ALEXKOR
SOC LIMITED

ANNUAL REPORT
TWENTY12

CONTENTS

OVERVIEW

OVERVIEW

Alexkor is a schedule 2 public enterprise, incorporated in 1992 in terms of the Alexkor Act No. 116 of 1992 (the "Alexkor Act"), and now trading as Alexkor SOC Limited ("Alexkor"). 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. 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 stipulates, inter alia, the following:

- All land and buildings subject to the land claim will be transferred to the 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 with 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 December 2012, the services relating to the township management will be transferred to the local authority. Farming operations have already been transferred to the RVC in 2008.

HISTORICAL CONSTRAINTS

As far back as 2003 the uncertainties introduced by the land claim resulted in minimal investment in exploration, which negatively impacted 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 extreme conditions and experienced material losses. From that period until now only small-scale land mining operations could be undertaken, and these mining operations were limited to the rework of existing or previously mined areas and tailings. Management has

With the significant progress made in implementing the deed of settlement, the company will hand over the Alexander Bay Township in December 2012 upon completion of the upgrade. In keeping with its strategic direction it will continue mining activities with the PSJV and explore new mining opportunities outside the Alexander Bay region.

worked tirelessly within these constraints to contain costs and to maximise production. All efforts are bearing results and the pooling and sharing joint venture (PSJV) had its first year of production during the past financial year. The exploration plan is also close to completion which is likely to increase production on land in the future, therefore securing a sustainable future for all PSJV stakeholders.

As required by the DoS all mining activities will be performed in the PSJV, formally named the Alexkor RMC JV, that was established on 7 April 2011 after the successful transfer and cession of the land mining right to the RMC on 6 April 2011. All the mining operations will still be performed by mining contractors in the foreseeable future. Alexkor and the RMC hold a 51 and 49 per cent interest respectively in the PSJV.

Pursuant to the land claim settlement an amount of R200 million will be made available by Alexkor to the PSJV for the required exploration. These funds are transferred to the PSJV, as required, in the form of a loan and are repayable from the EBITDA of the PSJV's operations, as stipulated in the DoS.

With the significant progress made in implementing the DoS, the company will hand over the Alexander Bay Township in December 2012 upon completion of the upgrade. In keeping with its strategic direction it will continue mining activities with the PSJV and explore new mining opportunities outside the Alexander Bay region.

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

Berno Lategan
Acting Chief Executive Officer

Dr. Roger Leslie Paul
Non-Executive Director

Sibongiseni Simangele Ngoma
Non-Executive Director

Claude Llewellyn Towell
Non-Executive Director

Prof. Viola Makin
Non-Executive Director

EXECUTIVE MANAGEMENT

Berno Lategan
Acting Chief Executive Officer

Nozuko Mxunyelwa
Acting Company Secretary

ALEXKOR ORGANOGRAM

CHIEF EXECUTIVE OFFICER
(ACTING) B LATEGAN

COMPANY SECRETARY
(ACTING) N MXUNYELWA

FINANCE MANAGER
W BINEDELL

PERSONAL ASSISTANT
L SACHAKA

Most of Alexkor's existing personnel were ceded to the operations of the PSJV when it commenced operating on 7 April 2011. The organogram of the PSJV's top management can be seen on page 15 of the report.

MESSAGE FROM THE NON-EXECUTIVE CHAIRMAN

R T Muzariri

It gives me great pleasure to present the Chairman's Report for the financial year ended 31 March 2012. We experienced significant shifts in the past year with the establishment of the Alexkor RMC JV, effective from 7 April 2011.

Throughout this transition our staff remained focussed on their respective responsibilities and, on behalf the entire board, I wish to express my appreciation to our management and staff who on the whole continued to work tirelessly during this transition period.

STRATEGIC OBJECTIVES

On the back of the DoS with the Richtersveld community, concluded in 2007, Alexkor was required to meet the following key objectives:

- All land and buildings subject to the land claim would be transferred to the Communal Property Association (CPA);
- Certain erven and erected buildings within the to-be-established township of Alexander Bay would be transferred to various social institutions and government authorities to normalise the social and governmental structures;
- The land mining rights would be transferred to the CPA, whilst the company will retain its marine mining rights. These marine mining rights have been pooled with the RMC's land mining rights to form the Alexkor RMC JV which commenced operations on 7 April 2011.

With the formal establishment of the PSJV in April 2011 new structures have had to be initiated to comply with the requirements of the Deed of Settlement (DoS). Accordingly Alexkor participated in the following:

- Formal establishment of the independent Alexkor RMC JV Board
  - o Alexkor has three representatives on this board, including myself as the current acting chairman of the Alexkor RMC JV board. We anticipate that the Minister of Public Enterprises will formalise the appointment of a permanent chairman in the near future
  - o The Richtersveld community similarly has three representatives on this board
- The Alexkor RMC JV has an executive management team that reports to it. The Alexkor RMC JV comprises the following:
  - o General Manager – Mr Mervyn Carstens is expected to assume this role by no later than 1 September 2012. Mr Mike Mpanza is currently acting in this capacity.
  - o Mineral Resources Manager – this vacant position has been filled recently with the appointment of Mr Deon Bowers who will assume duties on 3 September 2012.
  - o Mine Engineer – Mr Mike Mpanza. Mr Jacques Farmer is acting as Mine Engineer whilst Mr Mpanza is acting as the General Manager.
  - o Human Resources Manager – Mr Melvyn Duckitt.
  - o Financial Manager – Ms Tsundzukani Mhlanga.

With the formal establishment of the PSJV much of the past year has been spent on re-aligning the former operations of Alexkor to meet the requirements of the Alexkor RMC JV.

Key among these were the following:

- Secondment of all relevant Alexkor employees to the Alexkor RMC JV operations;
- Separation of reporting and costs between Alexkor and the Alexkor RMC JV;
- Initiation of exploration processes for the land mining and deep water concessions.

Furthermore, Alexkor as such effectively becomes a holding entity in the interim, with a 51% interest in the Alexkor RMC JV. During the 2011 financial year the Alexkor board had formalised the strategic intent with respect to Alexkor's new direction and obtained the consent of the Minister of Public Enterprises to undertake the following:

- Investigate diamond mining investment opportunities of brownfields and greenfields operations in South Africa;
- Investigate diamond mining investment opportunities of brownfields and greenfields operations outside of South Africa. However, the consent to pursue opportunities outside South Africa was suspended pending a review of Alexkor's strategic direction by the Department of Public Enterprises;
- Commence accelerated environmental rehabilitation in accordance with the DoS and unanimous resolution requirements;
- Complete the township establishment process in accordance with the DoS provisions; and
- Manage the outstanding obligations with respect to the post-retirement medical aid liabilities.

The Alexkor board remains convinced that it is imperative for the "new" Alexkor to establish new operations that will ensure its long-term sustainability and enable it to remain an economic contributor in the region where it operates.

FINANCIAL PERFORMANCE

The anticipated global recovery has not materialised and whilst there was a small uptick in prices during the 2011/12 financial year, prices have still not recovered to pre-2008 price levels. The establishment of the Alexkor RMC JV introduces a layer of complexity and cost to Alexkor that must be borne without a revenue base in the short to medium term.

With respect to the Alexkor RMC JV operations, revenue has been lower due to first sale of the year being for the account of Alexkor. However, total combined revenue for the year was in line with the previous year. We remain positive that the diamond industry will continue to provide decent returns to industry players in the long term due to supply constraints in the market.

Due to continued economic pressures in the short to medium term, we anticipate increasing challenges in realising adequate returns for the Alexkor RMC JV. This emphasises the need to maintain focus on cost containment whilst exploring productivity increases.

We anticipate that the Alexkor RMC JV will continue to incur losses for at least the next three years as we enter into a phase of exploration. No meaningful exploration has been conducted at the Alexander Bay operations since 2003 due to the land claim instituted by the Richtersveld community, which also led to land mining operations being significantly curtailed whilst the matter was being resolved.

As the results of exploration give us certainty as to the location and grade of gravels in the unmined areas, we expect production to gradually ramp up, thus restoring the operations of the Alexkor RMC JV to profitability and sustainability in due course.

GOING CONCERN

Alexkor submitted a medium-term expenditure framework (MTEF) application for an amount of approximately R550 million during 2011. An amount of R350 million was approved by the National Treasury. This amount has been earmarked for the settlement of the costs for the right of occupation of residential properties, taxes (VAT and CGT), environmental and post-retirement liabilities. In terms of the allocation, Alexkor is to settle all outstanding liabilities from its cash resources.

Accordingly Alexkor is in a position that for the foreseeable future and certainly up to March 2013, it has sufficient cash resources to meet its operating costs during the normal course of business.

However Alexkor does require significant funding support in order to secure the investment opportunities it is pursuing. Alexkor has commenced the process of engaging with DPE to establish the most appropriate funding model, including exploring funding from development finance and commercial bank funding institutions to secure a profitable and self-sustainable future with minimal state support.

REPORTING AND CORPORATE GOVERNANCE

Alexkor continues to implement measures to improve its reporting capabilities.

The board has identified all the applicable areas where King III compliance is required and implemented measures to ensure appropriate reporting. A full corporate governance report appears on pages 23 to 27. Alexkor will continue to monitor its performance in this regard and will update its policies and procedures on an ongoing basis to remain at the forefront of effective reporting and corporate governance.

FUTURE OUTLOOK

Alexkor continues to pursue new investment opportunities in the diamond mining industry in South Africa and the Alexkor board is confident it will be able to secure significant operating assets in the next 24 months. Further announcements will be forthcoming in this regard as progress is made. At this stage the board notes it is pursuing two opportunities that are at advanced stages of discussion.

The Alexkor board will also be guided by the shareholder's broader strategic considerations around the structuring of the state-owned mining company.

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 to Honourable Minister Malusi Gigaba and the former Honourable Deputy Minister Benedict Martins for their guidance and support during the past year and deep gratitude to them and their team at the Department of Public Enterprises. I also wish, on behalf of the Alexkor board and all our staff, to extend a warm welcome to the new Honourable Deputy Minister of Public Enterprises Mr Bulelani Magwanishe and look forward to a continuation of the collaboration with the Department as we strive to return Alexkor to profitability and long-term sustainability.

Alexkor has a key role to play in pursuing and developing new ventures that can profitably create new jobs and expand mining production in the Northern Cape and within the broader SADC region.

The Alexkor Board as it evolves with new members expected in the next cycle, believes the company is poised for greater things and is ready for this challenge.

RT Muzariri
Chairman

CHIEF EXECUTIVE OFFICER'S REPORT

B Lategan

I am pleased to report that Alexkor managed to successfully implement the PSJV, which came into effect on 7 April 2011. The implementation of the PSJV to operate independently from Alexkor was successful and Alexkor and the PSJV produced separate financial reports for the first time this year.

Alexkor's annual financial statements consisted of its own operations that were limited to head office costs, town maintenance in the Alexander Bay region, rehabilitation of the historical disturbances on the land mining concessions and 51% of the related items of the PSJV. The assets, liabilities, income and expenses of the PSJV were proportionately consolidated into the records of Alexkor.

The PSJV became the custodian of all the operational activities, diamond revenue and related expenses present in Alexander Bay. Alexkor remained with its corporate structure and its obligation towards the environmental liability, the post-retirement medical aid liability and the obligations set out in the DoS to maintain the township until it is transferred to the nominated entities.

This was the first year in which Alexkor only incorporated 51% of the profits of its historical operations in the Alexander Bay area (the RMC has a 49% holding in the joint venture), and therefore Alexkor's financial statements reflect material losses. Alexkor had no other income generating units during the year, but remained with its overhead costs, especially with regards to the maintenance of the township and rehabilitation expenses, which worsened Alexkor's profit position at 31 March 2012.

On the other hand Alexkor made sound progress with regards to the upgrade of the Alexander Bay town, incurring more than R57 million in expenses during the financial year, amounting to a total of R106 million at 31 March 2012 for the entire project. Three of the four phases of the project have been completed to date and final completion of the township upgrade is expected in December 2012.

Alexkor's focus on its health, safety and environment (HSE) management plan and HSE related training continued within the operations of the PSJV, and resulted in Alexkor and the PSJV achieving the targets they set in terms of their predetermined objectives. Alexkor managed to achieve 2 000 fatality-free production shifts (FFPS) in July 2011 and is looking forward to reaching the next milestone of 3 000 FFPS. The company remains focused and committed to health and safety of the employees and contractors within its operations.

REHABILITATION OF HISTORICAL DISTURBANCES

No less than 129 kilometres of netting were installed to the south of Boegoeberg during the year under review compared to 75 km in the previous year. With only 54 km of netting done in 2010 it is clear the rehabilitation efforts have improved dramatically over the past three years. We expect the same improvement during the 2013 financial year and are confident that our ever-improving efforts are having a positive impact in addressing the historical liability.

FINANCIAL LOSSES FOR ALEXKOR

All operational activities were transferred to the PSJV from 7 April 2011, and therefore Alexkor had no operational activities under its control to generate any significant trading income after this date. Alexkor remained with most of its costs and obligations, and therefore incurred losses for the year. Alexkor budgeted for a loss in excess of R20 million for the 2012 year, which included its corporate structure, town maintenance, rehabilitation and other obligatory costs. Alexkor incurred an actual loss of R16.7 million for the year. Due to Alexkor's unique position of not generating any income, management had to implement stringent cost-cutting procedures to ensure Alexkor's solvency and commercial survival with limited cash resources. The material items contributing to the loss included the following:

- Alexkor pooled its mining assets into the PSJV as required by the DoS. Alexkor recognised a loss as a result of this derecognition of assets to the value of R7.8 million (R3.8 million for consolidation purposes). Alexkor simultaneously transferred control over these assets to the management of the PSJV;
- Alexkor forfeited 49% of its profits due to the establishment of the PSJV resulting in a consequent loss in profits of R7.1 million;
- Bad debt arising from the Alexander Bay residents' non- payment of rent and electricity bills amounted to R2.2 million. This points to a potential social problem that will require assistance from provincial authorities to resolve. Alexkor and the Alexkor RMC JV have initiated discussions in this regard.

IMPLEMENTATION OF THE PSJV DURING THE YEAR

Alexkor encountered many challenges during the year relating to the split of the operations, especially in implementing the provisions of the DoS to ensure a practical yet effective solution to the terms of this founding document for the PSJV. New positions and responsibilities had to be filled, new reporting and communication lines configured and a new mind-set by all stakeholders had to be developed to ensure that both the PSJV and Alexkor were able to operate independently from each other.

The PSJV is now operated and managed independently from Alexkor, the split of the accounting records was done successfully and therefore many of the challenges encountered during the entire implementation process have been satisfactorily resolved in line with the requirements of the DoS.

NEW BUSINESS DEVELOPMENT

Alexkor's only viable option to ensure profitability and sustainability into the future is to acquire other means of generating income, i.e. new diamond mining opportunities. Alexkor's 51% investment in the PSJV will be relatively passive in the next three to five years due to the exploration activities planned on the land mining concessions. It is therefore imperative that new potential deposits are explored. The board agrees with this view and received the mandate from the shareholder to start exploring such opportunities. Alexkor has in the past year been assessing new opportunities with its efforts predominantly focused on the Northern Cape and North West provinces.

Our objectives are to expand diamond operations, especially into the Northern Cape region where we believe lucrative diamond deposits still exist. The benefits from these new business opportunities will be the creation of more job opportunities and social upliftment in the surrounding regions, the training of employees and improving their skills, increased revenues and profits and the distribution of dividends to the shareholder. Alexkor would like to create a new mining environment, new opportunities and challenges outside the Alexander Bay area to ensure a brighter and more sustainable future for Alexkor as a state-owned company.

Alexkor is in the final stages of negotiations with some of the identified opportunities and is expected to submit its section 54 application to the Minister in the near future. These opportunities are greenfield operations and promise to provide attractive returns in future.

ALEXKOR'S FINANCIAL POSITION AND PROSPECTS FOR THE 2013 FINANCIAL YEAR

Alexkor's net asset value on 31 March 2012 was R20.1 million (2011: R16.9 million). It was allocated an amount of R350 million through its MTEF application. The amount is for the settlement of statutory obligations in terms of VAT, CGT and a rental lease as a result of the requirements of the DoS. The balance is to settle the historical rehabilitation and post-retirement medical aid (PRMA) liabilities (see the statement of financial position in the financial statements). This allocation will significantly improve Alexkor's financial position and clean out all legacy issues in terms of liabilities inherited from historical operations to ensure Alexkor's solvency going forward, especially with its aspirations to pursue new mining opportunities in future.

With all liabilities settled and outstanding obligations addressed in terms of the DoS, Alexkor can focus on new opportunities and channel its resources to create a new and sustainable mining environment. At the same time it can positively contribute to the region and the shareholder's objectives in terms of improving the economy and increasing employment in the surrounding communities.

THE TOWNSHIP ESTABLISHMENT PROJECT

Establishment of the township forms part of the implementation of the DoS and requires the upgrade of services in the Alexander Bay town. This includes water and electricity supply to the existing houses and other establishments, and upgrading the road infrastructure and other related activities. The upgrade consists of four phases and an amount of R115 million was received from government as part of this initiative in accordance with municipal standards.

- Phase 1 of the project (civil engineering services) was completed on 15 December 2011.
- Phase 2 of the project (electrical engineering services) was subsequently completed in July 2012 (95 % complete on 31 March 2012).
- Phase 3 of the project (mechanical and electrical pumping equipment) was completed in February 2012.
- Phase 4 of the project (waste water treatment works) is still experiencing problems with the waste license which has not been signed by Environmental Affairs in Pretoria. Completion is expected during December 2012.

See note 14.1 in the notes to the financial statements for more detail on the project and its respective phases.

ACKNOWLEDGEMENTS

I would like to thank the board, especially the chairman, for their continuous support, loyalty and faith during testing times these past months. To my team at Alexkor, including the operational team in Alexander Bay, I express my gratitude and appreciation for your endeavours in successfully implementing the PSJV. All the extra effort is acknowledged and I believe it constitutes an integral part to return Alexkor to profitability in future years to come.

B Lategan
Chief Executive Officer (acting)

REVIEW OF THE PSJV'S OPERATIONS

FINANCIAL OVERVIEW

Alexkor RMC JV posted a net profit of R14.6 million (budget was R1.7 million) in its first year of operating as the PSJV. The PSJV is still coming to grips with certain operational challenges, but has demonstrated it works well as a unit. Taking into account the global economic challenges that restricted growth in the diamond market, the PSJV performed better than expected.

REVENUE

Income from sale of rough, gem-quality diamonds remains the Alexkor RMC JV's primary revenue source. The PSJV sells its diamond stock on the South African International Diamond Exchange (SAIDEX) to local and international buyers. In this manner the PSJV is able to maximise the potential revenue stream, as prices are determined by the domestic and foreign 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 RMC JV's cash inflows. During the year under review the average exchange rate was R7.29/$1 compared to a budgeted average rate of R7.20/$1.

Diamond revenue for Alexkor RMC JV for the year amounted to R168.7 million compared to budgeted revenue of R172.8 million. By maximising productivity in the existing mining areas a total of 36 547 carats were produced during 2011/12, against a budgeted production of 35 625 carats. The reason for the lower than budgeted revenue figures relates to lower $/carat diamond prices than expected. This can be linked to the global economic turmoil during the year, as well as to smaller than expected average stone sizes. Adding to this less than favourable result, was the lack of sea-days in the year, with only eight sea-days (2011: 13 sea-days) accounted for.

FINANCIAL MATTERS AND CASH FLOW

Alexkor RMC JV achieved an operating profit of R9.5 million in its first year of operations. This is mainly due to management driving productivity to maintain turnover along with stringent cost-cutting measures.

Alexkor RMC JV acquired assets to the value of R32.6 million with inventory and property, plant and equipment (PPE) being the main contributors. Diamonds to the value of R7.9 million were included in inventory due to a sale that was scheduled for and realised post-year end.

Cash and cash equivalents amounted to R14.4 million. However, it is important to note that an amount of R20 million was transferred from Alexkor's initial cost contribution to assist the PSJV with its operational cash requirements.

Total liabilities in the PSJV consisted mainly of a R20 million intercompany loan (part of the initial cash contribution) from Alexkor.

CAPITAL EXPENDITURE

Capital expenditure amounting to R11.1 million was incurred compared to a budget of R16.2 million. Assets to the value of R7.8 million were also recognised in the PSJV as Alexkor had to pool all mining assets into the PSJV for its operations in terms of the requirements of the DoS. These pooled assets will be under the control of the PSJV, but their ownership remains with Alexkor. With the emphasis on cost-cutting, most capital purchases were done on lower than budgeted figures. However, this figure is higher than previous years, showing the emphasis to also improve the asset base with the objective of maintaining and increasing production levels. It is anticipated that more capital expenditure will be incurred as part of exploration and other activities in future.

NON-CORE OPERATIONS

GUEST HOUSES

The business unit operates the guesthouses Af-en-Toe, Frikkie Snyman and Uitsig, and provides cleaning services and meals for mine contractors residing in Lieflot and Oranjeweg numbers 3, 4 and 5. For the year under review, a profit was achieved and this is expected to continue in the next financial year. However, greater effort is needed to attract more tourists and increase external cash income as the mine contribution to income is currently larger than the income derived from tourists. The guest houses will be transferred to the CPA at the same time that the township will be transferred to the relevant parties. It is therefore important to maintain the current levels of operations at the guest houses to ensure that the CPA receives a well maintained and self-sustaining business unit on transfer date.

FUEL STATION

This business unit is to be transferred to the community if commercially viable upon completion of the township upgrade. During the past financial year the operations have stabilised and are profitable, which should continue in the next financial year. The contribution to overall sales from the mine itself is as such that if withdrawn, the filling station may not be able to continue making a profit. It is therefore also important to maintain the current levels of operations at the fuel station to ensure that the CPA receives a well maintained business unit on date of transfer.

HEALTH, SAFETY AND ENVIRONMENT

No fatalities occurred during the year under review. A total of 12 injuries to personnel were recorded for the year under review, compared to 14 injuries in the previous year. Out of 12 the injuries, 11 were recorded in the marine mining area and one injury was recorded in the land mining area.

Three reportable occupational cases, specifically noise-induced hearing loss, were recorded for the year under review and subsequently three claims were submitted to the insurer. The cases were investigated and remedial measures put in place. The Alexkor RMC JV also evaluated a number of options with regards to improvements within the occupational health department and emergency services.

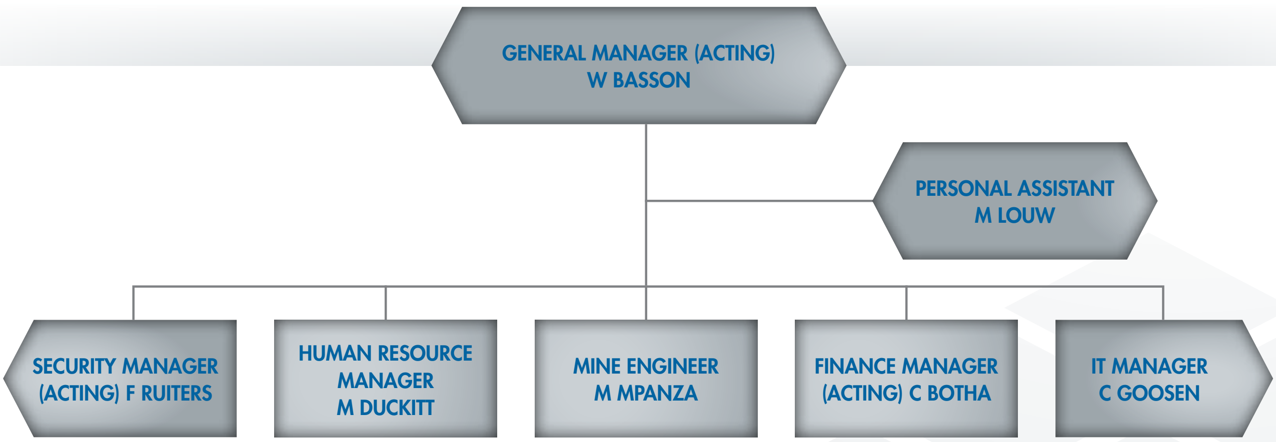
Although 2 000 fatality-free production shifts (FFPS) were achieved on 2 June 2011, it was not declared as such, due to the split in HSE statistics between Alexkor and the RMC. The requirement of splitting the statistics upon the establishment of the PSJV was also confirmed with the Department of Mineral Resources (DMR). Subsequently Alexkor achieved 2 000 FFPSs by 29 July 2011. This achievement was celebrated jointly with all the employees and contractors.

The company remains focused and committed to health and safety of the employees and contractors.

ENGINEERING

Structural inspection was conducted on the two processing plants and the stationary harbour crane. The stationary harbour crane was decommissioned and removed from the harbour. Material was purchased during the year to address critical corrosion areas in the plants. Measures to optimise processing plants were investigated and the implementation of these measures is planned to continue in the next financial year.

PSJV ORGANOGRAM
(As at 31 March 2012)



MINING OPERATIONS

The commencement of the Alexkor RMC JV operations on 7 April 2011 presented management with a new and challenging situation, requiring continuous change and adaptation of the operations. These challenges included:

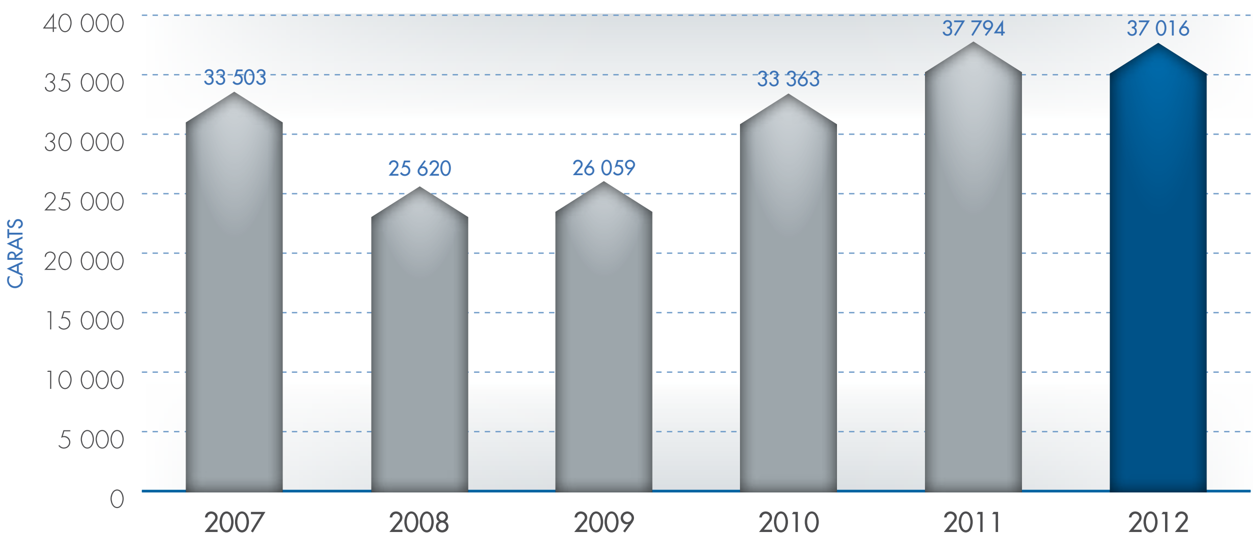
- formation of the Joint Venture (JV) with the Richtersveld Mining Company on 7 April 2011 in terms of the DoS;
- change in management;
- addition of more production units and the change in the contractual relationship with various contractors;
- non-performance of certain contractors; and
- continuous demands that the change in environmental conditions forced on the operations.

PRODUCTION

Although the above-mentioned challenges affected the production during the year, the PSJV management still achieved its production targets for the year and managed to stabilise operations.

The production reported in this section relates to the PSJV effective from 7 April 2011, but for comparative purposes the production for the year 2012 is compared against carats produced in the previous years by Alexkor SOC Limited.

The JV achieved its carat production budget for the year. Actual carats produced for the year amounted to 37 016 carats (2011: 37 794 carats) which consisted of both the PSJV's and Alexkor's operations. The PSJV produced 36 547 carats from 7 April 2011 to 31 March 2012 and Alexkor produced 469 carats from 1 April 2011 to 6 April 2011. The budget for the year was 35 625 carats.



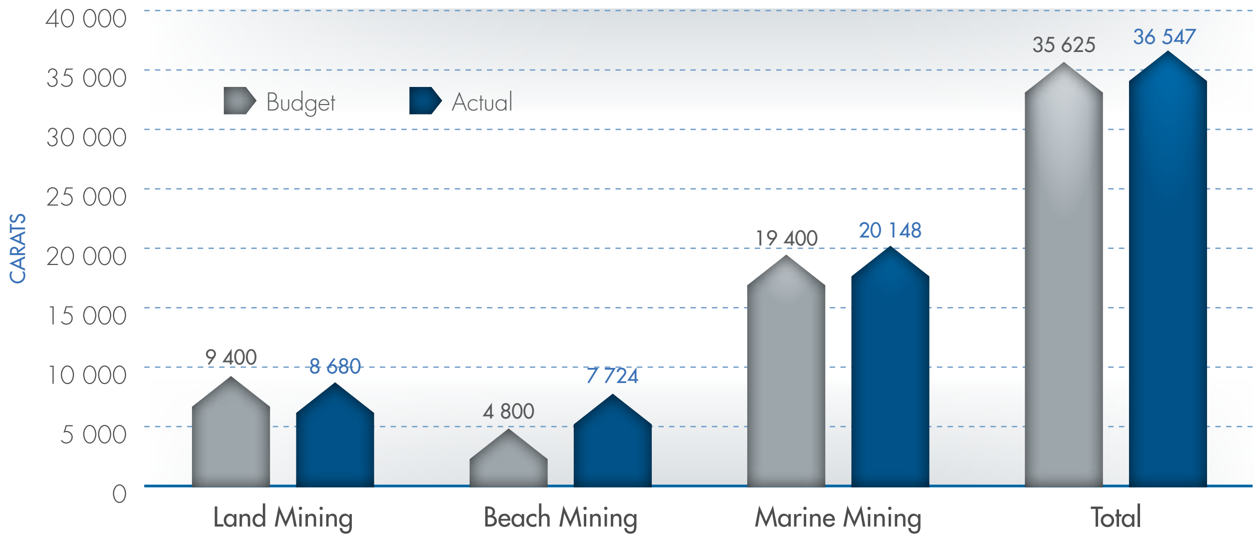
ANNUAL CARAT PRODUCTION

MARINE PRODUCTION

The majority of the carats for the year were produced by the marine operations, although the proportion of carats produced by the marine operation against the total carats produced has declined. The marine operations produced 20 143 carats against a budget of 19 400 carats. The previous year's marine production was 28 536 carats, a marked decrease in the year-on-year production of the marine section. This can be attributed to the fact that only eight sea-days were achieved during the year against the previous year's 13 sea-days. This has dramatically affected production. Average stone size achieved during this period was 0.56 carats per stone (2011: 0.54 carats per stone). The average value of the diamonds from the marine operations was $764 per carat (2011: $781 per carat).

LAND PRODUCTION

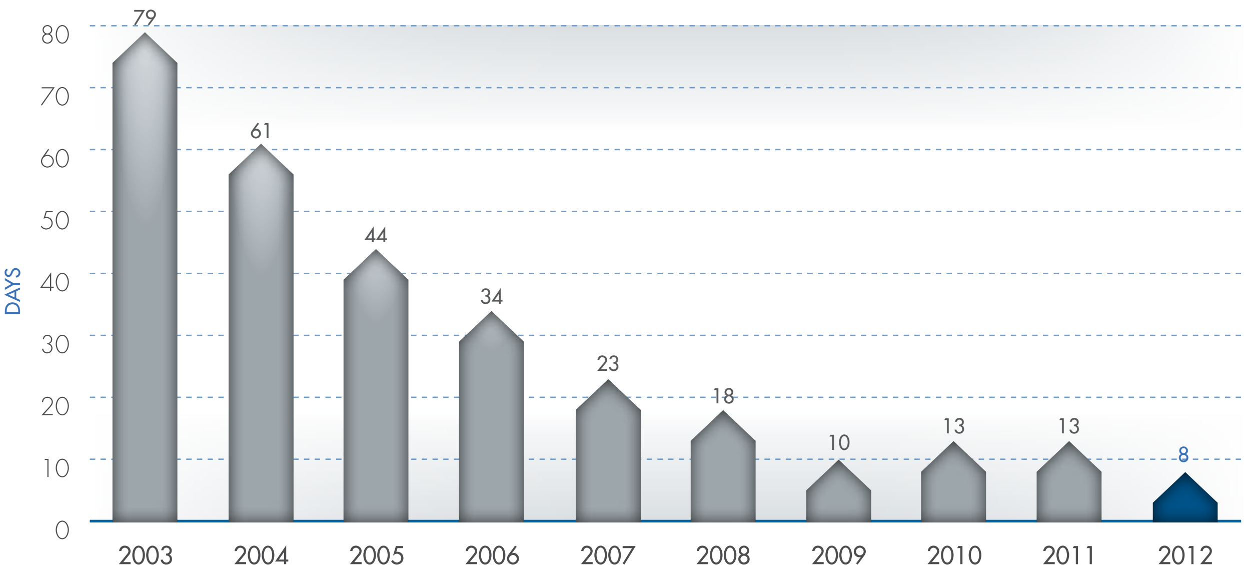
The land mining operation was disappointing, as it only achieved 92% of its budget of 9 400 carats for the year. The actual production from the land operation was 8 680 carats at an average stone size of 0.52 carats per stone. The average value of the carats produced was $520 per carat. The main reason for the difference in value between the land and marine production is that the marine production has larger stones that also achieved a better average price on the market. The fact that the land operation did not achieve its budget can be ascribed to the fact that the Witvoorkop operations were not operational as anticipated and therefore did not produce any carats.



CARAT PRODUCTION PER SECTOR (2012) - PSJV

During the year management introduced a new sector of operations, designated the beach mining operation. The beach mining operation targeted those areas that are overlain with thick overburden and cannot be accessed by traditional shore units. This sector proved to be lucrative and produced 7 724 carats against a budget of 4 800 carats. The beach operations were approximately 62% over its target and the average stone size produced were 0.52 carats per stone. The average value of the diamonds produced was $536 per carat.

This is the first year that the PSJV has been operating, but management is confident the results achieved over the last three years are sustainable and certainly achievable during 2013. The reliance of the PSJV on production from the marine concessions makes the production vulnerable to the changing and unpredictable environmental conditions. Again the number of sea-days achieved has affected the company's total production for the year. The decline in sea-days from 13 in year 2011 to 8 in year 2012 has negatively affected the production from the marine operations. Therefore management will have to introduce additional production from the land areas to offset the effect of the environmental conditions on the total production in order to maintain current production levels.



SEA DAYS

MINERAL RESOURCES

As stated in the previous year's report, the mineral resources declared by Alexkor in years 2003 to 2008 are considered to be a global estimate and is not South African mineral resource committee (SAMREC) compliant. The PSJV commissioned a mineral resource consultancy to review the resource statements of previous Alexkor SOC Ltd reports to conclude on the current resource status. The overall opinion of the contractor is that the resource statement as reported in 2008 was overstated and that the resource should be re-evaluated in order to be able to make a final assessment of the current resource. The PSJV is in the process of examining the resource and will report on it during the 2013 financial year.

DIAMOND MARKET

During the 2012 financial year the PSJV enjoyed a fairly stable and strong diamond market. The carats produced by the PSJV were in high demand and the average prices achieved throughout the year strengthened this belief. Although the world economic situation has not provided the growth in the diamond market as we anticipated, we remain cautiously optimistic for the 2013 financial year. Indications are that the long term diamond market remains buoyant and that over the next five years the diamond market will steadily improve.

DIAMOND PRICES

The average diamond price during the year was $660 per carat against $781 per carat achieved during the previous financial year. This amounted to a decrease in the average diamond price of approximately $120 per carat, a 15% decline. The main reasons were the unstable world economy and soft diamond price in certain sectors. Furthermore, emphasis was on the contractors to produce carats from the southern parts of the mine in order to utilise all of the concession areas, which resulted in smaller stones compared to the production in the northern parts of the mine where bigger stones have historically been prevalent. We remain positive that the diamond market will continue to improve over the long-term. However, we are cautious of short-term fluctuations and therefore reflected a more conservative budget as part of the PSJV section in Alexkor's 2013 corporate plan.

HUMAN RESOURCES AND SOCIAL DEVELOPMENT

INTRODUCTION

The human resource function continues to play a pivotal role in labour practices and human rights, as well as in the philosophy behind the Alexkor RMC JV's corporate social responsibility initiatives in developing communities within which it operates.

We further aim to provide employees with meaningful and attractive opportunities for growth in their short and long-term career aspirations, thereby ensuring the company's ability to retain the best skills and capacity.

Our goal is to create and maintain the company's ability, as a significant employer in the Richtersveld, to continue to contribute towards the economic sustainability of our labour pool areas through sound labour practices and adherence to labour legislation in South Africa.

We also continually strive to make the company an employer of choice.

STAFF RECRUITMENT

Initiatives have been put in place to improve staff engagement at every level which is in line with the company's recruitment and selection policy.

All vacancies are first advertised internally and where no suitable internal candidates are found external applicants are sourced.

A selection committee, consisting of management, human resource and organised labour representatives, meets regularly to discuss criteria and scoring mechanisms for vacant positions before adverts are placed and interviewing processes commence.

The selection committee prioritises the selection of historically disadvantaged South African (HDSA) candidates, ensuring compliance with the company targets in terms of the requirements of the empowerment charter for the South African mining industry.

Despite the geographical challenges the company faces and the loss of key staff to competing mining houses, the company has been able to source and place suitable and competent candidates in critical positions.

EMPLOYEE STATISTICS AND WAGE BILL

The headcount as at 31 March 2012 was 104 permanent employees, 60 fixed-term contractor employees and a total of 611 outsourced contractors involved in diamond production.

Salaries paid to employees for the period under review amounted to R20.6 million. Payments to outsourced contractors amounted to R110 million.

INDUSTRIAL RELATIONS

Recognised unions represented in the company are the National Union of Mineworkers (NUM) and the United Staff Association of South Africa (UASA).

As at 31 March 2012 union representations stood at:

NUM	62,5%
UASA	23,1%
Non-affiliates	14,4%

The relationship with these unions during the period under review was generally positive.

In April 2011 the company started wage negotiations with NUM and UASA. The negotiations were extensive and during November 2011 agreement was reached on the following:

- An annual total cost to company (TCTC) wage increase of 7.5%.
- A bonus of 4.5% based on the gross operating profit of R11.3m achieved during the previous financial year. The bonus would be shared equally among all employees of the company. The bonus would be paid on pro-rata based on the number of completed months during the previous financial year.
- In addition, the unions pledged, in terms of the agreement, a commitment to increase production by 10% year-on-year. This commitment was made without compromising the safety of employees and the company undertook to maintain and enforce strict safety standards.

- It was also expressly agreed to shift all other items of demands presented by both parties at the commencement of the negotiations to other forums during the 2012 financial year.

Comprehensive discipline and grievance procedures in line with the requirements of the Code of Good Practice: Dismissal (Schedule 8 of the Labour Relations Act – 66 of 1995) are in place. All employees are aware of the procedures.

During the review period fifteen disciplinary matters were adjudicated, of which four resulted in a sanction of dismissal. In the remaining eleven matters the presiding officers applied various sanctions ranging from written to final warnings.

Of the four dismissals three were referred to the Commission for Conciliation Mediation and Arbitration (CCMA) on the grounds of alleged unfair dismissal. The company successfully defended itself at conciliation proceedings at these three hearings.

One matter may still be adjudicated at CCMA arbitration proceedings.

No grievances were lodged during the review period.

HUMAN RESOURCES DEVELOPMENT

Training and development initiatives cover the core of disciplines of mining and engineering, as well as health and safety and are focused on the skills development of HDSAs.

The company's in-house training centre is not ISO 9001 accredited and in order to meet the Mining Qualification Authority (MQA) and other Sector Education Training Authorities (SETA) requirements, only accredited training service providers are utilised.

A total of 168 employees and contractors received training during the period under review of which 98.8% were HDSAs and 1.2% were women.

The table below depicts further training and development initiatives undertaken by the company:

ACADEMIC LEARNERSHIPS:

COURSE	RACE	GENDER	INSTITUTION
BSc Geology	C	F (bursar)	University of Western Cape
BSc Environmental Management	C	M (community member)	University of Western Cape
Candidate Engineer	C	M (employee)	In preparation for GCC (DMR)
BCom Honors	C	F (employee)	Unisa
Human Resources Management	C	F (employee)	FET College Namaqualand
Office Management	C	F (employee)	FET College Namaqualand

COMMUNITY PORTABLE TRAINING:

COURSE	RACE	GENDER	INSTITUTION
Fitting & Turning (Apprentice)	C	M (employee)	Kathu FET/Technical Training Centre
Electrician (Apprentice)	C	M (employee)	Kathu FET/Technical Training Centre
Auto Electrician (Section 28)	C	M (employee)	Northlink FET Cape Town
Electrician (Section 28)	C	M (employee)	FET College Namaqualand
Electrician (Section 28)	C	M (community member)	FET College Namaqualand

COMMUNITY PORTABLE TRAINING (CONTINUED):

COURSE	RACE		GENDER		TOTAL	INSTITUTION
	AM	CM	AF	CF		
6M Management Training	0	7	0	6	13	Alexkor Training Centre
HIV/Aids Awareness Peer Educators Training	15	110	7	23	155	Alexkor Training Centre
Alcohol & Drug Abuse Awareness Training	1	9	0	20	30	Alexkor Training Centre
Traffic Training (Licensing)	0	106	0	49	155	Alexkor Training Centre

For the period under review the company expended more than R500 000 on training and development. This excludes the one percent skills development levy.

EMPLOYMENT EQUITY (EE)

An EE committee has been established to monitor progress on employment equity in conjunction with the selection committee.

To involve women in core mining calls for enormous commitment and poses a challenge for the company. Focused recruitment of women has continued, and although we have not had much success in retention, measures have been taken to ensure women are attracted and retained by the company.

The company, nonetheless, remains committed to achieving the mining charter requirement of 40% of HDSAs in management positions and 10% of the total workforce to be women.

The following table presents the company's EE profile as at 31 March 2012:

EMPLOYMENT EQUITY MARCH 2012

OCCUPATIONAL LEVEL	NUMBER OF INCUMBENTS	MALE			FEMALE				% OF DESIGNATED GROUP
		AM	CM	WM	AF	IF	CF	WF	
Senior management	2	1	1						100%
Professionally qualified	4		2	1			1		75%
Skilled	40		19	15			5	1	63%
Semi-skilled	52	2	43	5	1			1	90%
Unskilled	6	1	5						100%
TOTAL	**104**	**4**	**70**	**21**	**1**	**0**	**6**	**2**	**80%**

SOCIAL RESPONSIBILITY

Mindful of the company's role and obligations as a corporate citizen, community social responsibility initiatives were continuously supported during the period under review.

An amount of R4m was expended on social responsibility interventions which include employee transportation services, meals, cleaning services, ad-hoc donations, community welfare contributions, HIV/Aids and educational assistance to schools in the Richtersveld and Namaqualand areas.

Employees who opt not to live in the single quarters provided by the company receive three nutritious meals per day. Quality control and provisioning of meals in hostels are outsourced to a service provider who specialises in meal preparations and cleaning services.

MUNICIPAL LOCAL ECONOMIC (LED) PROJECTS

The Alexkor RMC JV management engaged the Richtersveld communities via the CPA, local government, employees and organised labour representatives.

Social and labour plans have been submitted to the Minister in which certain objectives were set and specific commitments made, the detail of which is outlined below:

Resurfacing and grading of dirt roads:
This project could not commence due to the lack of funding.

Alcohol, drug and HIV/Aids support services:
Consultations are currently taking place with service providers to provide training on the dangers of alcohol and drug abuse and more specifically to females on the dangers of alcohol fetal syndrome.

The establishment of emergency services in partnership with the Richtersveld Municipality:
This project will be attended to during the 2013 financial year due to lack of financial resources.

Exploiting natural resources in the area by establishing a tannery and leather business:
Due to the closure of Beauvallon ostrich and Dunvlei dairy farms this project had to be aborted.

Develop fuel stations where such outlets are considerable distances away:
This project is not feasible. Initial investigations and due diligent procedures conducted with Transhex and Engen indicated that it would not be economically viable to establish a fuel outlet in Sanddrift, Kuboes, Eksteenfontein and/or Lekkersing.

Promote agriculture and agro-processing through support for community co-operatives:
Lack of funding prohibited Alexkor RMC JV from commencing this project.

The upgrade of the town of Alexander Bay:
As at 31 March 2012 an estimated amount of R106m has been expended in the following projects to upgrade the town of Alexander Bay:

- √ Design phase – 100% complete;
- √ Phase I (civil engineering services) – 100% complete;
- √ Phase II (electrical reticulation services) – 95% complete;
- √ Phase III (mechanical and engineering pumping equipment) – 100 % complete; and
- √ Phase IV (waste water treatment works) – 10% completed.

Hostel Revamp
As at 31 March 2012 an amount of more than R700 000 has been expended on the purchase of material to upgrade the single quarters hostel facility into family units. Work will officially commence once the requisite tender proceedings have been completed during the next financial year.

Consultants will be engaged to assist with the preparation of a revised social and labour plan for submission to the Department of Mineral Resources (DMR).

CORPORATE GOVERNANCE REPORT

Alexkor's corporate governance has been guided principally by relevant South African legislation and other guiding principles. These include the Public Finance Management Act No. 1 of 1999, as amended ("the PFMA"); the Companies Act No. 61 of 1973, as amended ("the old Companies Act"); the Companies Act No. 71 of 2008 (new Companies Act) upon enactment; the King Code on Governance 2009 ("King III") and international best practice on corporate governance; as well as various recommendations of previous corporate governance and internal control investigations carried out at Alexkor. Since the launch of King III in September 2010, the company has applied some of the principles and guidelines of the King III Report that it deemed appropriate for the company. The company has further complied with various applicable provisions of the new Companies Act and continues to apply the new piece of legislation, where applicable.

SHAREHOLDING

Alexkor remains a state-owned enterprise with 100% shareholding by the Government of South Africa, with the Minister of the Department of Public Enterprises ("DPE") being the executive authority.

ALEXKOR BOARD OF DIRECTORS

The majority of the incumbent board was appointed in September 2008 for a three-year term. Their term was extended during the 2010 annual general meeting (AGM) for a second term. An AGM is scheduled for 7 September 2012, where the directors' performance will be reviewed and their re-election considered. The board comprises five non-executive directors and the acting chief executive officer, following the termination of the contract of the former chief executive officer in September 2011. The board is in ongoing discussions with the shareholder with the view to increasing its complement. The current board represents a fair spread in terms of gender, skills and experience to continue executing its mandate 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 of Incorporation, as amended from time to time, and the national legislation, as well as best practices in corporate governance. The board provides the executive management with clear 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 by receiving 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's meetings and attendances are contained in the table on page 25.

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

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

Having been properly inducted, all directors have also undertaken site visits at Alexkor and are therefore familiar with the internal operations of the company.

As far as indemnity cover is concerned, Alexkor's directors and officers are covered for liability, loss or damage sustained by the company in the normal course of the exercise of their duties as directors. This cover does not include normal legal exclusions such as for fraud and recklessness.

The board is committed to operating within the highest standards of professional ethics by ensuring that 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. The board also conducted an independent evaluation of its effectiveness during the financial year under review. The intention is to conduct another follow-up assessment in order to ensure the effectiveness of the interventions that were recommended at previous assessments. Furthermore, the board conducts ongoing education programmes to keep abreast of developments in legislation and within the mining sector.

BOARD SUB-COMMITTEES

The board has appointed the following sub-committees:

Audit and Risk Committee	(Chairman: Ms S Ngoma)
Tender Committee	(Chairman: Mr C Towell)
Remuneration Committee	(Chairman: Dr V Makin)
Rehabilitation Committee	(Chairman: Dr R Paul)
PSJV Board Committee	(Acting Chairman: Mr R Muzariri)

AUDIT AND RISK COMMITTEE

During the year under review, the audit and risk committee comprised three non-executive directors of the Alexkor board. The committee is chaired by a non-executive member of the board, Ms Simangele Ngoma, who has vast experience in auditing.

The audit and risk committee has been established in accordance with the guidelines in the King II and King III reports. In keeping with its duties contained in King III 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 continues to monitor the role of the internal and external audits, 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. Members and attendance at audit and risk committee meetings for the period under review appear 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, a non-executive member. 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 depicts 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 table on page 26 depicts members and attendance at rehabilitation committee meetings for the year under review.

TENDER COMMITTEE

The tender committee consists of three non-executive directors of the Alexkor board. The committee 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. Since the establishment of the PSJV and the transfer of the mining operations to the PSJV, the board resolved to only hold the tender committee meetings when necessary to discuss the business relevant to Alexkor as an independent entity. Only one meeting was held during the financial year under review. The table on page 26 depicts members and attendance at tender committee meetings for the year under review.

SOCIAL AND ETHICS COMMITTEE

With the coming into effect of the new Companies Act in May 2011, the board, in consultation with the shareholder, has been in discussions with regard to the establishment of the social and ethics committee, as required by section 72(4) and regulation 43 of the new act. At the time of reporting, the committee had not met, however it is intended that the committee will give a report at the upcoming annual general meeting in September 2012, on some of the functions that would have been fulfilled during the short period within which it has been established.

SHAREHOLDER/ STAKEHOLDER COMMUNICATION

As in the past, the financial year under review was characterised by continuous interaction and engagement between the shareholder and the board. This occurred through effective stakeholder communication and the company's interaction in the parliamentary Portfolio

Committee on Public Enterprises. Through this interaction and engagement the shareholder is well informed of all significant business activities of the company, the restructuring that the company is undergoing, as well as progress on the implementation of the DoS. Such engagement and interaction allows the shareholder to monitor the performance of the company and the activities of the board. The board accordingly expresses its appreciation for the consistent support of the Minister, the Director-General and officials of the DPE.
The company also consults and communicates with all other stakeholders, including the 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 remuneration of non-executive directors. The remuneration committee evaluates the remuneration of the chief executive officer and senior management, and makes its proposals in that regard to the board. 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 the remuneration structure appear on page 103.

COMPANY SECRETARY

During the year under review, the board temporarily appointed Ms Nozuko Mxunyelwa, who had been assisting the board with company secretarial functions on a consultancy basis. Subsequently the board then appointed a full-time company secretary, Ms Buyi Mlangeni, for a brief period during the financial year. Ms Mxunyelwa's services were reinstated upon Ms Mlangeni's departure during the financial year.

The company secretary is independent and fully empowered by the board to perform her function in that she reports directly to the non-executive chairman. Amongst other duties the company secretary ensures the company adheres to all legislative, regulatory and shareholder requirements by advising the board on all statutory and governance issues affecting the company. She 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.

BOARD MEETINGS

Board meetings are held at least once a quarter and thereafter when the board deems necessary.

SCHEDULE OF ATTENDANCE AT BOARD MEETINGS

Alexkor Board Meetings

Member	12-May-11	24-Jun-11	21-Jul-11	05-Aug-11	11-Nov-11	15-Feb-12
Mr R Muzariri	P	P	P	A	P	P
Mr C Towell	P	P	P	P	P	P
Dr R Paul	P	P	P	P	P	P
Dr V Makin	P	P	P	P	P	P
Ms S Ngoma	P	A	P	P	P	P
Ms McClain	P	P	P	P	Resigned	Resigned
Mr B Lategan	P	P	P	P	P	P

Schedule of attendance at Audit and Risk Committee meetings

Member	14-May-11	14-Jul-11	31-Oct-11
Ms S Ngoma	P	P	P
Dr R Paul	P	P	P
Mr C Towell	n/m	P	P
Mr B Lategan	P	P	P

Schedule of attendance at Remuneration Committee meetings

Member	03-May-11	27-Oct-11
Dr V Makin	P	P
Mr C Towell	P	P
Mr R Muzariri	A	P
Ms McClain	P	Resigned
Mr B Lategan	n/m	P

Schedule of attendance at Tender Committee meetings

Member	07-Nov-11
Mr R Muzariri	P
Mr C Towell	P
Dr R Paul	P
Mr B Lategan	P

Schedule of attendance at Rehabilitation Committee meetings

Member	12-May-11	27-Oct-11
Mr R Muzariri	A	P
Mr C Towell	P	P
Dr R Paul	P	P
Mr B Lategan	P	P

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

A = Apology
P = Present

PSJV MEETINGS

PSJV board and sub-committee meetings were as follow:

Schedule of attendance at board meetings

Member	28-Apr-11	08-Dec-11	09-Mar-12
Mr R Muzariri	P	P	P
Dr R Paul	P	P	P
Ms S Ngoma	A	P	A
Ms McClain	P	P	P
Mr C Towell	P*	n/m	n/m
Dr V Makin	n/m	n/m	n/m

Schedule of attendance at Remuneration Committee meetings

Member	07-Nov-11
Mr R Muzariri	P
Dr V Makin	P

Schedule of attendance at Techincal Committee meetings

Member	07-Nov-11
Dr R Paul	P

** = These directors received a special invitation*
n/m = Not members
A = Apology
P = Present

CODE OF ETHICS

Alexkor subscribes to the highest levels of professionalism and integrity in conducting all its business dealings with its stakeholders. Alexkor 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

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, in line with its statutory and regulatory obligations.

REPORT ON PREDETERMINED OBJECTIVES

BACKGROUND TO THE 2012 REPORT ON PREDETERMINED OBJECTIVES

The predetermined objectives reported on below were agreed in the shareholder's compact and strategic plan for 2012. The Alexkor RMC Joint Venture commenced during the 2012 financial year and all mining activities previously performed by Alexkor are now performed through the joint operations. Consequently this change had a significant impact on Alexkor's ability to achieve its targets for the 2012 financial year and the targets were amended as disclosed in the report.

In addition, the company was requested to include and report on certain targets that were identified for the 2012 shareholder's compact and strategic plan, notably those with regard to 'Strategy' and 'Skills development'. These areas were not taken into account for the determination of the percentage targets achieved as reported on by the external auditors - refer to the audit report on page 50.

Objective		Programme per objective	Measure/Indicator	
1	Strategy			
1.1	Identification of new mining ventures inside and outside of the borders of South Africa to secure new revenue streams in order to ensure its future growth and enabling it to effectively address its obligations and liabilities	• Detailed business and mining plans with an evaluation framework designed to encapsulate and integrate the complexity across the evaluation cycle, i.e. sampling, resources estimation, mine planning and treatment and financial and economic modelling.	• Deadline	
1.2	Funding mechanisms and sources for the new mining ventures	• MTEF funding application	• Deadline	
		• Alternative funding mechanisms and sources identified	• Deadline	

	Target	Actual	Comments
	November 2011	Achieved	Every project is dealt with on an individual basis. Opportunities get presented to Alexkor, site visits are executed and if deemed to have potential, more investigation into the project will be approved. Once the team gets to this stage, it starts with its legal due diligence, financial due diligence, reviewing of geological reports and assessments of the resource. Financial/geological modelling will then determine the forecasts followed by a reasonable purchase price offer to the sellers based on Alexkor's discounted cash models and forecasts of the above information. This is done on an ongoing basis and different criteria will apply towards the relevant projects. However, the original shortlisted projects were included in the MTEF application in full detail as motivation for the allocated funds within the time frame
	November 2011	Achieved	Alexkor's MTEF application was submitted to its shareholder before the intended deadline. The funding requirements dealt with Alexkor's solvency issues as a result of the Deed of Settlement with the Richtersveld community where Alexkor's assets were expropriated without the necessary compensation. Alexkor also encountered obligations in terms of the Deed of Settlement which triggered VAT, CGT and payments for lease agreements that had to be covered by the application. Alexkor intended to utilise some of the funds towards new mining opportunities in terms of its strategic intent.
	March 2012	Achieved	Alexkor explored other means of finance to secure adequate funding for its vision to expand and to secure sustainability. Alexkor also applied to the DBSA (Jobs Fund) in July 2011. Alexkor submitted an application to the IDC in July 2011 to explore possible financing of some of its potential mining ventures. Alexkor also met with banking institutions, but due to the complexities with regards to the Deed of Settlement and Alexkor being a SOC, it was agreed the other options would be sufficient for Alexkor's purposes in the interim.

Objective		Programme per objective	Measure/Indicator	
2	Financial performance			
2.1	Budget based on financial information		• Cash inflow from operating activities (PSJV operations)	
			• Cash outflow from operating activities (Alexkor)	
			• Budgeted revenue (diamond sales from PSJV operations)	
			• Net profit before taxation (PSJV)	
			• Net loss before taxation (Alexkor)	
2.2	Consolidated capital and funding requirements		• Replacement of equipment on the mine (PSJV)	
			• Replacement of equipment on the mine (Alexkor)	
3	Expansion of mining operations			
3.1	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)	Total carats	
			Land carats	
			Witvoorkop carats	
			Marine carats	
			Beach carats	

	Target	Actual	Comments
	R2.0 million inflow	R4.0 million inflow	This is cash inflow from the operational activities of the PSJV. The joint operations generated more cash than expected due to material cost savings throughout the year.
	R32.7 million outflow	R1.3 million inflow	This is cash flow relevant to operational activities within Alexkor only. As Alexkor had no income generating operations except for its 51% interest in the PSJV, no cash generation was expected in the financial year. The reason for the large variance between the expected cash outflow and the actual cash inflow is due to operational savings and the treatment of the R20 million in equity.
	R160.7 million	R168.7 million	The target was originally set at R188.1m, but as the PSJV's operations only commenced on 7 April 2011, an adjustment was made to more accurately reflect the revenue target. The amounts are as a result of the estimated production from land and marine operations, estimated Rand/ US Dollar fluctuations and expected diamond prices.
	R1.7 million	R14.6 million	The PSJV showed improved results due to material cost savings in all cost categories. As the joint venture operated independently for the first time in 2011/12, the budget may have been too conservative, resulting in more profit than initially expected. It was expected that there would be more costs in the first year of the joint operations.
	R22.4 million	R16.4 million	Alexkor managed to contain material costs and realised unexpected profits from its share in the operations of the PSJV.
	R16.5 million	R11.1 million	The PSJV incurred expenditure towards its capital programme within budget.
	R2.8 million	R4.4 million	Alexkor purchased items to the amount of R2.4m, therefore within budget for the financial year. A grader was also purchased from the GFR funds for rehabilitation which amounted to R1.9m - the main reason for over-spending on budget.
	35 625 carats	36 547 carats	The original target was set at 36 225 carats (600 carats higher), but as the PSJV's operations only commenced on 7 April 2011, an adjustment was made to give an accurate reflection of the actual production from the above date.
	9 400 carats	8 680 carats	
	2 025 carats	0 carats	
	19 400 carats	20 143 carats	
	4 800 carats	7 724 carats	

Objective		Programme per objective	Measure/Indicator	
3.2	Optimise 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 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 fail to operate / perform	The actual number of contracts awarded to:	
			Shallow 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 water 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	
4	Health, safety and environmental matters			
4.1	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 : • Lost Time Injury Rate (safety index)	
			• Reportable accidents/ incidents	
			• Minor incidents (safety index)	
			• Fatal accidents	

	Target	Actual	Comments
	50 contractors	50 contractors	All contracts were signed and contractors have started operations in their respective concessions.
	6 contractors	4 contractors	Contracts were signed and contractors have commenced operations in their respective concessions. Only 4 contractors were appointed due to a lack of quality contractors and applications.
	3 contractors	4 contractors	All contracts were signed and contractors have commenced operations in their respective concessions. An additional contractor was appointed on account of the positive results from the beach section. Note the material improvement in 3.1 above.
	2 contractors	2 contractors	All contracts were signed and contractors have commenced operations in their respective concessions.
	1 contractor	1 contractor	The contract was signed and the contractor has started with exploration in the indicated concessions.
	<1	0.32	Finalisation of critical procedures and implementation of internal management audits contributed to the positive mindset towards safety. Although there is improvement on reportable and lost time injuries, the minor injuries are still at an unacceptable level. The review of Health, Safety and Environmental Management Plan was considered to address this. A total of 2 593 FFPS were achieved at 31 March 2012.
	0	1	
	0.70	0.45	
	0	0	

Objective		Programme per objective	Measure/Indicator	
4.2	Compliance with the environmental management plan 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	Expenses towards environmental rehabilitation Contributions towards the Rehabilitation Trust Fund	
5	Stakeholder perspective (compliance with social and labour plan)			
5.1	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 in non-mining activities.	
5.2	Provide alcohol and drug abuse, and HIV/Aids support services	• Consult communities • Consult and partner with providers of health care • Set up awareness support	• To reverse social degration through provision of relevant social services and increase awareness of the effects of substance abuse. In addition, heighten awareness of the HIV/Aids pandemic.	
5.3	Establish support emergency services, a tannery and leather project and a fuel outlet	• Revise the SLP and involve all the stakeholders to agree on the way forward	• Ensure equitable cover of the region • Exploit natural resources in the area • Assist with the sustainability of business	

	Target	Actual	Comments
	R7.9 million	R3.7 million	Funds were spent on rehabilitation of Boegoeberg to address burning issues. Targets were not met due to poor weather conditions, unforeseen relocation and transport problems. Alexkor will implement and rehabilitate priority areas in accordance with an approved plan in future which will address the shortcomings experienced in recent years.
	R9.1 million	R9.1 million	Contributions were made to Alexkor's Rehabilitation Trust Fund in line with the approved budget. The trust is duly registered in terms of article 37A of the Income Tax Act.
	R1.25 million	R3.86 million	Alexkor's contribution to the improvement of the socioeconomic conditions is important to the community as a 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, a 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 unskilled labour for the Township Establishment project. This further contributed in addressing socioeconomic issues in the region.
	R200 000	R25 764	The cost incurred was limited but included peer educator training, HIV/Aids banners, gloves, travel costs and candles for HIV/Aids Day on 1 December 2011. It was agreed that the initial amount was too high and that the necessary objectives could be reached with the actual expenditure incurred.
	R1 050 000	No expenditure incurred	An investigation into the proposal showed it could not be implemented in a commercially viable manner. Negotiations are currently in progress with all stakeholders (including DMR and the community) to revise the SLP towards priority issues that are more realistic in uplifting the surrounding community.

Objective		Programme per objective	Measure/Indicator	
5.4	To manage and maintain the functions and services with regard to the non-core business activities of Alexander Bay Trading (ABT) and Alexander Bay Township until their transfer to the RVC and provincial government is finalised	Manage and maintain the functions and services of the : • Town maintenance • Guesthouse • Fuel station and limiting the losses in this regard.	• Non-core operational costs are budgeted for a loss for the year.	
		Appoint a project coordinator to ensure a smooth and effective transition of the Township to the identified institutions.		
5.5	Registration of the 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	
6	Skills Development			
6.1	Increased learners trained in scarce and critical skills		% of personnel costs incurred towards training	
			Total number of learners in the system in 2011/12	
			Total number of new learners to be enrolled in 2011/12	

Target	Actual	Comments
R1.24 million loss	R1.36 million loss	These activities include continued basic maintenance of the Township by Alexkor and operating the guesthouses and fuel station by the PSJV until these are transferred. Alexkor continues with its efforts to maintain these activities at the least possible loss. The main reason for the losses exceeding the budgeted loss is due to rising electricity costs during the year. The variance was less than 10%.
To transfer the non-core operations during the 2012 financial year	Not achieved	Alexkor (township maintenance) and the PSJV (guesthouse and fuel station) will manage these operations until they are transferred to the community and local government. Date of transfer is set for December 2012 when the Alexander Bay erven will be transferred to the community upon completion of the township establishment. The non-core operations, along with all its related buildings, will be transferred on the same day.
Before the end of June 2011	Achieved	The notarial Deed of Cession of the land mining mineral right was registered at the Mineral and Petroleum Titles Registration Office on 6 April 2011.
3 % of payroll	2.2% of payroll	The achievement of targets in this area should improve in the next financial year as a training officer and ABET facilitator will be appointed to ensure costs are adequately allocated towards training.
Engineering trainees: 3	Achieved	Trainees were appointed in line with the set targets.
Technician trainees: 1	Achieved	Trainees were appointed in line with the set targets.
Artisan trainees : 7	2 trainees	Due to a lack of funding, only two trainees could be trained.
Sector specific trainees: 3	1 trainee	Due to a lack of funding, only one trainee could be trained.
Engineering trainees: 3	2 trainees	Due to a lack of funding, only two trainees could be trained.
Technician trainees: 1	None	As the PSJV was implemented during the year along with the restructuring of personnel in the operations, it was agreed that the joint venture would enrol the trainees in subsequent years once all the functions and the needs of the current employees have been addressed.
Artisan trainees : 2	None	
Sector specific trainees: 2	None	

MATERIALITY FRAMEWORK

PREAMBLE

In terms of section 54 (2) of the Public Finance Management Act (PFMA) a state-owned company (SOC) has to inform the relevant treasury and apply for approval from the Executive Authority (the relevant minister representing the shareholder) before it concludes certain transactions.

Therefore the materiality framework sets out the guidelines for the treatment of significant and material transactions, and determines significance and materiality levels for Alexkor SOC 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 Department of Public Enterprises (DPE) (attached as table 1 of this section) by:
  - outlining a process to be followed and information to be submitted in support of an application in terms of section 54 (2) of the PFMA; and
  - setting significance and materiality levels for transactions for the purposes of section 54 (2) of the PFMA.
- Set out materiality levels for any losses for purposes of section 55 (2) of the PFMA (attached as table 2 of this section).

GENERAL OBLIGATIONS OF THE PARTIES

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 purpose of guidelines and transactions listed in the tables, it may apply qualitative and quantitative guidelines, either concurrently or separately, as the context requires.
- As 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

- Upon finalising the significant transaction's details and structure Alexkor shall 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 will be funded;
  (d) identification of risks pertaining to the proposed transaction and strategies to mitigate those risks;
  (e) indication of whether an assessment was made of whether or not the proposed transaction is 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.
- The application shall 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 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 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 the DPE require further information from Alexkor in order to process and finalise the application, the 30-day period shall be extended by such period as it takes for the DPE to receive the information.
- The DPE shall advise Alexkor in writing whether the application has been approved or not.
- Should approval not be granted, DPE shall furnish Alexkor with 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 such 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.

TABLE 1: BUSINESS TRANSACTIONS

Section 54 (2) of the PFMA

<table>
<tr><th>No.</th><th>Reference</th><th>Nature of Transaction</th><th>Qualitative Guidelines</th><th>Quantitative Guidelines</th></tr>
<tr><td>1</td><td>54 (2) (a)</td><td>Establishment or participation in the establishment of a company:</td><td>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, e.g. Alexkor is only facilitating the formation on behalf of or with other parties in pursuance of a social objective, such participation requires no 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</td><td>Not applicable</td></tr>
<tr><td>2</td><td>54 (2) (c)</td><td>Acquisition or disposal of significant shareholding in a company:</td><td>i. Where any of the following occurs, the transaction is to be regarded as significant:
a. Where ownership control is affected; or
b. Where Alexkor's right to pass or block a special resolution is affected; or
c. There is a change in shareholding of at least 20%; or
d. For an acquisition, any transaction that results in a shareholding of at least 20% in a company</td><td><table><tr><td>Base of measure</td><td>Notification</td><td>Approval</td></tr><tr><td>* Size of shareholding</td><td>≤ 20%</td><td>> 20%</td></tr><tr><td>Any transaction</td><td></td><td>> 0%</td></tr></table>* 20% shareholding in the target company</td></tr>
</table>

No.	Reference	Nature of Transaction	Qualitative Guidelines	Quantitative Guidelines
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:	i. The significance of a change in interest as envisaged in this sub-section, 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 sub-section 5 below ii. Any change in interest where the Rand value exceeds the significance limits as determined per quantitative guidelines, should be regarded as significant	Base of measure / Notification / Approval Total assets / ≤ 2% / > 2%
4	54 (2) (e)	Commencement or cessation of a significant business activity:	i. A business activity that falls within Alexkor's core business needs not be regarded as belonging 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 which 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
5	54 (2)(b)	Participation in a significant partnership, trust, unincorporated joint venture or similar arrangement:	i. Any transaction involving establishment or participation in the establishment of a company that entails incorporation under the Companies Act (or foreign legislation of similar nature) 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

No.	Reference	Nature of Transaction	Qualitative Guidelines	Quantitative Guidelines		
6	54 (2)(d)	Acquisition or disposal of a significant asset.	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		
7		Guarantees, loans, financing or any other form of commitment that commits Alexkor financially or otherwise other than in the normal course of business.	Granting loans, guarantees to: • Alexkor's subsidiaries • Joint ventures, associates, trusts, partnerships			
				Base of measure	Notification	Approval
					≤ R500 000	> R500 000
					≤ R500 000	> R500 000
		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		

TABLE 2: MATERIAL LOSSES

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

No.	Reference	Nature of Transaction	Fortuitous Losses Quantitative Guidelines		
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.	Losses due to fraud or any corrupt activity perpetuated by: • a chief executive officer or a member of Alexkor's executive committee or its entities • a director of Alexkor or its entities • Any other employee of Alexkor other than the above		Disclosure level
				Any incident	≥ 0
				Any incident	≥ 0
				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

FOR THE YEAR ENDED 31 MARCH 2012

CONTENTS

STATEMENT OF DIRECTORS' RESPONSIBILITY

FOR THE YEAR ENDED 31 MARCH 2012

The board is responsible for the preparation, integrity and fair presentation of the financial statements of Alexkor SOC Limited. The financial statements, presented on pages 58 to 104, have been prepared in accordance with International Financial Reporting Standards, and include amounts based on reasonable and prudent judgements and estimates made by management.

The board acknowledges that it is ultimately responsible for the system of internal financial control established by the company and places considerable importance on maintaining a strong control environment. The focus of risk management in the company is on identifying, assessing, managing and monitoring all known forms of risk across the company.

The going concern basis has been adopted in preparation of the financial statements. The board agrees there are potential challenges in the going concern principle in the medium to long term. This results from the pooling and sharing joint venture (PSJV) that was established as recently as 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 external auditors are engaged to express an independent opinion on 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 49 to 50.

The financial statements were approved by the board of directors on 30 July 2012 and are signed on its behalf by:

B Lategan
CHIEF EXECUTIVE OFFICER (Acting)

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 2012, Alexkor SOC Limited has lodged with the Registrar of Companies all such returns as are required in terms of the Companies Act No. 71 of 2008, 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 2012

REPORT OF THE AUDIT COMMITTEE IN TERMS OF SECTION 94(7) OF THE COMPANIES ACT, (71 OF 2008).

During the year under review, the audit and risk committee ("the committee") performed its functions in accordance with section 94(7) of the Companies Act, No. 71 of 2008, as amended, ("the Companies Act") and the provisions of the Public Finance Management Act, No. 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 SOC Limited ("the company") which reports to the board of directors, comprises three independent non-executive directors who have the required knowledge and experience as set out in section 94(5) of the Companies Act and regulation 42 of the Companies Regulation, 2011.

Name	Qualification
Ms S Ngoma	B.Com (Hons), CA(SA)
Dr R Paul	PhD, MBA (Wits Business School)
Mr C Towell	B.Proc, C Tax

The committee held four scheduled meetings for the year ended 31 March 2012 and all the members of the committee attended all the meetings.

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

- Agreed, in consultation with the shareholder, to proceed with the current registered external auditors for the company who, in the opinion of the committee, is independent of the company as defined by the Companies Act and in accordance with the standards stipulated by the auditing profession. Requisite assurance was sought and provided by the Companies Act that internal governance processes within the firm support and demonstrate the claim to independence;
- Determined the terms of engagement and fees to be paid to the auditors taking into consideration such factors as the timing of the audit, the extent of the work required and the scope;
- Ensured 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 auditors 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 to the company, was not such that they could be seen to have impaired their independence;
- Received and appropriately dealt with any complaints (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 from their audits and requested appropriate responses from management which resulted in their concerns being addressed;
- Considered the effectiveness of the internal audit, approved the one-year operational internal audit plan and monitored the adherence of the internal audit to its annual programme;
- Reviewed and recommended for adoption by company's board such financial information that is publicly disclosed, which for the year included the annual report for the year ended 31 March 2012;
- Made appropriate recommendations to the company's board regarding the corrective actions to be taken as a consequence of audit findings;
- Reviewed the company's compliance with legal and regulatory provisions;

- Reviewed the adequacy, reliability and accuracy of the financial information provided to management and other users of such information;

- Reviewed the risks involved regarding financial reporting, internal control, fraud and IT; and

- Reviewed the effectiveness of the procurement policies and procedures of the company.

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 identified weaknesses.

The internal auditor and the external auditors have unlimited access to the chairman of the committee. The chairman of the committee attends the annual general meeting ("AGM") and is available to answer any questions that arise at the AGM and from time to time.

Furthermore, the committee has evaluated the annual financial statements for the year ended 31 March 2012 and considers that they comply, in all material respects, with the requirements of the PFMA as amended, the Companies Act, and International Financial Reporting Standards.

The committee agrees that the adoption of the going concern premise is appropriate in preparing the annual financial statements. The committee acknowledges that Alexkor has made significant progress in addressing the control weaknesses 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. Therefore the committee recommends the adoption of the annual financial statements by the board of directors.

S Ngoma
CHAIRMAN
AUDIT AND RISK COMMITTEE

INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 31 MARCH 2012

INDEPENDENT AUDITOR'S REPORT TO THE PARLIAMANT ON THE FINANCIAL STATEMENTS

INTRODUCTION

We have audited the financial statements of the Alexkor SOC Limited as set out on pages 58 to 104, which comprise the statement of financial position as at 31 March 2012, the statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The board of directors which constitutes the accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Public Finance Management Act of South Africa and the Companies Act of South Africa, and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Public Audit Act of South Africa, the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 auditors' 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 auditors consider 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 SOC Limited as at 31 March 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Public Finance Management Act of South Africa and the Companies Act of South Africa.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to the company's going concern in the long term. The current level of operations for land and marine mining has been maintained for the past number of years and short-term mining plans are in place to continue for the foreseeable future. The Alexkor RMC Joint Venture ("the joint venture") commenced during the 2012 financial year and all mining activities previously performed by Alexkor are now performed through the joint venture. Consequently, Alexkor now shares in only 51% of the results of the joint venture. No significant exploration has been undertaken since 1998 as result of the Land Claim Settlement. The company plans to commence with exploration activities through the activities of the joint venture in the existing mining area during the 2013 financial year. Despite the efforts undertaken by management during the year under review, new mining opportunities outside the Alexander Bay mining region required for the longer-term going concern of the company, have not yet been identified. Although the company has sufficient cash resources to meet its operating cash requirements for the foreseeable future, there is significant doubt about the company's ability to continue as a going concern in the longer term without the approval of a life-of-mine plan for commencement of sustainable mining activities.

OTHER REPORTS REQUIRED BY THE COMPANIES ACT

As part of our audit of the financial statements for the year ended 31 March 2012, we have read the directors' report, the audit committee's report and the company secretary's certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on a reading of these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the Public Audit Act and the *General Notice* issued in terms thereof, we report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

1. PREDETERMINED OBJECTIVES

We performed procedures to obtain evidence about the usefulness and reliability of the information in the Alexkor SOC Limited annual performance report as set out in the annual report.

The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives priorities or objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by *the National Treasury Framework for managing programme performance information*.

The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

There were no material findings on the Alexkor SOC Limited annual performance report concerning the usefulness and reliability of the information.

Additional matters
Although no material findings concerning the usefulness and reliability of the performance information were identified in the Alexkor SOC Limited performance report, we draw attention to the level of non-achievement of the planned targets. This matter does not have an impact on the predetermined objectives audit findings reported above.

Achievement of planned targets
Of the total number of planned targets, only 19 (number of targets) out of a total of 29 were achieved during the year under review. This represents 34% (>20%) of total planned targets that were not achieved during the year under review. This was mainly due to the fact that indicators and targets were not suitably developed during the strategic planning process.

2. COMPLIANCE WITH LAWS AND REGULATIONS

Financial Statements
The accounting authority did not submit the financial statements for auditing within two months after the end of financial year, as required by section 55(1)(c)(i) of the Public Finance management Act.

3. INTERNAL CONTROL

We did not identify any deficiencies in internal control that we considered sufficiently significant for inclusion in this report.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc
Director: TD Shango
Registered Auditor
Sunninghill
31 July 2012

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2012

The board of directors is pleased to present its report for the financial year ended 31 March 2012. This report and the audited financial statements comply with the requirements of the Public Finance Management Act (No. 1 of 1999), as amended - ("the PFMA"). In promoting the concepts of corporate governance, the directors have included additional information about the company's strategic objectives, the impact on the operations and future sustainability of the pooling and sharing joint venture ("PSJV") with the Richtersveld Mining Company ("RMC") on Alexkor, as well as other important matters.

1 BACKGROUND

Alexkor has been an operating diamond mine since 1928, having started trading as the "Staats Alluviale Delwerye". The mine was commercialised on 1 May 1989 and changed its name to the Alexander Bay Development Corporation. This structure remained in place until 2 November 1992 when it was incorporated under the Alexkor Limited Act No. 116 of 1992, as amended, and traded as Alexkor Limited. The government of the Republic of South Africa, through the Minister of Public Enterprises, holds the entire issued share capital of the company and in addition to being governed by the Companies Act No 71 of 2008, as amended ("the Companies Act"), the company also falls under the ambit of the PFMA as it is listed as a Schedule 2 Public Entity. With the coming into effect of the Companies Act in May 2011, the company's name changed to Alexkor SOC Limited ("Alexkor" or "the company")

Recent events have significantly changed the operations and strategic outlook of Alexkor. The Richtersveld community successfully instituted a land claim against Alexkor (and the government of South Africa) and on 14 October 2003 the Constitutional Court held that the community was entitled to restitution for the land. A memorandum of understanding (MoU), which stipulated the in-principle agreements on the nature and extent of the intended restitution, was signed on 29 October 2006 after settlement negotiations had been completed. The formal and binding Deed of Settlement (DoS) was signed on 22 April 2007, and was made an order of court in October 2007. The salient features of the DoS are as follows:

- All land and buildings subject to the land claim would be transferred to the Communal Property Association (CPA);
- Certain erven and erected buildings within the to-be-established township of Alexander Bay would be transferred to various social institutions and government authorities to normalise the social and governmental structures;
- The land mining rights would be transferred to the CPA, whilst Alexkor will retain its marine mining rights;
- Alexkor would retain responsibility for certain commercial and community services, such as the operation of the airport and hospital services, until the township is transferred to the Northern Cape Province;
- Alexkor would retain responsibility for historical environmental rehabilitation incurred up to 6 April 2011. This rehabilitation liability would be subject to a guarantee by the state in the event that Alexkor is unable to fulfil its obligations.

In compliance with the requirements of the DoS, the land mining rights would be transferred to the Richtersveld Mining Company (RMC), which is the operating entity of the CPA. These rights were successfully transferred to the RMC on 6 April 2011. Furthermore, the marine mining rights of Alexkor and the land mining rights of the RMC were to pooled and are shared by a joint venture operation, recently named the "Alexkor RMC JV" (PSJV) by mutual consent of both parties, with 51% of any profits before taxation accruing to Alexkor. The joint venture commenced operation on 7 April 2011. The balance of the 49% is for the benefit of the CPA through the RMC.

As part of the land claim settlement an amount of R200 million was made available by the state for the recapitalisation and exploration activities of the Alexkor RMC joint venture. These funds are specifically ring-fenced for this purpose and cannot be utilised by Alexkor for any other projects. These funds will be utilised for the intended purpose once a strategic plan has been completed. An amount of R20 million was transferred to the PSJV during the year to assist with its working capital requirements. A tender process was successfully concluded and a contractor was appointed after year end to commence with the initial exploration phase in the PSJV in order to start exploration activities on land in the Alexander Bay region.

With the significant progress made on the implementation of the DoS, it is now anticipated that the company will successfully complete its exit from all non-mining activities, such as the municipal services, by December 2012 (initially envisaged to be June 2012 – but delayed by environmental approvals). It is also expected to continue with its strategic direction of receiving income from mining activities within the PSJV and independently exploring new opportunities outside of Alexander Bay as a necessary measure to ensure future sustainability of the entity.

2 NATURE OF BUSINESS

The Alexkor RMC JV is controlled by an independent board of six directors (three nominated by each party to the joint venture) and managed by an independent executive management team that resides in Alexander Bay. The members representing Alexkor on the Alexkor RMC JV board are also members of the Alexkor board. The executive management team reports directly to the independent Alexkor RMC JV board. A stipulation in the DoS provides that each party, namely Alexkor and the RMC, must bear its own costs for its representatives on the Alexkor RMC JV board.

Therefore Alexkor only shares in any profits or losses that may arise in the joint venture operations but has no outright control of the joint venture. Alexkor and Alexkor RMC JV are two distinct and separate entities and operate independently of each other. This also means that in the short term, whilst the PSJV's efforts are focussed on exploration, Alexkor has no revenue stream to cover its direct operating and head office costs.

The main business of the Alexkor RMC JV is the economic exploitation of diamonds from the pooled marine and land mining rights in the Alexander Bay area. The current mining operations comprise of low-scale land operations and shallow and deep water marine mining that are currently performed by mining contractors appointed by the Alexkor RMC JV.

3 BOARD OF DIRECTORS

For the period under review Alexkor's board of directors ("the board") comprised of five non-executive directors and one executive director, namely the CEO, whose contract expired on 22 September 2011 and was not renewed. Therefore the composition of the board, with respect to the non-executive directors, remained the same as in the previous financial year. Following the expiry of the former CEO's contract, the then acting CFO assumed the vacant position of CEO and has been acting in this capacity since 23 September 2011. The board is awaiting the appointment of a full complement of three additional directors with the consent of the Minister of Public Enterprises before it can proceed with the appointment of a permanent CEO.

The board meets at least once quarterly and retains full and effective control over the company's business and monitors executive management through a structured approach to reporting and accountability.

All directors receive regular information about the company in order to equip them for active participation in board meetings. Members of the board also have unrestricted access to management and the company secretary for any further information they may require. None of the current directors have any interest in the share capital of the company, or in any contracts entered into by the company, as disclosed by the statutory records of the company and representations made by the directors to the company. Disclosure of remuneration in terms of section 55 of the PFMA and Treasury Regulation 28.1.1 is provided in note 28 to the financial statements.

4 SHARE CAPITAL

There has been no change in the authorised and issued share capital of the company during the period under review. Details of the authorised and issued share capital are disclosed in note 10 of the financial statements.

5 SHAREHOLDER

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

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 as at 31 March 2012, 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 and in the manner required by the Companies Act.

The annual financial statements contained in pages 58 to 104 reflect the financial performance, position and cash flow results of the company's operations for the year ended 31 March 2012.

7 CORE OBJECTIVES

7.1 STRATEGIC OBJECTIVES

The main strategic objectives defined by the board in the 2012 corporate plan are to conclude implementation of 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 company's overall operations to a profitable status. These initiatives included, inter alia:

- The establishment and commencement of the Alexkor RMC JV and operating the current activities in Alexander Bay on a profitable basis and reduce costs, whilst exploring strategies that will ensure long-term viability; and
- Commence with exploration in the onshore and offshore mining and prospecting areas in Alexander Bay. The intention of the exploration is to provide a sound basis to increase mining from land operations and to stabilise mining from the marine areas for the foreseeable future.

As indicated above, this can only be achieved through the Alexkor RMC JV and cannot be directly or solely accomplished by Alexkor.

The initiatives listed above were monitored in the report on predetermined objectives. A funding request for these initiatives was developed as part of the medium-term expenditure framework ("MTEF") process in the form of a recapitalisation of the joint venture operations in 2008. The implementation of these initiatives was negotiated successfully during the financial year under review, which enabled Alexkor to proceed with joint operations with the RMC from April 2011.

In addition to the DoS obligations stated above, Alexkor's overall strategy for continued sustainability includes the following objectives:

- To secure and expand the Alexkor operations into new diamond mining opportunities in and outside the borders of South Africa in order to ensure that Alexkor becomes a profitable and sustainable company;
- To improve performance and achieve real cost savings whilst seeking an optimal business model. The objectives for Alexkor are to identify and acquire opportunities that will turn Alexkor into a sustainable diamond mining company with a diversified portfolio of diamond mining ventures on the African continent; and
- That Alexkor will be an employer and business that looks after the interests and well-being of its employees (sustainable livelihood and strengthening the skills and human resource base), the community (social development) and the environment in which it operates and conducts business.

A MTEF funding request for the above objectives was submitted to and approved by Treasury and DPE (refer to note 9 in the directors' report).

7.2 DISCONTINUED OPERATIONS

In line with the company's obligation to exit the non-core business activities in light of the DoS, the Alexander Bay trading operations are in the process of being discontinued. The process started during the 2008 financial year and management envisages it to be finalised by 2013 when the township establishment project is expected to be completed.

8 NEW BUSINESS DEVELOPMENT

The current level of mining activities in Alexander Bay under the auspices of the Alexkor RMC JV, when seen together with the costs of rehabilitating the environmental disturbances from historical mining operations up to 6 April 2011, casts doubt on the company's ability to continue as a going concern in the longer term without the commencement of sustainable mining activities in new geographical areas. Due to the uncertainties of the land claim settlement process, Alexkor had not undertaken any significant exploration since 1998. Consequently with exploration expected to commence in the 2013 financial year it is unlikely that Alexkor will receive any profit distributions from the Alexkor RMC JV before the 2017 financial year.

Therefore Alexkor is actively pursuing prospective diamond opportunities in the Northern Cape and North West provinces. Alexkor is confident that securing and developing appropriate opportunities will promote job creation and provide security for previously disadvantaged individuals in their respective communities. Alexkor is exploring these opportunities independently of the RMC and the Alexkor RMC JV. Alexkor is in the process of confirming its mandate and possible funding models in this regard with its shareholder, the Department of Public Enterprises.

Beneficiation of product is currently a subject of focus for the government and as such forms part of Alexkor's expansion strategy. Planning towards beneficiation of product was investigated and many practical challenges have been experienced to date. After an extensive investigation and consultation with various role players in the industry Alexkor's and the Alexkor RMC JV's management hold the view that beneficiation in the form discussed in the past will not be to the benefit of the joint venture nor Alexkor at this time. In an industry that is currently declining due to strong competition from countries like India and China the formation of a beneficiation business unit with all the attendant pitfalls inherent in the business, will not be advantageous given limited financial resources and low volumes of diamonds produced by the Alexkor RMC JV. Alexkor will therefore continue to explore initiatives with respect to its broader strategic expansion objectives.

As such Alexkor will continue to assess the situation for changes in the economic climate that may make it attractive at a later stage to fully explore this initiative and will revisit the Alexkor RMC JV's potential contribution to the process in due course. A major issue at this stage is that Alexkor is not able to pursue any opportunities without external financial support as it no longer has a revenue stream following the establishment of the Alexkor RMC JV in April 2011.

9 MEDIUM-TERM EXPENDITURE FRAMEWORK (MTEF) APPLICATION

In order to successfully pursue the above-mentioned expansion projects, an MTEF application was submitted to DPE in July 2011. The application was successful but returned with conditions that were not in line with the original application submitted by Alexkor. The Alexkor management team has since initiated meetings with DPE and Treasury to discuss and clarify the allocation and utilisation of funds emanating from the MTEF application. Treasury and DPE have confirmed the allocation of R350 million in terms of the MTEF application to Alexkor for the 2013 financial year.

Alexkor received a letter from DPE to confirm the allocation of the R350 million that it had received from Treasury on behalf of Alexkor. This amount has been earmarked for the settlement of the costs for the right of occupation of the residential properties in Alexander Bay, tax related issues, as well as environmental and post-retirement medical aid liabilities. The letter instructed Alexkor that the allocation of funds was not intended for investment in new business opportunities.

This allocation, which prevents Alexkor from utilising some of the proceeds of the MTEF funding towards new investments, places Alexkor in a precarious position that requires it to continuously reconsider its ability to continue as a going concern in the long term in the absence of alternative funding. At the time of finalising the report Alexkor was engaged with the shareholder to clarify its future strategic direction.

10 DIVIDENDS

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

11 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.

12 INTERNAL CONTROL

Internal controls are designed to provide reasonable, but not absolute, assurance as to the reliability of the financial statements, and 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 has a fraud hotline, also known as a "whistle-blowing" facility, which is a simple yet effective management tool designed to enable concerned employees in the organisation, as well as third parties associated with the company, 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).

The board is of the opinion, based on the information and explanations given by management that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements.

13 SHAREHOLDER'S COMPACT

A shareholder's compact was signed between the board and the executive authority for the period under review. Performance objectives are captured within the compact and are reported against the outcomes on a quarterly basis.

14 LITIGATION STATEMENT

There were no significant changes in the status of the on-going 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 matters on the financial statements and in consultation with the company's legal representatives, and no additional provision has been made in the financial statements for these claims.

During the period under review 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 in the amount of R202 million for compensation of the assets thus transferred. The parties agreed to submit the dispute to mediation, which is currently still in progress.

Full detail of the litigation has been disclosed in note 25 to the financial statements.

15 ENVIRONMENTAL MATTERS

Environmental matters are overseen by an environmental sub-committee of the board. 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 in March 2012 by an independent environmental management consultant estimated the gross liability to amount to R258.0 million as at 31 March 2012 (2011: R256.6 million). The company makes monthly contributions towards a duly registered rehabilitation trust fund and the funds held in the trust as at 31 March 2012 amounted to R48.1 million (2011: R 36.9 million), resulting in a currently unfunded rehabilitation liability of R209.9 million (2011: R219.7 million). The unfunded portion is guaranteed by DPE. Further details with regards to the rehabilitation liability are provided in note 13 to the annual financial statements.

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

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

The availability of aerial photography expected later during the year will provide the opportunity for a ground-truthed total recalculation of the rehabilitation liability, taking full cognisance of sand plume increases, sand plume control by netting over the past three years, and the detailed quantification of reduced liability which has come about over the past seven years through natural re-vegetation of prospecting trenches and overburden dumps.

The impact of current mining activities on the environment are minimised with the concurrent backfilling of excavations where possible, minimising access roads and erecting of nets in order to curb the movement of sand at the base and the toe of the sand plumes. Alexkor will continue to address priority environmental issues around Boegoeberg and other areas as identified. With netting at the Boegoeberg area having achieved its aim through a reduction of decline of sand on the Boegoeberg slopes, Alexkor is satisfied that the annual expenditure on netting and re-vegetation is beginning to achieve the goal of avoiding increased costs for dust plume control. The cost saving in respect of the V-trenches and the scrapyard was deducted in the current evaluation. Any adjustments which may be required in future will be made based on the pending ground-truthed photo-based quantum recalculation update during the year.

However rehabilitation activities will increase in future as Alexkor's focus has shifted to give more direct attention to the issue with additional resources allocated to priority issues to address the liability more effectively in light of the DoS obligation.

16 GOING CONCERN

The board took cognisance of the losses suffered during the previous financial years and has considered the impact thereof on the solvency of the company. Due to the substantial amount of cash available to meet its operating cash requirements, and the guarantee of the rehabilitation liability shortfall by DPE (refer to note 13), the financial statements have been prepared on the going concern basis. Alexkor has no borrowings. Alexkor committed to five instalments being paid in terms of the post-retirement medical aid. The first two instalments have been paid in December 2010 and December 2011. The balance of the liability of R46.95 million will be paid in three equal payments over the next three years, subject to the resolution on the MTEF proceeds allocation which may enable Alexkor to extinguish this obligation entirely in the next financial reporting period to 31 March 2013. See more detail in note 12.2 of the notes to the financial statements.

The cash balance available for operating cash requirements as at 31 March 2012 is R69.1 million. The company budgeted for a total cash outflow of approximately R47 million for the 2013 financial year based on the level of operational activities planned, capital expenditure, investments into the rehabilitation trust and the annual payment to the post-retirement medical aid settlement in December (refer to note 12.2 in the notes to the financials). Therefore the available cash reserves are sufficient to fund the cash requirements for the company for the next 12-month period ending 31 March 2013.

As of 7 April 2011 when the PSJV commenced, Alexkor has a 51% interest in the joint venture. We are of the opinion that these operations will be profitable in future and that after the period of exploration Alexkor will generate sufficient income through this venture to justify its stake in these operations.

The Minister of Public Enterprises also gave Alexkor a mandate to pursue other mining-related opportunities for new business development outside the Alexander Bay region in order 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 with the possible support of DPE is currently being explored. The board accepts the risks related to new business development and believes this expansion to be in the best interests of Alexkor's long-term sustainability going forward.

The directors have applied the liquidity and solvency test as required by the Companies Act 71 of 2008. In lieu of the above and subject to resolution of the board's concerns around the allocation of the MTEF proceeds pertaining to restrictions on investment in new opportunities, the board has every reason to believe the company will have adequate resources in place to continue with operations for the foreseeable future.

17 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 to the Public Finance Management Act has been identified and/or reported.

18 AUDITORS

In accordance with the provisions of section 90(1) of the Companies Act, 2008, PricewaterhouseCoopers Inc. will continue in office as Alexkor's external auditors until the next annual general meeting in September 2012.

Alexkor has agreed, following recommendation by the shareholder, to appoint an empowerment audit firm for the next financial year, being the year ending March 2013. Alexkor has submitted proposals to its shareholder in this regard and has agreed on fundamental principles for the appointment. The tender process is currently under way and a new appointment, in consultation with the Auditor-General of South Africa, is expected at the AGM scheduled for September 2012.

19 COMPANY SECRETARY

Ms Nozuko Mxunyelwa was acting in the position of the company secretary for the financial year under review before Ms Buyi Mlangeni's permanent employment on 20 June 2011. However Ms Buyi Mlangeni only served in this position for a brief period before resigning on 21 September 2011. Ms Mxunyelwa was reappointed and continues to act as company secretary on an outsourced basis since October 2011, pending the finalising of the composition of the board. We expect the shareholder to provide an update on the board appointments by no later than the next AGM scheduled for September 2012. Thereafter the newly constituted board will be in a position to finalise the appointment of a permanent CEO and the company secretary, as well as other appointments as warranted by the new approved strategic intent.

20 REPORT ON PREDETERMINED OBJECTIVES

Alexkor produced a report on predetermined objectives for the 2012 financial year, outlining its targets and achievements for the period as set out in the signed shareholders compact. The company endeavours to comply with all regulatory and reporting requirements that are currently in place and that may arise in future.

21 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. The risk matrix was updated with new risks that were identified by the audit and risk committee and the board. Responsible individuals are allocated to all the risks identified in the report to mitigate such risks in the best manner. Alexkor updates its risks on a quarterly basis and discloses them as part of its quarterly reporting requirements.

22 NON - CURRENT ASSETS

There have been major changes in the nature of the non-current assets during the year under review, due to the pooling of non-current assets into the Alexkor RMC JV. As part of the requirements of the DoS, Alexkor was obliged to pool its mining assets into the joint venture to comply with the deed. Alexkor retained ownership of these assets, but 49% of the assets were derecognised for accounting purposes to reflect the management and control of the assets in the Alexkor RMC JV.

23 BOARD EVALUATION PROCESS

During the financial year under review, the board resolved to conduct an independent assessment of its effectiveness. This was done for purposes of reporting at the 2011 AGM and also to assist the board in identifying areas of weaknesses in its performance and to come up with remedial interventions, where required. As such the board has implemented various remedial interventions during the period under review, using the outcomes of the independent board evaluation process. It also intends conducting another follow-up assessment to evaluate its general effectiveness and the effectiveness of the interventions from the previous year. The board continues to identify areas requiring on-going education for itself, as part of the board's evaluation process and development.

STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 MARCH 2012

	Notes	2012 R	2011 R
ASSETS			
Non-current assets		89 740 430	63 990 372
Property, plant and equipment	3	30 339 695	26 752 267
Cash held in rehabilitation trust	23.2	48 115 544	36 927 031
Intangible assets	4	349 431	311 074
Pension Fund surplus	12.1	451 000	-
Loan to joint venture	6	10 484 760	-
Current assets		352 231 771	477 974 160
Inventories	7	8 494 922	33 371 378
Trade and other receivables	8	2 487 070	6 491 229
Cash and cash equivalents	23.2	341 249 779	438 111 553
Non-current assets classified as held for sale	9	162 434 882	162 434 882
TOTAL ASSETS		604 407 083	704 399 414
EQUITY AND LIABILITIES			
Capital and reserves		20 159 254	16 889 033
Share capital	10	50 000 000	50 000 000
Accumulated loss		(187 925 638)	(191 195 859)
Revaluation reserve	11	158 084 892	158 084 892
Non-current liabilities		304 963 995	315 093 980
Retirement benefit obligation	12.2	46 950 000	58 436 000
Environmental rehabilitation liability	13	258 013 995	256 657 980
Current liabilities		279 283 834	372 416 401
Trade and other payables	14	278 994 058	372 416 401
Taxation payable	22	289 776	-
TOTAL EQUITY AND LIABILITIES		604 407 083	704 399 414

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2012

	Notes	2012 R	2011 R
Revenue	15	113 460 341	195 906 883
Cost of sales	16	(123 271 800)	(170 911 371)*
Gross (loss)/profit		(9 811 459)	24 995 512
Administration expenses		(974 427)	(2 265 446)
Other expenses	17	(67 113 374)	(46 647 989)*
Other income	18	63 318 984	86 770 508*
Provision for environmental rehabilitation liability	13	(1 356 015)	-
Provision for retirement benefit obligations	12	(5 886 394)	13 962 644
Operating (loss)/profit	19	(21 822 685)	76 815 229
Net finance income		7 004 196	7 540 941
Finance income	20	23 293 750	26 916 651
Finance expense	21	(16 289 554)	(19 375 710)
(Loss)/Profit before income tax		(14 818 489)	84 356 170
Taxation	22	(289 776)	-
(Loss)/Profit for the year from continued operations		(15 108 265)	84 356 170
Discontinued operations (net of income tax)			
Loss for the year from discontinued operation	24	(1 621 515)	(126 874)
(Loss)/Profit for the year		(16 729 780)	84 229 296
Other comprehensive income:			
Government grants recognised in equity		20 000 000	-
Other comprehensive income for the year, net of tax		20 000 000	-
Total comprehensive income for the year		3 270 220	84 229 296

* Refer to note 18 for details of a reclassification that was done between the noted items.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2012

	Share capital	Accumulated loss	Revaluation reserve	Total
	R	R	R	R
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	-	84 229 296
Other comprehensive income	-	-	-	-
Balance as at 1 April 2011	50 000 000	(191 195 859)	158 084 892	16 889 033
Total comprehensive income for the year	-	3 270 220	-	3 270 220
Loss for the year	-	(16 729 780)	-	(16 729 780)
Other comprehensive income	-	20 000 000	-	20 000 000
Balance as at 31 March 2012	50 000 000	(187 925 638)	158 084 892	20 159 254
Notes:	10		11	

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2012

	Notes	2012 R	2011 R
Net cash inflow from operating activities		1 335 342	19 274 662
Cash flow (to)/from operating activities	23.1	(4 047 339)	11 860 595
Cash flow from discontinued operations	24	(1 621 515)	(126 874)
Interest received	20	23 293 750	26 916 651
Interest paid	21	(16 289 554)	(19 375 710)
Net cash outflow from investing activities		(9 964 547)	(5 630 764)
Expenditure to maintain operating capacity			
Replacement of property, plant and equipment	3	(9 653 481)	(5 630 764)
Replacement of intangible assets	4	(311 066)	-
Net cash (out)/inflow from financing activities		(77 044 056)	9 950 887
Loan granted to joint venture	6	(10 484 760)	-
Government funded obligations utilised	14.1	(82 726 650)	(45 404 436)
Government funded obligations received	14.1	-	36 000 000
Interest received on government funded obligations	14.1	16 167 354	19 355 323
Net (decrease)/increase in cash and cash equivalents		(85 673 261)	23 594 785
Opening cash and cash equivalents		475 038 584	451 443 799
Closing cash and cash equivalents	23.2	389 365 323	475 038 584
The cash and cash equivalents balance is reconciled as follows:			
Operational cash		69 152 546	108 022 901
Cash held in legal trust		10 564 046	10 125 462
Cash held for government funded obligations		261 533 187	319 963 190
Cash held in rehabilitation trust		48 115 544	36 927 031
Total cash and cash equivalents	23.2	389 365 323	475 038 584

ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH 2012

1. PRINCIPAL 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 2012 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 financial statements are presented in South African Rand. 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 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 adopted by the company.

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

- IAS 1 (Amendment) Presentation of Financial Statements (effective for financial periods beginning on/after 1 July 2012): The amendment requires entities to separate items presented in other comprehensive income (OCI) into two groups based on whether or not they may be recycled to profit or loss in the future.
  Management is in the process of assessing the impact.

- 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 19 (Amendment) Employee Benefits (effective for financial periods beginning on/after 1 January 2013): The amendments eliminates the option to defer the recognition of actuarial gains and losses, streamlines the presentation of changes in assets and liabilities arising from defined benefit plans including the requirement that remeasurements be presented in other comprehensive income, and enhances the disclosure requirements for defined benefit plans to provide better information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans.
  Management is in the process of assessing the impact.

- IAS 27 (Revised) 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 (Revised) 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.

- IAS 32 (Amendment) Offsetting of Financial Assets and Financial Liabilities (effective for financial periods beginning on/after 1 January 2014): The application guidance of IAS 32 has been amended to clarify some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position. The amendments do not change the current offsetting model in IAS 32, but clarify that the right of set-off must be available today – that is, it is not contingent on a future event. It also must be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendments also clarify that gross settlement mechanisms (such as through a clearing house) with features that both (i) eliminate credit and liquidity risk and (ii) process receivables and payables in a single settlement process, are effectively equivalent to net settlement; they would therefore satisfy the IAS 32 criterion in these instances. Master netting agreements where the legal right of offset is only enforceable on the occurrence of some future event, such as default of the counterparty, continue not to meet the offsetting requirements.
  Management is in the process of assessing the impact.

- 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 1 (Amendment): First-time Adoption of International Financial Reporting Standards – Guidance on Government Loans (effective for financial periods beginning on/after 1 January 2013). The amendment provides guidance on how a first-time adopter would account for a government loan with a below-market rate of interest when transitioning to IFRS.
  This will not be applicable to Alexkor.

- IFRS 7 (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. The amendments will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets.
  Management is in the process of assessing the impact.

- IFRS 7 (Amendment): Financial Instruments: Disclosures - IFRS 9 Transitional Disclosures (effective for financial periods beginning on/after 1 January 2015). The amendment requires additional disclosure on the transition from IAS 39 to IFRS 9. This additional disclosure is only required when an entity adopts IFRS 9 for financial periods beginning on/after 1 January 2013. If an entity adopts IFRS 9 for financial periods beginning on/after 1 January 2012 and before 1 January 2013, the entity can either provide the additional disclosure or restate prior periods. The additional disclosure highlights the changes in classification of financial assets and financial liabilities upon the adoption of IFRS 9.
  Management is in the process of assessing the impact.

- IFRS 7 (Amendment): Financial Instruments: Disclosures – Offsetting of Financial Assets and Financial Liabilities (effective for financial periods beginning on/after 1 January 2013). The amended disclosures will require more extensive disclosures than are currently required under IFRS. The disclosures focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset.
  Management is in the process of assessing the impact.

- IFRS 9 Financial Instruments (effective for financial periods beginning on/after 1 January 2015) – IFRS 9 published in November 2009, 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 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.

  IFRS 9 was amended in October 2010 to incorporate financial liabilities. 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.

  In December 2011, the effective date of IFRS 9 was delayed. The original effective date for annual periods beginning on/after 1 January 2013 has been delayed to annual periods beginning on/after 1 January 2015. The amendment also modifies the relief from restating prior periods, in that if IFRS 9 is adopted for reporting periods: beginning before 1 January 2012, comparatives need to be restated nor does the additional disclosure requirements of IFRS 7 need to be provided; beginning on/after 1 January 2012 and before 1 January 2013, either the additional disclosure required by IFRS 7 must be provided or the prior periods need to be restated; beginning on/after 1 January 2013, the IFRS 7 additional disclosure is required but the entity need not restate prior periods.
  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.

- 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 20 Stripping Costs in the Production Phase of a Surface Mine (effective for financial periods beginning on/after 1 January 2013). The Interpretations Committee was asked to clarify when and how to account for stripping costs (the process of removing waste from a surface mine in order to gain access to mineral ore deposits) to address diversity in practice. The interpretation clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods.
Management is in the process of assessing the impact.

1.2. JOINT VENTURES

1.2.1. INTERESTS IN JOINT VENTURES

A joint venture is a contractual agreement whereby the company and other parties undertake an economic activity that is subject to joint control, that is when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control.

1.2.2. JOINTLY CONTROLLED ASSETS

The PSJV is accounted for as a jointly controlled asset and the company recognises and presents the following in their financial statements:

- its share of the jointly controlled assets, classified according to the nature of the assets rather than as an investment;
- any liabilities that it has incurred;
- its share of any liabilities incurred jointly with other venturers in relation to the joint venture;
- any income from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture;
- any expenses that it has incurred in respect of its interest in the joint venture.

1.3. PROPERTY, PLANT AND EQUIPMENT

The cost of an item of property, plant and equipment is recognised as an asset 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.

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 accumulated depreciation and any impairment losses. 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. 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 adjusted, if appropriate.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

The depreciation charge for each period is recognised in profit or loss unless it is included in the carrying amount of another asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited to other comprehensive income and accumulated in the revaluation surplus in equity. The increase is recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in profit or loss in the current period. The decrease is debited in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

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.

1.4. INTANGIBLE ASSETS

COMPUTER SOFTWARE

An intangible asset is recognised when it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. 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. The amortisation period and the amortisation method for intangible assets are reviewed every period-end.

1.5. 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; whereafter 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.

1.6. INVESTMENTS IN JOINT VENTURES

In respect of its interests in jointly controlled operations, the company recognises in its financial statements:

- the assets that it controls and the liabilities that it incurs; and
- the expenses that it incurs and its share of the income that it earns from the sale of goods or services by the joint venture.

1.7. FINANCIAL INSTRUMENTS

The company classifies its financial instruments in the following categories:

- Loans and receivables
- Financial liabilities measured at amortised cost

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

Financial instruments are recognised initially when the company becomes a party to the contractual provisions of the instruments. The company classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. When a financial liability is not recognised as fair value through profit or loss it is recognised as 'Other financial liabilities' and measured at amortised cost.

Loans and receivables and financial liabilities at amortised cost are subsequently measured at amortised cost using the effective interest method. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

1.7.1. 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 classified as other financial liabilities measured at amortised cost.

1.7.2. 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.

Trade and other receivables are classified as loans and receivables.

1.7.3. 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. These are initially and subsequently recorded at fair value.

Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position. These are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

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.

1.7.4. LOANS TO/(FROM) GROUP COMPANIES

These include loans to and from holding companies, fellow subsidiaries, joint ventures and associates and are recognised initially at fair value plus direct transaction costs.

Loans to group companies are classified as loans and receivables. Loans from group companies are classified as financial liabilities measured at amortised cost.

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 amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

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.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised.

1.10. SHARE CAPITAL

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Ordinary shares are classified as equity.

1.11. 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.

Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The company uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the company for similar financial instruments.

Environmental rehabilitation liability

Provision is made in accordance with the accounting policy for the anticipated costs of future restoration and rehabilitation of mining areas from which natural resources have been extracted. 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.

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.

Taxation

Judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The company recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the company to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the company to realise the net deferred tax assets recorded at the end of the reporting period could be impacted.

1.12. 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.

To the extent that, at the beginning of the financial year, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in profit or loss over the expected average remaining service lives of participating employees.

Actuarial gains or losses within the corridor are not recognised. Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

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 healthcare benefits to its 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.

1.13. 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 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.

1.14. 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.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

1.15. 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.

1.16. 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.

1.17. 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 and the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

(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.

1.18. COST OF SALES

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.19. 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 and the company will comply with the conditions attaching to them. 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

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 minimise 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	
	2012	2011	2012	2011
	R	R	R	R
Financial assets				
Trade and other receivables	2 264 198	6 345 997	2 264 198	6 345 997
Cash and cash equivalents	341 249 779	438 111 553	341 249 779	438 111 553
Cash held in the rehabilitation trust	48 115 544	36 927 031	48 115 544	36 927 031
Financial liabilities				
Trade and other payables	268 503 540	361 566 049	268 503 540	361 566 049

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 and fair value 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 2012, 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 R3 893 653 lower (2011: R4 750 386).

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 R3 893 653 higher (2011: R4 750 386).

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 significant. The company's maximum exposure is equal to the carrying amount of trade and other receivables.

  An amount of R3 842 235 (2011: R3 036 888) 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 8 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	
	2012	2011
	R	R
Investec Bank Limited	229 730 666	259 270 862
Rand Merchant Bank Limited	140 643 513	200 868 316
First National Bank Limited	18 978 526	12 357 735
Nedbank Limited	4 622	2 516 371
Total	389 357 327	475 013 284

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

	Credit rating	
	2012	2011
	R	R
BBB+	159 622 039	213 226 051
BBB	229 735 288	261 787 233
Total	389 357 327	475 013 284

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

2. FINANCIAL RISK MANAGEMENT

2.1. FINANCIAL RISK FACTORS (CONTINUED)

Liquidity risk

The ultimate responsibility for liquidity risk management rests with the board of directors, which has built 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 2012			
Trade and other payables	268 503 540	15 876 346	252 627 194
As at 31 March 2011			
Trade and other payables	361 566 049	42 379 559	319 186 490

2.2. CAPITAL RISK MANAGEMENT

When managing capital the company's objectives 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 and its mandate to pursue other mining opportunities. 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.

Like others in the industry the company will 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.

3. PROPERTY, PLANT AND EQUIPMENT

	2012 Cost	2012 Accumulated Depreciation	2012 Carrying Value	2011 Cost	2011 Accumulated Depreciation	2011 Carrying Value
	R	R	R	R	R	R
Owned assets						
Land and buildings	21 120 902	1 838 791	19 282 111	20 610 222	1 838 791	18 771 431
Plant and equipment	29 652 408	25 855 254	3 797 154	54 369 277	49 537 911	4 831 366
Motor vehicles	16 200 438	9 353 334	6 847 104	17 299 422	15 086 535	2 212 887
Furniture and fittings	667 980	570 026	97 954	1 187 014	1 014 722	172 292
Computer equipment	1 600 119	1 284 748	315 372	4 230 235	3 465 944	764 291
Total	69 241 847	38 902 153	30 339 695	97 696 170	70 943 903	26 752 267

Reconciliation of the carrying values of property, plant and equipment

	Carrying value at beginning of the year	Additions	Disposals	Depreciation	Carrying value at end of year
	R	R	R	R	R
2012					
Owned assets					
Land and buildings	18 771 431	510 680	-	-	19 282 111
Plant and equipment	4 831 366	1 937 074	(2 270 735)	(700 551)	3 797 154
Motor vehicles	2 212 887	7 137 441	(1 031 294)	(1 471 930)	6 847 104
Furniture and fittings	172 292	6 740	(40 132)	(40 946)	97 954
Computer equipment	764 291	61 546	(369 171)	(141 294)	315 372
Total	26 752 267	9 653 481	(3 711 332)	(2 354 721)	30 339 695
2011					
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
Total	22 988 280	5 630 764	-	(1 866 777)	26 752 267

A register containing the information required by Regulation 25(3) of the Companies Regulations, 2011, is available for inspection at the registered office of the company.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

4. INTANGIBLE ASSETS

	2012	2012	2012	2011	2011	2011
	Cost	Accumulated Amortisation	Carrying Value	Cost	Accumulated Amortisation	Carrying Value
	R	R	R	R	R	R
Owned assets						
Computer software	1 753 118	1 403 687	349 431	1 594 478	1 283 404	311 074
Total	1 753 118	1 403 687	349 431	1 594 478	1 283 404	311 074

Reconciliation of the carrying value of intangible assets

	Carrying value at beginning of the year	Additions	Disposals	Amortisation	Carrying value at end of year
	R	R	R	R	R
2012					
Owned assets					
Computer software	311 074	311 066	(152 426)	(120 283)	349 431
Total	311 074	311 066	(152 426)	(120 283)	349 431
2011					
Owned assets					
Computer software	483 983	-	-	(172 909)	311 074
Total	483 983	-	-	(172 909)	311 074

A register containing the information required by Regulation 25(3) of the Companies Regulations, 2011, is available for inspection at the registered office of the company.

5. JOINT VENTURES

This is the first year that the Alexkor RMC JV (established on 7 April 2011) operated. All mining operations previously performed by Alexkor are now performed in the joint venture.

5.1. SUMMARY

The following amounts represent the assets, liabilities, income and expenses of the joint operations. The company has included its 51% interest in its financial statements:

	2012
	R
Assets:	
Non - current assets	15 485 166
Current assets	31 490 296
	46 975 462
Liabilities:	
Long-term liabilities	21 397 470
Current liabilities	11 022 457
	32 419 927
Net assets	14 555 535
Revenue	168 711 247
Cost of Sales	(159 192 077)
Gross profit/(loss)	9 519 170
Administration expenses	(1 708 822)
Other expenses	(1 370 421)
Other income	7 885 222
Operating profit/(loss)	14 325 149
Net finance income	(109 409)
Profit before income tax	14 215 740
Taxation	-
Profit for the year from continued operations	14 215 740
Profit /(loss) for the year from discontinued operations	339 795
Net profit for the year	14 555 535
Cash flow from operating activities	3 958 587
Cash flow to investing activities	(10 979 360)
Cash flow from financing activities	21 397 470
Net cash flow	14 376 697

The PSJV generated a gross profit of 9.5 million.

There are no contingent liabilities relating to the group's interest in the joint operations, and no contingent liabilities to the venture itself.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

5. JOINT VENTURES (CONTINUED)

5.2. DETAILED ANALYSIS OF THE JOINT VENTURE IN THE STATEMENT OF COMPREHENSIVE INCOME

	Notes	Alexkor excluding PSJV R	51% share PSJV R	Alexkor including PSJV R
Revenue	15	27 417 605	86 042 736	113 460 341
Cost of sales	16	(42 820 428)	(80 451 372)	(123 271 800)
Gross profit/(loss)		(15 402 823)	5 591 364	(9 811 459)
Administration expenses		(102 928)	(871 499)	(974 427)
Other expenses	17	(66 414 459)	(698 915)	(67 113 374)
Other income	18	63 318 984	-	63 318 984
Provision for environmental rehabilitation liability	13	(1 356 015)	-	(1 356 015)
Provision for retirement benefit obligations	12	(5 886 394)	-	(5 886 394)
Operating profit/(loss)	19	(25 843 635)	4 020 950	(21 822 685)
Net finance income		7 059 995	(55 799)	7 004 196
Finance income	20	23 228 221	65 529	23 293 750
Finance expense	21	(16 168 226)	(121 328)	(16 289 554)
Profit/(loss) before income tax		(18 783 640)	3 965 151	(14 818 489)
Taxation	22	(289 776)	-	(289 776)
Profit/(loss) for the year from continued operations		(19 073 416)	3 965 151	(15 108 265)
Discontinued operations (net of income tax)				
Loss for the year from discontinued operations	24	(1 794 810)	173 295	(1 621 515)
Profit/(loss) for the year		(20 868 226)	4 138 446	(16 729 780)
Other comprehensive income:				
Government grants recognised		20 000 000	-	20 000 000
Other comprehensive income for the year, net of tax		20 000 000	-	20 000 000
Total comprehensive income/(loss) for the year		(868 226)	4 138 446	3 270 220

6. LOAN TO JOINT VENTURE

	2012 R	2011 R
Opening balance	-	-
Advances	10 484 760	-
Repayments	-	-
Total	10 484 760	-

This loan is neither past due or impaired and originated from the 49% of the loan to Alexkor RMC PSJV which is not controlled by Alexkor Ltd. The loan is unsecured, bears no interest and has no fixed terms of repayment.

7. INVENTORIES

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

	2012 R	2011 R
Diamonds	4 051 986	25 287 541
Parts and consumable stores	4 442 936	8 083 837
Total	8 494 922	33 371 378

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

8. TRADE AND OTHER RECEIVABLES

	2012 R	2011 R
Trade receivables *	515 215	3 599 010
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 *	3 490 775	3 683 432
Less: Provision for impairment of receivables	(1 741 792)	(936 445)
Total prepayments †	222 872	145 232
Total	2 487 070	6 491 229
Movement in the provision for impairment of trade receivables		
Balance at the beginning of the year	3 036 888	3 360 453
Impairment losses recognised/ (reversed)	2 201 216	(323 565)
Amounts written off as uncollectable	(1 395 869)	-
Balance at the end of the year	3 842 235	3 036 888

* *Financial assets*
† *Non-financial assets*

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.

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.

	2012 R	2011 R
Counter parties with no external credit rating		
New customers	968	238 464
Existing customers with no defaults in the past	582 118	3 163 995
Existing customers with some defaults in the past	68 968	65 029
Total	652 054	3 467 488

Trade and other receivables which are less than four months past due are not considered to be impaired. At 31 March 2012, R3 972 798 (2011: R5 915 397) were past due but not impaired. An impairment provision of R3 842 235 (2011: R3 036 888) was recognised against trade and other receivables.

8. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

	2012		
	Gross amount	Impairment	Net Carrying amount
Current/fully performing	652 054	(85 757)	566 297
30 - 60 days	1 184 699	(125 649)	1 059 050
60 + days	4 269 680	(3 630 829)	638 851
Total	6 106 433	(3 842 235)	2 264 198

	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
Total	9 382 885	(3 036 888)	6 345 997

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.

9. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

	Fair Value at the beginning of the year	Impairment	Disposal	Fair Value at the end of the year
	R	R	R	R
2012				
Land and buildings	162 434 882	-	-	162 434 882
Total	162 434 882	-	-	162 434 882
2011				
Land and buildings	162 434 882	-	-	162 434 882
Total	162 434 882	-	-	162 434 882

The land and buildings classified as non-current assets held for sale are those assets specifically identified in the land claim settlement agreement that will be transferred to the Richtersveld community once the township upgrade has been completed.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

10. SHARE CAPITAL

	2012 R	2011 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

11. REVALUATION RESERVE

	2012 R	2011 R
Revaluation of Land and Buildings (assets held for sale)	158 084 892	158 084 892
Total	158 084 892	158 084 892

The revaluation reserve will be utilised once the assets are transferred to the relevant entities when the township upgrade is completed in the 2013 financial year. There were no movements in the reserve during the year.

12. RETIREMENT BENEFIT OBLIGATIONS

12.1. 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 members were transferred to the defined contribution plan during the previous financial year. Settlement accounting was performed in respect of the transfer to account for the adjustment in the previous year's valuation. There are no defined benefit liabilities left in the fund.

Defined Benefit Pension Plan

An estimation of the pension plan status was performed by independent consulting actuaries on 31 March 2012 using certain actuarial assumptions. The previous actuarial valuation was performed on 31 March 2011. The following highlights the significant events or features of the fund that were taken into account in preparing this report:

- All of the defined benefit members transferred to the defined contribution section
- The fund had no liabilities as at 31 March 2012
- Any plan assets are valued at current market value as required by IAS 19. We used the actuarial surplus as at 31 March 2011 and projected this with expected cash flows and expected returns to 31 March 2012. The plan assets are creditor remote, meaning that should the company itself go insolvent, the creditors would not be able to access these assets held to back the post-employment retirement benefit liability.
- The trustees have discussed the possibility of allocating the surplus between the member surplus account and the employer surplus account with a 40:60 split. A final decision with regards to this is still pending.

12. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

12.1. PENSION FUNDS (CONTINUED)

Membership data as 31 March 2012

Active members: 106 (2011: 102)
Pensioners: 184 (2011: 190)

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:

	2012	2011	2010	2009	2008
	%	%	%	%	%
Key economic assumptions					
Discount rate	9.00	9.00	9.00	9.00	9.25
Inflation rate	5.57	5.75	5.25	5.75	6.25
Salary increase rate	n/a	6.75	6.25	6.75	7.25
Expected rate of return on assets	9.00	9.00	9.25	9.25	10.25
Pension increase allowance	n/a	4.89	4.46	4.89	5.31

The salary increase rate was non-applicable since there were no defined benefit liabilities (hence no defined benefit active members) left in the fund. The pension increase rate is also non-applicable, due to the same reasons as above. Furthermore, pensioners were outsourced with effect from 31 December 2009.

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 in the previous financial year:

	%
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

The below assumptions do not apply for the current financial year since the fund no longer has any liabilities in respect of defined benefit members but was applicable to the previous year's figures.

Mortality

The assumed rates of mortality are as follows:

Pre-retirement: SA85-90 ultimate mortality table
Post-retirement: N/A

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

12. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

12.1. PENSION FUNDS (CONTINUED)

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%

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 four years younger than the husband.

	2012	2011	2010	2009	2008
	%	%	%	%	%
Fund Status					
Fair value of plan assets	32 456 000	24 271 000	93 943 000	198 926 000	234 259 000
Present value of obligations	-	-	(64 470 000)	(141 595 000)	(141 918 000)
Asset	32 456 000	24 271 000	29 473 000	57 331 000	92 341 000
Unrecognised surplus - Paragraph 58 limit*	(32 005 000)	(24 271 000)	(29 473 000)	(57 331 000)	(92 341 000)
Asset recognised on the balance sheet	451 000	-	-	-	-
Movement Analysis					
Opening balance of recognised asset	-	-	-	-	-
Net income/(expense) recognised in the income statement	451 000	(67 000)	(526 000)	(493 000)	(1 830 073)
Company contribution	-	67 000	526 000	493 000	1 830 073
Closing balance of recognised asset	451 000	-	-	-	-

* *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.*

12. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

12.1. PENSION FUNDS (CONTINUED)

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. A new surplus apportionment scheme was submitted and approved by the FSB on 26 April 2011.

The member surplus account amounted to R40 314 000 as at 31 March 2012. This amount has been excluded from the assets and the liabilities of the fund. The trustees will decide on the allocation of future surplus as and when it arises, hence we have limited the asset to the balance in the employer surplus account which was estimated as R451 000 as at 31 March 2012.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

12. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

12.1. PENSION FUNDS (CONTINUED)

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

	2012	2011	2010	2009	2008
	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
Service cost	-	311 000	748 000	841 000	1 230 000
Member contributions	-	81 000	219 000	205 000	403 000
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
Actuarial (gain)/loss	-	19 000	7 314 000	(4 903 000)	34 709 000
Benefits paid	-	(2 224 000)	(5 517 000)	(9 008 000)	(19 288 000)
Risk premiums	-	(89 000)	(349 000)	(327 000)	(642 000)
Past service cost	-	-	25 356 000	-	-
Defined benefit obligation at the end of the year	-	-	64 470 000	141 595 000	141 918 000
The movement in the fair value of plan assets during the year is as follows:					
Assets at fair market value at the beginning of the year	24 271 000	93 943 000	198 926 000	234 259 000	277 693 000
Expected return on assets	2 184 000	4 617 000	15 796 000	23 660 000	24 612 000
Member contributions	-	81 000	745 000	698 000	875 000
Company contributions	-	67 000	-	-	-
Risk premiums	-	(89 000)	(349 000)	(327 000)	(642 000)
Benefits paid	-	(2 224 000)	(5 517 000)	(9 008 000)	(59 862 000)
Settlement	-	(71 804 000)	(115 603 000)	-	-
Actuarial gain(/(loss)	6 001 000	(320 000)	(55 000)	(50 356 000)	(8 417 000)
Assets at fair market value at the end of the year	32 456 000	24 271 000	93 943 000	198 926 000	234 259 000
Estimated asset composition was as follows:					
Cash	35.78%	40.62%	31.79%	31.79%	
Equity	33.76%	39.94%	48.87%	48.88%	
Bonds	8.41%	9.55%	3.61%	3.61%	
Property	1.94%	1.82%	0.00%	0.00%	
Other	1.13%	1.44%	1.32%	1.32%	
International	18.98%	6.63%	14.41%	14.40%	
	100.00%	100.00%	100.00%	100.00%	

12. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

12.1. PENSION FUNDS (CONTINUED)

	2012	2011	2010
	R	R	R
Actual return on assets	8 185 000	4 297 000	15 741 000

The rate used to discount post-employment benefit obligations should be determined by reference to market yields at the balance sheet date on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields (at the balance sheet date) on government bonds should be used. In Alexkor's opinion, there is no deep market in corporate bonds in South Africa and as such we have set our recommended assumption with reference to the perfect fit zero curve of medium duration, as compiled by the Bond Exchange of South Africa. This converts into an effective yield of 8.25% as at 29 February 2012. In terms of the accounting standards historical yields are less important and we consequently consider it appropriate to use the discount rate 8.25% per annum.

Alexkor has assumed the underlying future rate of consumer price inflation (CPI) to be 5.50% per annum. This assumption is in line with the South African government's monetary policy target of 3% to 6% per annum.

12.2. 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 2012 (previous valuation was performed on 31 March 2011). Alexkor carried out a voluntary buy-out exercise in the previous 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, with the second one paid in December 2011 of the current financial year. The remaining three instalments will be paid on 1 December of each year from 2012 to 2014. Alexkor is funding the payment of the annuity policy over five equal annual premium payments. The first instalments were made in November and December 2010 as the membership take-on was done over two phases, with the second payment done in December 2011. The remainder of the three premium payments will be paid on 1 December of each year from 2012 to 2014.

Membership data

In service members: 2012: 31 (2011: 33)
Continuation members: 2012: 166 (2011: 172)

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FOR THE YEAR ENDED 31 MARCH 2012

12. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

12.2. POST-RETIREMENT MEDICAL AID BENEFITS (CONTINUED)

	2012	2011	2010	2009	2008
	R	R	R	R	R
Fund Status - Trend information					
Fair value of plan assets	-	-	-	-	-
Present value of obligations	46 950 000	58 436 000	90 180 000	135 321 000	77 059 000
Present value of unfunded liability	46 950 000	58 436 000	90 180 000	135 321 000	77 059 000
Unrecognised actuarial gains/losses	-	-	-	-	-
Liability recognised in balance sheet	46 950 000	58 436 000	90 180 000	135 321 000	77 059 000
Experience adjustments					
In respect of Present Value of obligations	-	(308 000)	-	39 322 000	-
In respect of Fair Value of Plan Assets	-	-	-	-	-

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 2012 (previous valuation – 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. 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 two instalments were made in December 2010 and December 2011 respectively. The remaining three instalments will be paid on 1 December of each year from 2012 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 two instalments were made in November/December 2010 and December 2011 respectively. The remainder of the three premium payments will be paid on 1 December of each year from 2012 to 2014.
  - The liability was valued as an annuity certain, using the assumed discount rate.

12. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

12.2. POST-RETIREMENT MEDICAL AID BENEFITS (CONTINUED)

The following principles assumptions were used for the current valuation:

Valuation date	31 March 2012	31 March 2011	31 March 2010	31 March 2009	31 March 2008
Discount Rate	6.4% p.a	8.75% p.a	9.25% p.a.	9.00% p.a.	7.75% p.a.
Health care cost inflation	7.75% p.a	7.75% p.a	7.50% p.a.	7.50% 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.*

Demographic assumptions

Mortality
The assumed rates of mortality are as follows:
Pre-retirement: SA85-90 (light)
Post-retirement: N/A

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%

	2012 R	2011 R	2010 R	2009 R	2008 R
Carrying value at the beginning of the year	58 436 000	90 180 000	135 321 000	77 059 000	73 737 000
Expensed to post-retirement employee benefits	5 886 000	(9 600 000)	(38 040 000)	61 432 000	6 634 090
Current service cost	-	430 000	470 000	771 000	722 000
Interest on liability	4 770 000	8 108 000	11 841 000	5 850 000	5 912 090
Net actuarial (gain)/loss	1 116 000	(18 138 000)	(50 351 000)	54 811 000	-
Less: Contributions and changes in obligation	-	(4 775 000)	(7 101 000)	(3 170 000)	(3 312 090)
Effect of Settlement *	(17 372 000)	(17 369 000)	-	-	-
Carrying value at the end of the year	46 950 000	58 436 000	90 180 000	135 321 000	77 059 000

* *Alexkor has settled the second of five annual payments that has reduced the liability by a further R17 372 000 (2011: R17 369 000) during the financial year.*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

12. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

12.2. POST-RETIREMENT MEDICAL AID BENEFITS (CONTINUED)

The actuarial gains experienced during the previous two financial years were 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.

Projected increase in the accrued liability

The projected increase in the accrued liability for the 2013 financial year is as follows:

	R
Projected expense FY2013	2 681 000
Benefit payment	(17 335 000)
Projected increase in accrued liability	(14 654 000)
Accrued liability as at 31 March 2012	46 950 000
Projected accrued liability as at 31 March 2013	32 296 000

Sensitivity analysis

The sensitivity analysis is based on the actuarial valuation performed for the 2012 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	1 year younger	1 year older
	6.40%	-1%	+1%
Accrued liability 31 March 2012 (R'million)	46.95	47.681	46.240
% Change		+1.6%	-1.5%
Current service and interest costs	2.681	2.728	2.634
% Change		+1.8%	-1.8%

	Expected Retirement Age		
	Central assumption 60 years	1 year younger	1 year older
Accrued liability 31 March 2012 (R'million)	46.95	47.348	46.95
% Change		+0.8%	0.0%

13. ENVIRONMENTAL REHABILITATION LIABILITY

The company has an obligation to rehabilitate the environment as a result of environmental disturbances caused by its mining activities. A provision is recognised for the estimated costs to rehabilitate the existing environmental disturbances as at year end. The adjustment in the current year's provision was as result of the net inflationary adjustment of previous estimates, environmental disturbances caused during the financial year, less any 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 rehabilitation costs to escalate in the next financial year. The required rehabilitation includes pebble stabilisation of sources, netting and possible reed grass re-vegetation.

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

	2012	2011
	R	R
Opening balance	256 657 980	256 657 980
Inflationary increases	13 589 976	11 036 293
Rehabilitation work performed / assessed reduction in liability	(12 233 961)	(23 559 155)
Estimated cost relating to sand plume disturbances	-	12 522 862
Total	258 013 995	256 657 980

The cash held in the environmental rehabilitation trust, to the amount of R48 115 544 (2011: R36 927 031) can only be utilised towards environmental rehabilitation. The Department of Public Enterprises 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 R209 898 451 (2011: R219 730 949).

All new environmental disturbances resulting from the Alexkor RMC PSJV are the responsibility of the PSJV. No new disturbances were caused during the year due to the limitation of land mining activities to areas where environmental disturbances were previously caused.

14. TRADE AND OTHER PAYABLES

		2012	2011
		R	R
Trade payables *		11 681 212	35 142 433
Other payables *		1 574 698	1 378 952
VAT payable †		10 444 614	10 814 606
Income received in advance †		45 905	35 746
Government funded obligations *	14.1	252 627 194	319 186 490
Accruals *		2 620 435	5 858 174
Accrued leave *		959 134	1 586 151
Other accruals *		1 661 301	4 272 023
Total		278 994 058	372 416 401

* *Financial liability*
† *Non-financial liability*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

14. TRADE AND OTHER PAYABLES

14.1. 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 funds received and utilised for specific projects 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	2 331 273	-	(2 332 934)	1 661	-
Township establishment	81 361 343	-	(57 499 734)	3 390 189	27 251 798
Costs related to Deed of Settlement	14 653 858	-	(2 853 495)	958 006	12 758 369
Re-vegetation project	38 511	-	(40 487)	1 976	-
PSJV recapitalisation	220 801 505	-	(20 000 000)	11 815 523	212 617 028
Total government-funded obligations	319 186 490	-	(82 726 650)	16 167 354	252 627 194

Rehabilitation of Boegoeberg – The funding to assist Alexkor with the rehabilitation of Boegoeberg was received in 2007 from 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 was utilised towards the intended purchase of an earth-moving machine and operational expenditure incurred during the year.

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 the water network, sewer network, storm-water control network, solid waste disposal and road works was completed in December 2011. Inspection with the municipality was done and all items on the snag list were completed.
- The tender for phase two which is the 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 project was approximately 95% complete on 31 March 2012. The project was subsequently completed in June 2012 after all the outstanding prepaid meters were installed.
- The tender for phase three, mechanical and electrical pumping, was awarded in February 2011. This phase was completed in February 2012. The inspection was done by an Alexkor representative, the municipality, consultants and the contractor, to the satisfaction of all parties. It must be noted that part of the scope in phase three is linked to the waste water treatment works (WWTW) (Phase 4) and the contractor will return to execute after the preparatory work for this phase has been completed.

14.1. GOVERNMENT FUNDED OBLIGATIONS (CONTINUED)

- Phase four which is waste water treatment works experienced problems with the waste license, which had not been signed by Pretoria office (Environmental Affairs) at year end. The WWTW contractor is busy on site with the installation of the north town water feed line which is 81 % complete and the pump to sewer line which is 52 % complete. The fact that the contractor has not commenced with the oxidation ponds, is having a serious impact on the completion of the project as this was still in an environmental impact assessment (EIA) phase at the end of the financial year. The waste license has subsequently been approved and received in April 2012, with the completion of the project phase estimated to be in December 2012.

The revised completion date for the total project at the end of the financial year was projected for December 2012. This is as a result of the delays experienced in the WWTW project. 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 R110.8 million have been awarded to date. A total amount of R57.5 million (2010: R42.9 million) of the contracts has been delivered upon in the current financial year. A total amount of R115.09 million was received for the township upgrade.

Costs related to the Deed of Settlement – Funding was received from 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 utilised 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 utilised against the intended costs.
- RVC legal costs – R5 million was received on behalf of the RVC to be administered by Alexkor for 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. All the funds have been utilised towards the project.

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 the DPE, once the PSJV has been established and a development plan for the land assets has been accepted. The PSJV commenced during April 2011. R20 million was transferred to the PSJV during the year for working capital to assist the PSJV in their immediate needs towards their operational concerns. A detailed plan is in the process of being developed for the exploration and future mining activities in Alexander Bay.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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15. REVENUE

	2012	2011
	R	R
Diamond sales	113 460 341	195 906 883

All revenue from continuing operations was generated through the sale of diamonds. Alexkor had its last diamond sale in April 2011, whereafter all diamond sales were for the account of the PSJV. Alexkor had no other income generating operations apart from its 51% interest in the PSJV.

If the operations were not split between the PSJV and Alexkor (49%/51%) the combined revenue for the year would have been:

Diamond sales Alexkor	R 27 417 605	(refer note 5.2)
Diamond sales PSJV (100%)	R 168 711 247	(refer note 5.1)
Total	**R 196 128 852**	

This is a variance of less than 1% compared to the previous financial year.

16. COST OF SALES

Cost of sales consists of the following items:

	2012	2011
	R	R
Employee costs	13 767 497	24 309 969 ^
Consumables and maintenance	3 732 094	2 416 238 *
General expenditure	15 131 802	18 547 405
Depreciation	2 433 066	2 039 686
Revenue split contractors cost	76 123 766	106 139 399
Security services	5 501 503	11 648 412 ^
Legal costs	1 485 598	728 878
Other specialised services	5 096 474	5 081 384
Total	123 271 800	170 911 371

* *Refer to note 18 for details of a reclassification that was done between cost of sales and other income for the previous year.*

^ *An adjustment of the previous financial year's amounts was made with regards to the noted items to ensure a more accurate reflection. Staff costs increased with R420 888 and security costs decreased with R138 648. This is only a disclosure adjustment and had no effect on the profit for the previous year.*

17. OTHER EXPENSES

	2012	2011
	R	R
Government transfers - specific expenditure incurred	62 726 650	45 404 436
Other expenses	4 386 724	1 243 553 *
Total	67 113 374	46 647 989

* *Refer to note 18 for details of a reclassification that was done between other expenses and other income for the previous year.*

18. OTHER INCOME

	Notes	2012	2011
		R	R
Government transfers - specific expenditure incurred		62 726 650	45 404 436
Movement in pension fund surplus	12	451 000	-
Other income		141 334	41 366 072 *
Total		63 318 984	86 770 508

* *Included in other income for the previous year was an amount of R41 million which related to the prepayment received for the transfer of the land mining rights to the RMC. The mining rights were transferred during the previous year and the prepayment was recognised in other income.*

An amount of R13 647 998 was reclassified to cost of sales as it was with regards to costs that have been recovered. The reclassification resulted in an increase in operating profit as well as a decrease in cost of sales and other income. An amount of R1 239 542 was also reclassified to other expenses to ensure a more accurate disclosure of the nature of these items.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

19. OPERATING (LOSS)/ PROFIT

	Notes	2012 R	2011 R
Operating (loss)/profit is stated after:			
Auditors' remuneration		1 113 727	1 261 335
External audit fees		1 084 657	1 002 926
Fees for other services		29 070	258 359
Internal audit fees		388 925	497 361
Fuel and oil		937 084	1 704 750
Electricity and water		5 636 587	4 178 642
Director's emoluments	28	3 179 331	4 087 119
Mining royalties		1 613 099	2 295 123
Insurance		406 733	808 465
Impairment losses recognised		2 201 216	540 810
Loss on pooling of assets in joint venture		3 863 760	-
Consultations		4 870 365	4 729 046
Accounting services		1 201 671	1 890 000
Occupational health services		769 256	1 159 835
Other consultations		2 899 438	1 679 211

20. FINANCE INCOME

	2012 R	2011 R
Interest received from cash held in rehabilitation trust	2 106 409	1 953 203
Sundry interest	226 951	-
Interest received on government funds	16 167 354	19 355 323
Interest received from cash held in bank	4 793 036	5 608 125
Total	23 293 750	26 916 651

21. FINANCE EXPENSES

	2012 R	2011 R
Interest received on government funds	16 167 354	19 355 323
Sundry interest expense	122 200	20 387
Total	16 289 554	19 375 710

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 increases the liability. (Refer to note 14.1)

22. TAXATION

Major components of the tax expense:

	Notes	2012 R	2011 R
Current:			
Local income tax current period		289 776	-
Total		289 776	-

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 utilised in the foreseeable future.

Reconciliation of the tax expense:

	2012 R	2011 R
Reconciliation between accounting profit/ (loss) and tax expense		
Accounting profit/ (loss)	(16 440 003)	84 229 296
Tax at the applicable rate of 28% (2011: 28%)	(4 603 201)	23 584 203
Tax effects of adjustments on taxable income		
Income not subject to tax	(913 379)	(16 160 944)
Expenses not deductible for tax purposes	4 160 568	662 214
Deductable contribution to rehabilitation trust	(2 542 989)	(600 307)
Tax losses carried forward	(589 962)	(3 012 421)
Capital expenditure carried forward	(14 635 557)	(18 209 343)
Tax losses for which no deferred income tax asset was recognised	4 778 739	589 962
Capital expenditure for which no deferred income tax asset was recognised	14 635 557	13 146 636
Total	289 776	-
Estimated tax losses and unutilised capital allowances available for set off against future taxable income:		
Estimated tax losses	17 066 924	6 565 860
Estimated unutilised capital allowances	52 269 846	42 687 190
Total	69 336 770	49 253 050

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

23. NOTES TO THE STATEMENT OF CASH FLOWS

23.1. CASH GENERATED BY OPERATING ACTIVITIES

	Notes	2012 R	2011 R
Net profit/(loss) before taxation		(16 440 004)	84 229 296
Adjustments for:			
Depreciation		2 475 004	2 039 686
Finance income		(23 293 750)	(26 916 651)
Finance costs		16 289 554	19 375 710
Movements in retirement benefit obligations		5 886 000	(13 962 644)
Movements in environmental rehabilitation liability		1 356 015	-
Movement in pension plan surplus		(451 000)	-
Cash flow from discontinued operations		1 621 515	126 874
Non-cash income		-	(41 200 221)
Cash settlement on medical aid liability		(17 372 000)	(17 781 356)
Government grants recognised in equity		20 000 000	-
Loss on pooling of assets in joint venture		3 863 760	-
Taxation paid		-	-
Payable at the beginning of the year		-	-
Income tax expense		289 776	-
Payable at the end of the year		(289 776)	-
Movement in working capital		2 017 567	5 949 901
(Increase)/ decrease in inventories		24 876 456	(18 257 690)
(Increase)/ Decrease in accounts receivable		4 004 158	(2 378 612)
Increase/(decrease) in accounts payable		(26 863 047)	26 586 203
Total		(4 047 339)	11 860 595

23.2. CASH AND CASH EQUIVALENTS

	Notes	2012 R	2011 R
Restricted cash and cash equivalents			
Cash held in call account – government related funds		261 533 187	319 963 190
Cash held in trust – rehabilitation cost		48 115 544	36 927 031
Cash held in trust – ongoing litigations		10 564 046	10 125 462
Unrestricted cash and cash equivalents			
Cash held in call account		69 152 546	108 022 901
Total		389 365 323	475 038 584

The government funds received will be utilised for specific projects (refer to note 14.1). The cash held in rehabilitation trust will be utilised to fund the rehabilitation liability (refer to note 13). 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 25).

24. DISCONTINUED OPERATIONS

	Alexander Bay Trading	Hospital	Airport	Total
	R	R	R	R
Results from discontinued operations for the year ended 31 March 2012				
Revenue	12 787 494	-	-	12 787 494
Expenditure	(14 405 485)	(3 524)	-	(14 409 009)
Operating loss	(1 617 991)	(3 524)	-	(1 621 515)
Taxation	-	-	-	-
Loss for the period	(1 617 991)	(3 524)	-	(1 621 515)
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 profit/ (loss)	(46 818)	(73 940)	(6 116)	(126 874)
Taxation	-	-	-	-
Loss for the period	(46 818)	(73 940)	(6 116)	(126 874)

	2012	2011
	R	R
Cash flow (to)/ from discontinued operations		
Net loss before taxation	(1 621 515)	(126 874)
Total	(1 621 515)	(126 874)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

25. CONTINGENT LIABILITIES

Nabera Mining

Nabera sued Alexkor and the national 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. Nabera instituted two claims, namely a claim for R4.5 million for management fees allegedly due in terms of the contract, and a claim for alleged value added to the mining assets over the management period. Both Alexkor and the national 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 to trial 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.

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 allege 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 had 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, and Alexkor's application for dismissal of the second claim was granted. Ruslyn has appealed the decision and the Supreme Court of Appeal upheld the appeal. In doing so, the court decided that absolution should not have been granted and the matter was, as a result, referred back to the High Court for further trial. A date for further hearing is expected soon. In consultation with the company's legal representatives, no provision has been made in the financial statements for this claim.

26. GUARANTEES

The company's banker has issued guarantees on behalf of the company to the following:

	2012	2011
	R	R
Eskom	54 900	18 900
Department of Mineral Resources	110 000	110 000
Total	164 900	128 900

27. RELATED PARTIES

	2012 R	2011 R
Related Parties		
SAA	755 140	840 618
Eskom	8 243 122	8 028 026
SA Post Office	1 833 839	1 680 332
Sentech	66 854	64 656
Total	10 898 955	10 613 632

Related party relationships

Alexkor holds a 51% interest in the Alexkor RMC JV. The company is a state-owned entity and transactions with the following state entities occurred during the financial year:

- SAA
- 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.

28. DIRECTORS' REMUNERATION

Name	Capacity	Fee for services as members	Basic Salary	Total 2011/2012	Total 2010/2011
Executive management *					
K McClain	Chief Executive Officer ^	-	1 117 976	1 117 976	2 439 983
M Mpanza	Mine Engineer	-	-	-	862 000
Non-executive					
R Muzariri	Chairman	907 490	-	907 490	665 580
Dr R Paul	Non-executive director	369 522	-	369 522	285 548
Dr V Makin	Non-executive director	234 894	-	234 894	209 491
S Ngoma	Non-executive director	240 007	-	240 007	227 970
C Towell	Non-executive director	309 442	-	309 442	258 548
Total		2 061 355	1 117 976	3 179 331	4 949 119

* *Certain positions within the executive management structure are performed by a consultant in an acting capacity. Mr. Mpanza was not active in Alexkor in the current financial year as he was appointed in the PSJV and therefore no remuneration was disclosed for the year. Costs for consultants were not included in the note above, but under the following notes:*

- *Mine manager: Note 14.1 under utilised funds of the costs related to the DoS*
- *Chief executive and Financial officer: Note 19, under accounting services which form part of consultations.*

^ *The Chief Executive Officer is also an executive director of the company. Ms McClain's contract terminated on 22 September 2011. The Chief Financial Officer was then appointed to act in the vacant position.*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

29. EVENTS AFTER THE REPORTING PERIOD

Exploration

As part of the land claim settlement an amount of R200 million was made available by the state for the recapitalisation and exploration activities of the Alexkor RMC JV. A contractor was appointed after year end to commence with the initial exploration phase in the PSJV, in order to start exploration activities on land within the Alexander Bay region (refer to the directors' report).

Alexkor pension fund

Alexkor Pension Fund Rule 4.3.4 (amended) provides for the establishment of an employer surplus account ("ESA"). Subsequent to the valuation date (31 March 2012), the trustees decided to allocate approximately R16.6 million to the ESA. Since this allocation was done subsequent to the valuation date, it was not included in the ESA balance as at 31 March 2012.

Government funding

An amount of R350 million for the financial year of 2013 has been allocated to Alexkor in terms of the MTEF application which will be received in due course (refer note 9 directors' report).

APPLICABLE ACTS

Alexkor is regulated by the following principal acts, ordinances and various other pieces of legislation:

- Alexkor Limited Act (No. 116 of 1992)
- Basic Conditions of Employment Act (No. 75 of 1997)
- Companies Act (No. 71 of 2008)
- Constitution of the Republic of South Africa 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)
- Minerals and Petroleum Resources Royalty Act (No. 28 of 2008)
- Minerals and Petroleum Resources Royalty (Administration) Act (No. 29 of 2008)
- 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.

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