity risk is the risk that the State Diamond Trader will not be able to meet its financial obligations as they fall due. The State Diamond Trader's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the State Diamond Trader's reputation.

The State Diamond Trader manages liquidity risk by following a cycle approach to the purchase and sale of diamonds. Only once all diamonds from the previous cycle have been sold and the revolving credit facility has been settled in full will the next order to purchase diamonds be placed. In this manner the State Diamond Trader is able to manage its cash flow requirements.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the State Diamond Trader's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising return on the risk.

Currency risk

The State Diamond Trader is exposed to currency risk on sales and purchases, which are denominated in US Dollars (USD). The State Diamond Trader manages currency risk by settling the foreign currency denominated purchases on or about the date of purchase and receiving payments for foreign currency denominated sales on or about the date of sale, thereby minimising foreign currency exposure.

Cash Flow interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in interest rates. The State Diamond Trader's interest rate risk arises from revolving credit facility. The facility is issued at prime less 0.5% and on that basis changes in prime exposes the company to cash flow interest rate risk. The revolving credit facility was paid in full at year end.

NOTES TO THE FINANCIAL STATEMENTS

Fair values versus carrying amounts

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

In R'O	31 March 2016		31 March 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans and Borrowings	-	-	-	-
Cash and cash equivalents	22 443 828	22 443 828	23 778 597	23 778 597
Trade and other payables	820 165	820 165	564 025	564 025

Capital management

The State Diamond Trader is Government Business Enterprise and does not have any share capital. The State Diamond Trader is not funded by government and it is self-sufficient. The accounting authority monitors gross profit margins and operating expenditure to ensure that the State Diamond Trader generates sufficient profit from its operations to cover operating expenses.

5. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations issued are not yet effective for the year ended 31 March 2016, and have not been applied in preparing these financial statements:

Standard/Interpretation		Effective date
IFRS 5, Non-current assets Held for Sale and Discontinued Operations	Annual Improvements 2012-2014 Cycle: Amendments clarifying that a change in the manner of disposal of a non-current asset or disposal group held for sale is considered to be a continuation of the original plan of disposal, and accordingly, the date of classification as held for sale does not change.	Annual periods beginning on or after 1 January 2016
IFRS 7 Financial Instruments: Disclosures	Annual Improvements 2012-2014 Cycle: Amendment clarifying under what circumstances an entity will have continuing involvement in a transferred financial asset as a result of servicing contracts.	1 January 2016
	Annual Improvements 2012-2014 Cycle: Amendment clarifying the applicability of previous amendments to IFRS 7 issued in December 2011 with regard to offsetting financial assets and financial liabilities in relation to interim financial statements prepared under IAS 34.	1 January 2016

NOTES TO THE FINANCIAL STATEMENTS

Standard/Interpretation		Effective date
IFRS 9 Financial Instruments	<p>A final version of IFRS 9 has been issued which replaces IAS 39 Financial Instruments: Recognition and Measurement. The completed standard comprises guidance on Classification and Measurement, Impairment Hedge Accounting and Derecognition:</p> <p>A final version of IFRS 9 has been issued which replaces IAS 39 Financial Instruments: Recognition and Measurement. The completed standard comprises guidance on Classification and Measurement, Impairment Hedge Accounting and Derecognition:</p> <p>IFRS 9 introduces a new approach to the classification of financial assets, which is driven by the business model in which the asset is held and their cash flow characteristics. A new business model was introduced which does allow certain financial assets to be categorised as “fair value through other comprehensive income” in certain circumstances. The requirements for financial liabilities are mostly carried forward unchanged from IAS 39. However, some changes were made to the fair value option for financial liabilities to address the issue of own credit risk.</p> <ul style="list-style-type: none"> • The new model introduces a single impairment model being applied to all financial instruments, as well as an “expected credit loss” model for the measurement of financial assets. • IFRS 9 contains a new model for hedge accounting that aligns the accounting treatment with the risk management activities of an entity, in addition enhanced disclosures will provide better information about risk management and the effect of hedge accounting on the financial statements. • IFRS 9 carries forward the derecognition requirements of financial assets and liabilities from IAS 39. 	<p>1 January 2018</p> <p>*IFRS 9 (2014) supersedes any previous versions of IFRS 9, but earlier versions of IFRS 9 remain available for application if the relevant date of application is</p>

NOTES TO THE FINANCIAL STATEMENTS

Standard/Interpretation		Effective date
IAS 1, Presentation of Financial Statements	Disclosure Initiative: Amendments designed to encourage entities to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that entities should use professional judgement in determining where and in what order information is presented in the financial disclosures.	January 2016
IAS 16 Property, Plant and Equipment	Amendment to both IAS 16 and IAS 38 establishing the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. Clarifying that revenue is generally presumed to be an inappropriate basis for measuring the consumption of economic benefits in such assets.	January 2016
	Amendment to IAS 16 and IAS 41 which defines bearer plants and includes bearer plants in the scope of IAS 16 Property, plant and Equipment, rather than IAS 41, allowing such assets to be accounted for after initial recognition in accordance with IAS 16.	January 2016

NOTES TO THE FINANCIAL STATEMENTS

Standard/Interpretation		Effective date
IFRS 16 Leases	<p>New standard that introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows applying IAS 7 Statement of Cash Flows.</p> <ul style="list-style-type: none"> • IFRS 16 contains expanded disclosure requirements for lessees. Lessees will need to apply judgement in deciding upon the information to disclose to meet the objective of providing a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee. • IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. • IFRS 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk. • IFRS 16 supersedes the following Standards and Interpretations: <ul style="list-style-type: none"> (a) IAS 17 Leases; (b) IFRIC 4 Determining whether an Arrangement contains a Lease; (c) SIC-15 Operating Leases—Incentives; and (d) SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. 	January 2019

NOTES TO THE FINANCIAL STATEMENTS

6. Property and equipment

Year ended 31 March 2016

	Leasehold Improvements	Furniture and fittings	Security Equipment	Computers	Diamond Equipment	Total
	R'O	R'O	R'O	R'O	R'O	R'O
Opening net carrying amount	71 289	378 619	471 952	96 610	352 484	1 371 012
Gross carrying amount	460 933	651 505	953 425	1 171 791	456 463	3 694 117
Accumulated depreciation	(389 644)	(272 886)	(481 473)	(1 075 181)	(103 979)	(2 323 106)
Additions	-	-	-	-	-	-
Depreciation	(22 153)	(65 131)	(95 567)	(68 707)	(48 323)	(299 880)
Closing net carrying amount	49 137	313 488	376 385	27 904	304 161	1 071 133
Gross carrying amount	460 933	651 505	953 425	1 171 791	456 463	3 694 117
Accumulated depreciation	(411 796)	(338 017)	(577 040)	(1 143 888)	(152 302)	(2 623 043)

Year ended 31 March 2015

	Leasehold Improvements	Furniture and fittings	Security Equipment	Computers	Diamond Equipment	Total
	R'O	R'O	R'O	R'O	R'O	R'O
Opening net carrying amount	93 441	443 750	567 281	110 143	395 716	1 610 331
Gross carrying amount	460 933	651 505	953 425	1 124 389	456 463	3 646 715
Accumulated depreciation	(367 492)	(207 755)	(386 144)	(1 014 246)	(60 747)	(2 036 384)
Additions	-	-	-	47 409	-	47 409
Depreciation	(22 153)	(65 131)	(95 329)	(60 935)	(43 232)	(286 780)
Closing net carrying amount	71 289	378 619	471 952	96 610	352 484	1 371 012
Gross carrying amount	460 933	651 505	953 425	1 171 791	456 463	3 694 117
Accumulated depreciation	(389 644)	(272 886)	(481 473)	(1 075 181)	(103 979)	(2 323 106)

NOTES TO THE FINANCIAL STATEMENTS

	2016	2015
	R'O	R'O
7. Inventory	24 095 119	20 786 232
Cost of inventory	24 095 119	20 786 232

Inventory is stated at the lower of cost and net realisable value. Inventory relates to rough diamonds on hand at year end.

8. Trade and other receivables

	540 877	5 186 223
Prepayments	107 789	5 037 229
Other Receivable	224 059	57 217
SARS Receivable: VAT Receivable	163 877	91 777
Accrued interest	45 152	-

- Credit risk and impairment losses

The State Diamond Trader's exposure to credit risk and impairment losses is disclosed in Note 4.

9. Cash and cash equivalents

	22 443 828	23 778 597
FNB Operational Accounts	4 490 791	4 899 217
Petty cash	3 000	3 000
FNB Call Accounts	15 933 822	16 970 111
Standard Bank Call Account	2 016 215	1 906 270

- Interest rate risk

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

NOTES TO THE FINANCIAL STATEMENTS

10. Loans and borrowings

This note provides information about the contractual terms of the Revolving Credit Facility held at Industrial Development Corporation. The facility available to the State diamond Trader is R100 million. The interest payable on use of this facility is prime less 0.5% and other finance charges are also payable, details on the finance total costs are provided in note 16. The analysis on use of the facility during the year is as follows:

Analysis of Revolving Credit Facility:

Amount drawn	89 049 506	167 701 870
Amount paid	(89 049 506)	(167 701 870)
Balance on Revolving Credit Facility	-	-

11. Trade and other payables

	1 503 722	1 859 029
Accrued expenses	155 947	820 366
Creditors	820 165	564 025
Leave accrual	312 035	160 601
Vat payable	215 575	314 038

- Liquidity risk

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

12. Incentive bonus provision

504,921 -

State Diamond Trader provided for incentive bonus in 2015/16 for the first time. The provision has been calculated by taking the actual performance bonus paid in 2014/15 and adjusted it by 10%.

NOTES TO THE FINANCIAL STATEMENTS

13. Revenue

Revenue consists of sales of rough diamonds to local beneficiaries.

460 417 568 **394 321 101**

Cost of sales

(447 472 306) **(381 150 996)**

Opening inventory

20 786 232 4 978 366

Purchases

450 509 541 396 728 675

Security and Transport costs

271 652 230 186

Less: Closing inventory

24 095 119 20 786 232

14. Other income

Other Income primarily is in respect of Donations to the State Diamond Trader in respect of staff donated by DBCM and associated costs

Other income

3 790 557 **4 321 227**

Donations DBCM

2 567 004 4 276 252

Other Income from DBCM

- 15 419

Sponsorships and other income

1 162 153 -

Other Income

61 400 19 794

Income Tax Refund

9 762

15. Profit/(loss) from operating activities is stated after accounting for the following:

Audit Fees

759 027 839 862

Remuneration for services rendered:

Board fees

596 434 485 796

Compensation of employees

9 776 035 7 252 845

Depreciation

299 880 286 727

Operating lease charges

480 132 476 893

Salaries – Donations

2 567 004 4 276 252

Use of De Beers Assets and Diamond Equipment

- 839 862

16. Finance income

Interest received

1 418 778 **2 051 601**

NOTES TO THE FINANCIAL STATEMENTS

17. Finance expenses

Finance fees on IDC facility	135 181	534,591
Interest charged by: IDC	1 086 117	1 052 871
	(1 221 298)	(1 587 462)

18. Cash generated from operations

Net income / (loss) before taxation	(3 067 055)	(1 174 686)
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Adjusted for:

- depreciation	299 880	286 727
- interest expense	1 221 298	1 587 462
- interest received	(1 418 778)	(2 014 609)
- other income	-	(44 976)
- Donations received –DBCM	(2 567 004)	(4 276 252)
	2 567 004	4 276 252

Adjusted net profit before taxation

(2 964 655) (1 360 028)

Changes in working capital:

- decrease/(increase) in trade and other receivables	4 645 346	(3 581 749)
- decrease/(increase) in inventory	(3 308 887)	(15 807 866)
- (decrease)/ increase in trade and other payables	95 948	(2 362 140)

1 432 407 (21 751 754)

Cash generated from operations

(1 532 246) 21 010 521

19. Commitments

Operating Leases – as lessee (expense)

Minimum lease payments due

- within one year	572 789	528 100
- in second to fifth year inclusive	859 313	270 613
	1 432 102	798 713

NOTES TO THE FINANCIAL STATEMENTS

Operating lease payments represent rental payable by the SDT for its equipment and office premises. The lease for the office premises was negotiated for a term of five years with escalation of 8% per annum starting from 1 September 2011. No contingent rent is payable on both leases.

The office rental lease has been extended for a period of two years starting from 01 September 2016 for 31 August 2018.

20. Related Parties

The State Diamond Trader is wholly owned by the National Government of the Republic of South Africa represented by the Minister of Mineral Resources. The State Diamond Trader is a Schedule 3B public State Diamond Trader in terms of the Public Finance Management Act, 1999 (Act No 1 of 1999, as amended). It therefore has a significant number of related parties including other state owned entities, government departments and all other entities within the national sphere of Government.

The State Diamond Trader, in the ordinary course of business, enters into various agreements with other parties within the national sphere of Government. The significant transactions (in the normal course of business) and balances outstanding at 31 March 2016 entered into between the State Diamond Trader and entities outside the State Diamond Trader are as follows:

The State Diamond Trader has a Revolving Facility of R100 million with the Industrial Development Corporation (IDC) a State Owned State Diamond Trader for use as working capital from time to time and the outstanding balance on the facility at year end was nil.

Executive management	4 178 851	3 814 343
Non-Executive members :		
Ms D.D. Mokgatle (Chairperson)	148 407	103 713
Mr S.M. Motlounq	120 829	109 344
Ms N.F. Mpuntsha	70 127	60,416
Mr T.S. Montoedi	107 283	84 479
Mr M.A. Luhlabo	126 972	93 766
Ms Z.P. Manase	22 816	34 077
Total	596 434	485 795

NOTES TO THE FINANCIAL STATEMENTS

The following Non-Executive members of the Accounting Authority are either public servants as defined in the Public Service Act, or are executives of State Owned Entities and therefore do not get paid by the State Diamond Trader:

Mr G.L. Rapoo

Ms S. Mohale

Mr I. Goondiwalla

Ms S.T. Nxumalo

Major General N.H. Mokoena

The following are executive management of the State Diamond Trader.

Ms P.N. Zikalala Mvelase

Ms N. Thamaga (resigned 31/12/2015)

Ms N. Danisa (effective 01/02/ 2016)

Ms N. Sibeko

21. Subsequent Events

There were no subsequent events identified for reporting purposes.

22. Segment reporting

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

23. Contingent Liabilities

The State Diamond Trader is not aware of any contingent liabilities that existed as at 31 March 2016.

24. Contingent Asset

The State Diamond Trader is not aware of any contingent asset that existed as at 31 March 2016.

25. Irregular Expenditure

25.1 Reconciliation of Irregular expenditure	2016	2015
	R	R
Opening balance	-	-
Add: Irregular expenditure relating to current year	75 137	-
Less: Prior year amounts condoned	-	-
Less: Current year amounts condoned	-	-
Less: Amounts recoverable (not condoned)	-	-
Less: Amounts not recoverable (not condoned)	-	-
Irregular expenditure awaiting condonation	75 137	-

Analysis of awaiting condonation per age classification

Current year	75 137	-
Prior years	-	-
Total	75 137	-

25.2 Details of irregular expenditure – current year

Incident	Disciplinary steps taken/criminal proceedings	2016 R
Request for quotation did not specify that functionality will be used as the evaluation criterion	No sanctions taken	75 137
Total		75 137

NOTES TO THE FINANCIAL STATEMENTS

25.3 Details of irregular expenditure condoned

Incident	Condoned by (condoning authority)	2016 R
Request for quotation did not specify that functionality will be used as the evaluation criterion	No	75 137
Total		75 137

ENTITY INFORMATION

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Website:	www.statediamondtrader.gov.za
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Shareholder:	Government of the Republic of South Africa Represented by Minister of Mineral Resources
Country of incorporation:	Republic of South Africa
Directors:	
	Mrs. D.D. Mokgatle Chairman
	Ms P.N. Zikalala Mvelase Chief Executive Officer
	Mr. I. Goondiwalla Member
	Mr. T. S. Montoedi Member
	Mr. S.M. Motloung Member
	Mr. G.L. Rapoo Member
	Ms. S. Mohale Member
	Ms. N.F. Mpuntsha Member
	Ms. S. Nxumalo Member
	Mr. M.A. Luhlabo Member
	Ms. N. Mokoena Member
	Ms. Z.P. Manase Member

Company Secretary: Ms Nobuhle Sibeko

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