AN OVERVIEW OF SEPHOLD

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97
Métier

AN OVERVIEW OF SEPHOLD

WHO WE ARE

SepHold invests in building materials-focused businesses with the goal to create value for shareholders. By actively participating in operations, SepHold ensures they generate positive earnings and maintain sales volumes.

The group is founded on the principles of entrepreneurship, innovation, resilience and empowerment. We subscribe to the values of respect, integrity, accountability, transparency and honesty. The board and management seek to balance the expectations of investors for reasonable capital growth. It acts responsibly concerning the interests of other stakeholders, including customers, employees, suppliers and contractors, communities, industry associations, government, and organised labour.

Entrepreneurship and resilience enabled SepHold's founders to drive it towards its goal to be the first cement manufacturer in South Africa in over 80 years. These principles continue to resonate in the group as the competitive landscape intensifies and producers compete for market share. The group's entities are successful in their respective markets due to: innovation in the configuration of their modern cement plants; specialised concrete manufacturing; and the implementation of the enterprise and supplier development programme at CEMENT. The group is committed to the transformation agenda and is progressing towards empowering the communities in the areas in which it operates.

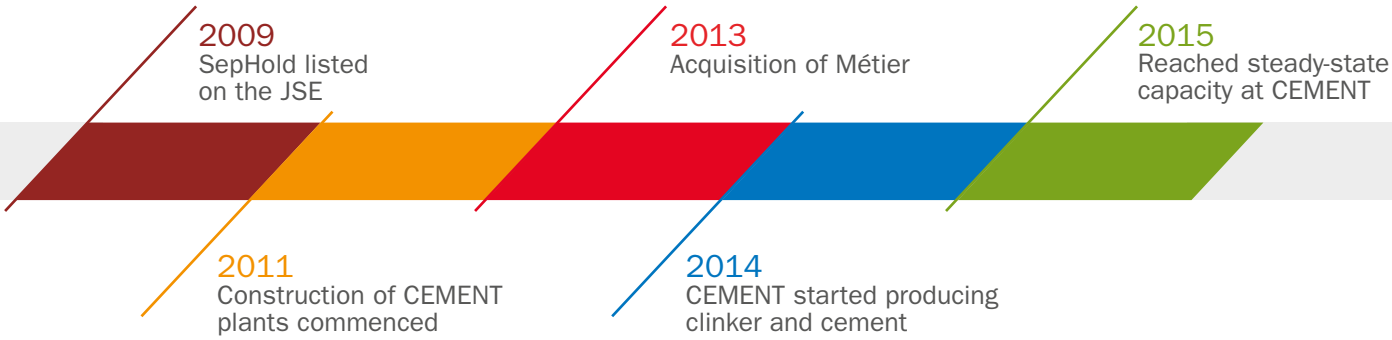
SepHold is guided by a code of ethics, which recognises that, as a member of society, the group and its people have an obligation to act ethically. Our directors and employees conduct business relationships with stakeholders in line with the code of ethics. Although shareholders entrust management teams with the responsibility of looking after the financial and social wellbeing of the group, employees play an important role in abiding by and living the group's values and ethics.

The group's performance is based on the four value creation pillars highlighted on the facing page. These pillars are based on the group's core values and founding principles. Operational management inculcates these values and principles into the daily execution of the strategic objectives.

Our investments

SepHold listed on the JSE in 2009 as a multimineral entity and refined its strategy to focus on the building materials sector. The development of the limestone assets accelerated faster than other minerals, prompting SepHold to redefine its business strategy. The strategic acquisition of Métier in 2013 to complement cement manufacturing enabled the group to immediately generate income and benefit from synergies between CEMENT and Métier.

Refer to the inside front cover for our operational structure.



An overview of SepHold continued

Dangote Cement South Africa Proprietary Limited

CEMENT specialises in manufacturing, marketing and distributing high-quality cementitious products to a broad range of users. Its integrated cement plant in Aganang and grinding plant in Delmas have a combined production capacity of 2,8 million tonnes per annum (mtpa) (Delmas 1,5 mtpa and Aganang 1,3 mtpa). Its products are well known and are available at major hardware retailers and numerous second-tier distributors. The brand increased its market share among bulk cement users, particularly ready-mix concrete manufacturers.

CEMENT operates at steady-state production capacity and supplies primarily to Gauteng, Limpopo, Mpumalanga, North West and northern KwaZulu-Natal markets. In the 2016 financial year, approximately 80% (2015: 80%) of sales volumes were in bagged cement. Gauteng continues to be the largest and most contested inland market.

Overall, 64% of CEMENT is owned by DCP, a Nigerian Stock Exchange-listed company with projects and operations in Nigeria and nine other African countries. Refer to www.dangcem.com for further information on DCP.

CEMENT categorises operations into cement manufacturing and exploration projects.

The cement manufacturing category comprises Aganang, Delmas and Sephaku Ash. Sephaku Ash primarily supplies fly ash as an extender for bagged cement.

The exploration projects category is constituted of the limestone resource assets at various stages of development, such as the Dwaalboom project, that provide a pipeline for growth.

Métier Mixed Concrete Proprietary Limited

Métier's core business is manufacturing ready-mix concrete products for South African industrial, commercial and residential markets. The subsidiary's vision is to be a highly trusted brand, an industry leader, and to build a lasting concrete legacy in South Africa.

Métier has 12 plants in two geographical locations. Métier's head office and seven of its plants are in KwaZulu-Natal, referred to as the eastern region, and five plants are in Gauteng, referred to as the northern region. In Gauteng, its 12th plant commenced production in March 2017.

The diversification of its plants by location enables Métier to reduce market concentration risk.

KwaZulu-Natal operations: Plants are in the greater Durban and Pietermaritzburg areas.

Gauteng operations: Plants are positioned to target active construction sites in the area. The regional administration office is in Midrand.


Sephaku
CEMENT
32.5R
50 kg

An overview of SepHold continued

HOW WE CREATE VALUE

The group has differentiated itself by manufacturing both specialised and consistent quality products and offering superior customer service. The efficiency derived from the use of leading technologies combined with management's industry knowledge and expertise have enabled us to achieve distinctive competitive advantages and establish strong strategic relationships.

Our value chain

Limestone raw material to integrated plant

Bulk cement

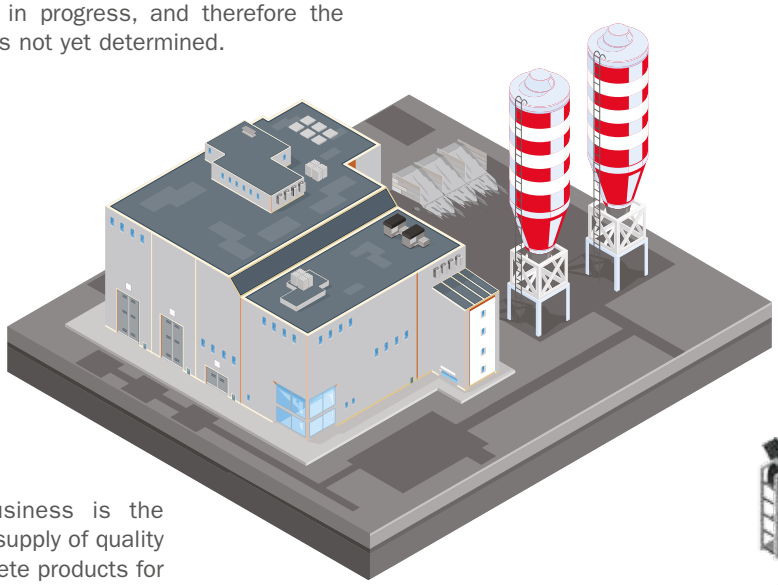
Bagged cement to market

Limestone pipeline

Bulk cement to market

CEMENT
Dwaalboom and other limestone projects

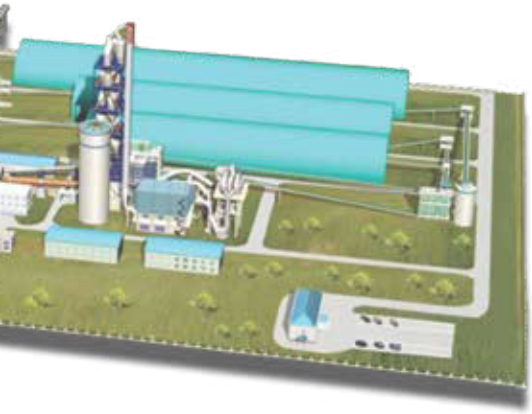
The project is the most advanced limestone exploration asset in SepHold's portfolio. It has the potential to be the second major 3 000-tonne-per-day clinker and cement production facility near Dwaalboom. Mining rights application is in progress, and therefore the plant's construction is not yet determined.



Mixed concrete to market

Métier Mixed Concrete

Métier's core business is the manufacture and supply of quality ready-mixed concrete products for the residential, commercial and industrial markets in South Africa. Métier has achieved significant growth by positioning its business in markets that offer strong and growing demand for its products.



CEMENT
Aganang integrated plant
Limestone quarry and cement production

The Aganang plant consists of a limestone open-cast quarry, a clinker and cement production plant. The operation mines the limestone raw material, processing it to clinker, grinding approximately 45% of the clinker and blending it with other components to produce the finished cement product in bagged and bulk form.

Bagged cement

Clinker to Delmas

Bulk cement

Bagged cement

CEMENT
Delmas grinding plant
Cement production

Approximately 55% of the clinker produced at Aganang is transferred to the Delmas cement-grinding facility for further processing.

Fly ash to Delmas

CEMENT
Sephaku ash plant

CEMENT has a fly ash processing plant contract with Eskom to acquire and remove waste ash from the coal-burning process at Kendal Power Station. The ash produced from this plant is used as a cement extender at the Delmas grinding plant to produce blended cement.

Building materials market

An overview of SepHold continued

Value creation pillars

The group's focus is on creating sustainable shareholder value by enhancing the four value creation pillars on which earnings and growth are based.

1. **Technical skills and industry experience** are critical for implementing the group's strategy and understanding the building materials market dynamics to maximise profitability:
   - The group has skilled and experienced management with comprehensive industry knowledge and experience in cement and concrete manufacturing.
   - There are sufficient technical and project management skills at management level to ensure the ability to:
     - produce consistent, high-quality cement and specialised concrete; and
     - bring targeted projects to account.
   - The group has marketing and logistics management abilities that have established CEMENT in the cement supply market and increased Métier's footprint in Gauteng.
   - Training and mentoring eliminate competence and knowledge gaps identified at lower management levels. The group's performance management system is structured to motivate employees and aligns their output to business objectives.
2. **Leading technologies** facilitate the production of high-quality cement and mixed concrete:
   - Métier manages distribution logistics through integrated software to meet customers' needs.
   - CEMENT's modern, efficient plants and state-of-the-art equipment are vital elements of operations.
3. **Service excellence** is a distinguishing characteristic:
   - Métier has built its brand equity through innovative, specialised concretes and a superior service offering.
   - CEMENT and Métier are preferred suppliers, known for their ability to meet their customers' expectations.
4. **Strategic relationships and deal-making abilities** contribute to positioning the group as a major building materials manufacturer in the country:
   - The group has solid and mutually beneficial relationships with key stakeholders, including retailers, communities, employees, funders and suppliers.

Strategic objectives

The board provides oversight and direction through strategic planning and establishing clear key performance indicators to measure the group's operational performance.

SepHold's leadership ensures the group achieves targeted performance by ensuring that the operations:

- produce high-quality products and implement effective marketing activities to **maintain sales volumes and maximise margins**;
  - remain focused on implementing cost management programmes to **improve cost efficiencies**; and
- adhere to their respective action plans to **strengthen their balance sheets** and **increase free cash flow**.

WHERE WE OPERATE

We have operations in the Gauteng, KwaZulu-Natal, North West and Mpumalanga provinces in South Africa.

GAUTENG

KWAZULU-NATAL

NORTH WEST

MPUMALANGA

MÉTIER MIXED CONCRETE OPERATIONS

Gauteng

Johannesburg office | OR Tambo plant | Sandton plant | Chloorkop plant | Midrand plant | Denver plant

Employs **105** people (94% from local communities).

KwaZulu-Natal

Head office | Phoenix plant | Canelands plant | Mkondeni plant | Umhlali plant | Taylors Halt plant | Mobeni plant | Cato Ridge plant

Employs **157** people (100% from local communities).

CEMENT OPERATIONS

Aganang integrated cement plant

Aganang is CEMENT's main operation, consisting of a limestone mine and an integrated cement manufacturing plant. The plant is approximately 25 km west of Lichtenburg, North West. The secured limestone deposit on the adjacent farms has a proven life of over 30 years, starting in 2014.

- Employs **191** people.
- The plant has created **110** indirect employment opportunities through the enterprise and supplier development programme (EDP) since inception.

Delmas grinding plant

The Delmas plant is in Delmas, Mpumalanga, approximately 50 km from central Gauteng, off the N12 freeway. It is approximately 35 km from Sephaku Ash, which is at the Eskom Kendal Power Station.

- Employs **86** people.
- The plant has created **93** indirect employment opportunities through the EDP since inception.

CEMENT PROJECTS

Dwaalboom limestone project

The Dwaalboom resource is approximately 8 km south-west of the town Dwaalboom, and 80 km west-south-west of Thabazimbi, Limpopo.

An overview of SepHold continued

OUR OPERATING CONTEXT

The building materials industry experienced declining demand, particularly for bulk cement, due to a decrease in large-scale construction projects. Vertically integrated concrete manufacturers responded by increasing their supply to the diminishing market segment to support related cement manufacturers.

The impact of this competitive landscape was a sharp decrease in CEMENT's bulk cement pricing, which was lowest in October 2016 at 15% below the January 2016 level. Following the price increases implemented in February 2017, the bulk cement pricing was, on average, 6% higher than January 2017 by the end of May 2017.

The bagged cement market was also under pressure with prices flat for the 2016 financial year. CEMENT recorded an average 3% price increase in May 2017 following the February 2017 increase.

The tough operational environment was exacerbated by 0,3% macroeconomic growth for the 2016 calendar year.

For more information on our responses to the challenging environment refer to the leadership reviews (page 26) and operational reports (pages 40 and 50).

STAKEHOLDER OVERVIEW

Our engagement ethos

The group promotes and supports effective stakeholder engagement, and is committed to developing mutually beneficial relationships.

Our high-level objectives for stakeholder engagement are to:

1. **increase investor confidence** in the group's strategy and our ability to deliver on it to create sustainable value:
   - by ensuring complete, accurate and timely disclosure of material matters and performance information to providers of financial capital;
2. **partner with communities and authorities,** to the furthest possible extent, to implement sustainable community upliftment initiatives that enhance our social licence to operate:
   - by promoting enterprise and supplier development initiatives in the communities in which we operate; and
   - by supporting skills development opportunities, mainly for historically disadvantaged youth;
3. **position the group as an employer of choice** and ensure that all employees are appropriately rewarded, and treated fairly and with dignity at all times; and
4. **establish robust and mutually beneficial relationships** with customers, suppliers and contractors, through open communication to better understand and effectively deliver on their expectations.

The diagram below sets out how we engage with our stakeholders.

An overview of SepHold continued

Stakeholder concerns and how they are addressed

The table below highlights key stakeholder concerns and their link to our strategic objectives.

Stakeholder and why we engage	Concerns raised	How we address concerns
Investors		
Shareholders and lenders fund the group and are the principal owners of the business. They invest to receive a return and increase their value. Investors require accurate, timely and complete information to accurately assess and establish the group's value.	• CEMENT's ability to meet its debt covenants • Price competition • The group's ability to achieve and maintain targeted profitability margins	• Negotiations with banks to review the CEMENT debt repayment profile are ongoing • We are strengthening sales teams to ensure they achieve targeted pricing levels • We are advancing optimisation programmes to improve cost efficiencies • We are renegotiating supply contracts to minimise escalating input costs
Affected strategic objectives		
Maintain sales volumes; Maximise margins; Improve cost efficiencies; Strengthen balance sheets; Increase free cash flow		
Employees		
Employees' skills and competence are vital to the success of the business strategy. We are focused on creating a safe and ethical work environment.	• Career development • Training opportunities • Performance-related incentives and rewards • Job security • Safe working conditions	• Management and supervisory development programmes are a component of succession planning • We provide study assistance to employees • We have benchmarked remuneration structures to attract and retain critical skills and management • Our biannual performance reviews ensure we achieve targets such as improved service levels • We promote healthy lifestyles and strive to establish a safe working environment for employees which, in turn, ensures high levels of productivity
Affected strategic objectives		
Maximise margins; Improve cost efficiencies		

Stakeholder and why we engage	Concerns raised	How we address concerns
Organised labour		
Organised labour engages with operations to ensure employee matters are afforded adequate attention, and participates in creating an environment conducive to optimal productivity. The Association of Mineworkers and Construction Union (AMCU) secured sufficient membership at CEMENT to be granted statutory organisational rights.	• Formalisation of collective bargaining structures • Restructuring at CEMENT	• CEMENT established an engagement framework with AMCU that promotes collaboration • We engaged with AMCU and employees to identify alternative opportunities for employees who were affected by the restructuring at CEMENT
Affected strategic objectives		
Maximise margins Improve cost efficiencies		
Customers		
In a competitive environment, it is essential to attract and retain high-quality customers. We commit to understand and cater for retailers' and end-users' needs.	• Product consistency and quality • Consistent supply • Competitive pricing • Merchandising support • Timely delivery of product and after-sales support	• CEMENT focuses on improving its quality control systems and plant automation • The strategic location of Métier plants ensures that the product is delivered timeously and cost effectively • We meticulously source raw materials to ensure the consistent product quality of cement and mixed concrete • Our product storage facilities support consistent supply • We regularly train our sales teams to ensure effective merchandising and after-sales support
Affected strategic objectives		
Maintain sales volumes Maximise margins Increase free cash flow		

An overview of SepHold continued

Stakeholder and why we engage	Concerns raised	How we address concerns
Communities		
The communities of areas in which we operate are our primary source of labour. By adhering to our social licence, we collaborate on empowerment projects and contribute to reducing poverty and unemployment rates.	• Preference of local community members for employment opportunities • Support for enterprise and supplier development initiatives • Opportunities for skills training and development • Ownership opportunities • Information and clarity on the business model and company performance	• The CEMENT EDP empowers local businesses and indirectly provides employment opportunities • We up-skill and train employees from local communities who started their careers at CEMENT operations • The group prioritises job seekers in the areas it operates for employment opportunities
Affected strategic objective Improve cost efficiencies		
Suppliers and contractors		
Suppliers and contractors are key in the provision of good quality inputs. Procurement through the EDP at CEMENT positively impacts the local economies at plant locations.	• Alignment of suppliers and contractors to business objectives such as employment equity practices • Pricing • Payment terms	• We regularly engage with suppliers and contractors to monitor and effectively manage our supply chain • We have service-level agreements with all suppliers • The group is considered a significant customer, and can therefore negotiate for preferential pricing and payment terms • Partnering with local small and medium sized enterprises has improved CEMENT's relations with local communities and authorities
Affected strategic objectives Maximise margins Improve cost efficiencies		

Stakeholder and why we engage	Concerns raised	How we address concerns
Government		
Government primarily influences our legal licence to operate and must be satisfied that the group complies with requirements such as environmental and mining laws and regulations, and social and labour plans. Local authorities influence economic development projects in the communities in which we operate.	• Support for community upliftment projects such as schools and clinics • Information and clarity on the business model and company performance • Provision of employment and training opportunities for local communities • Licensing and compliance	• We engage with regulators to ensure compliance with licensing requirements • We monitor environmental management performance at the operations to ensure compliance • We achieved social and labour plan targets at CEMENT • We are strengthening the CEMENT EDP • CEMENT provides financial support to a local school that provides extra lessons in mathematics and general science
Affected strategic objective Maximise margins		
Industry associations		
Industry associations present matters of concern to regulators. They ensure that association members are updated on the relevant regulatory matters, and provide information on prevailing global trends and new technology.	• Proposed carbon tax legislation • Proposed amendments to environmental legislation • Threat of imports • Technical skills shortage	• CEMENT voluntarily submitted the carbon emission analysis report and budget to legislators to contribute to the finalisation of the tax framework for the cement industry • As natural suppliers to the KwaZulu-Natal market, CEMENT is well positioned to defend the threat of dumped imports by participating in industry initiatives • The group's retention and training programmes are in place to acquire and retain key skills
Affected strategic objectives Maintain sales volumes Maximise margins		

OUR MATERIAL MATTERS

Our material matters are linked to our key risks, and are identified by executive management and the board. Matters arising from interactions with our stakeholders are considered during this process. We use internal deliberations in our strategic interactions and independent research to identify and assess material matters. We continuously monitor the external environment for trends signalling opportunities and risks that could impact our operations. Refer to page 75 for our risk management processes.

Material matters are those that affect our value creation process and were assessed regarding:

- the level of risks and potential opportunities they present;
- the level to which they impact strategic objectives by enhancing or hindering the business model; and
- the likelihood of them becoming more significant in future.

The assessment below relates to the group's material matters, how they impact the group, and how each is addressed. There are additional matters that only impact CEMENT, and these are listed separately as they are considered to materially impact the group.

Group material matters

Supply/demand imbalance

Context

Industry production capacity for cement is approximately 17 million tonnes against an estimated annual demand of 13 million tonnes. The excess capacity resulted in intense competition and lower prices for CEMENT. Similarly, the reduced levels of construction activity resulted in price competition in the mixed concrete sector.

Our response

Although CEMENT successfully maintained its sales volumes, the low pricing and profitability environment placed pressure on the maintenance of its loan covenants during the financial year. Refer to the loan covenant pressure material matter on page 23.

Métier's understanding of the market and ability to secure profitable concrete supply deals enabled it to maintain its market share. The subsidiary enhanced its focus on managing the input costs and operational expenses to support margins. Métier increased the proportion of specialised concretes that provide higher margins per cubic metre in its product offering.

Our focus for 2018[1]

Métier:

- Target complex construction projects requiring specialised concrete
- Focus on balancing the order book between the large and complex projects to maximise profitability

CEMENT:

- Pursue the differentiated marketing strategy by optimising the product and geographic mix to achieve maximum margins

Affected strategic objectives

Maintain sales volumes

Maximise margins

Strengthen balance sheets

Increase free cash flow

Stakeholders concerned

Investors
Customers
Suppliers and contractors

[1] *CEMENT reporting for financial year 2018 will be for the 12 months ending December 2017.*

Industry-concentrated investment portfolio

Context

SepHold is invested in the building materials sector through CEMENT and Métier, thereby concentrating the industry risk. SepHold owns 36% of CEMENT, which constitutes a major component of the group valuation.

Our response

The group is actively considering inter alia the acquisition of an aggregates entity to improve access to raw materials and diversify its portfolio. The board and executive management identified the targeted asset based on current and future market demand.

Our focus for 2018[1]

SepHold:

- Integration of the aggregates business

Métier:

- Pursue lucrative growth opportunities in mixed concrete

Affected strategic objectives

Maximise margins

Strengthen balance sheets

Stakeholder concerned

Investors

Shortage of technical skills and industry knowledge

Context

Due to the technical nature of manufacturing cement and concrete products, the industry pool of technical skills is particularly small. The lack of skills could potentially limit the group's ability to achieve its strategic objectives. It is essential to employ the right people and retain critical skills.

Our response

The group implemented benchmarked remuneration structures and long-term incentive schemes to attract and retain key skills. CEMENT implemented training for critical technical skills for employees with requisite aptitude and commitment. Métier continued implementing mentoring and executive development training to ensure employees are equipped to achieve performance targets.

Our focus for 2018[1]

Métier:

- Management and supervisory development programmes

CEMENT:

- Prioritise training in critical skills

Affected strategic objectives

Maintain sales volumes

Improve cost efficiencies

Stakeholders concerned

Investors
Employees
Organised labour
Industry associations

[1] *CEMENT reporting for financial year 2018 will be for the 12 months ending December 2017.*

An overview of SepHold continued

Customer credit default risk

Context

The challenging macroeconomic environment has resulted in viability challenges for several customers due to lower levels of profitability. The smaller-sized companies are particularly challenged in managing their cash flows, resulting in a higher incidence of late payments. This risk requires significant monitoring and management by senior management.

Our response

Métier was exposed to this risk during the year because it directly supplies the construction sector, which has a high prevalence of small-scale companies. The subsidiary was diligent in monitoring its debtors and ensured that defaulters did not receive further supply. CEMENT supplied over 80% of its product in bags to major retailers and distributors, and therefore had limited exposure to construction companies.

The group improved its debtor management processes to include a rigorous credit approval procedure with the provision of guarantees.

Affected strategic objectives

Strengthen balance sheets

Increase free cash flow

Stakeholders concerned

Investors
Customers

Our focus for 2018[1]

Métier:

- Debtor management will continue to be high priority

CEMENT:

- To continue obtaining credit guarantees for all major customers and manage the balance of debtors closely

CEMENT material matters

Cement price competition

Context

The price competition experienced in the cement industry has been intensifying since the entry of CEMENT in 2014 and, subsequently, a new entrant in early 2016. The lower pricing regime has negatively impacted the profitability and sustainability of the industry. Pressure on profitability reduces CEMENT's value proposition to providers of financial capital. The competition is still strong, but pricing has stabilised since February 2017.

Our response

CEMENT supported margins by implementing the differentiation marketing strategy, and pursued cost-reduction efforts and increased its customer service level to protect its sales volumes.

Our focus for 2018[1]

- Increase discipline in the pricing policy
- Stronger focus on high-margin market segments

[1] *CEMENT reporting for financial year 2018 will be for the calendar year ending December 2017.*

Affected strategic objectives

Maintain sales volumes

Maximise margins

Strengthen balance sheets

Stakeholders concerned

Investors
Customers

Loan covenant pressure

Context

The highly competitive landscape and downward pressure on pricing resulted in CEMENT's loan covenants, particularly the debt service cover ratio, being increasingly under pressure.

Our response

CEMENT is negotiating with lenders to review the debt repayment profile without changing the original repayment period.

Our focus for 2018[1]

- To agree revised terms with the funders

Affected strategic objectives

Increase free cash flow

Strengthen balance sheets

Stakeholder concerned

Investors

Managing local communities' expectations

Context

Persistent macroeconomic pressures, high youth unemployment rates in the areas in which CEMENT operates, and challenges in local service delivery levels, resulted in increased tension between communities and businesses. The communities demand employment and opportunities for enterprise and supplier development to alleviate poverty.

Our response

CEMENT implemented a comprehensive stakeholder engagement plan involving all levels of management. A dedicated team engaged regularly with the local community leadership structures and government authorities to accurately identify matters requiring intervention and align all parties involved.

CEMENT fulfilled its agreed enterprise and supplier development targets for the year, including awarding long-term logistics contracts to 12 beneficiaries on 10 August 2016 to supply raw materials transportation services.

The EDP has created 203 indirect jobs at Aganang and Delmas since inception. The beneficiaries of the programme are regularly trained on business management skills including cash flow management, sales and marketing.

Our focus for 2018[1]

- Increase engagement with relevant government departments, such as the Department of Land Reform and Rural Development

Affected strategic objectives

Improve cost efficiencies

Stakeholders concerned

Communities
Government
Industry associations

[1] *CEMENT reporting for financial year 2018 will be for the calendar year ending December 2017.*

An overview of SepHold continued

Ensuring overall equipment effectiveness at Aganang integrated plant

Context

Overall equipment effectiveness (OEE) is a reliable standard for measuring manufacturing productivity. OEE incorporates plant availability, product quality and plant output performance into a single measure. CEMENT considers it a good metric for predicting production shortfalls, benchmarking progress and improving the productivity of manufacturing equipment.

Consistently improving OEE rates ensures that the plant can adequately supply good-quality product to meet customers' requirements. Maximising OEE is imperative in an excess demand scenario, in which the plant operates at full capacity. Although sufficient finished product inventory can reduce the impact of shortfalls in the OEE, it is prudent to strive for the targeted rates to enable CEMENT to respond to any demand increase.

Our response

Due to having a single kiln plant, it is vital to monitor and continuously improve kiln OEE. The net OEE for the year ended December 2016 was 78% against a target of 96%. 50% of the variance against the target was due to latent defects in specific components of the plant, which were resolved before the plant handover from the construction company, Sinoma, and considered in the final closure agreement. The total production output was well aligned to the demand, and therefore had no impact on the associate's profitability. The mills' net OEE was between 115% and 130% at both Aganang and Delmas plants due to performance exceeding design on all factors.

CEMENT continued to improve the plant maintenance protocols to ensure the early detection of plant performance anomalies. This significantly reduced the probability of unexpected plant downtime, which could impact production output.

The associate increased the storage facilities of semi-finished and finished products to ensure continuous cement supply to customer orders in the unlikely event of unplanned stoppage.

Our focus for 2018[1]

- To improve OEE to targeted levels
- Technical skills transfer to lower employee levels to improve OEE

Affected strategic objectives

Maximise margins

Increase free cash flow

Improve cost efficiencies

Stakeholders concerned

Investors
Employees
Customers
Suppliers and contractors

[1] *CEMENT reporting for financial year 2018 will be for the calendar year ending December 2017.*

Unionisation of labour at Aganang integrated and Delmas milling plants

Context

Labour unions are an important stakeholder of any business as they provide structure for employee engagement in matters that require intensive negotiation, such as remuneration and working conditions.

Our response

CEMENT embraced the unionisation of plant employees and proactively established an engagement framework with AMCU. AMCU was involved in the restructuring process at Aganang to improve plant efficiencies and profitability.

Our focus for 2018[1]

- Promote constructive engagement with the unions to ensure non-disruptive negotiations

Affected strategic objectives

Maximise margins

Improve cost efficiencies

Stakeholders concerned

Employees
Organised labour

[1] *CEMENT reporting for financial year 2018 will be for the calendar year ending December 2017.*

LEADERSHIP REVIEWS

CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S REPORT

Brent Williams
Chairman

Dr Lelau Mohuba
Chief executive officer

Persevering in a highly competitive, complex operating landscape while positioning for future opportunities

Dear stakeholders,

Our review addresses the frequently asked questions from our stakeholders. We trust that our responses will provide clarity on how we dealt with our material matters and created value.

Describe the operational context that prevailed during the financial year

It was another tough year characterised by continued demand/supply imbalances in the building materials sector. Predictions of macroeconomic headwinds, such as interest rate hikes, defined the beginning of the year. The gross domestic product (GDP) growth rate forecast lowered to 0,7% from 1,3%[1].

The South African economy avoided a recession in the 2016 calendar year. The GDP growth of 0,3%[2] was the weakest rate in seven years. The projected GDP growth rate for the 2017 calendar year increased to between 1,1%[3] and 1,2%[4] at the start of the year. This change was due to the expected recovery in the mining and agricultural sectors, a result of the global commodity price increases and the end of the drought.

[1] *International Monetary Fund, World Economic Outlook Update: Subdued demand, diminished prospects, 19 January 2016.*
[2] *Statistics South Africa, Gross Domestic Product, First Quarter 2017, 6 June 2017.*
[3] *World Bank Group, Global Economic Prospects: Weak investment in uncertain times, January 2017.*
[4] *Reserve Bank of South Africa, Monetary Policy Review, April 2017.*

Ratings agencies (Standard & Poor's and Fitch Ratings) downgraded South Africa's sovereign debt in April 2017. The downgrade was expected, and its long-term impact remains unclear.

Mixed concrete sector

The mixed concrete sector experienced increased price competition, especially in Gauteng, resulting in downward pressure on margins. The continued decline in the initiation of large-scale construction projects and new entrants in key markets drove the competition. The most aggressive competitors were the vertically integrated suppliers that provide a captive market for the linked cement and aggregates manufacturers. The KwaZulu-Natal market experienced a decrease in construction activity in the second half of the year, which led to overcapacity in the market.

Cement market

The cement market remained highly fragmented, due to manufacturers using price competition to defend their sales volumes. The prices of bagged cement stabilised at the end of the 2016 calendar year. Contestation continues in the bulk cement market, as there are limited new significant construction projects.

During the 2016 calendar year, price competition characterised the market, reflected in the Econometrix estimate of a 5,6%[5] decline in total cement sales volume demand to 13 million tonnes, excluding imports. Import volumes decreased by 53% to 389 000 tonnes for the calendar year ended December 2016[6].

Econometrix forecast a decline of 1,4% in demand growth for the 2017 calendar year, due to reduced investment in the building environment. Notwithstanding persistent headwinds for the foreseeable future, the potential increase in infrastructure expenditure by government to stimulate the economy could increase the cement price.

[5] *Econometrix Quarterly Cement Outlook, Q2 2017, June 2017.*

[6] *South African Revenue Service, trade statistics, April 2017.*

How did the operations respond to the challenges and opportunities?

Métier and CEMENT demonstrated the ability to withstand the turbulent economic and market environment. Their understanding of the market enabled them to adapt successfully to the dynamic landscape.

Métier

Despite a 3,9% decline in revenue, Métier's net profit increased by 7,3%. Métier's ability to secure profitable concrete supply deals enabled it to maintain its share of the market.

Métier maintained its operating margin, due to the geographical diversification of its plants and manufacturing of specialised concretes. Métier's performance demonstrated management's mettle through the reduction in the cost of sales by 5,2%, and operational expenses by 3,7% to support margins.

In the south of Gauteng, an additional 12th plant commenced production in March 2017. This new plant aligns to the subsidiary's overall strategy, and will increase its footprint. This increase will reduce over-reliance on growth nodes and diversify the customer base.

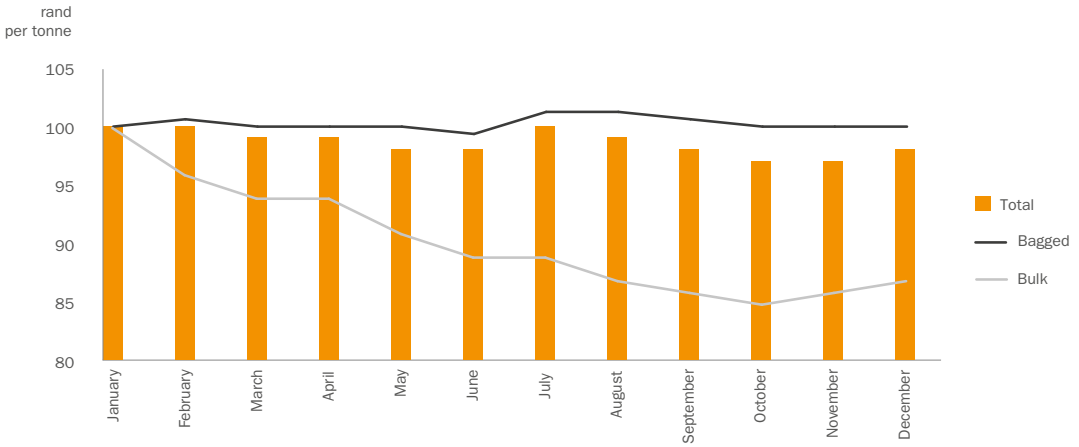
CEMENT

CEMENT's revenue was comparatively flat year-on-year in spite of an increase of 4% in sales volumes. The net profit increased to R68,9 million, of which R24,8 million was equity accounted for by SepHold.

Bulk cement pricing was particularly impacted by price competition, but saw an upward trend in the fourth quarter of 2016. As illustrated in the indexed average pricing graph on page 28, bagged cement pricing was mainly flat in calendar 2016. Bagged cement led the market, at between 70% and 80% of sales volumes, due to limited activity in the bulk use market. CEMENT focused on achieving an optimal product mix in its markets to maintain its sales volumes.

An overview of SepHold continued

Indexed sales prices on a rand per tonne basis



	Jan 16	Feb 16	Mar 16	Apr 16	May 16	Jun 16	Jul 16	Aug 16	Sept 16	Oct 16	Nov 16	Dec 16
Total	**100**	**100**	**99**	**99**	**98**	**98**	**100**	**99**	**98**	**97**	**97**	**98**
Bagged	100	101	100	100	100	99	102	102	101	100	100	100
Bulk	100	96	94	94	91	89	89	87	86	85	86	87

The application of a price differentiation model for provincial markets enabled CEMENT to reduce the downward pressure on margins. Efforts to lower operational costs by improving efficiencies continued through the optimisation programme. Although the continued decrease in prices limited the positive impact on the EBITDA margin, CEMENT achieved 50% of the targeted R115 million cost saving by December 2016. CEMENT aims to complete the programme by the end of December 2017.

What were the material matters and how did they impact the group's performance?

The material matters are detailed on pages 20 to 23, with a summary of the top-three matters below.

Supply/demand imbalance	Supply/demand imbalance in the cement and mixed concrete markets resulted in intense price competition and downward pressure on margins. Identification of high-margin contracts at Métier and the optimal segmentation of the markets by CEMENT enabled the entities to retain their sales volumes and support margins.
Cement price competition	Price competition in the cement industry has been intensifying since CEMENT's entry in 2014, and a new entrant in early 2016. CEMENT's differentiation strategy improved the average pricing. The pricing trend has stabilised since the first quarter of the 2017 calendar year, with price increases sustained since February 2017.
Loan covenant pressure	CEMENT's loan covenants, namely the debt service cover ratio, were increasingly under pressure, as a result of the highly competitive market and downward pressure on pricing. CEMENT is negotiating with lenders to review the capital debt repayment profile without changing the original payment period, to reduce future pressure on the ratio.

What advantages have enabled SepHold to remain competitive?

The competence and expertise of our management teams have enabled the group to navigate the highly competitive landscape. The group increased the cement sales volumes through shrewd marketing and excellent service. Métier's integrated service excellence is a key component of its operating model. The subsidiary secured complex supply orders that require high-quality concretes, timeous deliveries and intensive after-sales service.

We continue to apply our founding principles of entrepreneurship and innovation to carve deals across the strategic areas of our operations. The group is securely entrenched in the retail distribution channel, and has established solid relationships with key customers; partnered with the communities to share mutually beneficial value; and built robust relationships with key suppliers. These deals strengthened the group's future sustainability.

How does governance support and enable value creation?

SepHold's efforts are focused on ensuring that sound leadership, sustainability and good corporate citizenship are entrenched in its structures, policies and practices. The board is committed to good corporate governance practices, and dedicates time to reviewing policies, processes and operational strategies. The focus going forward is to develop detailed key performance indicators that align to the group's strategic objectives, and ensure the success of operations.

Additional board members strengthened the group's skills base. Our new board members will help us achieve the next level of growth, and represent a milestone in achieving our gender diversity target. Ms MJ Janse van Rensburg was appointed as chairperson of the audit and risk committee in September 2016. Her experience and knowledge have already resulted in key improvements in the group's control environment and reporting. Ms B Maluleke was appointed in November 2016. She has a wealth of experience in corporate finance and business law. The directors' full *curricula vitae* can be found on pages 72 to 74.

What additional successes were achieved by the CEMENT enterprise and supplier development programme?

Our EDP fulfils transformation objectives through employment, economic empowerment and training. The programme resulted in the success of 12 small businesses in Aganang and seven in Delmas.

To enhance the sustainability of the EDP transport beneficiaries, CEMENT awarded long-term logistics contracts to 12 beneficiaries on 10 August 2016 to supply raw materials transportation services.

The contracts were divided into seven for Lichtenburg and five for Delmas-based beneficiaries, based on their capacity and potential. The trucking opportunities for local small and medium-sized enterprises (SMEs) have an estimated total annual revenue of between R80 million and R100 million. Refer to page 57 for more information on the participants of the EDP.

What can we expect in the 2018 financial year and beyond?

The economic growth prospects have been subdued since the beginning of the new financial year. Economic and political uncertainty could impact growth prospects, and we are cautiously optimistic about the industry's growth.

CEMENT will pursue a disciplined pricing policy at targeted sales volumes, and optimise product and geographic sales mixes to achieve the best margins.

Métier will strengthen its marketing team to extract further value from the technical experts, who are renowned for innovative products. Management will enhance the strong relationships with suppliers, with the objective of achieving competitive pricing for key inputs. Métier will explore backward integration opportunities to secure essential raw materials.

SepHold will focus on developing the targeted opportunity in the aggregates sector, and continue to evaluate growth opportunities through expansion and downstream opportunities.

An overview of SepHold continued

We anticipate that cement demand will be in line with Econometrix estimates. Demand, excluding imports, is anticipated to contract by 2,1% in calendar 2017; however, positive growth of 0,4% is expected for 2018.

We await the outcome of merger discussions between AfriSam and PPC. The merger could have a positive impact if it results in a more efficient and profitable sector that attracts investors. With no new cement manufacturers on the horizon, we anticipate that pricing will continue to stabilise.

Appreciation

Our gratitude goes to our group employees and management teams, and the board and executive committee for their resourceful and exceptional oversight of SepHold. Our performance in challenging circumstances is evidence of their diligence and commitment to the group.

We thank Mr MG Mahlare, whose nine-year term as an independent non-executive director came to an end on 22 September 2016. His invaluable contribution was instrumental to the success of the group over his tenure he was a member of the board. His effective leadership as the chairperson of the audit and risk committee ensured that the group complied with regulatory requirements and applied best practice.

Finally, we would like to extend thanks to our shareholders, customers, suppliers and contractors, the communities in which we operate, and the government bodies who entrust to us their continued service, support, loyalty and investment. We are committed to delivering on your expectations, and we wish to thank you for your ongoing support.

Brent Williams
Chairman

Dr Lelau Mohuba
Chief executive officer

FINANCIAL DIRECTOR'S REPORT

GROUP HIGHLIGHTS

Operating profit increased from
R84,2 MILLION TO R84,7 MILLION

Net earnings increased from
R60,4 MILLION TO R68,1 MILLION

Basic earnings per share increased from
29,84 CENTS TO 33,37 CENTS

Net asset value increased from
451 CENTS TO 485 CENTS

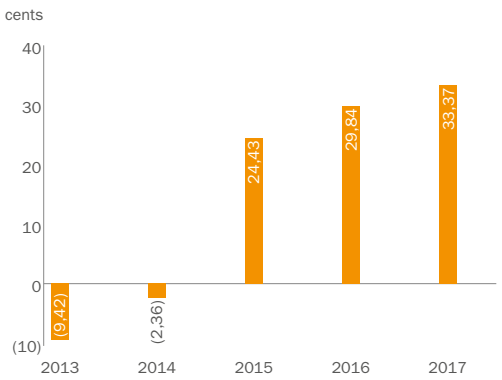
SepHold aims to develop opportunities in the aggregates sector

Neil Crafford-Lazarus
Financial director

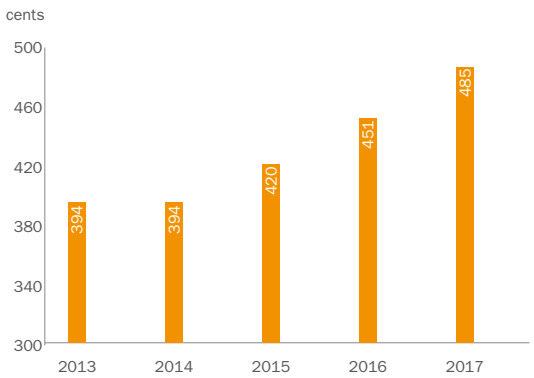
Introduction

The year was defined by intense price competition, which placed significant demand on the group finance functions to closely manage the debt covenant ratios at Métier and CEMENT.

Headline earnings per share

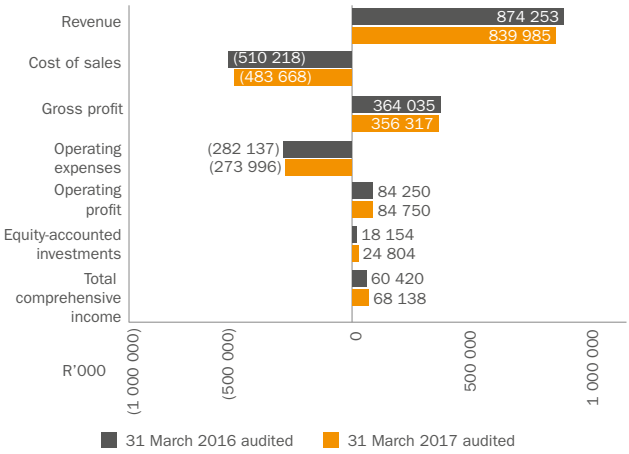


Five-year net asset value per share



Statement of comprehensive income overview

Statement of comprehensive income



The group revenue, primarily from the subsidiary's activities, decreased by 3,9% from R874,3 million to R839,9 million as a result of lower prices and reduced demand in the mixed concrete market. The 5,2% reduction in the cost of sales to R483,7 million was partly due to Métier's efforts to control input costs to support margins. The group operating profit was flat year-on-year at R84,7 million (2016: R84,2 million).

Métier

Métier achieved an operating margin of 12,9% (2016: 12,7%) as a result of its plant footprint and the manufacture of specialised concretes. Métier's net profit increased by 7,3% from R62,8 million to R67,4 million, mainly due to a R4,6 million fair value adjustment on the depreciation expense, implying flat net profit like-for-like.

Following positive results for the last two years, Métier paid a R50 million dividend to SepHold, and reduced its overall bank debt by R87,0 million to R215,9 million.

CEMENT[1]

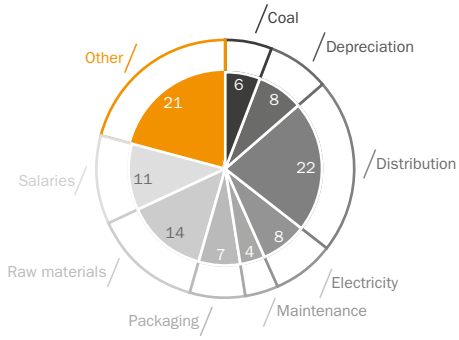
The 2016 financial year was CEMENT's first year of full production. Equity-accounted profit was R24,8 million (2015: R18,2 million) with sales revenue comparatively flat at R2,28 billion (2015: R2,29 billion). The associate's sales volume increased by 4%, but the average price per tonne decreased by 4,6% year-on-year.

The EBITDA margin increased to 23,1% (2015: 21,9%) and net profit increased to R68,9 million (2015: R50,4 million), including once-off income from the closure agreement with Sinoma on the final handover of the plants.

The income covered additional required repairs, resulting in the maintenance cost component at 4% of total cost, higher than the targeted 1,2%. It also accounted for loss of profits during the maintenance period and downtime to replace the cracked kiln shaft roller.

CEMENT cost breakdown

CEMENT's cost analysis (%)



Efforts to lower operational costs by improving efficiencies continued through the optimisation programme. The continued decrease in prices limited the positive impact of the programme on the EBITDA margin. The associate achieved 50% (R57 million) of the targeted R115 million cost saving by the end of December 2016.

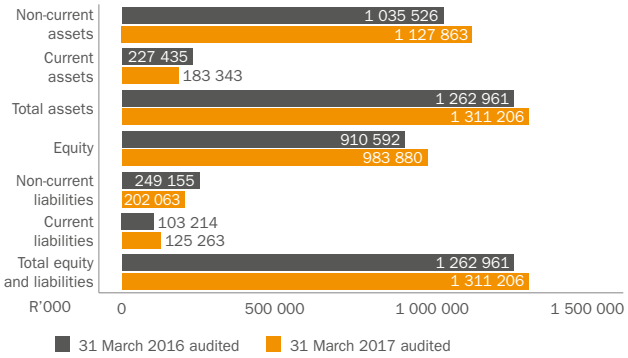
It is envisaged that the bulk of additional savings to achieve the target will be derived from purchasing a fleet for inbound and outbound transportation of raw materials between Aganang and Delmas. The fleet, at an approximate cost of R100 million, could result in substantial savings, and a short payback period. The funding will be finalised after lenders review CEMENT's debt. CEMENT aims to complete the programme by the end of December 2017.

[1] *CEMENT has a December year-end as a subsidiary of Dangote Cement Plc.*

An overview of SepHold continued

Statement of financial position and cash flows overview

Statement of financial position



Non-current assets were 8,9% higher, mainly due to the R14,4 million expenditure on the construction of an office, workshop, storeroom and laboratory building for Métier in Gauteng, and a R48,6 million SepHold equity investment in CEMENT to relieve pressure on debt covenants. The R25 million decrease in total liabilities was principally due to the reduction in Métier debt by R35,2 million (2016: R52,1 million).

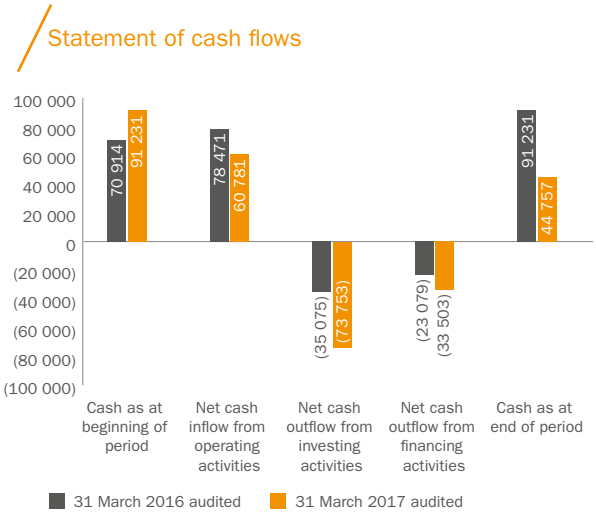
Managing CEMENT's debt covenants

Although CEMENT achieved volume growth, declining prices placed pressure on the debt service cover ratio, requiring a R134,9 million equity injection by SepHold and DCP. The ratio for the year was 1,23 short of the required 1,30. SepHold's contribution was funded by the R50 million dividend pay-out from Métier. The 3,8% increase in SepHold's total assets and the increase in net cash outflow from investing activities was essentially due to the R48,6 million equity investment.

CEMENT repaid the required R342,8 million principal and R246,9 million interest instalments in 2016. By the end of May 2017, the associate had paid R171,4 million and R112,1 million in requisite principal and interest instalments, respectively, and the re-sculpting of the debt was under negotiation with lenders.

At the time of the conclusion of this report, the associate was well advanced in negotiations with the lenders to review the capital repayment profile without changing the original payment period so as to reduce pressure on the ratio going forward.

Cash flow overview



The cash generated from operations of R97 million resulted in net cash inflow from operating activities of R60,8 million after the deduction of finance costs of R24,3 million, interest income of R7,2 million, and taxation of R19 million.

Post-period events

As reported in the DCP results announcement on 28 April 2017 for its first quarter ended 31 March 2017, CEMENT revenue decreased to R501 million (first quarter 2016: R519 million). The sales volumes were 3,6% lower for the first quarter year-on-year, mainly due to high rainfall and competitors. The associate implemented price increases in February 2017 that were sustained in most markets. By the end of May 2017, the prices indexed from January 2017 were 3% higher for bagged cement and 6% higher for bulk cement. These CEMENT quarterly results will be accounted for in the SepHold interim financial results for the six months ending 30 September 2017.

Outlook

SepHold aims to develop the opportunity in the aggregates sector. Post year-end, a joint-venture agreement between SepHold and an existing operator was finalised to develop a new quarry in KwaZulu-Natal to supply aggregates required by the respective operations of both partners. Commencement of the quarry operations is subject to regulatory approval, which is expected by the second quarter of the 2018 calendar year.

Métier will focus on developing strong relationships with its suppliers to achieve competitive pricing for key inputs to improve margins. In a similar vein, CEMENT will pursue a disciplined pricing policy at targeted sales volumes and optimise the sales mix to achieve the best margins.

I would like to thank the Métier and CEMENT management teams for their continued commitment to achieving optimal margins in a highly contested market. They have demonstrated discipline in their approach to marketing and cost management. I would like to extend a special thank you to the finance individuals for their cooperation and dedication to achieve stated goals.

Neil Crafford-Lazarus
Financial director

Summarised consolidated financial results
for the year ended 31 March 2017
STATEMENT OF COMPREHENSIVE INCOME

	GROUP	
	Year ended 31 March 2017 Audited R	Year ended 31 March 2016 Audited R
Revenue	**839 984 931**	874 253 138
Cost of sales	**(483 668 229)**	(510 218 084)
Gross profit	**356 316 702**	364 035 054
Other income	**2 429 156**	2 351 569
Operating expenses	**(273 996 024)**	(282 137 148)
Operating profit	**84 749 834**	84 249 475
Investment income	**7 172 130**	8 127 000
Profit from equity-accounted investment	**24 803 788**	18 154 066
Finance costs	**(26 695 077)**	(28 270 848)
Profit before taxation	**90 030 675**	82 259 693
Taxation	**(21 892 284)**	(21 839 218)
Profit for the year	**68 138 391**	60 420 475
Total comprehensive income for the year	**68 138 391**	60 420 475
Basic earnings per share (cents)	**33,63**	30,00
Diluted earnings per share (cents)	**33,36**	28,97

An overview of SepHold continued

Summarised consolidated financial results
as at 31 March 2017

STATEMENT OF FINANCIAL POSITION

	GROUP	
	2017 Audited R	2016 Audited R
ASSETS		
Non-current assets		
Property, plant and equipment	**142 797 829**	134 180 789
Goodwill	**223 421 981**	223 421 981
Intangible assets	**5 161 591**	7 455 631
Investment in associate	**743 842 941**	670 467 278
Other financial assets	**10 638 527**	–
Long-term loans	**2 000 000**	–
	1 127 862 869	1 035 525 679
Current assets		
Inventories	**16 972 080**	12 244 871
Other financial assets	**–**	12 987 551
Trade and other receivables	**121 613 883**	110 971 487
Cash and cash equivalents	**44 756 833**	91 231 432
	183 342 796	227 435 341
Total assets	**1 311 205 665**	1 262 961 020
EQUITY AND LIABILITIES		
Equity		
Stated capital	**635 403 188**	632 950 155
Reserves	**19 262 087**	18 910 771
Retained income	**329 214 333**	258 730 837
	983 879 608	910 591 763
Liabilities		
Non-current liabilities		
Other financial liabilities	**180 132 807**	231 309 499
Deferred income	**2 233 359**	1 866 813
Deferred taxation	**19 696 446**	15 978 858
	202 062 612	249 155 170
Current liabilities		
Other financial liabilities	**35 803 432**	18 208 333
Current taxation payable	**408 615**	1 283 129
Operating lease liability	**4 101 068**	2 756 653
Trade and other payables	**84 272 472**	80 452 834
Deferred income	**677 858**	513 138
	125 263 445	103 214 087
Total liabilities	**327 326 057**	352 369 257
Total equity and liabilities	**1 311 205 665**	1 262 961 020
Net asset value per share (cents)	**484,74**	450,99
Tangible net asset value per share (cents)	**372,83**	337,68
Ordinary shares in issue	**202 969 487**	201 908 654

Summarised consolidated financial results
for the year ended 31 March 2017

STATEMENT OF CASH FLOWS

	GROUP	
	Year ended 31 March 2017 Audited R	Year ended 31 March 2016 Audited R
Cash flows from operating activities		
Cash generated from operations	**96 978 796**	117 037 155
Interest income	**7 172 130**	8 127 000
Finance costs	**(24 320 458)**	(28 270 848)
Taxation paid	**(19 049 210)**	(18 421 887)
Net cash generated from operating activities	**60 781 258**	78 471 420
Cash flows from investing activities		
Purchase of property, plant and equipment	**(28 535 101)**	(36 589 744)
Disposal of property, plant and equipment	**1 852 035**	999 999
Loans repaid	**349 023**	514 320
Investment increase in associate	**(48 571 875)**	–
Government grant received	**1 153 240**	–
Net cash utilised in investing activities	**(73 752 678)**	(35 075 425)
Cash flows from financing activities		
Proceeds on share issue	**2 453 033**	825 647
Proceeds from other financial liabilities	**–**	28 237 894
Repayment of other financial liabilities	**(35 195 345)**	(52 142 370)
Facility raising fee paid	**(760 867)**	–
Net cash utilised in financing activities	**(33 503 179)**	(23 078 829)
Total cash and cash equivalents movement for the year	**(46 474 599)**	20 317 166
Cash and cash equivalents at the beginning of the year	**91 231 432**	70 914 266
Total cash and cash equivalents at the end of the year	**44 756 833**	91 231 432