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.

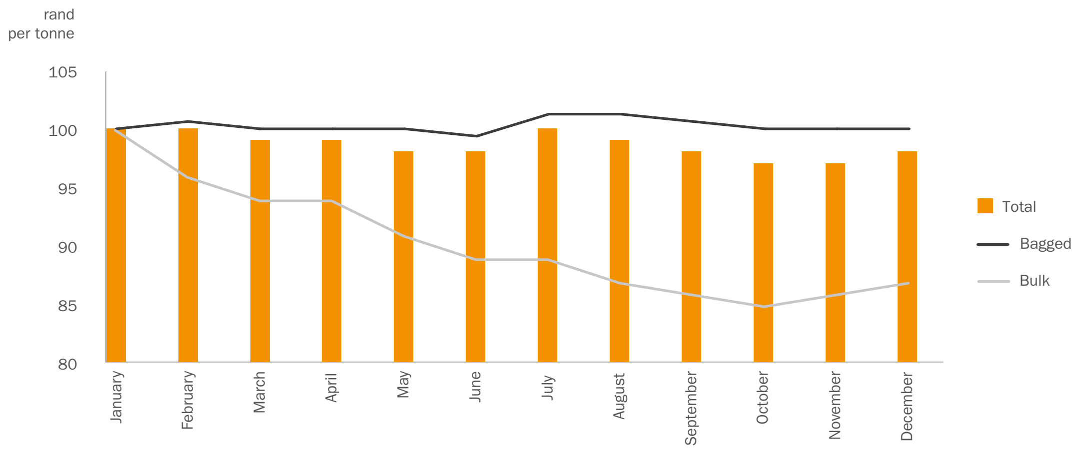
CEMENT

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

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Chief executive officer