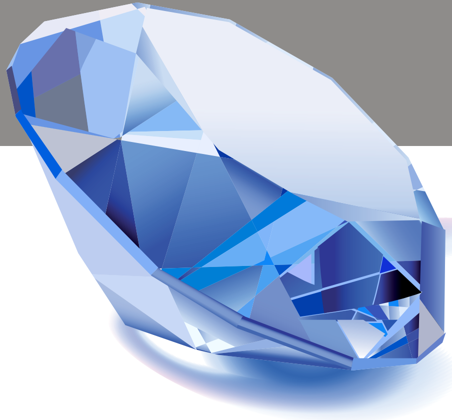

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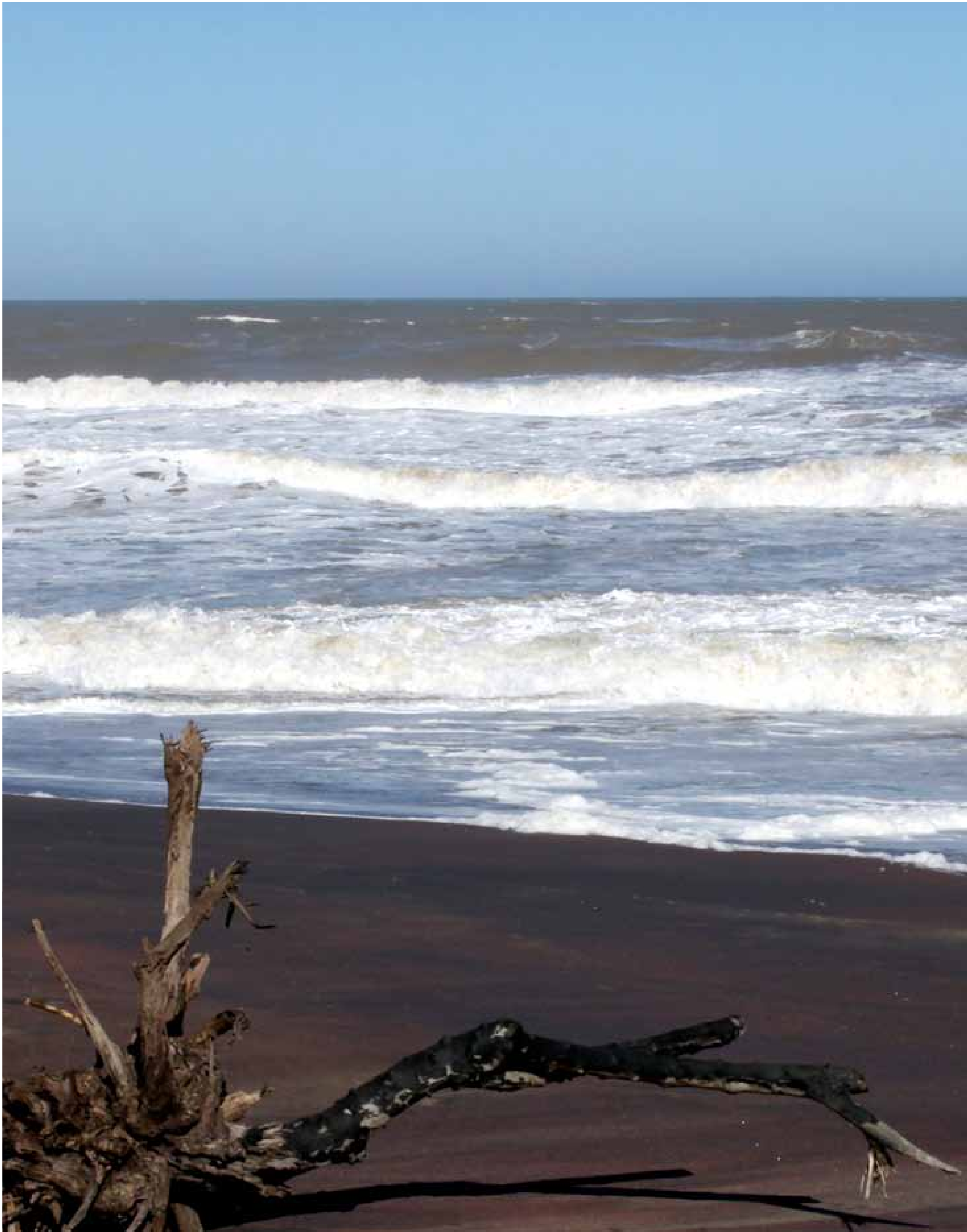


CONTENTS

11

Review of the Financial Performance

15

Mining Operations

28

Report on Predetermined Objectives

02 Who we are
04 Board of Directors
05 Executive Management
06 Message from the Non-Executive Chairman
09 Chief Executive Officer's Report
11 Review of the Financial Performance
15 Mining Operations
19 Human Resources and Social Development
23 Corporate Governance Report
28 Report on Predetermined Objectives
34 Materiality Framework
42 Annual Financial Statements
43 Statement of directors' responsibility
43 Statement by the company secretary
44 Statement from the Audit and Risk Committee
46 Independent auditor's report to Parliament
49 Directors' report
56 Statement of financial position
57 Statement of comprehensive income
58 Statement of changes in equity
59 Statement of cash flows
60 Accounting policies
72 Notes to the financial statements
98 Applicable acts
98 Corporate information

WHO WE ARE

OVERVIEW

Alexkor is a schedule 2 public entity, incorporated in 1992 in terms of the Alexkor Act, and trading as Alexkor Limited. The government of South Africa, through the Minister of Public Enterprises, is the sole shareholder in the company.

The company's operations and strategic outlook significantly changed when the Richterveld community successfully instituted a land claim against Alexkor and its shareholder, the South African government. On 14 October 2003 the Constitutional Court held that the community was entitled to restitution. The parties agreed on the nature and extent of the intended restitution and signed a formal and binding Deed of Settlement (DoS) on 22 April 2007, which was made an order of court later that year.

The outcome of this land claim settlement impacted the company's mining and non-mining operations, as the settlement agreement stipulated, inter alia, the following:

- All land and buildings subject to the land claim will be transferred to the Richtersveld Communal Property Association (CPA);
- Certain erven and erected buildings within the to-be-established township of Alexander Bay will be transferred to various social institutions and government authorities to normalise the social and governmental structures; and
- The land mining rights will be transferred to the Richtersveld Mining Company (RMC), whilst the company will retain its marine mining rights.

Up to then the remote location of the mine, coupled to its importance to the local and surrounding communities, had obliged Alexkor to take responsibility for certain commercial and community services. It performed these activities as Alexander Bay Trading, a division of the company, which included municipal services for the Alexander Bay township, airport services, sustainable farming and the hospital.

In terms of the land claim settlement and the company's strategic direction, responsibility for these services would be transferred to different Richtersveld community (RVC) entities and local government institutions. Once the township has been established by June 2012, the services relating to the township management will be transferred to the Richtersveld Local Municipality. Farming operations have already been transferred to the RVC in 2008.

CONSTRAINTS AND CHALLENGES

As part of the land claim settlement process, Alexkor was interdicted from operating on the land in a commercial manner in lieu of preserving the resource and attendant benefits on behalf of the RVC. As far back as 2003 the uncertainties introduced by the Land Claim resulted in minimal investment in exploration which negatively affected Alexkor's operational capacity. Subsequent to this, land mining activities were placed on care and maintenance from 2007 and as a result Alexkor operated under difficult conditions, and experienced losses. From that period until now only small-scale land mining by three contractors could be undertaken, and was limited to the rework of existing or old mined areas and tailings. Despite these challenges and constraints Alexkor's Board and Management have worked tirelessly to contain costs and to maximise production within these constraints. This process has proved long and arduous but is now bearing fruit as indicated by our improved results in the last two financial periods.

As required by the DoS all mining activities should be performed in the Alexkor Richtersveld Mining Company joint venture (Alexkor RMC JV), a pooling and sharing joint venture (PSJV) to be established. Land mining rights were ceded to the community on 28 March 2011 and registered on 6 April 2011. The PSJV with the RMC was established the next day, on 7 April 2011, in compliance with the suspensive conditions of the DoS. All the land and marine mining operations at Alexander Bay will still be performed by mining contractors in the foreseeable future under the mandate of the PSJV.

As part of the land claim settlement an amount of R200 million was made available by the state for the recapitalisation of the joint venture. These funds will

WHO WE ARE CONTINUED

be utilised once a strategic plan has been completed by the PSJV Joint Board comprising of Alexkor and RVC representatives. This funding will be applied towards recapitalising the pooled land and marine mining activities.

With the significant progress made in implementing the DoS, the company will complete its exit from all non-mining activities by March 2012 and handover of the Alexander Bay Township as expected to be completed by June 2012. In terms of the new strategic direction Alexkor will transfer the responsibility of the land and marine mining activities at Alexander Bay to the PSJV as required by the Deed of Settlement. Thereafter and independently of the PSJV, Alexkor will explore new mining activities in other locations in South Africa and outside South African borders.

VISION

To transform Alexkor into a competitive and sustainable mining company that will contribute positively towards the needs of all stakeholders.

MISSION

To maximise profits from the sustainable exploitation of the resource, thereby ensuring satisfactory returns to our shareholder and to contribute towards the socioeconomic upliftment of the region. This will be achieved in accordance with all statutory and regulatory requirements.

CORE VALUES

Our core values are:

- Honesty
- Integrity
- Professionalism
- Accountability

BOARD OF DIRECTORS

Reginald Tafara Muzariri
Chairman / Non-Executive Director

Khetiwe McClain
CEO / Executive Director

Sibongiseni Simangele Ngoma
Non-Executive Director

Dr. Roger Leslie Paul
Non-Executive Director

Claude Llewellyn Towell
Non-Executive Director

Prof. Viola Makin
Non-Executive Director

EXECUTIVE MANAGEMENT

Khetiwe McClain
Chief Executive Officer

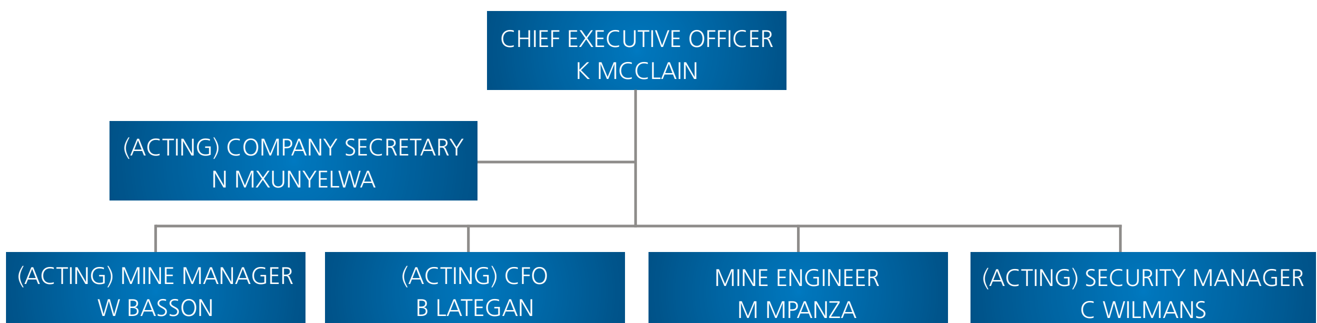
Berno Lategan
Acting Chief Financial Officer

Mike Mpanza
Mine Engineer

Wiaan Basson
Acting Mine Manager

Nozuko Mxunyelwa
Acting Company Secretary

Charl Wilmans
Acting Security Manager



MESSAGE FROM THE NON-EXECUTIVE CHAIRMAN

It gives me great pleasure to present the Chairman's Report for the financial year ended 31 March 2011. At the outset, on behalf of the entire Board, I wish to express my appreciation for our management and staff who on the whole continued to work tirelessly under grave uncertainties and difficult trading conditions. This year is a significant milestone In Alexkor's recent history in that we have achieved both an operating and bottom-line profit for the year as a result of focussed and prudent policies and management.

HISTORICAL CONTEXT

Since 1998, Alexkor has been engaged in a land claim process initiated by the Richtersveld Community for the land situated in Alexander Bay. The uncertainties surrounding this process led to minimal investment in exploration at Alexkor to the present day. This in turn led to reduced production capacity which has seen a steady decline in Alexkor's production from that time.

Amongst other actions, Alexkor's operations were placed on care and maintenance, pending resolution of the land claim process. Simultaneously changing and deteriorating environmental conditions dramatically reduced Alexkor's operational capability on the marine side of its business. All these factors created constraints that contributed to Alexkor's loss-making position at the time. Despite these challenges, this Board has since 2007, worked actively to curtail operating costs and to maximise production. These actions have now produced the positive results reported this year. Indeed this is a clear demonstration that focussed consistent management will yield positive results in the long-run.

In late 2006 and into 2007, the landmark settlement between the State, Alexkor and the Richtersveld Community, culminated in the so-called Deed of Settlement and Unanimous Resolution (UR) which have provided the framework for Alexkor's strategic framework up to 7 April 2011, when the Alexkor RMC JV was formally established.

This historical event has now propelled Alexkor into the position where it can once again look towards a future, in association with the RMC under the auspices of the Alexkor RMC JV, where the Alexkor RMC JV can again strive to reach optimal production in its land mining activities.

STRATEGIC OBJECTIVES

On the back of the deed of settlement with the Richtersveld Community, concluded in 2007 Alexkor, Alexkor embarked on a process of transferring various properties and assets to the Richtersveld Community structures as well as Northern Cape Provincial Government structures. A significant portion of these requirements had already been fulfilled during the 2009 and 2010 financial reporting periods for Alexkor.

In this 2011 financial reporting period, Alexkor was required to complete the outstanding obligations arising from the DoS and UR by fulfilling these remaining key objectives, namely to:

- Transfer remaining land and mineral rights to the Richtersveld Community;
- To establish Alexander Bay as a formal township and facilitate the transfer thereof to the relevant Richtersveld Community Municipal structures;
- To undertake environmental rehabilitation, and establish a pooling and sharing joint venture with the Richtersveld Mining Company for future mining activities.

A major milestone was achieved with Alexkor with the cession and registration of the land mining rights from Alexkor to the RMC on 6 April 2011. With the formal

MESSAGE FROM THE NON-EXECUTIVE CHAIRMAN CONTINUED

establishment of the Alexkor RMC JV on 7 April 2011, a new chapter has been opened for Alexkor and the Community. The much anticipated exploration activity that is expected to commence in the 2012 calendar year should contribute to higher carats and sustainable mining activity for the PSJV in the years ahead. This is expected to contribute to the financial sustainability of both Alexkor and the RMC in the foreseeable future.

The establishment of the PSJV does however pose some challenges for Alexkor and presents an opportunity for a new direction for Alexkor as discussed under 'Future Outlook' below. The Alexkor RMC JV will now direct the land and marine mining activities in the Alexander Bay area. Alexkor will independently explore new activities outside of Alexander Bay.

FINANCIAL PERFORMANCE

The global economy has remained weak despite at times desperate stimulatory measures by most governments in the developed world. Whilst the diamond industry has experienced modest recovery since the worst of the financial crisis in 2008, Alexkor has had to achieve results through increased focus on productivity improvements and cost savings.

As reported in the financial report and the CEO's Report, Alexkor has achieved its first operating profit in the past 5 years, a commendable achievement given the prevailing conditions in which it had to operate. This achievement is the more remarkable as Alexkor for the 2011 financial continued to be constrained in its operational scope by the requirements of the DoS.

Alexkor operates in a remote part of South Africa and is the sole economic contributor to a community of approximately 3 000 people in the Namaqualand area. The progress now made with the establishment of the Alexkor RMC JV should rejuvenate economic activity in Alexander Bay for at least the next 20 years to the benefit of the adjacent local communities. In addition, as Alexkor independently moves into new areas outside of Alexander Bay, it will be able to play a more active part in developing its surrounding communities in those areas in line with the government's new growth path.

GOING CONCERN

Alexkor has sufficient cash resources to meet its operating challenges up to March 2012. However from then on Alexkor will require substantial funding to

MESSAGE FROM THE NON-EXECUTIVE CHAIRMAN CONTINUED

pursue new expansion opportunities to ensure long-term sustainability.

REPORTING AND CORPORATE GOVERNANCE

Alexkor's overall reporting has improved dramatically since the last reporting period as reflected in the Auditor's report.

In addition, Alexkor has sought to adopt the recommendations of the King III Report on Corporate Governance. Much progress has been made in this regard and the Board will continue to review areas where improvement can be made in this regard.

FUTURE OUTLOOK

The Alexkor Board in the past year reviewed its strategic position and decided to pursue a new growth path through prospective acquisitions as well as potential joint ventures in new and brownfields diamond mining initiatives. This will be done independently of the PSJV.

These changes in strategic direction as well as the establishment of the PSJV have both required Alexkor to significantly restructure its management structures which should result in increased focus on the respective business units. Alexkor with the advent of the PSJV has become a "new business" and requires significant funding from the shareholder and commercial sources in order to viably pursue the opportunities for expansion being presented to it. Alexkor will explore these new business opportunities independently of the RMC and the Alexkor RMC JV. This will enable the Alexkor RMC JV to focus on returning Alexkor's former land and marine mining operations to sustainable profitability over the estimated life of mine of at least the next 20 years.

As part of its new mandate Alexkor will be able to explore opportunities outside the Alexander Bay area, and indeed will be able to explore opportunities in the rest of South Africa and beyond the borders of South Africa. The aim of the new strategic intent is to establish sustainable new mining activities under Alexkor that will enable Alexkor to extinguish its historical liabilities and more importantly to enable Alexkor to contribute significantly to South Africa's economic growth and job creation objectives. With the actions taken by the Board in the past few years, I am confident that Alexkor is strong to face the challenges and take advantage of the opportunities that lie ahead. Similarly I strongly believe that our prudent actions since 2007 have provided a platform that will allow the RVC to gain economic advantage from the PSJV operations in the years ahead.

The Board and Management welcome this challenge to establish Alexkor as a significant role player in the diamond mining industry in Southern Africa. The challenges ahead will require decisive leadership to establish Alexkor as a nimble and sustainable industry player. Our shareholder has been most supportive and responsive in this formative period and this augurs well for Alexkor's future success.

I wish to thank the Board for their continued support and critical thinking in guiding Alexkor on its new path.

A special word of thanks goes to former Minister of Public Enterprises Barbara Hogan for her support during her tenure and warm welcome to the Honourable Minister Malusi Gigaba and Honourable Deputy Minister Benedict Martins. I express deep gratitude to them and their team at the Department of Public Enterprises for their guidance and support.

R T Muzariri
Chairman

CHIEF EXECUTIVE OFFICER'S REPORT

MILESTONES ON THE ROAD TO PROFITABILITY

The year under review has been a very good one for Alexkor. We posted a net profit of R84.2 million, and an operating profit of R11.3 million - our first operating profit since 2006. Things look set to continue in this vein despite difficult conditions.

Production rose by 20% over the budgeted forecast and our impressive gains should also be seen in the context of curtailed land mining as a result of the anticipated pooling and sharing joint venture (PSJV) with the Richtersveld community.

This increased production, coupled with better diamond prices, helped us achieve gross revenue of R195.9 million from diamond sales, compared to R163.9 million for 2010. The average rand-dollar exchange rate for the 2011 financial year was R7.18, and Alexkor's own cash reserves increased by R12.0 million.

ACHIEVEMENTS FOR 2010/11

Phase One of the township upgrade project, consisting of a water network, sewerage network, storm water control network, solid waste disposal and road works, was 75% complete by the financial year end. The tender for Phase Two, the electrical reticulation upgrade project, was awarded in December 2010, with the contractor establishing the site in March 2011. The Phase Three tender for the mechanical and electrical pumping equipment was awarded in February 2011. Phase Four, the waste water treatment works, was at the environmental impact assessment (EIA) stage at financial year end, with some delays due to intersecting of bedrock.

Total project expenditure including all phases and consultation was recorded as R42.9 million for the financial year. The total project expenditure at project completion is now estimated at R102 million, which is a potential saving of R7.8 million as compared to the R109.8 million estimate of the previous year.

DEED OF SETTLEMENT WITH THE RICHTERSVELD COMMUNITY

The conditions precedent of the DoS signed between Alexkor, the state and the Richtersveld community in 2007 envisaged the establishment of a PSJV with the community, in which the land mining rights were to be ceded to the community, while Alexkor would continue to hold the marine mining rights.

The DoS required the conversion of old order land and marine mining rights. In the preparation of the applications for conversion, interested and affected parties were consulted. On 28 January 2010 the application for conversion of old order land mining rights was granted and subsequently executed on 19 May 2010. The conversion of the marine mining rights was also granted and executed on 2 July 2010. Land mining rights were ceded to the community on 28 March 2011 and registered on 6 April 2011. The PSJV with the RMC was established the next day, on 7 April 2011, in compliance with the suspensive conditions of the DoS.

STRATEGIC OBJECTIVES

Alexkor's board of directors was obliged to define the company's strategic objectives around the impact of the 9 October 2007 court order on its continuing business operations. Key in this regard was the premise that the strategies should return the mine's

CHIEF EXECUTIVE OFFICER'S REPORT CONTINUED

operations to profitability, whilst giving effect to the DoS between the Richtersveld community, the government and Alexkor.

In terms of our corporate plan the company would exit non-core business, maintain production capacity and convert old order mining rights. These would be transferred to the RMC with which Alexkor would form the joint venture, as explained above.

In anticipation of these initiatives Alexkor's board and management had earlier developed a funding proposal to recapitalise operations.

EXTENDED OPERATIONS

Alexkor decided after December 2009, and following consultations with the Richtersveld community, to invite suitable parties to express interest as contractors in mining the deep-sea, middle-sea, shallow-water, beach and the curtailed areas of land mining. This was done through a rigorous tender process, in which stringent criteria applied in relation to BEE credentials, local content and technical know-how. The beach and land contracts are in place, while the shallow-water, middle-sea and deep-sea contracts are being finalised.

NEW DIAMOND OPPORTUNITIES

The shareholder granted Alexkor a mandate to pursue other diamond mining and related opportunities outside the Alexander Bay area in order to expand its mining operations. These new business development opportunities are being investigated and decisions to proceed will be based on the viability and sustainability of any promising ventures. Management believes new business development and expansion are in the best interests of Alexkor's future sustainability.

Alexkor is also exploring downstream beneficiation of some of its diamonds with the aim of establishing a cutting and polishing facility in the Northern Cape at a later stage.

HEALTH AND SAFETY

Health and safety is a major issue in any mining operation. With this in mind Alexkor focused on implementing the reviewed health, safety and environmental (HSE) management plan, while continuing HSE-related training. Alexkor closed the year under review at 1 885 fatality-free production shifts (FFPS). We are now determined to achieve the next milestone of 2 000 FFPS.

LAND REHABILITATION

Alexkor is committed to its rehabilitation obligations, especially the rehabilitation done at the Boegoeberg site. Some 75 kilometres of netting was installed on the south-east side of Boegoeberg during the year under review, as compared to 54 kilometres in the previous year.

OUTLOOK

Alexkor's priority for the year ahead is to continue its support in the terms of the DoS, and to return operations to profitability through increased production levels and improved cost control measures. At the same time and in line with a new strategic direction, Alexkor will evaluate opportunities to procure new diamond assets as long-term revenue streams and to ensure its future growth.

ACKNOWLEDGEMENTS

I would like to acknowledge the continued sterling efforts of our workforce. To my executive management team and staff, I express appreciation for your hard work during the past year.

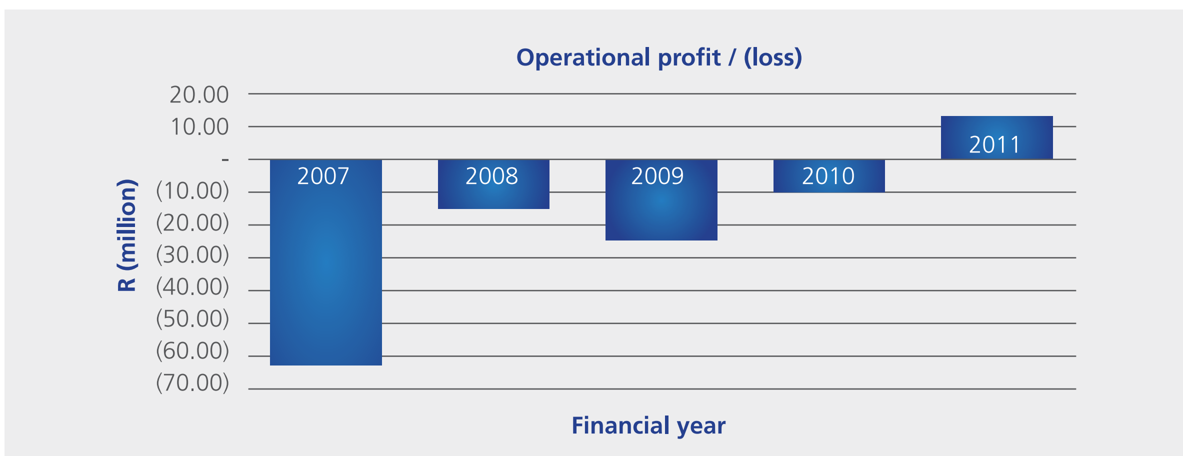
K McClain
Chief Executive Officer

REVIEW OF THE FINANCIAL PERFORMANCE

FINANCIAL OVERVIEW

The company posted an operating profit of R11.3 million (2009/10: R10.0 million loss) following some challenging operational years characterised by, among other issues, restrictions on mining activity and global economic turmoil that affected diamond prices and cost structures.

Alexkor's turnaround can be attributed mainly to sustained diamond prices after the recovery of the downturn in 2008, increased diamond production and its own strict cost-cutting measures. Importantly, the board instituted prudent financial management procedures that were implemented by the executive management over the past three years. The graph below shows Alexkor's operational profits/(losses) over the past five years:



REVENUE

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

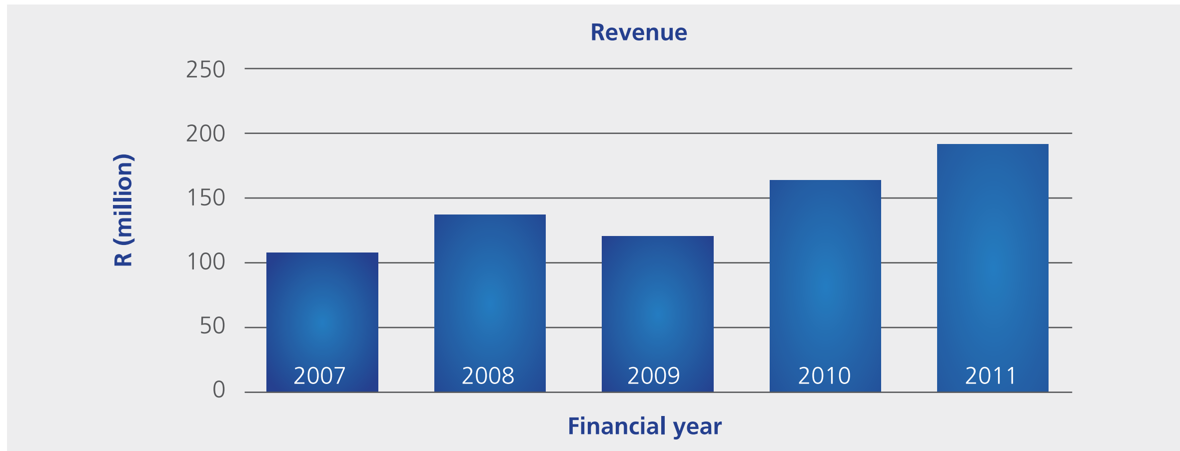
Diamond prices are denominated in US dollar, with the result that the rand/dollar exchange rate determines the actual rand value of Alexkor's cash inflows. During the year under review the average exchange rate was R7.18/$1 (2010: R7.79/$1).

Diamond revenue for the year amounted to R195.9 million (2010: R163.9 million), with increased production and sustained level of sales from the previous year being the main contributors. By maximising productivity in the existing mining areas a total of 37,794 carats (2010: 33,363 carats) were produced during 2010/11, against a budgeted production of 31,425 carats (2010: 25,750 carats).

FINANCIAL MATTERS AND CASH FLOW

Alexkor achieved a profit for the second successive year of R84.2 million (2010: R36.1 million), due to material movements on the statement of financial position items. Income received in advance amounting to R41.2 million was recognised during the year as this

REVIEW OF THE FINANCIAL PERFORMANCE CONTINUED



constituted compensation for the mineral rights ceded to the Richtersveld Mining Company (RMC) at the end of March 2011. Other material movements included the positive movement on the post-retirement medical aid liability of R13.9 million (2010: R45.1 million). Net finance income was less than the previous year due to the lowering of South Africa's prime interest rates, which duly filtered through to the financial institutions where Alexkor's surplus funds are invested.

Alexkor's total asset base increased by R47.8 million with inventory and cash being the main contributors. Diamonds to the value of R25.2 million were included in inventory due to the sale that was scheduled for post-year end. Cash and cash equivalents also increased by R19.5 million due to government funds received, along with cash generated from operations.

Total liabilities decreased as the post-retirement medical aid liability was reduced to R58.4 million, an adjustment of R31.7 million due to a cash payment towards the liability, as well as an actuarial gain that was recognised due to the changes to the underlying policies (see detail in note 9.1 of the notes to the financial statements). As a result of the positive trading position and the reduction in liabilities Alexkor managed a turnaround in its solvency position, achieving a positive net asset value of R16.8 million (2010: negative R67.3 million) at 31 March 2011.

Alexkor received R36 million in the current year from the Department of Public Enterprises to fund the establishment of the Richtersveld township. This was in addition to the R79.1 million received in previous financial years for this project. In total it utilised R45.4 million towards government-funded projects for the financial year (see note 11.1 to the financial statements).

A total of R319.1 million in cash was available at year end and ring-fenced for specific projects indicated by the government, such as the PSJV recapitalisation (R220.8 million) and the township establishment project (R81.3 million), the two largest projects. Alexkor also has R36.9 million (2010: R32.8 million) invested in a duly registered rehabilitation trust. Alexkor's own cash on hand increased to R108.0 million (2010: R95.9 million), resulting from the improved profitability of its underlying operations that contributed to positive cash generated amounting to R12.0 million (2010: cash outflow of R1.1 million) in the current financial year.

REVIEW OF THE FINANCIAL PERFORMANCE CONTINUED

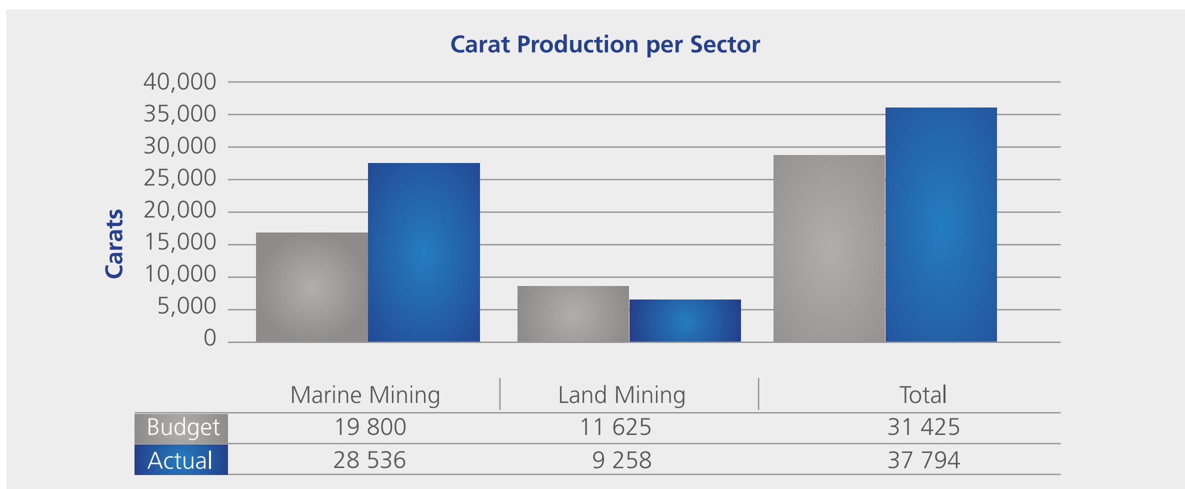
CAPITAL EXPENDITURE

Capital expenditure amounting to R5.6 million (2009: R4.5 million) was limited to those critical items required for the company's existing operations, given the uncertainty surrounding the implementation of the PSJV that impacted its expansion plans. The capital expenditure programme and related recapitalisation of the company remain the key focus of initiatives to return the company to profitability. With the formal establishment of the PSJV after year end, a greater measure of clarity now exists. It is anticipated that more capital expenditure will be incurred as part of exploration and other activities to return the mining activities to full production.

MINING OPERATIONS

Once again Alexkor has been able to improve not only on the previous year's production in excess of 37 000 carats, but also on its target of 31 000 carats for the year. This outstanding result was achieved despite the heavy rains that fell in the interior of South Africa and Namibia causing the Orange and Fish rivers to be in flood for extended periods during the year. Alexkor put measures in place to allow continued production at a steady rate. Alexkor encouraged contractors to maintain production levels throughout the year to ensure the company could exceed its targets.

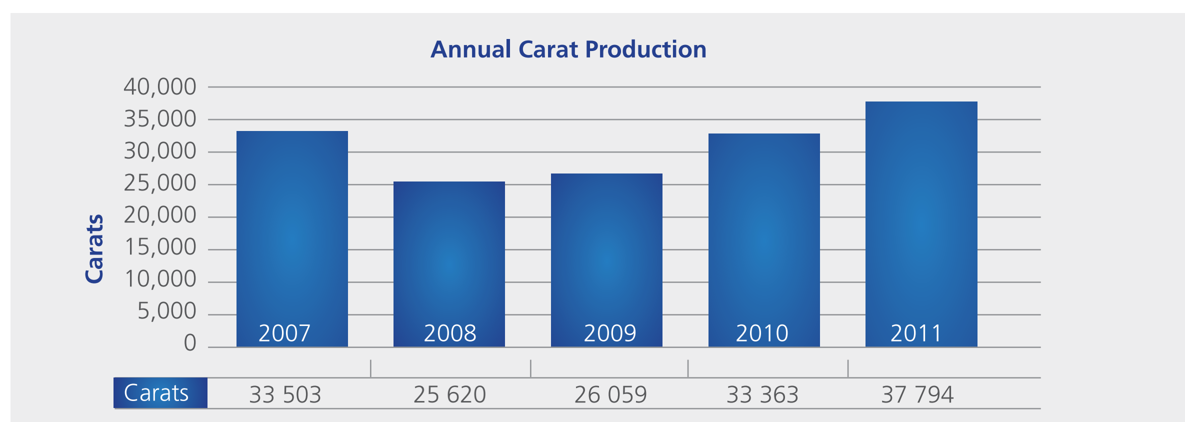
The marine mining department again produced most of the diamonds. The total marine production came to 28 536 carats at an average stone size of 0.54 carats. The marine production comprises 76% of the total, deriving mainly from the northern concession, although the southern concessions have received more attention than in previous years.



	Marine Mining	Land Mining	Total
Budget	19 800	11 625	31 425
Actual	28 536	9 258	37 794

The land mining operations, including those at Witvoorkop, produced 9 258 carats at an average stone size of 0.84 carats. Land operations improved towards the financial year end due to better planning and continued motivation of the contractors. We are confident of being able to continue this improvement. The total production of 37 794 carats exceeded the year's target of 31 425 carats by 20%, which is also 13% higher than the previous year's production.

It is now the second successive year that the company has been able to improve on its annual production target and on the previous year's production. We are confident of repeating this achievement next year, having also laid the foundation for further improvements in future. This is confirmed with the formal establishment of the PSJV after year end and plans to bring land mining activities to full production for the benefit of both Alexkor and the Richtersveld community.

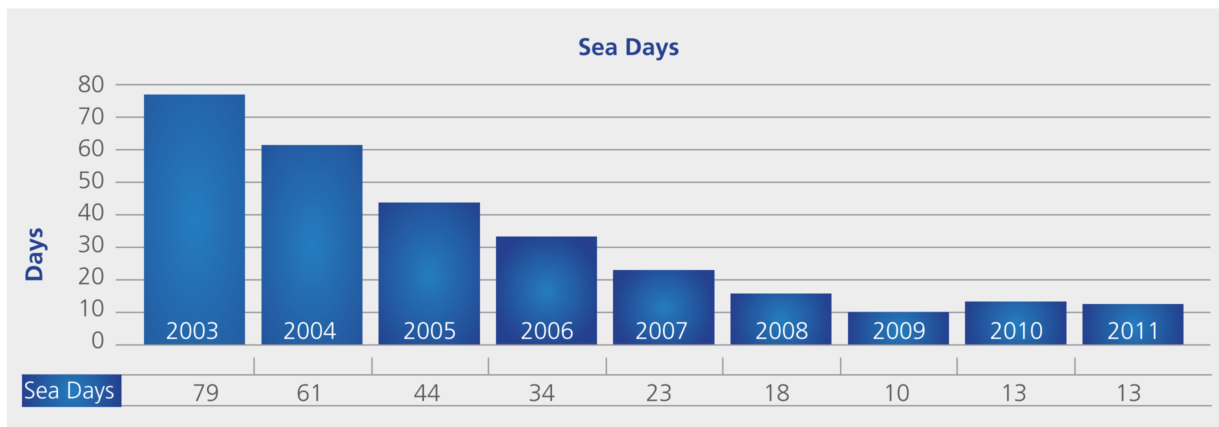


	2007	2008	2009	2010	2011
Carats	33 503	25 620	26 059	33 363	37 794

MINING OPERATIONS CONTINUED

Environmental conditions are the major stumbling block to continuous improvement in production from a marine perspective on one hand and lack of exploration in land mining on the other. As stated earlier more than 76% of the carat production originates from the marine areas. Production from these areas is very much dependant on sea conditions and we are experiencing a decline in the number of sea-days available for production from the marine areas. A sea-day is defined as one in which more than half of the boat units are able to venture out to sea. During the 2010/11 financial year Alexkor has experienced a mere 13 sea-days in all.

As a result of the RVC's long-running land settlement claim no exploration was done on land concessions previously held by Alexkor, in large part to protect the value of the community's claim. It is expected that as exploration is undertaken going forward, land mining activities should start to contribute a higher proportion of carats to overall production, albeit now under the auspices of the PSJV.



	2003	2004	2005	2006	2007	2008	2009	2010	2011
Sea Days	79	61	44	34	23	18	10	13	13

MINERAL RESOURCES

As stated in the previous year the mineral resources declared by Alexkor in years 2003 to 2008 are considered to be an estimate and are not SAMREC (South African mineral resource committee) compliant. Alexkor is re-evaluating the mineral resources and a statement in this regard will be made in the next annual report.

MINERAL RIGHTS CONVERSION

In February 2009 Alexkor applied for the conversion of its mining rights in terms of the Mineral and Petroleum Resources Act (MPRDA) from old to new order rights. The conversion of the rights was done simultaneously with the application to cede the land mining rights to the RMC in terms of the deed of settlement between Alexkor, the South African government and the Richtersveld community. The conversion and execution of the land mining right took place on 19 May 2010, and the cession and registration of the land mining right to the RMC by the Minister of Mineral Resources on 6 April 2011.

DIAMOND MARKET

During the 2010/11 financial year Alexkor enjoyed a fairly stable and strong diamond market. Alexkor's product seems to be in demand and average prices achieved throughout the year strengthen this view. Although the world economic situation has not provided the hoped-for growth in the diamond market we remain cautiously optimistic for the 2011/12 financial year.

The average diamond price achieved for the year was $781 per carat against the $676 per carat during the previous financial year and against $799 per carat budgeted for 2011/12. The increase in average price can be attributed to the strengthening of the world diamond market and the characteristics of the Alexkor product.

We remain positive on the long-term outlook for the diamond market and hold the view that the market will continue to improve over the next five years. However, we are cautious with regards to short-term fluctuations, which we reflected in the budget for 2011/12.

HEALTH, SAFETY AND ENVIRONMENT

No fatalities occurred during the year under review, whilst a total of 14 personnel injuries were recorded, compared to 15 injuries in the previous year.

One serious injury was recorded, compared to one serious injury in the previous year. There were nine lost-time injuries compared to seven in the previous year. Four minor injuries were recorded compared to eight in the previous year.

No claims on the occupational cases were launched with insurers during the year under review.

The company embarked on improving its emergency preparedness and remained focused on achieving the next milestone, which is 2 000 fatality-free production shifts projected for June 2011.

The company focused on implementing a reviewed health, safety and environmental (HSE) management plan, which was still in progress at the financial year end. A significant improvement on recorded injuries is expected on full implementation of this plan. The company also maintained continuity on HSE related training.

The audit conducted by Department of Mineral Resources (DMR) on 1 December 2010 indicated 80% compliance compared with a similar DMR audit on 4 March 2008 when 61% compliance was obtained. The action plan was developed to address instances of non-conformance highlighted in the audit. Noise, illumination and dust surveillance audits identified no areas of concern.

The action plan also addressed instances of non-conformances in the three-yearly environmental audit conducted in the previous year. The monthly to quarterly internal environmental inspections are in place to ensure mine dumping compliance.

HUMAN RESOURCES AND SOCIAL DEVELOPMENT

INTRODUCTION

During the year under review we implemented a number of key elements with a view to expand our human resource footprint along with various processes that could assist the company in achieving its business goals.

We made considerable progress through continued interventions to ensure sustainable human resource development practices and initiatives.

In the coming year part of the human resource focus will be on staff retention and making the company an employer of choice.

STAFF COMPLEMENT

Recruitment of individuals from the local community is exceedingly important as the company recognises the value of employment to the community in which it operates.

In light of this we have clearly defined policies that aim to ensure the talent of all employees is identified and promoted, whilst also ensuring all staff are treated fairly and equitably without discrimination on the grounds of race, gender, religion, disability or age.

Employee / Contractor Statistics	Year 2011
Alexander Bay Mining	106
Alexander Bay Mining (contract employees)	54
Marine Mining Contractors	511
Beach Mining Contractors	83
Other Contractors	221
TOTAL	975

REMUNERATION AND CONTRACTOR PAYMENTS

Remuneration paid to employees and payments made to contractors by the company for the review period included:

- Direct salaries paid to employees (excluding directors): R23.8m
- Payment to marine and land mining contractors: R106.1m

Remuneration paid to employees and contractors contributes significantly to the regional economy, especially given the fact that most employees are residents of the region and that contractors procure most of their production inputs locally (i.e. staff, fuel, maintenance). Some contractors also reside in the region.

HUMAN RESOURCE DEVELOPMENT

The company implemented various training interventions for the period under review as part of its commitment to invest in developing the skills of its employees.

During the year 136 employees received training on various training programmes. The programmes are tailored around the training needs of employees and cover in the main areas like safety, mining, other technical and soft skills.

Two local residents were engaged to receive training as apprentices in mining related trades.

In addition the company embarked on a bursary programme in which a female candidate was given a bursary to study full-time at a tertiary institution in a mining discipline.

A performance management system was relaunched and initial participation is focused on management employees only. The performance management process is intended to be cascaded down to all levels of employees.

HUMAN RESOURCES AND SOCIAL DEVELOPMENT CONTINUED

MINE COMMUNITY DEVELOPMENT

As a responsible corporate citizen the company has fulfilled a definite social investment and upliftment role in the Richtersveld and the Namaqua region over the years.

This is evidenced by the following social and economic grants in and around mining during the financial year:

- Aligning funds to focus on specific social issues i.e. welfare, education, skills and youth development;
- Implementing several HIV/Aids awareness projects in the workplace, as well as peer educator programmes for employees and members of the Richtersveld communities;
- Sponsorship of community-based sporting organisations with equipment, sports gear and funding;
- Providing food and cleaning services free of charge to employees who live in company hostels and single quarters;
- Payment of salaries of the town librarian and nursery school staff in Alexander Bay.

A skills and labour plan (SLP) was developed for the company mining rights in terms of the requirements of the Mining Charter.

As part of the SLP the Alexander Bay township upgrade is nearing completion with estimated expenditure to be R102m.

Local economic development (LED) priorities planned for the future include:

- Developing road infrastructure;
- Providing educational support through bursaries and internships;
- LED support to micro business development; and
- Agriculture development.

EMPLOYMENT EQUITY

Reports were submitted timeously to the Department of Labour in compliance with the Employment Equity Act.

An employment equity (EE) committee, which includes management and labour representatives, was established and is functional.

A developmental framework for a five-year EE plan covering numerical objectives, identification of barriers, affirmative action, racial and other discriminatory practices in employment and area demographics was developed for implementation in 2011/12. These targets will be reviewed to take cognisance of the establishment of the PSJV post-year end.

A specific target will be to include people with disabilities.

HUMAN RESOURCES AND SOCIAL DEVELOPMENT CONTINUED

The table depicts Alexkor's employment equity status as at 31 March 2011:

Employment Equity March 2011

Occupational Level	Number Of Incumbents	Male			Female				
		AM	CM	WM	AF	IF	CF	WF	% Of Designated Group
Senior management	2	1					1		100%
Professionally qualified	4		2	1			1		75%
Skilled	40		19	14		1	5	1	65%
Semi-skilled	53	2	44	5	1			1	91%
Unskilled	7	1	6						100%
TOTAL	106	4	71	20	1	1	7	2	81%

MANAGEMENT / ORGANISED LABOUR RELATIONS

The company maintains excellent relationships with the labour unions representing its employees.

Trade unions represented at the company are:

- National Union of Mine Workers (NUM) 65.7%
- United Association of South Africa (UASA) 23.8%

The percentage of company employees who are not members of any union stands at 10.5%.

For the review period 17 disciplinary matters were conducted resulting in sanctions of counseling, warnings and dismissals.

No matters were referred to the CCMA for adjudication and no grievances were lodged by employees for the review period.

The company intends to maintain and grow its good relationship with the unions and all its employees, as it believes this is fundamental to its continued success.

CORPORATE GOVERNANCE REPORT

Alexkor's corporate governance has been guided principally by the Public Finance Management Act No.1 of 1999, as amended (PFMA); the Companies Act No. 63 of 1973 as amended (Companies Act), the King III Committee Report on Corporate Governance for South Africa (King Report); and international best practice on corporate governance.

Since the launch of the King Report in 2010 Alexkor has applied some of the report's guidelines, which it deems appropriate for the company.

Companies Act

The new Companies Act No. 71 of 2008 as amended was signed by the President on 9 April 2009 and came into effect in May 2011. The company secretary has started a process of addressing the requirements of the act in order to ensure that the company is in a position to comply going forward.

SHAREHOLDING

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

ALEXKOR BOARD OF DIRECTORS

Most members of the incumbent board of directors were appointed in September 2008 for a three-year term, and had their appointment extended at the 2010 annual general meeting Annual General Meeting (AGM) for a second term. The AGM in September 2010 also reviewed the directors' performance.

The board comprises five non-executive directors and the chief executive officer who is an executive director. The board represents a fair spread in terms of gender, skills and experience to continue to perform under the challenging circumstances currently facing the company.

RESPONSIBILITIES OF THE BOARD

The duties and responsibilities of Alexkor's board are embodied in the company's memorandum and articles of association, as amended from time to time, as well as national legislation and best practice in corporate governance. The board provides the executive management with strategic direction, as documented in the company's strategic and corporate plans.

The board ensures that it effectively monitors all managerial and company decisions and transactions through quarterly reports detailing all significant operational, risk, financial and non-financial occurrences. Active monitoring is also facilitated through regular board and sub-committee meetings. Details of the board meetings and attendances are contained in the table on page 26.

Through the company's delegation of authority framework policy, the board delegates certain powers and functions to the executive management, whilst retaining material decision-making powers. Due regard is also given to those powers which are prescribed in law to be exercised either in consultation with, or with the approval of the shareholder and/or the Minister of Finance.

Besides monitoring operational performance the board also monitors the performance of management through the remuneration committee. The board fulfils this role even in relation to the board of the PSJV, which operates as a sub-committee of the Alexkor board. Systems have been established for regular reporting and sharing of information between the board of Alexkor and the PSJV board.

All directors have undertaken site visits at Alexkor, in addition to having been inducted, and are therefore familiar with the company's internal operations.

In terms of indemnity cover, Alexkor's directors and officers are provided cover for liability, loss or damage the company might sustain in the normal course of the exercise of their duties. The cover excludes normal legal exclusions such as fraud and recklessness.

CORPORATE GOVERNANCE REPORT CONTINUED

The board is committed to operating to the highest standards of professional ethics. It therefore ensures all material and potential conflicts of interests between a director and the company are recorded and addressed according to the provisions of the Companies Act. These issues are reported to the shareholder at annual general meetings.

BOARD SUB-COMMITTEES

The board has established the following sub-committees:

Audit and Risk
(Chairman: Ms S Ngoma)

Tender committee
(Chairman: Mr C Towell)

Remuneration committee
(Chairman: Dr V Makin)

Rehabilitation committee
(Chairman: Dr R Paul)

Implementation committee
(Chairman: Mr RT Muzariri)

PSJV Board
(Acting Chairman: Mr RT Muzariri)

AUDIT AND RISK COMMITTEE

During the year under review the audit and risk committee was constituted by two non-executive directors of the Alexkor board, with the board recently appointing Mr Claude Towell as an additional member. Mr Towell brings the necessary legal expertise to the committee, which is chaired by Ms Simangele Ngoma.

The audit and risk committee has been established in accordance with the King II and King III guidelines. In keeping with its duties as contained in King II and the PFMA, the committee considers all financial requirements prior to these being presented to the board for approval and onward submission to the shareholder and/or National Treasury and other prescribed stakeholders. The committee monitors internal and external audits, and considers and signs off the annual financial statements prior to submission to the board. Both the external and internal auditors have unrestricted access to the audit and risk committee. The attendance of members at audit and risk committee meetings for the period under review is shown in the table on page 26.

REMUNERATION COMMITTEE

The remuneration committee consists of three non-executive directors of the board, and is chaired by Dr Viola Makin. The current remuneration structure of the board and sub-committees is based on the state-owned entities' remuneration guidelines issued by the shareholder; considered by this committee and finally approved by the board. The table on page 26 shows members and attendance at remuneration committee meetings for the year under review.

REHABILITATION COMMITTEE

The rehabilitation committee consists of three non-executive directors and is chaired by Dr Roger Paul. The committee administers the rehabilitation trust fund, oversees the amendment of the environmental management plan and its submission to the Department of Mineral Resources (DMR). The members' attendance of rehabilitation committee meetings for the year under review is shown in the table on page 27.

TENDER COMMITTEE

The tender committee consists of three non-executive directors of the Alexkor board and is chaired by Mr Claude Towell. Depending on the expertise, skills and knowledge required to adjudicate on a specific tender, members of management are invited to join the committee on an ad hoc basis. The table on page 27 depicts members and attendance at tender committee meetings for the year under review.

CORPORATE GOVERNANCE REPORT CONTINUED

SHAREHOLDER / STAKEHOLDER COMMUNICATION

As in the past the financial year under review was characterised by the board's continuous engagement with the shareholder (through effective stakeholder communication and the company's interaction in the Portfolio Committee on Public Enterprises). This kept the shareholder well informed of all significant business activities of the company, the restructuring it is undergoing and progress on the implementation of the DoS.

The engagement with the shareholder also allows it to monitor the company's performance and the activities of the board. Therefore the board takes this opportunity to express its appreciation for the consistent support it receives from the minister, the director-general and officials of the Department of Public Enterprises (DPE).

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

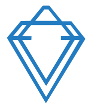
DIRECTORS' REMUNERATION

The remuneration committee considers the remuneration of the non-executive directors and makes recommendations to the shareholder, who then decides on the non-executive directors' remuneration. The remuneration committee evaluates the chief executive officer's and senior management's remuneration and makes proposals to the board in that regard. The shareholder and the board jointly determine the remuneration of the chief executive officer, whilst the board, in consultation with the chief executive officer, determines the remuneration of senior management. Details of remuneration are disclosed on page 96.

COMPANY SECRETARY

During the year under review the board appointed Ms Nozuko Mxunyelwa, who assisted them with company secretarial functions on a consultancy basis. The company has recently appointed a full-time Company Secretary, Ms Buyi Mlangeni.

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



CORPORATE GOVERNANCE REPORT CONTINUED

BOARD MEETINGS

Board meetings are held at least every quarter and thereafter as and when the board deems necessary.

Schedule of attendance at Board meetings

Member	14-Apr-10	27-May-10	05-Jun-10	02-Jul-10	27-Jul-10	12-Aug-10	18-Aug-10	27-Sep-10 AGM	29-Sep-10	09-Nov-10	14-Dec-10	14-Feb-11
Mr R Muzariri	A	P	P	P	P	P	P	P	P	P	P	P
Mr C Towell	P	P	P	P	P	P	P	P	P	P	A	P
Dr R Paul	P	P	P	P	P	P	P	P	P	P	P	P
Dr V Makin	P	P	P	P	P	P	P	P	P	P	P	P
Ms S Ngoma	A	P	A	P	P	P	P	P	P	P	P	P
Ms McClain	A	P	P	P	P	P	P	P	P	P	P	P

A = apology P = present

Schedule of attendance at Audit and Risk Committee meetings

Member	28-Apr-10	22-Jul-10	05-Aug-10	21-Sep-10	26-Oct-10	03-Nov-10	01-Feb-11	22-Mar-11
Ms S Ngoma	P	P	P	P	P	P	P	P
Dr R Paul	P	P	P	P	A	P	P	P
Ms McClain *	P	P	P	P	P	P	P	P

* = permanent invitee

Schedule of attendance at Remuneration Committee meetings

Member	14-Apr-10	06-Jul-10	14-Feb-11
Dr V Makin	P	P	P
Mr C Towell	P	P	P
Mr R Muzariri	A	P	P
Ms McClain	A	P	P

CORPORATE GOVERNANCE REPORT CONTINUED

Schedule of attendance at Tender Committee meetings

Member	13-Jul-10	27-Jul-10	28-Sep-10	19-Oct-10	26-Nov-10
Mr R Muzariri	P	P	P	P	P
Mr C Towell	P	P	P	P	P
Dr R Paul	P	P	P	P	A
Ms McClain	P	P	P	P	P

Schedule of attendance at Rehabilitation Committee meetings

Member	27-May-10	09-Nov-10
Mr R Muzariri	P	P
Mr C Towell	P	P
Dr R Paul	P	P
Ms McClain	P	P
Ms S Ngoma	P *	n/m
Dr V Makin	P *	n/m

* These directors received a special invitation
n/m = not members

Schedule of attendance at PSJV

Member	16-Nov-10	14-Dec-10	22-Jan-11
Mr R Muzariri	P	P	P
Dr R Paul	P	P	P
Ms S Ngoma	P	P	P
Ms McClain	P	P	P
Mr C Towell	n/m	P *	n/m
Dr V Makin	n/m	P *	P *

* These directors received a special invitation
n/m = not members

CODE OF ETHICS

Alexkor subscribes to the highest levels of professionalism and integrity in conducting its business dealings with its stakeholders. It continually strives to reinforce a culture of openness, honesty and responsibility in order that the conduct of its directors, management and employees is beyond reproach. The board and the company are committed to a code of ethical and moral behaviour encompassing:

- fairness and honesty;
- transparency to all stakeholders;
- no tolerance of theft, dishonesty or any form of corrupt activity; and
- no conflict of interest in any decision or action affecting the company.

CORPORATE COMMUNICATION

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

REPORT ON PREDETERMINED OBJECTIVES

Objective	Programme per objective	Measure/Indicator	
STAKEHOLDER PERSPECTIVE			
Contribute towards the socioeconomic upliftment of the region.	To support the specific socioeconomic projects and initiatives identified by management through: • Donations and sponsorships for community initiatives • Educational assistance • Community employment	• Donations made to identified organisations; • Sponsorships to identified organisations; • Employment of members from the Alexander Bay community for non-mining operations.	
To manage and maintain the functions and services with regard to the non-core business activities relating to Alexander Bay Trading (ABT) and the Alexander Bay township until the transfer thereof to the RVC and provincial government is finalised.	Manage and maintain the functions and services of the: • Township (ABT) • Airport • Hospital and limiting the losses in this regard.	The actual cost incurred for the management of the functions and provision of services.	
Completion of the conversion of the mine's old order land and marine mining rights to new order mining rights to fulfil the conditions of the land claim settlement.	Submission of the amended • Environmental management programme (EMP) with the DMR; • Submission of the conversion documents to the DMR for approval.	• EMP submitted to the DMR; • Conversion of the land and marine mining rights; • Execution of the land and marine mining rights.	
Cession of land mining rights to the RMC.	• Registration of the Notarial Deed of Cession of a Mineral Right. • Ministerial approval of the cession of the land mining rights to the RMC.	• Registration of the Deed of Cession; • Successful cession of the mining right.	
FINANCIAL PERFORMANCE			
To maintain the current level of production on marine and land mining operations.	• Strategic management and monitoring to ensure more productive shifts. • Increasing the number of contractors (see detail below).	Achievement of budgeted carat production.	

REPORT ON PREDETERMINED OBJECTIVES CONTINUED

	Target	Actual	Comments
	R1 660 000	R1 515 204	Alexkor's contribution to the improvement of the socioeconomic conditions is important to the community as result of significant job losses during previous financial years and the lack of new employment opportunities in the region. Alexkor contributed to social activities, namely donations, sponsorships, soup kitchen, educational assistance to teachers, meal provisions to employees in hostels and training. The employment of members of the community was done on a contract basis for the maintenance of the houses, small-scale road maintenance and un-skilled labour for the township establishment project. This further contributed in addressing socioeconomic issues in the region. Alexkor is happy with the outcome as expenditure was within a variance of 10% of the target set.
	R601 131 loss	R126 874 loss	Alexkor will manage these discontinuing operations until such time as these operations are transferred to the community and local government. Date of transfer is set for June 2012 when the Alexander Bay erven will be transferred to the community upon completion of the township establish-ment. The non-core operations, along with all its related buildings will be transferred on the same day.
	Before 31 March 2011	Achieved	The amended EMP was submitted during the 2010 financial year. The com-pany is in process to address the comments from the DMR on the EMP. The land and marine mining rights were converted to new order mining rights. The land mining rights were executed in May 2010 and the marine mining rights were executed on 2 July 2010.
	Before 31 March 2011	Achieved	The Notarial Deed of Cession of a Mineral right was lodged for registration at the Mineral and Petroleum Titles Registration Office on 28 March 2011.
	31 425 carats consisting of: • Land - 9,600 carats • Witvoorkop - 2,025 carats • Marine – 19,800 carats	37 794 carats consisting of: • Land – 8,746 carats • Witvoorkop – 512 carats • Marine – 28,536 carats	Alexkor increased production (20%) to counter the strong rand as it had a negative impact on the diamond prices achieved. The company budgeted for a rand-dollar rate of R7.80 compared to the actual average exchange rate for the year of R7.18. The increase in production of 44% from the marine concessions was the main contributor to this positive variance.

REPORT ON PREDETERMINED OBJECTIVES CONTINUED

Objective	Programme per objective	Measure/Indicator	
Generate positive cash flows and maintain a positive cash position based on the current levels of operations of the company until a comprehensive strategic plan for sustainable future mining activities through the PSJV has been established.	Manage controllable costs and expenses directly related to the mining activities and implement cost control measures.	The actual cash flow from operating activities	
		Actual revenue generated by diamond sales	
		The actual net profit or loss for the year.	
Consolidated capital and funding requirements.	• To manage the capital expenditure within the approved capital expenditure budget; • Limit the capital expenditure to critical items until the recapitalisation of the PSJV commence.	Actual capital expensed for the replacement of equipment on the mine.	

REPORT ON PREDETERMINED OBJECTIVES CONTINUED

	Target	Actual	Comments
	R4 069 521 outflow	R12 075 552 inflow	Cash was generated throughout the year as a result of improved cash management, strict cost controls and an increase in diamond sales compared to the previous year.
	R193 492 700	R195 906 883	Diamond revenue was in line with the target set. Production was increased to match the shortfall caused by the rand-dollar exchange rate.
	R18 079 024 loss	R84 229 296 profit	The main reason for the profit before tax was largely because of non-cash flow adjustments at year end as follows: • Prepaid Income was recognised to the value of R41.2m • The Rehabilitation liability was unadjusted for the 2011 financial year due to rehabilitation done in 2011 which meant an R18m saving in the rehabilitation provision compared to budget. • The post-retirement medical aid liability was decreased to R58.4m which resulted in a positive adjustment in the statement of income of R13.9m. The total movement of these adjustments in the statement of comprehensive income accumulated to a value of R55.1m. The profit of R21.6 million (excluding the items above) was as a result of cost cutting exercises, interest received along with improved production activities.
	R6 180 500	R5 630 763	Capital expenditure was to maintain the production levels that existed during the year. The reasons for the variance were due to a change in the use of some budgeted items, cost cutting procedures and items that were no longer required.

REPORT ON PREDETERMINED OBJECTIVES CONTINUED

Objective	Programme per objective	Measure/Indicator	
EXPANSION OF MINING OPERATIONS			
Optimising the exploitation of mining areas by increasing the number of mining contractors.	• Increase the number of shallow-water marine contractors specifically towards the southern portion of the concessions. • There are a number of marine mining concessions that were not allocated to contractors. Invite tenders from mining contractors for all marine type mining. • Appoint and finalise contracts with the successful contractors. • Terminate the concession granted to concessioners who do not operate / perform.	The actual number of contracts awarded to: Swallow-water mining • The number of concessions granted to new shallow-water contractors; • The number of additional concessions granted to existing shallow-water contractors. Land mining • Increase the number of land contractors. Beach mining • Introduction of beach mining activities below the high water and above the low water mark. Middle-water mining • Introduction of middle-water mining operations in the area between 20m and 65m below sea level. Deep-water exploration • The introduction of exploration activities in the deep-water areas of Concession 1c.	
HEALTH, SAFETY AND ENVIRONMENTAL MATTERS			
Safety – To minimise Accidents and/or injuries on the mine.	• Frequent reporting and monitoring of safety incidents. • Communication and training sessions with regards to safety measures.	Actual number of : • LTIFR (injury rate) • Reportable accidents/incidents • Minor incidents • Fatal accidents	
Compliance with the EMP of the mine.	• Execution of the requirements in terms of the EMP. • Rehabilitation work in accordance with Alexkor's rehabilitation plan.	Restoring the impact of the disturbances in the vicinity of the Boegoeberg and stabilisation of the Muisvlak dust plumes.	

REPORT ON PREDETERMINED OBJECTIVES CONTINUED

Target	Actual	Comments
50 contractors	50 contractors	50 contractors have been awarded contracts and have been informed. Contractors have started operations at the mine already.
6 contractors	3 contractors	Only three contracts have been awarded due to the lack of quality contractors and applications.
3 contractors	3 contractors	Contractors were appointed and therefore the targeted amount was reached.
1 contractors	1 contractor	Contractors were appointed and therefore the targeted number was reached.
1 contractor	1 contractor	Negotiations in progress on the relevant agreement.
0.76 0 0.87 0	0.72 1 0.28 0	Finalisation of critical procedures and implementation of internal management audits contributed to the positive mindset towards safety. Although there is improvement on reportable and loss time injuries, the minor injuries are still at an unacceptable level. The review of the health, safety and environmental management plan was considered to address this. 1 885 FFPS were achieved at 31 March 2011.
R5 759 967	R3 082 129	The amount spent relates to the work performed on the rehabilitation of Boegoeberg to address immediate burning issues. The main reason for the variance was because of bad weather conditions, especially wind. Targets for netting were not met, because less material was purchased due to less work done on these parts. Alexkor indicated in its corporate plan for 2012 that its contributions will increase materially from the current year in that more than R 17 million was budgeted to attend to rehabilitation directly.

MATERIALITY FRAMEWORK

PREAMBLE

In terms of section 54 (2) of the PFMA a State Owned Entity (SOE) has to inform the relevant treasury and apply for approval from the executive authority (the relevant minister representing the shareholder) before it concludes certain significant transactions.

Therefore, the materiality framework sets out the guidelines for the treatment of material and significant transactions and determines significance and materiality levels for Alexkor Limited in terms of the relevant sections of the PFMA.

PURPOSE

The purpose of the materiality framework is to:

- Set out guidelines for significant transactions in terms of section 54(2) of the PFMA for which Alexkor has to seek approval from the DPE (attached as table 1 of this section) by:
  - o outlining a process and the requisite information for an application in terms of section 54 (2) of the PFMA; and
  - o setting significance and materiality levels for transactions for the purposes of section 54 (2) of the PFMA.

- Set out materiality levels for any losses as required by section 55 (2) of the PFMA (attached as table 2 of this section).

GENERAL OBLIGATIONS

Alexkor has to follow the procedures as set out in this framework when applying for approval for significant transactions listed in tables 1 and 2.

- For the purposes of guidelines and transactions listed in the tables, it may apply qualitative and quantitative guidelines either concurrently or separately, as the context requires.
- In so far as the quantitative guidelines relating to the total assets, total revenue and profit after tax are concerned, as the case may be, where Rand values are used, these may be adjusted annually in accordance with the information contained in the Annual Report, or as agreed with the shareholder.

PROCEDURE FOR NOTIFICATION OR APPLICATION FOR APPROVAL

PHASE ONE: APPLICATION FOR APPROVAL

- Alexkor shall upon finalising the significant transaction's details and structure apply to the executive authority in writing for approval of the transaction.
- Where the significant transaction is included in the corporate plan, the application has to contain a reference to the corporate plan.
- For every significant transaction for which Alexkor seeks approval, whether or not it is covered in the corporate plan, it has to fully motivate for the proposed transaction.
- The application must demonstrate that the Alexkor board has considered the following:
  - (a) Financial and socioeconomic objectives of the transaction and its impact on government and the entity;
  - (b) Financial viability, i.e. cash flow analysis, estimates of future revenue, etc.;
  - (c) Details of how the transaction is to be funded;
  - (d) Identification of risks pertaining to the proposed transaction and strategies to mitigate those risks;
  - (e) Indication of any assessment of whether the proposed transaction is not in conflict with another public entity's core business;
  - (f) An indication of whether other alternatives were considered;
  - (g) An indication of how the success of the proposed transaction will be measured;
  - (h) Human capital capacity;
  - (i) Compliance with applicable laws;
  - (j) Fair value of the transaction.

MATERIALITY FRAMEWORK CONTINUED

- The application has to include a certified board resolution signed by a duly delegated official, including an information pack containing the materials on which the board based its resolution.
- Alexkor has to submit a copy of the application with the board resolution directly to the National Treasury.
- Upon receipt of the application DPE has to consider the following:
  (a) Whether the board has complied with the list of relevant considerations and applicable legislation in respect of each transaction;
  (b) Whether, on the basis of the information received, the transaction is financially viable or whether Alexkor will achieve fair value through the specified transaction;
  (c) All material liabilities (actual or contingent) and risks resulting from the transaction;
  (d) Industry and /or sector impact and considerations; and
  (e) Whether the board has established strategies and / or measures to mitigate any risk identified in the transaction.
- The DPE should endeavour to process the application timeously, within 30 (thirty) days of receipt as specified in section 54(3) of the PFMA and advise Alexkor if the transaction cannot be processed within this time-frame.
- Should DPE require further information from Alexkor in order to process and finalise the application, the 30-day period should be extended by such period as it takes for the DPE to receive the information.
- The DPE has to advise Alexkor in writing whether the application has been approved or not.
- Should approval not be granted, DPE has to furnish Alexkor with the reasons for rejection.

PHASE TWO: POST-APPLICATION PRINCIPLES

- Alexkor has to report on a quarterly basis on the progress made in concluding the transaction and its fulfilment of any conditions that were part of the approval.
- Should the transaction not be concluded within six months of approval, Alexkor has to notify DPE with detailed reasons for this.
- Should Alexkor make an application or submit reports to the regulatory authorities and policy ministries in relation with a significant transaction contemplated in this framework, it will furnish a copy of these to DPE for information purposes.

AMENDMENTS AND REVIEW

The materiality framework will be reviewed after a period of three years or at any time within the three-year period at the request of either party.

MATERIALITY FRAMEWORK CONTINUED

TABLE 1: BUSINESS TRANSACTIONS

Section 54 (2) of the PFMA

No.	Reference	Nature of Transaction	
1	54 (2) (a)	Establishment or participation in the establishment of a company:	
2	54 (2) (c)	Acquisition or disposal of significant shareholding in a company:	
3	54 (2) (f)	A significant change in the nature or extent of its interest in a significant partnership, trust, unincorporated joint venture or similar arrangement:	

MATERIALITY FRAMEWORK CONTINUED

	Qualitative Guidelines	Quantitative Guidelines		
	(i) Any transaction of this nature that causes any interest (equity or loans) to be taken by Alexkor in the company to be established, requires approval from the executive authority irrespective of its materiality or significance (ii) Concerning participation in the establishment of a company, where an interest (equity or loans) is to be taken by Alexkor in the company to be established, any involvement by Alexkor in the establishment process will necessitate an application for approval, regardless of the degree of involvement by Alexkor (iii) Following from i. and ii. above, where no interest (equity or loans) is to be had by Alexkor in the company to be established, for example, Alexkor is only facilitating the formation on behalf of or with other parties in pursuance of a social objective, such participation need not necessitate an application (iv) It must be noted that the establishment (or participation in the establishment) by Alexkor of any company that is domiciled outside the Republic of South Africa also falls under this sub-section (v) For purposes of establishment of an entity under section 51(1)(g), the above principles will also apply	Not applicable		
	Where any of the following occurs, the transaction is to be regarded as significant: (i) Where ownership control is affected; or (ii) Where Alexkor's right to pass or block a special resolution is affected; or (iii) There is a change in shareholding of at least 20%; or (iv) For an acquisition, any transaction that results in a shareholding of at least 20% in a company			
		Base of measure	Notification	Approval
		*Size of shareholding	≤ 20%	> 20%
		Any transaction		> 0%
		* 20% shareholding in the target company		
	(i) The significance of a change in interest as envisaged in this subsection, and thus the guidance per ii. to iv. below, should only be considered if the participation in the partnership, trust, unincorporated joint venture or similar arrangement was originally regarded as significant per subsection 5 below (ii) Any change in interest the Rand value of which exceeds the significance limits as determined per quantitative guidelines, should be regarded as significant			
		Base of measure	Notification	Approval
		Total assets	≤ 2%	> 2%

MATERIALITY FRAMEWORK CONTINUED

No.	Reference	Nature of Transaction	
4	54 (2) (e)	Commencement or cessation of a significant business activity:	
5	54 (2)(b)	Participation in a significant partnership, trust, unincorporated joint venture or similar arrangement:	
6	54 (2)(d)	Acquisition or disposal of a significant asset:	

MATERIALITY FRAMEWORK CONTINUED

Qualitative Guidelines	Quantitative Guidelines		
(i) A business activity that falls within Alexkor's core business need not be regarded as falling under this sub-section (ii) A business activity that falls outside of Alexkor's core business should be regarded as significant if its rand value falls within the parameters outlined in the quantitative guidelines (iii) Cessation of a business activity with results in retrenchment should be regarded as significant if the number of employees retrenched falls within the parameters outlined in the quantitative guidelines			
	Base of measure	Notification	Approval
	*Total assets	≤ 2%	> 2%
	Employees retrenched per event	≤10%	>10%
	* Value equivalent to 2% of Alexkor's total assets		
(i) Any transaction involving establishment or participation in the establishment of a company that entails incorporation under the Companies Act (or similar foreign legislation) should be dealt with under sub-section 1 above (ii) For transactions not entailing incorporation, significance is determined by a rand amount derived from the parameters outlined in the quantitative guidelines. However, participation in any partnership, trust, unincorporated joint venture or similar arrangement that is located outside the Republic of South Africa is to be regarded as significant, thus necessitating an application for approval, irrespective of the rand amount involved			
	Base of measure	Notification	Approval
	Total assets	≤ 2%	> 2%
	* Value equivalent to 2% of Alexkor's total assets		
(i) Although the acquisition or disposal of shares or an interest in an unincorporated vehicle, as envisaged by sections 54(2)(b), (c) and (f), would also be an acquisition or disposal of an asset, such transactions are more appropriately dealt with under the guidelines for those sub-sections (2, 3 and 5) (ii) Assets classified as current assets according to generally accepted accounting practice need not be regarded as falling under this sub-section (iii) The acquisition or disposal of all assets other than those referred to in i. and ii. above should be regarded as significant if its rand value falls within the parameters outlined in the quantitative guidelines	National Treasury to be informed		
	Base of measure	Notification	Approval
	*Total assets	≤ 2%	> 2%
	* Value equivalent to 2% of Alexkor's total assets		

MATERIALITY FRAMEWORK CONTINUED

No.	Reference	Nature of Transaction	
7		Guarantees, loans, financing or any other form of commitment that commits Alexkor financially or otherwise other than in the normal course of business: N/A	

TABLE 2: MATERIAL LOSSES

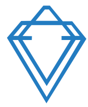
Section 55 (2) (b) (i) of the PFMA

No.	Reference		
1	55 (2) (b) (i)	The annual report and financial statements referred to in sub-section (1) (d) must include particulars of (i) any material losses through criminal conduct and any irregular expenditure and fruitless and wasteful expenditure that occurred during the financial year.	

MATERIALITY FRAMEWORK CONTINUED

	Qualitative Guidelines	Quantitative Guidelines		
	Granting loans, guarantees to: • Alexkor's subsidiaries • Joint ventures, associates, trusts, partnerships	Base of measure	Notification	Approval
			N/A	N/A
			N/A	N/A
	Restructuring/downsizing/rightsizing leading to staff retrenchments	Base of measure	Notification	Approval
		Employees retrenched per event	≤10%	>10%
		* 10% of Alexkor total staff complement		

	Fortuitous Losses		
	Losses due to fraud or any corrupt activity perpetuated by:		
			Disclosure level
	• a chief executive officer or a member of Alexkor's executive committee or its entities	Any incident	≥ 0
	• a director of Alexkor or its entities	Any incident	≥ 0
	• Any other employee of Alexkor other than the above	One incident or accumulation of incidents	> R100 000
	Losses due to fruitless, wasteful and irregular expenditure	One incident or accumulation of incidents	> 0



ANNUAL FINANCIAL STATEMENTS

49

Directors' report

43 | Statement of directors' responsibility
43 | Statement by the company secretary
44 | Statement from the Audit and Risk Committee
46 | Independent auditor's report to Parliament
49 | Directors' report
56 | Statement of financial position
57 | Statement of comprehensive income
58 | Statement of changes in equity
59 | Statement of cash flows
60 | Accounting policies
72 | Notes to the financial statements
98 | Applicable acts
98 | Corporate information

STATEMENT OF DIRECTORS' RESPONSIBILITY

FOR THE YEAR ENDED 31 MARCH 2011

The board is responsible for the preparation, integrity and fair presentation of the financial statements of Alexkor Limited. The financial statements, presented on pages 49 to 97, have been prepared in accordance with International Financial Reporting Standards, and include amounts based on judgements and estimates made by management.

The going concern basis has been adopted in preparation of the financial statements. The board agrees that there are potential challenges in the going concern principle in the medium to long term as the PSJV was recently implemented in April 2011 and due to the uncertainty of the timing and cost of the new business development and future opportunities that Alexkor is exploring. The board has provided explanations in the directors' report to address these challenges in detail. The financial viability of the company is supported by the financial statements.

The financial statements have been audited by the independent accounting firm, PricewaterhouseCoopers Inc. which was given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the board of directors and committees of the board. The board believes that all representations made to the independent auditors during their audit were valid and appropriate. PricewaterhouseCoopers Inc's audit report is presented on page 46 - 48.

The financial statements were approved by the board of directors on 27 July 2011 and are signed on its behalf by:

K McClain
CHIEF EXECUTIVE OFFICER

RT Muzariri
CHAIRMAN

STATEMENT BY THE COMPANY SECRETARY

I, the undersigned, in my capacity as company secretary do hereby confirm that for the financial year ended 31 March 2011, Alexkor Limited has lodged with the Registrar of Companies all such returns as are required in terms of the Companies Act No. 61 of 1973, as amended, and that to the best of my knowledge such returns are true, correct and up to date.

N Mxunyelwa
COMPANY SECRETARY

STATEMENT FROM THE AUDIT AND RISK COMMITTEE

FOR THE YEAR ENDED 31 MARCH 2011

REPORT OF THE AUDIT COMMITTEE IN TERMS OF SECTION 270A (1) (F) OF THE COMPANIES ACT, (61 OF 1973), AS AMENDED

During the year under review, the Audit and Risk Committee (the Committee) performed its functions in accordance with section 270A (1) of the Companies Act, 61 of 1973, as amended (the Companies Act) and the provisions of the Public Finance Management Act, 1 of 1999, as amended (the PFMA). The committee has adopted appropriate formal terms of reference as its Charter and has regulated its affairs in compliance with this Charter. The committee has discharged all its responsibilities as contained therein.

The audit and risk committee of Alexkor Limited (the company) which reports to the board of directors, comprises of three independent non-executive directors, with the recent appointment of an additional member, Mr. Claude Towell, who brings in legal expertise to the committee. The committee held four scheduled meetings and four special meetings for the year ended 31 March 2011.

In the conduct of its duties the audit and risk committee has performed the following activities:

- Agreed to proceed with the current registered auditors for Alexkor Limited who, in the opinion of the audit committee, are independent of the company;
- Determined the fees to be paid to the auditor and the auditor's terms of engagement;
- Ensure that the appointment of the auditor complies with the Companies Act and any other legislation relating to the appointment of auditors;
- Determined the nature and extent of any non-audit services which the auditor may provide to the company;
- Pre-approved any proposed contract with the auditor for the provision of non-audit services to the company;
- Considered the independence and objectivity of the external auditors and ensured that the scope of their additional services provided was not such that they could be seen to have impaired their independence;
- Received and dealt appropriately with any issue reported (internal or external) relating either to the accounting practices and internal audit or to the content or auditing of its financial statements, or to any related matter;
- Received and reviewed reports from both internal and external auditors concerning the effectiveness of the company's internal control environment, systems and processes;
- Reviewed the reports of both internal and external auditors detailing their concerns arising out of their audits and requested appropriate responses from management which resulted in their concerns being addressed;
- Considered the effectiveness of internal audit, approved the one-year operational internal audit plan and monitored the adherence of internal audit to its annual programme;
- Reviewed and recommended for adoption by the Alexkor Limited board such financial information that is publicly disclosed which for the year included the financial statements for the year ended 31 March 2011;
- Made appropriate recommendation to the Board of Directors regarding the corrective actions to be taken as a consequence of audit findings;
- Reviewed the company's compliance with legal and regulatory provisions and the adequacy, reliability and accuracy of the financial information provided to management and other users of such information;
- Reviewed and accepted the risk profile of Alexkor, in order to ensure that the efforts of management and auditors are appropriately directed;
- Reviewed the processes in Alexkor in order to ensure that risks are adequately identified and brought to the attention of the appropriate parties.

STATEMENT FROM THE AUDIT AND RISK COMMITTEE CONTINUED
FOR THE YEAR ENDED 31 MARCH 2011

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

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

Where weaknesses in specific controls have been identified, management has undertaken to implement the appropriate corrective action to mitigate the weaknesses identified. The internal and external auditors have unlimited access to the chairman of the committee. The chairman of the committee attends the annual general meeting and is available to answer any questions.

The audit and risk committee has evaluated the financial statements for the year ended 31 March 2011 and considers that they comply, in all material respects, with the requirements of the PFMA, the Companies Act, 61 of 1973, as amended, and International Financial Reporting Standards.

The committee acknowledges that Alexkor has made significant progress in addressing the control weakness identified previously and looks forward to the future control environment, which will provide a sound basis for Alexkor to meet its obligations to its stakeholders. The audit and risk committee therefore recommends the adoption of the annual financial statements by the board of directors.

S Ngoma
CHAIRMAN
AUDIT AND RISK COMMITTEE

INDEPENDENT AUDITOR'S REPORT TO PARLIAMENT
FOR THE YEAR ENDED 31 MARCH 2011

REPORT ON THE FINANCIAL STATEMENTS

INTRODUCTION

We have audited the annual financial statements of Alexkor Limited, which comprise the statement of financial position as at 31 March 2011, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the directors' report, as set out on pages 49 to 97.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The board of directors, which constitute the accounting authority, is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, the Companies Act of South Africa and in the manner required by the Public Finance Management Act 1999 of South Africa (Act No.1 of 1999) (PFMA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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.

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

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of Alexkor Limited as at 31 March 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa and the Public Finance Management Act.

INDEPENDENT AUDITOR'S REPORT TO PARLIAMENT CONTINUED

FOR THE YEAR ENDED 31 MARCH 2011

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to paragraph 15 in the directors' report, which indicates that although the company has sufficient cash resources to meet its operating cash requirements for the foreseeable future, there is significant doubt about the ability of the company to continue as a going concern in the longer term without the commencement of sustainable mining activities.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of General notice 1111 of 2010, issued in Government Gazette 33872 of 15 December 2010, we include below our findings on the annual performance report and material non-compliance with laws and regulations applicable to the public entity.

1. PREDETERMINED OBJECTIVES

Usefulness of information

The reported performance information was deficient in respect of the following criteria:

- Consistency: The reported objectives, indicators and targets are not consistent with the approved corporate plan.

The following audit findings relate to the above criteria:

The planned targets were not specific, measurable, time-bound and well-defined

The planned targets included in the corporate plan that was submitted in March 2010 for the year under review were not:

- specific in clearly identifying the nature and the required level of performance;
- measurable in identifying the required performance; and
- time-bound in specifying the time period or deadline for delivery.

Changes (including reasons for and approval thereof) to planned objectives, indicators and targets are not disclosed in the report on predetermined objectives

- Changes to the objectives, indicators and targets of the approved corporate plan for the year under review, were not disclosed and explained as required in terms of the relevant National Treasury preparation guide.

Changes to planned objectives, indicators and targets are not approved

- Additional and different objectives, indicators and targets were reported on as opposed to the objectives, indicators and target included in the approved corporate plan. These additional and different objectives, indicators and targets were not approved subsequent to the strategic planning process.

INDEPENDENT AUDITOR'S REPORT TO PARLIAMENT CONTINUED
FOR THE YEAR ENDED 31 MARCH 2011

2. COMPLIANCE WITH LAWS AND REGULATIONS

Strategic planning and performance management

Shareholder's compact

- The directors did not, in consultation with its executive authority, conclude a shareholder's compact for the year under review, as required by Treasury Regulation 29.2.1.
- The shareholder's compact that was submitted for approval, did not include the key performance measures and indicators as required by Treasury Regulation 29.2.2.

Corporate plan

- The corporate plan for the year under review did not cover a period of three years as required by Treasury Regulation 29.1.1 and section 52(b) of the PFMA due to uncertainty on the timing of the implementation of the PSJV. The corporate plan submitted for 2012 covers a three-year period as the timing for the implementation of the PSJV was more certain at time of submission.
- As result of a shareholder's compact not being concluded, the corporate plan for the year under review did not include the strategic objectives and outcomes, as well as the key performance measures and indicators for assessing the entity's performance in delivering the desired outcomes and objectives, as required by Treasury Regulation 29.1.1(a) and (c).

3. INTERNAL CONTROL

In terms of General notice 1111 of 2010, issued in Government Gazette 33872 of 15 December 2010, we considered internal control relevant to our audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

The accounting authority does not exercise oversight responsibility over reporting and compliance with laws and regulations as it relates to the concluding of a shareholder's compact and agreeing on the predetermined objective to be reported on.

PricewaterhouseCoopers Inc

PricewaterhouseCoopers Inc.
Director: TD Shango
Registered Auditor

Sunninghill
29 July 2011

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2011

The board of directors has pleasure in presenting its report for the financial year ended 31 March 2011. This report and the audited financial statements comply with the requirements of the Public Finance Management Act of South Africa (Act No. 1 of 1999) (PFMA). In promoting the concepts of corporate governance, the directors have included additional information about the company's strategic objectives, the impact of the PSJV with the RMC, as well as other important matters.

1 BACKGROUND

Alexkor has been an operating diamond mine since 1928, trading as State Alluvial Diggings at the time. The mine was commercialised on 1 May 1989, when its name was changed to the Alexander Bay Development Corporation. This structure remained in place until 2 November 1992 when it was incorporated under the Alexkor Act and traded as Alexkor Limited. The government of the Republic of South Africa, through the Minister of Public Enterprises, holds all shares in the company, which is listed as a schedule 2 public entity in terms of the PFMA.

Events in the recent history of the company significantly changed its operations and strategic outlook. The Richterveld community successfully instituted a land claim against Alexkor (and the South African government). On 14 October 2003 the Constitutional Court held that the community was entitled to restitution. A memorandum of understanding, signed on 29 October 2006, stipulated the in-principle agreements on the nature and extent of the intended restitution. A formal and binding Deed of Settlement (DoS) was signed on 22 April 2007, which was made an order of court in October 2007.

The outcome of the land claim settlement agreement in 2007 significantly impacted both the mining and non-mining operations of the company. The key elements of the settlement agreement are outlined in paragraph 7.2 below.

The manner in which the company operated in the past, coupled to its remote geographical location and its importance to the local and surrounding communities, obliged Alexkor to be responsible for certain commercial and community services. These services were rendered by Alexander Bay Trading, a division of the company, and included municipal services for the Alexander Bay township, airport services, sustainable farming activities and the hospital.

As part of the land claim settlement and the company's strategic direction, it will transfer the responsibility for these services to different Richtersveld community (RVC) entities and local government institutions. The services relating to the township will be transferred to the Richtersveld Local Municipality once the township establishment has been completed by June 2012. (Refer to note 20 to the financial statements). The farming operations were already transferred to the RVC during 2008.

Land mining activities were placed on care and maintenance during 2007 in light of sustained losses, outdated resource and exploration information and lack of required recapitalisation funding. Subsequent to the land mining operations placed on care and maintenance, only small-scale land mining was performed by three contractors, and this was limited to reworking of existing or old mined areas and the rework of tailings.

In compliance with the requirements of the DoS, all mining activities were to be performed in the Alexkor RMC JV (the PSJV between the company and the RMC) once the joint venture has been established. The PSJV started on 7 April 2011, after the land mining rights had been successfully transferred to the RMC on 6 April 2011. All the mining operations will still be performed by mining contractors in the foreseeable future.

DIRECTORS' REPORT CONTINUED
FOR THE YEAR ENDED 31 MARCH 2011

As part of the land claim settlement R 200 million was made available by the state for the recapitalisation and exploration of the joint venture. These funds will be utilised once a strategic plan has been completed. With the progress made in implementing the deed of settlement, the company would successfully complete its exit from all non-mining activities, such as the municipal services, by June 2012, and continue with its strategic direction of mining activities within the PSJV and exploring new opportunities.

2 NATURE OF BUSINESS

The main business of the company is the economic exploitation of diamonds in the Richtersveld area. The current mining operations comprise low-scale land operations and shallow and deep water marine mining currently undertaken by mining contractors appointed by the company. The company also started identifying new profitable mining opportunities during the past year.

3 BOARD OF DIRECTORS

Alexkor's board of directors comprises five non-executive directors (2010: five) and one executive director. The board meets at least quarterly and retains full and effective control over the company's business. It monitors executive management through a structured approach to reporting and accountability.

All directors receive regular information about the company in order to equip them to actively participate in board meetings. Members of the board also have access to management and the company secretary for any further information they may require. None of the current directors has any interest in the share capital of the company, or any contracts entered into by the company, as disclosed by the statutory records of the company and representations made to the company. Disclosure of remuneration in terms of section 55 of the PFMA and Treasury Regulation 28.1.1 is provided in note 25 to the financial statements.

4 SHARE CAPITAL

There has been no change in the authorised and issued share capital. Details of the authorised and issued share capital are disclosed in note 8 of the financial statements.

5 SHAREHOLDER

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

6 DIRECTORS' RESPONSIBILITY IN RELATION TO THE ANNUAL FINANCIAL STATEMENTS

The company's directors are responsible for the preparation and fair presentation of the annual financial statements, comprising the statement of financial position at 31 March 2011, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of accounting policies and other explanatory notes, in accordance with international financial reporting standards (IFRS) and in the manner required by South Africa's Companies Act, 61 of 1973, as amended.

The annual financial statements on page 56 to 97 reflect the financial performance, position and cash flow results of the company's operations for the year ended 31 March 2011.

DIRECTORS' REPORT CONTINUED
FOR THE YEAR ENDED 31 MARCH 2011

7 CORE OBJECTIVES

7.1 STRATEGIC OBJECTIVES

The main strategic objectives defined by the board of directors in the 2011 Corporate Plan are to implement the court order of 9 October 2007, which incorporates the DoS between the Richtersveld community, the government and Alexkor, whilst implementing strategies to return the mine's operations to a profitable status. These initiatives included, inter alia:

- Finalising the exiting and maintenance of the non-core business activities relating to Alexander Bay Trading (ABT) and Alexander Bay Town;
- Maintaining production capacity on marine and land mining operations, and the achievement of a budgeted carat production of 31 425 carats;
- Completion of the conversion of the mine's old order mining rights to new order rights and the transfer of such right to the Richtersveld Mining Company (RMC);

The initiatives listed above were monitored in the report on predetermined objectives. Funding for these initiatives was developed in 2008 as part of the medium-term expenditure framework process in the form of a recapitalisation of the operations. The implementation of these initiatives was negotiated successfully in the financial year, which enabled Alexkor to proceed with the pooling of its joint venture operations with the RMC from April 2011.

The land claims case was settled by an order of the court (OC) in October 2007, which stipulated that the recapitalisation of the mine would take place with the implementation of a pooling and sharing joint venture (PSJV). The PSJV was not implemented during the financial year because its implementation was dependent on the fulfilment of all the suspensive conditions in the deed of settlement. The suspensive conditions included the conversion of the mining rights and the completion of a business plan by the PSJV. The conversion from old to new order mining rights took place in the previous financial year.

DIRECTORS' REPORT CONTINUED
FOR THE YEAR ENDED 31 MARCH 2011

7.2 DEED OF SETTLEMENT MADE AN ORDER OF COURT

As mentioned above the DoS formalised the in-principle agreements reached between the parties regarding the nature and extent of the intended land claims restitution. The salient features of the settlement agreement are as follows:

- All land and buildings subject to the land claim will be transferred to the Richtersveld Communal Property Association (CPA);
- Certain erven and erected buildings within the to be established township of Alexander Bay will be transferred to various social institutions and government authorities to normalise the social and governmental structures;
- Land mining rights will be transferred to the RMC, whilst the company will retain its marine mining rights. Alexkor will retain its marine mining rights and remaining mining assets. These assets will be pledged to the Pooling and Sharing Joint Venture with the RMC. The PSJV commenced on 7 April 2011 as all the suspensive conditions set out in the deed of settlement were complied with.

7.3 DISCONTINUED OPERATIONS

As part of the company's obligation to exit the non-core business activities pursuant to the deed of settlement, the operations of Alexander Bay Trading are being discontinued. The process started during the 2008 financial year and management expects it to be completed by the 2012 financial year. The discontinued operations include the guesthouse, town maintenance, fuel station and the airport.

8 NEW BUSINESS DEVELOPMENT

The current level of mining activities, specifically land mining, casts doubt on the company's ability to continue as a going concern in the longer term without the start of sustainable mining. Alexkor identified four new mining opportunities and is currently investigating those that will most likely lead to profitable operations in the near future, as well as creating new job opportunities for historically disadvantaged individuals. Alexkor will explore these business opportunities independently of the RMC and the Alexkor RMC JV.

Beneficiation of product is currently a focus area for the government and as such forms part of Alexkor's expansion strategy. Partnerships are at present being investigated, initially with cutting and polishing entities and later with retail entities. Such vertical integration of activities will allow Alexkor to benefit from the full value chain from mine to finger. The chosen priority projects will aim to produce a high quality of stone ideally suited to the economic requirements of the South African cutting and polishing industry and Alexkor's envisaged retail initiatives.

9 DIVIDENDS

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

10 BORROWINGS

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

DIRECTORS' REPORT CONTINUED
FOR THE YEAR ENDED 31 MARCH 2011

11 INTERNAL CONTROL

The board is responsible for the company's systems of internal financial control. These are designed to provide reasonable but not absolute assurance as to the reliability of the financial statements. The control systems are also meant to adequately safeguard, verify and maintain accountability of assets, and to prevent and detect misstatements and losses.

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

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

12 SHAREHOLDER'S COMPACT

A shareholder's compact was not signed between the board and the executive authority for the period under review due to the finalisation of the company's strategic direction.

13 LITIGATION STATEMENT

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

During the year the company instituted a claim against the government of the Republic of South Africa and others for compensation in respect of assets it transferred to the RVC in settlement of the land claim. The land settlement claim was principally against the state, and Alexkor as owner of the assets subject to the restitution claim, was cited as an affected and interested party. Alexkor was obliged to claim a quid pro quo for the assets transferred to the community. Alexkor therefore instituted a claim for compensation of the assets so transferred in the sum of R164, 895,541. The parties have agreed to submit the dispute to mediation, which is pending. Full detail of the litigation has been disclosed in note 21 to the financial statements.

14 ENVIRONMENTAL MATTERS

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

A study conducted by an independent environmental management consultant Siteplan in March 2011 estimated the gross liability to amount to R256.6 million as at 31 March 2011 (2010: R256.6 million). The

DIRECTORS' REPORT CONTINUED
FOR THE YEAR ENDED 31 MARCH 2011

company makes monthly contributions towards a duly registered rehabilitation trust and the cash held in trust amounted to R36.9 million as at 31 March 2011 (2010: R 32.8 million), resulting in a currently unfunded rehabilitation liability of R219.7 million (2010: R223.8m). The unfunded portion is guaranteed by the Department of Public Enterprises. Further details with regards to the rehabilitation liability are provided in note 10 to the annual financial statements.

The company has submitted an updated environmental management programme to the Department of Mineral Resources (DMR) for approval, after which monthly contributions to the environmental rehabilitation trust fund will be adjusted accordingly and the necessary guarantees provided.

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

The impact of current mining activities on the environment is minimised with the concurrent backfilling of excavations where possible, limiting access roads and erecting nets to curb the movement of sand at the base and toe of the sand plumes. Alexkor will continue to address priority environmental issues around Boegoeberg and other areas as identified by Siteplan by means of a modest budget for this year. However, rehabilitation activities will increase in future as Alexkor focuses more direct attention on the environmental issue by allocating more resources to address the liability more efficiently.

15 GOING CONCERN

The board took cognisance of the losses suffered during the past number of financial years and has considered their impact on the company's solvency. Given the substantial amount of cash available to meet its operating cash requirements and the guarantee from the Department of Public Enterprises in respect of the rehabilitation liability shortfall (refer to note 10 to the financial statements) the financial statements have been prepared on the going concern basis.

Alexkor has no borrowings. The company committed to five instalments to be paid towards the post-retirement medical aid obligation, of which it already paid the first instalment in December 2010. The balance of the liability amounting to R58.4 million will be paid in four equal payments over the next four years. See more detail in note 9.1 of the notes to the financial statements.

The cash balance available for operating cash requirements stood was R108 million as at 31 March 2011. The company budgeted for a total cash outflow of R45 million for the 2012 financial year based on the level of planned operational activities, capital expenditure, contributions into the rehabilitation trust and the annual payment to the post-retirement medical aid settlement in December (refer to note 9.1 in the financial statements). The available cash reserves are therefore sufficient to fund the cash requirements for the company for the foreseeable future.

As of 7 April 2011 when the PSJV commenced Alexkor Limited pooled its marine mining rights into a joint venture along with the land mining rights of the RMC to form the Alexkor RMC JV in accordance with the deed of settlement and unanimous resolution. With a 51% stake in this operation Alexkor is of the view that

DIRECTORS' REPORT CONTINUED
FOR THE YEAR ENDED 31 MARCH 2011

the venture will be profitable in future and that Alexkor will generate sufficient income to justify its stake in these operations.

The Minister also gave Alexkor a mandate to pursue other mining related opportunities for new business development outside the Alexander Bay region to expand on its mining operations. These opportunities are being investigated and decisions to proceed will be based on the viability and sustainability of such ventures. Funding for these opportunities will be dependent on the success of the medium-term expenditure framework applications that were submitted to the Department of Public Enterprises at the end of July 2011. The board accepts the risks related to new business development and believes this expansion to be in the best interest of Alexkor going forward.

In view of the above, the board believes the company will have adequate resources in place to continue with operations for the foreseeable future.

16 PUBLIC FINANCE MANAGEMENT ACT NO.1 OF 1999

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

17 AUDITORS

In accordance with section 270(2) of the Companies Act No. 61 of 1973 of South Africa, as amended, and in terms of General Notice 1111 of 2010 (which was issued in Government Gazette No. 33872 of 15 December 2010) PricewaterhouseCoopers Inc. will continue in office.

18 COMPANY SECRETARY

Ms Nozuko Mxunyelwa was acting in the position of the Company Secretary for the financial year under review. Ms Buyi Mlangeni was appointed in that position on 20 June 2011.

19 REPORT ON PREDETERMINED OBJECTIVES

Alexkor produced a report on predetermined objectives as set out on pages 28 to 33 during the 2011 financial year outlining its targets and achievements for the period. The company endeavours to comply with all the regulatory and reporting requirements in this regard for the 2012 financial year and thereafter.

20 RISK MANAGEMENT

The relevant risks in Alexkor have been identified during the current financial year and were addressed in terms of its risk management policy. A risk matrix was updated with new risks identified by the audit and risk committee before being included into the matrix. Responsible individuals are allocated to manage all the risks identified in the report, which are mitigated in the most practical manner possible.

STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 MARCH 2011

	Notes	2011 R	2010 R
ASSETS			
Non-current assets		63 990 372	56 302 137
Property, plant and equipment	3	26 752 267	22 988 280
Cash held in rehabilitation trust	19.2	36 927 031	32 829 874
Intangible assets	4	311 074	483 983
Current assets		477 974 160	437 840 230
Inventories	5	33 371 378	15 113 688
Trade and other receivables	6	6 491 229	4 112 617
Cash and cash equivalents	19.2	438 111 553	418 613 925
Non-current assets classified as held for sale	7	162 434 882	162 434 882
TOTAL ASSETS		704 399 414	656 577 249
EQUITY AND LIABILITIES			
Capital and reserves		16 889 033	(67 340 263)
Share capital	8	50 000 000	50 000 000
Accumulated loss		(191 195 859)	(275 425 155)
Revaluation reserve	7	158 084 892	158 084 892
Non-current liabilities		315 093 980	346 837 980
Retirement benefit obligations	9	58 436 000	90 180 000
Environmental rehabilitation liability	10	256 657 980	256 657 980
Current liabilities		372 416 401	377 079 532
Trade and other payables	11	372 416 401	377 079 532
TOTAL EQUITY AND LIABILITIES		704 399 414	656 577 249

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2011

	Notes	2011 R	2010 R
Revenue	12	195 906 883	163 889 539
Cost of sales		(184 559 369)	(173 923 732) *
Gross profit / (loss)		11 347 514	(10 034 193)
Administration expenses		(2 265 446)	(2 347 335) *
Other expenses	13	(45 408 446)	(5 827 695)
Other income	14	99 178 963	17 071 779
Provision for environmental rehabilitation liability	10	-	(17 014 980)
Provision for retirement benefit obligations	9	13 962 644	45 141 000
Operating profit	15	76 815 229	26 988 576
Net finance income		7 540 941	8 961 221
Finance income	16	26 916 651	23 343 739
Finance expense	17	(19 375 710)	(14 382 518)
Profit before income tax		84 356 170	35 949 797
Taxation	18	-	-
Profit for the year from continued operations		84 356 170	35 949 797
Discontinued operations (net of income tax)			
(Loss) / Profit for the year from discontinued operation	20	(126 874)	163 294
Profit for the year		84 229 296	36 113 091
Other comprehensive income:			
Revaluation reserve		-	12 730 000
Other comprehensive income for the year, net of tax		-	12 730 000
Total comprehensive income for the year		84 229 296	48 843 091

* Refer to note 15 for details on a reclassification that was done between the noted items.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2011

	Share capital	Accumulated loss	Revaluation reserve	Total
	R	R	R	R
Balance as at 1 April 2009	50 000 000	(324 268 246)	170 814 892	(103 453 354)
Total comprehensive income for the year		48 843 091		
Profit for the year	-	36 113 091	-	36 113 091
Other comprehensive income	-	12 730 000	(12 730 000)	-
Balance as at 1 April 2010	50 000 000	(275 425 155)	158 084 892	(67 340 263)
Total comprehensive income for the year	-	84 229 296	-	84 229 296
Profit for the year		84 229 296		
Other comprehensive income	-	-	-	-
Balance as at 31 March 2011	50 000 000	(191 195 859)	158 084 892	16 889 033

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2011

	Notes	2011 R	2010 R
Net cash generated from operating activities		19 274 662	13 902 851 *
Cash generated from operating activities	19.1	11 860 595	4 778 336 *
Cash flow from discontinued operations	20	(126 874)	163 294
Interest received	16	26 916 651	23 343 739
Interest paid	17	(19 375 710)	(14 382 518)
Net cash utilised in investing activities		(5 630 764)	(4 551 566)
Expenditure to maintain operating capacity			
Replacement of property, plant & equipment	3	(5 630 764)	(3 976 225)
Replacement of intangible assets	4	-	(575 341)
Net cash received from financing activities		9 950 887	137 442 600
Government funded obligations utilised	11.1	(45 404 436)	(5 827 547) *
Government funded obligations received	11.1	36 000 000	129 090 000
Interest received on government funded obligations	11.1	19 355 323	14 180 147
Net increase in cash and cash equivalents		23 594 785	146 793 885
Opening cash and cash equivalents		451 443 799	304 649 914
Closing cash and cash equivalents	19.2	475 038 584	451 443 799

* Refer to note 19.1 for details on a reclassification that was done between the noted items.

ACCOUNTING POLICIES
FOR THE YEAR ENDED 31 MARCH 2011

1 PRINCIPLE ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

1.1 BASIS OF PREPARATION

The financial statements for the year ended 31 March 2011 have been prepared in accordance with International Financial Reporting Standards (IFRS) and the Public Finance Management Act No. 1 of 1999, as amended (PFMA). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings. The accounting policies have been consistently applied to all the periods presented.

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the notes below. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS THAT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN EARLY ADOPTED BY THE COMPANY.

The following standards, amendments and interpretations were issued but not yet effective:

- IAS 12 (Revised) Income Taxes – Deferred Tax: Recovery of Underlying Assets (effective for financial periods beginning on/after 1 January 2012) –The amendment provides a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model in IAS 40 Investment property. Under IAS 12, the measurement of deferred tax liabilities and deferred tax assets depends on whether an entity expects to recover an asset by using it or selling it. However, it is often difficult and subjective to determine the expected manner of recovery when the investment property is measured using the fair value model in IAS 40. To provide a practical approach in such cases, the amendments introduce a presumption that the investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.
  This will not be applicable to Alexkor.

- IAS 24 (Revised): Related Party Disclosures (effective for financial periods beginning on/after 1 January 2011) – The revision simplifies the disclosure requirements for government-related entities and clarifies the definition of related party.
  Management is in the process of assessing the impact.

ACCOUNTING POLICIES CONTINUED
FOR THE YEAR ENDED 31 MARCH 2011

- IAS 27 (Amended) Separate Financial Statements (effective for financial periods beginning on/after 1 January 2013) – IFRS 27 contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity elects or is required by local regulations to present separate financial statements. The standard requires an entity preparing separate financial statements to account for those investments at cost or in accordance with IFRS 9 Financial Instruments.
  Management is in the process of assessing the impact.

- IAS 28 (Amended) Investments in Associates and Joint Ventures (effective for financial periods beginning on/after 1 January 2013) – The new IAS 28 prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.
  Management is in the process of assessing the impact.

- IFRS 1 (Amendment): First-time Adoption of International Financial Reporting Standards – Limited Exemptions from Comparative IFRS 7 Disclosures for First-time Adopters (effective for financial periods beginning on/after 1 July 2010) – The additional amendment relieves first-time adopters of IFRSs from presenting comparative information for new three-level classification disclosures required by the March 2009 amendments to IFRS 7 'Financial Instruments: Disclosures'. It thereby ensures that first-time adopters benefit from the same transition provisions that amendments to IFRS 7 provide to current IFRS preparers.
  This will not be applicable to Alexkor.

- IFRS 1 (Amendment): First-time Adoption of International Financial Reporting Standards – Removal of Fixed Dates for First-time Adopters (effective for financial periods beginning on/after 1 July 2011). The amendment replaces references to a fixed date of '1 January 2004' with 'the date of transition to IFRSs', thus eliminating the need for companies adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs.
  This will not be applicable to Alexkor.

- IFRS 1 (Amendment): First-time Adoption of International Financial Reporting Standards – Guidance on Severe Hyperinflation (effective for financial periods beginning on/after 1 July 2011). The amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation.
  This will not be applicable for Alexkor.

- IFRS 7 (AC 144) (Amendment): Financial Instruments: Disclosures – Transfer of Financial Assets (effective for financial periods beginning on/after 1 July 2011) - The amendment will allow users of financial statements to improve their understanding of transfer transactions of financial assets, including understanding the possible effects of any risks that may remain with the entity that transferred the assets. It will also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of the reporting period.
  Management is in the process of assessing the impact.

- IFRS 9: Financial Instruments (effective for financial periods beginning on/after 1 January 2013) - IFRS 9 addresses classification and measurement of financial assets. It uses a single approach to determine whether a financial asset is measured at amortised cost or at fair value. The approach in IFRS 9 is based on how an

ACCOUNTING POLICIES CONTINUED
FOR THE YEAR ENDED 31 MARCH 2011

entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The standard requires a single impairment method to be used, replacing the numerous impairment methods in IAS 39 that arose from the different classification categories. The standard also removes the requirement to separate embedded derivatives from financial asset hosts.
Management is in the process of assessing the impact.

- IFRS 9 (Amendment): Financial Instruments (effective for financial periods beginning on/after 1 January 2013) – The accounting and presentation for financial liabilities and for derecognising financial instruments has been relocated from IAS 39, 'Financial instruments: Recognition and measurement', without change, except for financial liabilities that are designated at fair value through profit or loss. The amendment introduces new requirements that address the problem of volatility in profit or loss (P&L) arising from an issuer choosing to measure its own debt at fair value. With the new requirements, an entity choosing to measure a liability at fair value will present the portion of the change in its fair value due to changes in the entity's own credit risk in the other comprehensive income (OCI) section of the income statement, rather than within P&L.
Management is in the process of assessing the impact.

- IFRS 10 Consolidated Financial Statements (effective for financial periods beginning on/after 1 January 2013) – IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities and supersedes IAS 27 Consolidated and Separate Financial Statements. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. The revised definition of control focuses on the need to have both power and variable returns before control is present. The standard provides additional guidance to assist in determination of control where this is difficult to assess.
This will not be applicable to Alexkor.

- IFRS 11 Joint Arrangements (effective for financial periods beginning on/after 1 January 2013) – IFRS 11 establishes principles for financial reporting by parties to a joint arrangement and supersedes IAS 31 Interests in Joint Venture. IFRS 11 classifies joint arrangements into joint operations and joint ventures. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The standard requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations arising from the arrangement. The focus is no longer on the legal structure. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures.
Management is in the process of assessing the impact.

- IFRS 12 Disclosure of Interest in Other Entities (effective for financial periods beginning on/after 1 January 2013) – IFRS 12 is a comprehensive standard on disclosure requirements for all forms of interest in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The new standard requires entities to disclose information that helps financial statement readers to evaluate the nature, risk and financial effects associated with the entity's interest in subsidiaries, associates, joint arrangements and unconsolidated structured entities.
Management is in the process of assessing the impact.

ACCOUNTING POLICIES CONTINUED
FOR THE YEAR ENDED 31 MARCH 2011

- IFRS 13 Fair Value Measurement (effective for financial periods beginning on/after 1 January 2013) –IFRS 13 defines fair value, sets out in a single IFRS a framework for measuring fair value, and sets out disclosure requirements on fair value measurements.
  Management is in the process of assessing the impact.

- IFRIC 14 (Amendment): The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction - Prepayment of minimum funding requirements (effective for financial periods beginning on/after 1 January 2011) – This amendment applies in the limited circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits such an entity to treat the benefit of such an early payment as an asset.
  Management is in the process of assessing the impact.

- IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments (effective for financial periods beginning on or after 1 July 2010) – This interpretation provides guidance on how to account for the extinguishment of a financial liability by the issue of equity instruments. It clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in the profit and loss account based on the fair value of the equity instruments compared to the carrying amount of the debt.
  Management is in the process of assessing the impact.

- Improvements to IFRSs 2010 – Improvements to IFRS are a collection of amendments to International Financial Reporting Standards (IFRSs). These amendments are the result of conclusions the Board reached on proposals made in its annual improvements project.
  Management is in the process of assessing the impact.

1.2 REVENUE RECOGNITION

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

The company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the company's activities as described below.

(a) Sale of diamonds
Revenue from diamond production is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer.

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

ACCOUNTING POLICIES CONTINUED
FOR THE YEAR ENDED 31 MARCH 2011

1.3 GOVERNMENT GRANTS

Government grants are accounted for at the earlier of the date when the funds are transferred or when there is reasonable assurance that the grant will be received. Distinction is made between the following types of government grants:

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

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

1.4 PROPERTY, PLANT AND EQUIPMENT

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

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

Increases in the carrying amount arising on revaluation of land and buildings relating to the non-core activities are credited to other reserves in the shareholder's equity. Decreases that off-set previous increases of the same asset are charged against other reserves directly in equity; all other decreases are charged to profit or loss.

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

- Buildings — 10 years
- Plant and equipment — 5 - 10 years
- Motor vehicles — 3 - 5 years
- Furniture, fittings and equipment — 3 - 5 years

The assets' residual values and useful lives are reviewed at each statement of financial position date and, if appropriate, adjusted.

ACCOUNTING POLICIES CONTINUED
FOR THE YEAR ENDED 31 MARCH 2011

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

1.5 INTANGIBLE ASSETS

Computer software

Intangible assets that are acquired by the company are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to profit and loss on a straight line basis over the estimated useful lives of the intangible assets. The estimated useful life for computer software is four years.

1.6 IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

Where impairment subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised for the asset in prior years. A reversal of impairment is recognised as income immediately.

1.7 FINANCIAL ASSETS

The company classifies its financial assets in the following categories:

- Loans and receivables

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the statement of financial position date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables and cash and cash equivalents in the statement of financial position. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

ACCOUNTING POLICIES CONTINUED
FOR THE YEAR ENDED 31 MARCH 2011

1.8 IMPAIRMENT OF FINANCIAL ASSETS

- Financial assets carried at amortised cost

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

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

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principle payments;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

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

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

1.9 INVENTORIES

Inventories are valued as follows:

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

In all cases, obsolete, redundant and slow moving stock are identified and written down to net realisable value.

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

1.10 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position. Cash that are earmarked for specific purposes (restricted cash balances) is included in cash and cash equivalents, but disclosed separately in the notes to the annual financial statements.

ACCOUNTING POLICIES CONTINUED
FOR THE YEAR ENDED 31 MARCH 2011

1.11 SHARE CAPITAL

Ordinary shares are classified as equity.

1.12 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Judgements in applying accounting policies and key sources of estimation uncertainty

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

Impairment of non-financial assets

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

Impairment of financial assets

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

For amounts due to the company, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

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

Environmental rehabilitation liability

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

ACCOUNTING POLICIES CONTINUED

FOR THE YEAR ENDED 31 MARCH 2011

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

Retirement benefit obligations

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

Recoverability of deferred tax assets

Deferred income tax assets are recognised to the extent that it is probable that future taxable benefits are generated, against which the deferred tax asset can be realised and tax losses continue to be available having regard to the nature and timing when they originated and compliance with the tax legislation associated with their recoupment.

1.13 EMPLOYEE BENEFITS

Pension Fund

The company had both defined benefit and defined contribution plans during the year. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The company operates one pension fund for its employees. The scheme is generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations.

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

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

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

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

Other post-retirement obligations

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

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

Termination benefits

Termination benefits are payable when employment is terminated by the company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The company recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the statement of financial position date are discounted to their present value.

Leave accrual

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

1.14 TAXATION

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

Current income tax

Current income tax assets and liabilities for the current periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. Management periodically evaluates

ACCOUNTING POLICIES CONTINUED
FOR THE YEAR ENDED 31 MARCH 2011

positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of comprehensive income.

Deferred income tax

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

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

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

1.15 NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

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

1.16 TRADE AND OTHER PAYABLES

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

Trade and other payables are initially recognised at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

ACCOUNTING POLICIES CONTINUED
FOR THE YEAR ENDED 31 MARCH 2011

1.17 TRADE AND OTHER RECEIVABLES

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

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

1.18 PROVISIONS

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

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

1.19 LEASES

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2011

2. FINANCIAL RISK MANAGEMENT

2.1. FINANCIAL RISK FACTORS

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

	Carrying values		Fair values	
	2011	2010	2011	2010
	R	R	R	R
Financial assets				
Trade and other receivables	6 345 997	3 876 798	6 345 997	3 876 798
Cash and cash equivalents	438 111 553	418 613 925	438 111 553	418 613 925
Cash held in the rehabilitation trust	36 927 031	32 829 874	36 927 031	32 829 874
Financial liabilities				
Trade and other payables	361 566 049	328 791 670	361 566 049	328 791 670

MARKET RISK

Foreign currency risk

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

Commodity price risk

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

Cash flow interest rate risk

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

Sensitivity analysis on interest rates

At 31 March 2011, if interest rates on deposits had been 1% lower with all other variables remaining constant, the pre-tax profit for the year would have been R4 750 386 lower (2010: R4 514 438). Conversely, if interest rates on deposits had been 1% higher with all other variables remaining constant, the pre-tax profit for the year would have been R4 750 386 higher (R2010: R4 514 438).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2011

OTHER FINANCIAL RISKS

Credit risk

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

- ***Trade and other receivables***

  The company trades only with recognised, creditworthy third parties. It is the company's policy that all customers who wish to trade on credit terms are subject to internal credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the company's exposure to bad debts is not significant. The company's maximum exposure is equal to the carrying amount of trade and other receivables.

  An amount of R3 036 888 (2010: R3 360 453) in trade receivables were determined to be impaired. The company considered these receivables to be irrecoverable as the defaulted debtors have not reacted to follow-up payment requests and were subsequently handed over to the company's lawyers. Refer to note 6 for further disclosure.

- ***Cash and cash equivalents***

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

Funds are held at the following institutions:

	Cash balances	
	2011	2010
	R	R
Investec Bank Limited	259 270 862	263 574 047
Rand Merchant Bank Limited	200 868 316	85 534 105
First National Bank Limited	12 357 735	95 037 609
Nedbank Limited	2 516 371	7 234 294
Total	475 013 284	451 380 055

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

	Credit rating	
	2011	2010
	R	R
BBB+	213 226 051	180 571 714
BBB	261 787 233	270 808 340
Total	475 013 284	451 380 054

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2011

Liquidity risk

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

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

	Contractual value	0 - 3 months	More than 3 months
	R	R	R
As at 31 March 2011			
Trade and other payables	361 566 049	42 379 559	319 186 490
As at 31 March 2010			
Trade and other payables	328 791 670	19 556 067	309 235 603

2.2. CAPITAL RISK MANAGEMENT

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

The company will, consistent with others in the industry, monitor capital on the basis of the gearing ratio, when the restructuring is completed. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "current and non-current borrowings" as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as "equity" as shown in the statement of financial position plus net debt. The company currently does not have any borrowings.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2011

3 PROPERTY, PLANT AND EQUIPMENT

	2011	2011	2011	2010	2010	2010
	Cost	Accumulated Depreciation	Carrying Value	Cost	Accumulated Depreciation	Carrying Value
	R	R	R	R	R	R
Owned assets						
Land and buildings	20 610 222	1 838 791	18 771 431	20 610 222	1 838 791	18 771 431
Plant and equipment	54 369 277	49 537 911	4 831 366	50 680 547	48 752 434	1 928 113
Motor vehicles	17 299 422	15 086 535	2 212 887	15 917 383	14 282 997	1 634 386
Furniture and fittings	1 187 014	1 014 722	172 292	1 109 293	964 267	145 026
Computer equipment	4 230 235	3 465 944	764 291	3 765 354	3 256 030	509 324
	97 696 170	70 943 903	26 752 267	92 082 799	69 094 519	22 988 280

Reconciliation of the carrying values of property, plant and equipment:

2011	Carrying value at beginning of the year	Additions	Depreciation	Carrying value at end of year
	R	R	R	R
Owned assets				
Land and buildings	18 771 431	-	-	18 771 431
Plant and equipment	1 928 113	3 706 122	(802 869)	4 831 366
Motor vehicles	1 634 386	1 382 040	(803 539)	2 212 887
Furniture and fittings	145 026	77 721	(50 455)	172 292
Computer equipment	509 324	464 881	(209 914)	764 291
	22 988 280	5 630 764	(1 866 777)	26 752 267

2010	Carrying value at beginning of the year	Additions	Depreciation	Carrying value at end of year
	R	R	R	R
Owned assets				
Land and buildings	18 771 431	-	-	18 771 431
Plant and equipment	94 542	1 924 124	(90 553)	1 928 113
Motor vehicles	643 081	1 478 752	(487 447)	1 634 386
Furniture and fittings	100 815	150 158	(105 947)	145 026
Computer equipment	275 170	423 191	(189 037)	509 324
	19 885 039	3 976 225	(872 984)	22 988 280

A register with the details of the buildings owned by the company is available at its offices.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2011

4 INTANGIBLE ASSETS

	2011 Cost	2011 Accumulated Amortisation/ Impairment	2011 Carrying Value	2010 Cost	2010 Accumulated Amortisation/ Impairment	2010 Carrying Value
	R	R	R	R	R	R
Owned assets						
Computer software	1 594 478	1 283 404	311 074	1 594 478	1 110 495	483 983
	1 594 478	1 283 404	311 074	1 594 478	1 110 495	483 983

Reconciliation of the carrying value of intangible assets

	Carrying value at beginning of the year	Additions	Amortisation	Carrying value at end of year
2011	R	R	R	R
Owned assets				
Computer software	483 983	-	(172 909)	311 074
	483 983	-	(172 909)	311 074
2010				
Owned assets				
Computer software	220 240	575 341	(311 598)	483 983
	220 240	575 341	(311 598)	483 983

5 INVENTORIES

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

	2011	2010
	R	R
Diamonds	25 287 541	7 385 934
Parts and consumable stores	8 083 837	7 727 754
	33 371 378	15 113 688

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2011

6 TRADE AND OTHER RECEIVABLES

	2011	2010
	R	R
Trade receivables *	3 599 010	2 272 811
Loan to the Richtersveld Agricultural Holding Company *	2 100 443	2 100 443
Less: Provision for impairment of receivables	(2 100 443)	(2 100 443)
Total other receivables *	3 683 432	2 863 997
Less: Provision for impairment of receivables	(936 445)	(1 260 010)
Total prepayments †	145 232	235 819
	6 491 229	4 112 617

Movement in the provision for impairment of trade receivables

	2011	2010
Balance at the beginning of the year	3 360 453	2 069 358
Impairment losses (reversed)/ recognised	(323 565)	4 311 540
Amounts written off as uncollectable	-	(3 020 445)
Balance at the end of the year	3 036 888	3 360 453

Credit quality of trade and other receivables

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

* Financial assets
† Non-financial assets

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

Counter parties with no external credit rating	2011	2010
New customers	238 464	20 208
Existing customers with no defaults in the past	3 163 995	5 701
Existing customers with some defaults in the past	65 029	3 088 943
	3 467 488	3 114 852

Trade and other receivables which are less than four months past due are not considered to be impaired. At 31 March 2011, R5 915 397 (2010: R4 122 399) were past due but not impaired. An impairment provision of R3 036 888 (2010: R3 360 453) was recognised against trade and other receivables.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2011

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

	2011		
	Gross amount	Impairment	Net Carrying amount
Current/fully performing	3 467 488	(67 166)	3 400 322
30 - 60 days	2 114 410	(86 291)	2 028 119
60 + days	3 800 987	(2 883 431)	917 556
	9 382 885	(3 036 888)	6 345 997

	2010		
	Gross amount	Impairment	Net Carrying amount
Current/fully performing	3 114 852	(78 527)	3 036 325
30 - 60 days	486 222	(114 180)	372 042
60 + days	3 636 177	(3 167 746)	468 431
	7 237 251	(3 360 453)	3 876 798

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

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

7 NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

	2011 Fair Value at the beginning of the year	2011 Impairment	2011 Disposal	2011 Fair Value at the end of the year
	R	R	R	R
Land and buildings	162 434 882	-	-	162 434 882
	162 434 882	-	-	162 434 882

	2010 Fair Value at the beginning of the year	2010 Impairment	2010 Disposal	2010 Fair Value at the end of the year
	R	R	R	R
Land and buildings	176 764 882	-	(14 330 000)	162 434 882
	176 764 882	-	(14 330 000)	162 434 882

The land and buildings classified as non-current held for sale are those assets specifically identified in the land claim settlement agreement that will be transferred to the Richtersveld community. The farm Beauvallon was transferred to the Richtersveld Agricultural Holding Company (RAHCO) during April 2009 at a value of R14 330 000. Refer to note 11.1 for disclosure on the expected timing of the transfer of these assets.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2011

8 SHARE CAPITAL

	2011	2010
	R	R
Authorised		
50 000 000 Ordinary shares of R1 each	50 000 000	50 000 000
Issued		
50 000 000 Ordinary shares of R1 each	50 000 000	50 000 000

9 RETIREMENT BENEFIT OBLIGATIONS

Pension Funds

All employees employed before 1 July 2003 are members of the defined benefit pension fund. The pension fund is governed by the South African Pension Funds Act of 1956 as amended. All employees appointed after the aforementioned dates are compelled to join the defined contribution fund. The actuarial valuation of the pension fund is performed using the projected unit credit method every third year and updates are performed for each financial year end. The assets held for the pension plans are held separately from the company and administered independently, in accordance with the statutory requirements and are measured using period end market values.

All of the remaining Defined Benefit (DB) members were transferred to the Defined Contribution (DC) plan during the financial year. Settlement accounting was performed in respect of this transfer at 31 August 2010 to account for this adjustment in the valuation.

Defined Benefit Pension Plan

An estimation of the pension plan status was performed by independent consulting actuaries on 31 March 2011 using certain actuarial assumptions. The previous actuarial valuation was performed on 31 March 2010. The following highlights the significant events or features of the Fund that were taken into account in preparing this report:

- All of the DB members transferred to the DC section
- A full valuation was performed in assessing the value of the liabilities
- The asset limit has been set to nil as there is no future surplus policy
- Settlement accounting was performed at 31 August 2010 in respect of the DB to DC transfer

Membership Data as 31 March 2011

Active members: 101 (2010: 102)
Pensioners: 190 (2010: 196)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2011

Valuation method

The actuarial valuation method used to value the liabilities is the Projected Unit Credit Method prescribed by IAS19. Future benefits valued are projected using specific actuarial assumptions and the liability for in-service members is accrued over expected working lifetime. The following key assumptions were used for the current valuation:

	2011	2010	2009	2008	2007
	%	%	%	%	%
Key economic assumptions					
Discount rate	9.00	9.00	9.00	9.25	7.75
Inflation rate	5.75	5.25	5.75	6.25	4.75
Salary increase rate	6.75	6.25	6.75	7.25	5.75
Expected rate of return on assets	9.00	9.25	9.25	10.25	9.00
Pension increase allowance	4.89	4.46	4.89	5.31	4.04

Settlement accounting has been performed at 31 August 2010 in respect of the transfer of defined benefit members to the defined contribution section. The following assumptions as at 31 August 2010 were used in calculating the settlement cost:

	%
Key economic assumptions	
Discount rate	9.00
Inflation rate	5.25
Salary increase rate	6.25
Expected rate of return on assets	8.50
Pension increase allowance	4.46

DEMOGRAPHIC ASSUMPTIONS

Mortality

The assumed rates of mortality are as follows:

Pre-retirement: SA85-90 ultimate mortality table

Post-retirement:

Income group (Rand per annum)	Current mortality	Future improvements Per annum
0 - 15, 000	a(55)	0.50%
15, 000 - 30, 000	PA(90)	0.50%
30, 000 - 45, 000	PA(90)-1	0.75%
45, 000 +	PA(90)-2	1.00%

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2011

Withdrawal

It was assumed that withdrawals would be in accordance with the following table:

Age group	Annual rate of withdrawal
20 -24	15%
25 -29	10%
30 - 34	7%
35 - 39	4%
40 -44	2%
>45	0%

Proportion married

It was assumed that 90% of members would be married at retirement with the wife 4 years younger than the husband.

	2011	2010	2009	2008	2007
	R	R	R	R	R
Fund Status					
Fair value of plan assets	24 271 000	93 943 000	198 926 000	234 259 000	277 693 000
Present value of obligations	-	(64 470 000)	(141 595 000)	(141 918 000)	(155 846 000)
Asset	24 271 000	29 473 000	57 331 000	92 341 000	121 847 000
Unrecognised surplus - Paragraph 58 limit*	(24 271 000)	(29 473 000)	(57 331 000)	(92 341 000)	(121 847 000)
Asset recognised on the balance sheet	-	-	-	-	-
Movement Analysis					
Opening balance of recognised asset	-	-	-	-	-
Net (expense)/income recognised in the income statement	(67 000)	(526 000)	(493 000)	(1 830 073)	(1 229 000)
Company contribution	67 000	526 000	493 000	1 830 073	1 229 000
Closing balance of recognised asset	-	-	-	-	-

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2011

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

The FSB approved the fund's surplus apportionment scheme on 7 November 2007. The approved surplus scheme was then overturned by the FSB in December 2009. The new surplus apportionment scheme has not yet been approved by the FSB. There is no formal future surplus policy and Alexkor is therefore not necessarily entitled to a contribution holiday. The Trustees will decide on the allocation of future surpluses as and when it arises, hence we have limited the asset to nil.

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

	2011	2010	2009	2008	2007
	R	R	R	R	R
Defined benefit obligation at the beginning of the year	64 470 000	141 595 000	141 918 000	155 846 000	147 927 000
Service cost	311 000	748 000	841 000	1 230 000	2 196 000
Member contributions	81 000	219 000	205 000	403 000	1 058 000
Liability settled	(65 008 000)	(115 603 000)	-	(39 891 000)	-
Interest cost	2 440 000	10 707 000	12 869 000	9 551 000	11 077 000
Actuarial (gain)/loss	19 000	7 314 000	(4 903 000)	34 709 000	1 522 000
Benefits paid	(2 224 000)	(5 517 000)	(9 008 000)	(19 288 000)	(6 799 000)
Risk premiums	(89 000)	(349 000)	(327 000)	(642 000)	(1 135 000)
Past service cost	-	25 356 000	-	-	-
Defined benefit obligation at the end of the year	-	64 470 000	141 595 000	141 918 000	155 846 000

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

	2011	2010	2009	2008	2007
Assets at fair market value at the beginning of the year	93 943 000	198 926 000	234 259 000	277 693 000	217 634 000
Expected return on assets	4 617 000	15 796 000	23 660 000	24 612 000	17 252 000
Member contributions	148 000	745 000	698 000	875 000	2 287 000
Risk premiums	(89 000)	(349 000)	(327 000)	(642 000)	(1 135 000)
Benefits paid	(2 224 000)	(5 517 000)	(9 008 000)	(59 862 000)	(6 799 000)
Settlement	(71 804 000)	(115 603 000)	-	-	-
Actuarial gain(/(loss)	(320 000)	(55 000)	(50 356 000)	(8 417 000)	48 454 000
Assets at fair market value at the end of the year	24 271 000	93 943 000	198 926 000	234 259 000	277 693 000

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2011

Estimated asset composition as at 31 March 2011	
Cash	40.62%
Equity	39.94%
Bonds	9.55%
Property	1.82%
Other	1.44%
International	6.63%
	100.00%

The fund's expected long term return is a function of the expected long term returns on equities, cash and bonds. In setting these assumptions the actuaries made use of the asset split as at 31 December 2010. The expected long-term rate of return on bonds was set at the same level as the discount rate. This implies a yield on government bonds of 9.00% per annum. The expected long-term rate of return on equities was set at a level of 3% above the bond rate, whilst the expected long-term rate of return on cash was set a level of 1% below the bond rate. Adjustments were made to affect the expenses.

Future expected contributions

The future expected income for the period 1 April 2011 – 31 March 2012 is R2 184 000.

9.1 POST-RETIREMENT MEDICAL AID BENEFITS

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

An actuarial valuation was performed on 31 March 2011. Alexkor carried out a voluntary buy-out exercise in the financial year where active members were offered lump sums in lieu of their post-retirement subsidy and pensioners were offered annuity policies through an insurance company. All of the pensioner and active members accepted the offers. Alexkor is funding the payment of the active lump sums over five annual instalments. The first instalment was made in December 2010. The remaining four instalments will be paid on 1 December of each year from 2011 to 2014. Alexkor is funding the payment of the annuity policy over five equal annual premium payments. The first instalment was made in November 2010 and December 2010 as the membership take-on was done over two phases. The remainder of the four premium payments will be paid on 1 December of each year from 2011 to 2014.

MEMBERSHIP DATA

In-service members:	2011: 33 (2010: 35)
Continuation members:	2011: 172 (2010: 173)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2011

	2011	2010	2009	2008	2007
	R	R	R	R	R
Fund Status - Trend information					
Fair value of plan assets	-	-	-	-	-
Present value of obligations	58 436 000	90 180 000	135 321 000	77 059 000	73 737 000
Present value of unfunded liability	58 436 000	90 180 000	135 321 000	77 059 000	73 737 000
Unrecognised actuarial gains/losses	-	-	-	-	-
Liability recognised in balance sheet	58 436 000	90 180 000	135 321 000	77 059 000	73 737 000
Experience adjustments					
In respect of present value of obligations	(308 000)	-	39 322 000	-	(59 269 000)

Actuarial valuation

The post-retirement medical liability is actuarially valued every three years by an independent firm of consulting actuaries, unless there are major changes in the nature and extent of the post-retirement benefits. Due to the material changes in prior years, Alexkor has performed valuations annually. The liability was last valued on 31 March 2011 (previous valuation – 31 March 2010).

Valuation method

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

Current and future pensioners have voluntarily accepted alternative benefit offers in lieu of post-employment medical contribution subsidies. As such, the employer's post-employment medical health care liability over the past financial year has changed from a commitment to pay a portion of the members' post-employment medical scheme contributions to the following arrangements:

- funding the payment of active member lump sums over five annual instalments. The first instalment was made in December 2010. The remaining four instalments will be paid on 1 December of each year from 2011 to 2014.
  - Should an active employee resign or be dismissed in the 5-year payment period, the employee forfeits the remainder of their outstanding payments
  - Should an active employee be retrenched, pass away or reach retirement age prior to the 5-year payment period passing, the outstanding instalments will become payable immediately
- funding the payment of an annuity policy for pensioners over five equal annual premium payments. The first instalment was made in November 2010 and December 2010 as the membership take-on was done over two phases. The remainder of the four premium payments will be paid on 1 December of each year from 2011 to 2014
  - The liability was valued as an annuity certain, using the assumed discount rate.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2011

The following principles assumptions were used for the current valuation:

Valuation date	31 March 2011	31 March 2010	31 March 2009	31 March 2008	31 March 2007
Discount Rate	8.75% p.a	9.25% p.a.	9.00% p.a.	7.75% p.a.	7.75% p.a.
Health care cost inflation	9.4% p.a	7.50% p.a.	7.50% p.a.	6.75% p.a.	6.75% p.a.
Expected retirement age *	60	60	60	60	60
Membership discontinued at retirement *	0%	0%	0%	0%	0%

* These assumptions were set in consultation with Alexkor.

	2011 R	2010 R	2009 R	2008 R	2007 R
Carrying value at the beginning of the year	90 180 000	135 321 000	77 059 000	73 737 000	108 007 000
Expensed to post-retirement employee benefits	(9 600 000)	(38 040 000)	61 432 000	6 634 090	(30 550 575)
Current service cost	430 000	470 000	771 000	722 000	1 218 000
Interest on liability	8 108 000	11 841 000	5 850 000	5 912 090	7 803 000
Net actuarial (gain)/loss *	(18 138 000)	(50 351 000)	54 811 000	-	(39 571 575)
Less: Contributions and changes in obligation	(4 775 000)	(7 101 000)	(3 170 000)	(3 312 090)	(3 719 425)
Effect of Settlement **	(17 369 000)	-	-	-	-
Carrying value at the end of the year	58 436 000	90 180 000	135 321 000	77 059 000	73 737 000

If Alexkor had not implemented the buy out process, the liability would have been an estimated R93 635 000 at 31 March 2011. The main reasons for the material change in the obligation were because the payment to the members changed from a 100% contribution to the Bonitas Standard plan to five known payments to Momentum in the form of CPI annuities. These five known payments have a small probability that they can accelerate or not be paid due to death or resignation respectively. This effect decreased the liability with an estimated *R18 138 000. Alexkor has also settled the first of five payments that has reduced the liability by a further estimated **R17 369 000.

The actuarial gain experienced during the 2009/2010 financial year is mainly attributable to the fact that the pensioners were shifted to a lower subsidy level within the Bonitas Medical Fund. The new level provides similar benefits at lower contribution rates. This approach resulted in lower monthly contributions by the company as well as having a positive impact on future contributions. The average contributions payable to the Standard plan within Bonitas Medical Fund is approximately 39% lower than the 2009 average contribution paid to Comprehensive plan within Bonitas Medical Funds.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2011

Projected increase in the accrued liability

The projected increase in the accrued liability for the 2012 financial year is as follows:

	R
Projected expense FY2012	4 770 000
Benefit payment	(17 461 000)
Projected increase in accrued liability	(12 691 000)
Accrued liability as at 31 March 2011	58 436 000
Projected accrued liability as at 31 March 2012	45 745 000

SENSITIVITY ANALYSIS

The sensitivity analysis is based on the actuarial valuation performed for the 2011 year and the assumptions that was applicable then.

Health-care Cost Inflation

The future amounts payable by Alexkor in respect of its actives and pensioners are independent on changes in the level of health care cost inflation.

	Discount Rate		
	Central assumption 8.75%	-1%	+1%
Accrued liability 31 March 2011 (R'million)	58.436	59.339	57.343
% Change		+1.5%	-1.9%
Current service and interest costs	4.770	4.295	5.209
% Change		-10%	+9.2%

	Expected Retirement Age		
	Central assumption 60 years	1 year younger	1 year older
Accrued liability 31 March 2011 (R'million)	58.436	59.153	58.436
% Change		+1.2%	0.0%

10 ENVIRONMENTAL REHABILITATION LIABILITY

The company has an obligation to rehabilitate the environment as a result of environmental disturbance caused by its mining activities. A provision is recognised for the estimated costs to rehabilitate the existing environmental disturbance as at year-end. The adjustment in the current year's provision was as result of the net inflationary adjustment of previous estimates, environmental disturbance caused during the financial year, less any actual rehabilitation of affected areas. The extent of sand plume increases during the year as result of past disturbances and the inevitable need to escalate control over these, will result in the liability to increase with at least R10 million in the next financial year. The required rehabilitation includes pebble stabilisation of sources, netting and possible reed grass re-vegetation.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2011

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

Enviromental liability	2011	2010
Opening balance	256 657 980	239 643 000
Inflationary increases	11 036 293	17 014 980
Rehabilitation work performed / assessed reduction in liability	(23 559 155)	-
Estimated cost relating to sand plume disturbances	12 522 862	-
	256 657 980	256 657 980

The cash held in the environmental rehabilitation trust, to the amount of R 36 927 031 (2010: R 32 829 874) can only be utilised towards environmental rehabilitation. The DPE has guaranteed any unfunded portion between the funds available held in the rehabilitation trust and the historical portion of the rehabilitation liability in accordance with the requirements of the DoS and Unanimous Resolution. The unfunded liability at year end is R219 730 949 (2010: R 223 828 106).

11 TRADE AND OTHER PAYABLES

		2011	2010
Trade payables *		35 142 433	11 313 813
Other payables *		1 378 952	521 819
VAT payable †		10 814 606	7 051 895
Income received in advance †		35 746	41 235 967
Government funded obligations *	11.1	319 186 490	309 235 603
Accruals *		5 858 174	7 720 435
Accrued leave *		1 586 151	1 945 066
Other accruals *		4 272 023	5 775 369
		372 416 401	377 079 532

* Financial liability
† Non-financial liability

The income received in advance in the previous year related to payments received from the Department of Land Affairs as compensation in terms of the land claims settlement agreement. The payment was for the transfer of the mining rights (for land mining) and was recognized as other income in the current financial year. The balance in the current year consisted of other deposits.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2011

11.1 GOVERNMENT FUNDED OBLIGATIONS

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

	Opening balance at beginning of the year	Transfers received	Utilised during the year	Interest earned on investment of funds	Closing balance at the end of the year
	R	R	R	R	R
Rehabilitation of Boegoeberg	2 328 747	-	-	2 526	2 331 273
Township establishment	82 937 362	36 000 000	(42 924 114)	5 348 095	81 361 343
Costs related to Deed of Settlement	16 003 483	-	(2 480 322)	1 130 697	14 653 858
Re-vegetation project	36 445	-	-	2 066	38 511
PSJV recapitalisation	207 929 566	-	-	12 871 939	220 801 505
Total government-funded obligations	309 235 603	36 000 000	(45 404 436)	19 355 323	319 186 490

Rehabilitation of Boegoeberg – The funding to assist Alexkor with the rehabilitation of Boegoeberg was received in 2007 from the DPE. The funding was granted as result of the significance of this land mark to the RVC. The environmental disturbance was caused by sand from a dried-up slimes dam covering the area. The funding was used to acquire capital equipment, netting and other necessary operational items such as wages and diesel to perform the rehabilitation works. The balance of the fund is committed to the intended purchase of earth moving equipment and will be acquired in due course.

Township Establishment – The funding was granted for the establishment of a township for the Alexander Bay town as part of the implementation of the DoS. Significant capital is required to upgrade the services in the town, which include water and electricity supply to existing houses and other establishments, upgrade of the road infrastructure and other related activities. Phase one of the township upgrade project which comprises of water network, sewer network, storm water control network, solid waste disposal and road works was 75% complete against the target of 80% by the end of the financial year. The tender for phase two which is electrical reticulation upgrade project was awarded during December 2010 and due to the December break and lead time on some equipment, the contractor established the site in March 2011. The tender for phase three is mechanical and electrical pumping was awarded in February 2011. Phase four which is waste water treatment works was still in an enviromental impact assessment (EIA) phase at the end of the financial year. The revised total project estimated completion date at the end of the financial year was projected for 31 March 2012. Subsequent information after year end indicated the date to be 30 June 2012. This is a result of bedrock intersected as well as a delay in the EIA process. The township will be transferred to the Northern Cape provincial government once the development is completed. The company commenced with the work during the 2010 financial year. Contracts to the value of R92.5 million have been awarded to date. A total amount of R42.9 million of the contracts has been delivered upon in the current financial year. The estimated total project expenditure is now R102 million compared to R109.8 million estimated in the previous year.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2011

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

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

Re-vegetation project – The funding was received on behalf of the RVC to be administered by Alexkor for the re-vegetation rehabilitation research project that was carried on by the RVC in the vicinity of Boegoeberg.

PSJV recapitalisation – Funding of R200 million was received in 2009 (R100 million) and 2010 (R100 million) which represents Alexkor's initial cost contribution for the recapitalisation of the PSJV (prospecting, exploration and mining operations). These funds can only be used, with the consent of the minister of public enterprises, once the PSJV has been established and a development plan for the land assets has been accepted. The PSJV commenced during April 2011. The utilisation of these funds has not yet been approved as all the requirements for the utilisation of the funds are not in place yet. A detailed plan has not yet been developed for the exploration and future mining activities.

12 REVENUE

	2011 R	2010 R
Diamond sales	195 906 883	163 889 539

All revenue from continuing operations was generated through the sale of diamonds.

13 OTHER EXPENSES

	2011 R	2010 R
Government transfers - specific expenditure incurred	45 404 436	5 827 547
Other expenses	4 010	148
	45 408 446	5 827 695

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2011

14 OTHER INCOME

	2011 R	2010 R
Government transfers - specific expenditure incurred	45 404 436	5 827 547
Other income	53 774 527	11 244 232
	99 178 963	17 071 779

Included in other income is an amount of R41 million which relates to the prepayment received for the transfer of the land mining rights to the RMC. The mining rights were transferred during the year and the prepayment was recognised in other income. Refer to the paragraph under note 11 for further disclosure.

15 OPERATING PROFIT/ (LOSS)

Operating profit is arrived at after taking into consideration the following:

	Note	2011 R	2010 R
Depreciation		2 039 686	1 184 582
Contractors cost		106 139 399	97 581 580
Auditors' remuneration		1 261 335	1 083 630
External audit fees		1 002 926	723 634
Fees for other services		258 359	359 996
Internal audit fees		497 361	210 938
Fuel and oil		1 704 750	1 425 822
Electricity and water		4 178 642	2 465 401
Staff costs		23 889 082	26 007 622
Director's emoluments	25	4 087 119	3 990 901
Mining royalties		2 295 123	6 210 262
Security costs		11 787 060	10 466 367
Insurance		808 465	694 012
Impairment losses recognised		540 810	4 311 540
Consultations		4 729 046	4 295 927
Accounting services		1 890 000	1 486 561
Occupational health services		1 159 835	1 693 553
Other consultations		1 679 211	1 115 813

Costs relating to inventory and stores were reclassified to be included under cost of sales rather than administration expenses as the reclassification provides a more accurate reflection of the nature of these costs. The reclassification is applicable to the prior year and amounts to R4 006 355.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2011

16 FINANCE INCOME

	2011 R	2010 R
Investment income from cash held in rehabilitation trust	1 953 203	2 276 234
Interest received on government funds	19 355 323	14 180 147
Interest received from cash held in bank	5 608 125	6 887 358
	26 916 651	23 343 739

17 FINANCE EXPENSES

	2011	2010
Interest received on government funds	19 355 323	14 180 147
Sundry interest expense	20 387	202 371
	19 375 710	14 382 518

Interest received on the government funds are shown as finance cost in this note as the interest received on these funds is allocated to the specific government funding obligation and increase the liability. (Refer to note 11.1)

18 TAXATION

No taxation has been provided in the current year as the taxable profits were set off against the estimated tax losses that existed on year end. No deferred tax asset has been raised on the assessed loss and other deductible timing differences as the company has no reasonable expectation that the deductible tax differences will be utilized in the foreseeable future. The estimated tax losses and unutilised capital allowances carried forward as at 31 March 2011 are as follows:

Estimated tax losses and unutilised capital allowances:

	2011	2010
Estimated tax losses	6 565 860	9 719 301
Estimated unutilised capital allowances	42 687 190	59 576 364
	49 253 050	69 295 665

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2011

19 NOTES TO THE CASH FLOW STATEMENT

19.1 CASH GENERATED BY OPERATING ACTIVITIES

	2011	2010
	R	R
Cash generated by operating activities		*Reclassified*
Net profit before taxation	84 229 296	36 113 091
Adjustments for:		
Depreciation	2 039 686	1 184 582
Finance income	(26 916 651)	(23 343 739)
Finance costs	19 375 710	14 382 518
Movements in retirement benefit obligations	(13 962 644)	(45 141 000)
Movements in environmental rehabilitation liability	-	17 014 980
Settlement paid on medical aid liability	(17 781 356)	-
Cash flow from discontinued operations	126 874	(163 294)
Non-cash income	(41 200 221)	-
Movement in working capital		
(Increase) in inventories	(18 257 690)	(6 120 276)
(Increase) / decrease in accounts receivable	(2 378 612)	5 299 763
Increase in accounts payable	26 586 203	5 551 711
	11 860 595	4 778 336

Payments made towards the utilisation of the government-funded liabilities were reclassified to be included under cash flow from financing activities rather than cash flows from operating activities to provide a more accurate reflection of the utilisation of these funds. The utilisation of the funds resulted in a decrease in the liability. The previous year's amounts were reclassified and the effect of this was that cash payments of R5 827 547 that were previously shown under cash flows from operating activities are now included under cash flows from financing activities.

19.2 CASH AND CASH EQUIVALENTS

	2011	2010
Restricted cash and cash equivalents		
Cash held in call account – government related funds	319 963 190	313 013 531
Cash held in trust – rehabilitation cost	36 927 031	32 829 874
Cash held in trust – ongoing litigations	10 125 462	9 653 045
Unrestricted cash and cash equivalents		
Cash held in call account	108 022 901	95 947 349
Total cash and cash equivalents at the end of the year	475 038 584	451 443 799

The government funds received will be utilised for specific projects (refer to note 11.1). If these funds are not utilised it will be repaid to government. The cash held in rehabilitation trust will be utilised to fund the rehabilitation liability (refer to note 10). The cash held in the trust for ongoing litigations will be utilised for legal costs should the company's defence be unsuccessful (refer to note 21).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2011

20 DISCONTINUED OPERATIONS

	Alexander Bay Trading	Hospital	Airport	Total
	R	R	R	R
Results from discontinued operations for the year ended 31 March 2011				
Revenue	14 990 258	-	-	14 990 258
Expenditure	(15 037 076)	(73 940)	(6 116)	(15 117 132)
Operating loss	(46 818)	(73 940)	(6 116)	(126 874)
Taxation	-	-	-	-
(Loss) for the period	(46 818)	(73 940)	(6 116)	(126 874)
Results from discontinued operations for the year ended 31 March 2010				
Revenue	14 418 803	324	12 000	14 431 127
Expenditure	(14 167 019)	(69 070)	(31 744)	(14 267 833)
Operating profit / (loss)	251 784	(68 746)	(19 744)	163 294
Taxation	-	-	-	-
Profit / (loss) for the period	251 784	(68 746)	(19 744)	163 294

	2011	2010
Cash flow (to) / from discontinued operations	R	R
Net (loss) / profit before taxation	(126 874)	163 294
	(126 874)	163 294

21 CONTINGENT LIABILITIES

Nabera Mining

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2011

Ruslyn Mining and Plant Hire

Ruslyn instituted action for damages against Alexkor relating to a profit sharing agreement entered into on 22 June 2003. Ruslyn instituted three claims against Alexkor, firstly for damages suffered as a result of fraudulent misrepresentation, secondly a claim based on a supposed contract in which Ruslyn alleged that it replaced the profit-sharing contract concluded in 2004, and thirdly on Alexkor's refusal to release Ruslyn's equipment when it wanted to withdraw same from the mining area. The trial is partly heard with two court sessions having passed. The second claim has been withdrawn. The trial is now centered on the alleged misrepresentation, and the action relating to the alleged impoundment of Ruslyn's equipment is still pending. After Ruslyn closed its case, Alexkor's attorneys lodged an application for dismissal of Ruslyn's first claim on the basis, amongst others, that Ruslyn did not prove its case as set out in its pleadings. Ruslyn brought an application to amend its pleadings. The application for dismissal of Ruslyn claim and amendments of pleadings were argued during November 2009. During March 2010 judgment was delivered and the application for amendment brought by Ruslyn was refused. Alexkor's application for dismissal of the second claim was granted. Ruslyn has appealed the decision, which is pending. In consultation with the company's legal representatives, no provision has been made in the financial statements for this claim.

22 EVENTS AFTER THE REPORTING PERIOD

Pooling and Sharing Joint Venture

The PSJV commenced on 7 April 2011, which resulted in the sharing of future revenue and costs on a 51%/49% split between Alexkor and the RMC. The joint venture will operate under the name "Alexkor RMC JV". Refer to Note 11.1 for further disclosure in regard of the recapitalisation of the joint venture.

23 GUARANTEES

	2011	2010
	R	R
The company's banker has issued guarantees on behalf of the company to the following:		
Eskom	110 000	165 000
Department of Mineral Resources	18 900	40 000
Total	128 900	205 000

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2011

24 RELATED PARTIES

	2011 R	2010 R
SAA	840 618	503 711
Department of Mineral Resources	-	5 468 218
Eskom	8 028 026	6 148 768
SA Post Office	1 680 332	1 317 778
Sentech	64 656	65 270
Total	10 613 632	13 503 745

The company is a state-owned entity and transactions with the following state entities occurred during the financial year on an arm's length basis:

- SAA
- Department of Mineral Resources
- Eskom
- SA Post Office
- Sentech

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 MARCH 2011

25 DIRECTORS' REMUNERATION

Name	Capacity	Fee for services as members	Basic Salary	Total 2010/2011	Total 2009/2010
Executive management *					
K McClain	Chief executive officer ^	-	2 439 983	2 439 983	2 343 559
M Mpanza	Mine engineer	-	862 000	862 000	520 328
Non-executive					
R Muzariri	Chairman	665 580	-	665 580	646 976
Dr R Paul	Non-executive director	285 548	-	285 548	205 235
Dr V Makin	Non-executive director	209 491	-	209 491	142 537
S Ngoma	Non-executive director	227 970	-	227 970	227 584
C Towell	Non-executive director	258 548	-	258 548	195 906
B Shongwe	Non-executive director	-	-	-	95 517
G Masha	Non-executive director	-	-	-	62 319
J Dely	Non-executive director	-	-	-	71 268
Total		1 647 137	3 301 983	4 949 120	4 511 229

* Certain positions within the executive management structure are performed by consultants in an acting capacity. These costs were not included in the note above, but under the following notes:

Mine manager : Note 11.1, under utilised funds of the costs related to the DoS.

Chief financial officer : Note 15, under the accounting services which form part of consultations.

^ The Chief executive officer is also an executive director of the company.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 MARCH 2011

26 SOCCER WORLD CUP EXPENDITURE

National Treasury requested public entities to disclose all expenditure incurred relating to 2010 Soccer World Cup tickets and clothing. The following are all the costs incurred in this regard:

	2011	2010
	R	R
Purchase of other world cup items		
Supporters apparel	4 211	-
Mascots	388	-
Makarapas	600	-
Armbands	450	-
SA Flags	300	-
Mugs	140	-
Vuvuzelas	5 882	-
Soccer balls	2 019	-
Entertainment	5 325	-
Total soccer world cup expenditure	19 315	-

APPLICABLE ACTS

ALEXKOR IS REGULATED BY THE FOLLOWING PRINCIPAL ACTS, ORDINANCES AND VARIOUS OTHER LEGISLATION:

- Alexkor Limited Act (No. 116 of 1992)
- Basic Conditions of Employment Act (No. 75 of 1997)
- Companies Act (No. 61 of 1973)
- Constitution of SA Act (No. 108 of 1996)
- Diamond Act (No. 56 of 1986)
- Environmental Laws Rationalisation Act (No. 51 of 1997)
- Income Tax Act No. 58 of 1962
- Labour Relations Act (No. 66 of 1995)
- Mine Health and Safety Act (No. 29 of 1996)
- Minerals Act (No. 50 of 1991)
- Minerals and Petroleum Resources Development Act (No.28 of 2002)
- National Environmental Management Act (No. 107 of 1998)
- Occupational Health and Safety Act (No. 85 of 1993)
- Public Audit Act (No. 24 of 2004)
- Public Finance Management Act (No. 1 of 1999)
- Restitution of Land Rights Act (No. 22 of 1994)
- Value Added Tax Act (No. 89 of 1991)

STATEMENT OF COMMITMENT

Alexkor is fully committed to observing and complying with all legislation, regulations and policies pertaining to it, and makes every endeavour to do so.

CORPORATE INFORMATION

ALEXKOR LIMITED HEAD OFFICE

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Contact: Gerhard Hechter

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