4 BUSINESS REVIEW: SEPHAKU CEMENT

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BUSINESS REVIEW:

Sephaku Cement
BUSINESS REVIEW: SEPHAKU CEMENT

Sephaku Cement has modern manufacturing technologies and key skills in production, distribution and sales.

- **Empowerment**: We empower our people to think and act in ways to get the job done, while adhering to processes that ensure proper governance and being mindful of company needs beyond one’s own.
- **Accountability and integrity**: We are focused on delivering, and we do what we say we will do. We hold ourselves accountable for our work, our behaviour, our ethics and our actions. We aim to deliver to all stakeholders.
- **Passion and enthusiasm**: We love what we do. We are passionate about our brand and promote a positive, energising, optimistic and fun environment. Our reputation relies on the advocacy of every employee.
- **Customer care**: We are concerned with our customers’ needs and perceptions. We aspire to build lasting relationships, based on trust, towards being the preferred choice in product and service.
- **Inspired people**: Passionate, engaged employees who love what they do.
- **Changing the face of our industry**: Being the best in the industry by offering innovative solutions.
- **Creating and growing stakeholder fulfilment**: Addressing and exceeding the needs and expectations of all stakeholders by creating and continuously developing value that did not exist before.
CHIEF EXECUTIVE OFFICER’S REPORT

Our main focus is to continually improve our performance for strong returns on capital employed.

OPERATING CONTEXT
South Africa’s economy was tepid for most of 2017 even though the overall economic growth rate improved to 1.3% (2016: 0.6%), mainly due to the exceptional growth in the final quarter of the year. The demand for building and construction materials was subdued in the first six months because of the weak economy, and several national infrastructure development projects were suspended. The estimated cement demand, excluding imports, was 12.4 million tonnes (mt) compared to 12.6 mt in 2016. The imports were 503 kilo tonnes resulting in an estimated total sales volume of 12.9 mt (2016: 13.0 mt) against an industry manufacturing capacity of 17 million tonnes per annum. This supply/demand imbalance has fuelled the pricing competition in the building and construction materials sector for the past three years.

The building plans data as recorded by major municipalities, contributes to our market assessment with information on recent and potential construction activity based on plans completed and passed respectively. In 2017, the value of completed buildings increased by 19% to R73 billion year-on-year, representing 66% of the value of plans passed in 2016. The value of building plans passed decreased by 2% year-on-year to R109 billion mainly due to a 10% decline for non-residential and 3% for residential buildings categories. These statistics indicate that, although activity increased in 2017, industry demand might remain muted in 2018.

PERFORMANCE OVERVIEW
I am pleased to report that, in spite of the challenging operating environment, we performed well against the strategic objectives by maintaining sustainable sales volumes, achieving cost efficiencies from the optimisation programme and achieving relatively solid margins. Our revenue increased by 3.7% to R2.4 billion. We increased prices in February and August 2017, resulting in an effective average annual increase of 5% per tonne.

Approximately 78% (2016: 80%) of Sephaku Cement’s sales volumes were in bagged cement, and Gauteng remained the largest and most competitive market. Overall, the industry increased prices between 3% and 5% which sustained in most markets for the first time since 2015. Sephaku Cement’s strong relationships with all major national and regional building and construction material retailers, independent hardware retailers and bulk cement consumers have been instrumental in achieving our sales volumes.

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1 Sephaku Cement has a December year-end as a subsidiary of Dangote Cement PLC.
2 Econometrix cement model February 2018.
3 South African Revenue Service.
4 Statistics South Africa.
The graphs below illustrate that 2017 is the initial 12-month period when the average pricing per tonne of bulk surpassed bagged cement. We sustained the indexed prices throughout the period for both the bagged and bulk cement. We expect the trend to continue until December 2018.

Indexed average price per tonne as at January 2016

Indexed average price per tonne as at January 2017
In the first half of the year, excessive rainfall and low demand hampered sales volumes, which decreased by 5% year-on-year for the interim period. In the second half, net profit increased by R90 million from a R16 million loss to R74 million for the full year. The EBITDA for the six months to June 2017 was R197 million and increased by 52% to R299 million. The higher second-half margin was due to higher volumes, cement price appreciation and improved cost savings from the optimisation programme. The annual EBITDA margin was 21.3% compared to 23.1% in 2016; the 2016 figure included R138 million once-off income from the closure agreement with Sinoma.

Cost management
We are one of the lowest cost manufacturers, thanks to our access to low-cost raw materials and operational capabilities that optimise fuel and power consumption. We have become more cost efficient because we continuously improve our operational performance and intensively benchmark ourselves against global standards. We commenced the optimisation programme at the beginning of 2016 to be more efficient in distribution, raw material sourcing, production and sales. The objective was to improve the EBITDA margin by 5% to 7% into the foreseeable future. We saved R152 million in costs – R57 million by end of December 2016 and R95 million in FY 2017. The savings constituted 60% logistics, 20% raw materials and 20% in sales optimisation.

Sustainability
Environmental sustainability is at the core of our activities. We mine and manufacture responsibly, and continually investigate ways to mitigate our environmental impact. The medium-term target is to substitute coal consumption by 5% with waste tyres and by another 10% with oil sludge in the kiln combustion. We are applying for environmental authorisation to use alternative fuels.

People
We value the competency and experience our employees bring, and we create an attractive working environment. To retain key skills, we added participants to the employee long-term retention programme. We particularly focused on identifying historically disadvantaged individuals with the requisite skills to be included in the retention programme.

To entrench our high-performance culture, we:
- train and develop all our employees;
- manage, monitor and improve employees’ performance;
- increase leadership capabilities through personal and leadership development initiatives aligned to business imperatives by:
  - developing leadership at all levels through climate creation and facilitation programmes that communicate and manage teams and their performance; and
  - educating and equipping informal leaders to create an environment for optimal performance and;
- develop and equip line managers to perform exceptionally alongside their teams.

Refer to page 53 for further detail.

RISK MANAGEMENT AND MATERIAL MATTERS
We rigorously manage risk by having internal experts who regularly assess and audit all departments. This informs our operational priorities and material matters. To timeously harness the opportunities or mitigate any harm, the reports from risk assessments, internal audit and stakeholder engagement are a permanent agenda item at the executive committee meetings. Further to the group’s material matters on pages 16 to 21, we discuss specific matters concluded during the year below.

Debt management
Following the collective agreement to reshape the project debt profile by all lenders, we met our obligations and complied with the covenants. In line with the group’s strategic objectives, we are committed to strengthening the balance sheet by reducing debt levels to achieve a target debt to EBITDA ratio of 2.5x.
Ensuring overall equipment effectiveness at Aganang integrated plant

Equipment effectiveness is essential in the initial years of cement production, but it ceases to be critical when the plant has been optimised. We are satisfied with our rates, and we will maintain them until it becomes necessary to increase them. Ultimately, our goal is to enhance shareholder wealth by improving efficiencies at our operations that culminate in higher margins.

Unionisation of labour at Aganang integrated and Delmas milling plants

We concluded the statutory organisational rights with AMCU at both plant operations and established a constructive engagement framework. A relationship charter guides our interaction with the union and stipulates terms of engagement so we can manage the business, grow and prosper.

LOOKING AHEAD

In February 2018, we increased prices by 5% across all its markets and most of the competitors increased pricing between February and March 2018. We expect prices to remain stable and we will focus on profitability and sustainable sales volumes. Our main focus is to continually improve the business’s performance for strong returns on capital employed. We believe that we are well positioned to capitalise on the potential economic and market upside.

STRATEGIC OUTLOOK

- **To maximise margins and increase free cashflow**: Increase profitability in the medium term by achieving the EBITDA margin target of between 27% and 30% and an increase in net profit margin to enhance its shareholder value.
- **To enhance sustainability through environmental stewardship**: Improve the CO₂ footprint by substituting 5% coal consumption with waste tyres and another 10% in the kiln combustion with oil sludge.
- **To improve cost efficiencies**: Continuously improve operational performance and benchmark against global standards.
- **To maintain sustainable sales volumes**: Better understand customer expectations to enhance the sales offering.
- **To develop and implement a high-performance culture**: Focus on training and development, particularly for key skills.
HUMAN CAPITAL OVERVIEW

Sephaku Cement recognises that employees are entitled to freedom of association and respects their right to collective bargaining.

EXECUTIVE COMMITTEE
At 30 December 2017

Pieter Frederick Fourie (62)
Chief executive officer
BCom (Accounting), Executive Development Programme (PRISM) for Global Leaders (Switzerland)
Pieter has extensive experience in the cement industry and assumed his position as chief executive officer of Sephaku Cement on 1 May 2007.

Suleiman Oladapo Olarinde (55)
Finance director
BSc (Hons) (Economics) (Ahmadu Bello University, Nigeria), FCA (Fellow of the Institute of Chartered Accountants of Nigeria)
Suleiman started his career with the then Price Waterhouse and has over 33 years of experience. He joined the Dangote group in 1991 as head of internal audit and financial services. Suleiman is employed by Dangote Industries Limited (Nigeria) as executive director (finance). He is on a fixed contract at Sephaku Cement as the finance director since 21 August 2014.

Duan Claassen (50)
Executive manager operations
BEng (Metallurgical Engineering) (University of Pretoria), Young MDP (INSEAD, France), MDP (Duke University, USA)
Duan completed his graduate engineer training at De Beers before joining Blue Circle Cement. He was involved with Blue Circle Cement’s integration into Lafarge in 1996. He subsequently worked for PPC before joining Sephaku Cement on 1 January 2008.
HUMAN CAPITAL OVERVIEW (continued)

Heinrich de Beer (51)
Executive manager projects
BEng (Mechanical) (Potchefstroom University for Christian Higher Learning (PUCHE)), MDP (PUCHE), LDP (GIBS)
Heinrich started his career as a project engineer and maintenance manager at Mittal (Iscor) before joining Lafarge, where he held various positions. Heinrich joined Sephaku Cement on 1 June 2008.

Gay de Witt (49)
Chief financial officer
BCom (Hons) (University of Pretoria), CTA (University of South Africa), CA(SA)
Gay has experience in several fields, ranging from finance, operations and risk management. She previously worked for Clover Danone before joining Sephaku Cement on 1 July 2009.

Robert Mathye (42)
Executive manager organisation performance
MPhil (Rand Afrikaans University), BA (Hons), BAED (University of Venda)
Robert is a social scientist with a career that spans 16 years. He has extensive experience in managing and implementing social transformation. Robert worked for the De Beers group for over five years, where he was part of the team that implemented the company’s transformation and its corporate social responsibility programme. Robert joined Sephaku Cement on 1 April 2009 and was appointed to the current position on 1 November 2016.

Jennifer Bennette (55)
Company secretary
Jennifer has been employed by various legal practices as a paralegal and was previously company secretary for the Platmin group. Jennifer joined Sephaku Cement on 1 August 2010.

INVITEES TO THE EXECUTIVE COMMITTEE

Alfred Radebe (36)
Head of internal audit
BCom (Accounting) (University of KwaZulu-Natal), AG (SA)
Alfred completed his SICA articles in 2003 before assuming the internal audit role at Imperial Group and Nampak. He later moved to Ernst & Young (EY), where he was responsible for managing internal audit engagements in various sectors across sub-Saharan Africa. He joined Sephaku Cement on 1 January 2015 and was appointed to this position on 1 August 2017.

Mziwake Matola (36)
Head of risk
BCom (Economics) (University of Pretoria), PGCert (Risk Management) (University of Johannesburg), PGDip (Hons) (Risk Management) (Unisa)
Mziwake has 12 years of experience in enterprise risk management (ERM) ranging from establishing to maturing ERM programmes. He has a track record in implementing ERM in various southern African countries, including South Africa, Namibia, Zambia and Botswana. Mziwake joined Sephaku Cement on 1 March 2016 after holding various risk management roles in the energy, chemicals, banking and insurance industries.
EMPLOYEE OVERVIEW
The total employee complement as at 31 December 2017 was 397 including 27 learnerships (2016: 399 including 14 learnerships). The learnerships are in the technical and administrative support functions with 17 of the 27 learners sponsored by the Mining Qualifications Authority.

<table>
<thead>
<tr>
<th>TOTAL EMPLOYEE COMPLEMENT: 397</th>
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<tbody>
<tr>
<td>Centurion</td>
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<tr>
<td>95</td>
</tr>
</tbody>
</table>

276 men

121 women

27 learnerships

363 permanent

7 fixed-term contract employees

Training and development
Sephaku Cement recognises the long-term benefits of up-skiing employees and invested R5 million (2016: R4 million) in training which represents 2.7% of the 2017 payroll. Sephaku Cement’s expenditure target for training and development over the next four years is 3.0% of annual payroll.

Employment equity statistics as at December 2017

<table>
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<tr>
<th>Occupational levels</th>
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<th>Actual EE %</th>
<th>Actual Black %</th>
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<td>F</td>
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<td>282</td>
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<td>3</td>
<td>11</td>
<td>4</td>
<td>8</td>
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<td>0</td>
<td>1</td>
<td>1</td>
<td>11</td>
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<td>7</td>
<td>19</td>
<td>2</td>
<td>0</td>
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<td>11</td>
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</tr>
<tr>
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<td>Semi-skilled</td>
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<td>1</td>
</tr>
<tr>
<td>Unskilled</td>
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<td>27</td>
<td>122</td>
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<td>1</td>
<td>1</td>
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</tr>
<tr>
<td>Total</td>
<td>201</td>
<td>81</td>
<td>282</td>
<td>8</td>
<td>3</td>
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</tr>
<tr>
<td>Fixed-term contractors</td>
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<td>8</td>
<td>3</td>
<td>11</td>
<td>5</td>
<td>8</td>
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</table>

The skills development programme included on-the-job coaching and mentoring for managers. The employees in the retention programme were targeted for continuous development to prepare them for promotion opportunities.

Employment equity
Our five-year employment equity plan commenced in September 2013 and represents the ongoing and sustained commitment to eliminating discrimination and to equitable representation. Although women are still underrepresented in almost all occupational levels, we made progress in the HDSA representation in the following aspects:

Promotions
Over the tenure of the plan, more than 85% of promotions were of historically disadvantaged individuals with majority being black men.

Senior management
In the past two years of the plan, two black men were appointed to senior management. During the five years, we appointed two black women as seniors, but they resigned for various reasons including relocation.

Learnership and apprenticeship
Sephaku Cement implemented a learnership for physically challenged employees and non-employees during the 2016 calendar year. We absorbed five of these participants into a training programme in the operations for job exposure. Twelve learners participated in an apprenticeship programme, and nine of them were offered jobs after completing the programme. The beneficiaries for the learnership and apprenticeship were 100% HDSA.
HUMAN CAPITAL OVERVIEW (continued)

Labour relations
Sephaku Cement recognises that employees are entitled to freedom of association and respects their right to collective bargaining. AMCU holds the statutory organisational rights at the Aganang and Delmas operations, and we concluded the wage agreement in December 2017 effective for 12 months. We established a relationship charter with AMCU at the end of the year to provide the rules of engagement.

Task teams were established to investigate and make proposals on employment matters including remuneration structure and benefits. The common objective for the charter is the efficient management, growth and prosperity of the business. The charter is premised on the following principles:

- Good relations
- Sephaku Cement’s need to manage the business with minimal disruptions
- AMCU’s need to organise and bargain
- Transparency and consistency in the fulfilment of respective responsibilities
- Commitment to effective communication

Health and safety
There were no fatalities at any of Sephaku Cement’s operations (2016: 0). The lost-time injury frequency rates were zero at Aganang (2016: 0.19), 0.65 at Delmas (2016: 0) and zero at Sephaku Ash (2016: 0). Sephaku Cement prevents injuries and protects employees’ wellbeing through a health and safety monitoring programme. This programme is regularly reviewed to ensure compliance to all safety rules.

Sephaku Cement’s wellness programme educates employees on physical and mental health. An external service provider manages the programme and supports employees who have challenges at work and/or home. The programme has improved occupational health, safety, and productivity at the operations. Sephaku Cement used the services at a rate of 10.4%, compared to the 9.1% average in the manufacturing and industrial sector and the 8.2% service provider benchmark. Marital problems, finances and stress were the main issues the employees and families sought assistance for. In the new financial year, the focus is to provide one-on-one counselling and advise employees on how to best manage their stress, finances, work-life balance and resilience. Sephaku Cement spent R9.4 million towards employees’ wellness and development.

Broad-Based Black Economic Empowerment
Sephaku Cement attained level 6 BBBEE rating (2016: level 6) because management control and ownership scored below 50% of the requisite target. We achieved 100% in the skills development criteria for permanently employing learners. We increased our score by 22% in the skills development criteria for employing the physically challenged learners and 100% in socio-economic development for the EDP. To improve our rating on management control, we are exploring ways for HDSAs to participate at senior and executive management levels. We give preference to black skilled and experienced employees in the retention programme as part of our efforts to create an extensive pool of professionals for senior and executive managerial positions. Furthermore, we actively search for external individuals with deep industry knowledge, skills and experience. It is challenging to improve the ownership criteria because the majority shareholder, DCP, is a pan-African company from Nigeria and therefore not considered in the rating.

Sephaku Cement is working on establishing a board of directors for the community empowerment entity, Torosesha Trust (Torosesha). Torosesha has 15% shareholding in Sephaku Development Proprietary Limited (SepDev), a Sephaku Cement subsidiary that manages mining activities so the Verdaal and Springpokpan communities benefit from the its earnings. The cumulative proportion due to Torosesha as dividend to date is R4.9 million. This dividend will fund community development projects. Sephaku Cement has had difficulties in establishing the Torosesha board since inception and could not elect two local directors due to contentions from the affected communities on several matters including the delay in alternative grazing land.

We contracted a stakeholder consultant company with experience in dealing with the local communities. The consultants drafted the memorandum of understanding between Sephaku Cement, local authorities and the affected communities to expedite the operationalisation of Torosesha among other outstanding matters such as the alternative grazing land. The memorandum had been signed by most of the parties by 31 December 2017.
COMMUNITY UPLIFTMENT

Sephaku Cement is active in its communities and sustainably contributes to them.

Sephaku Cement partnered with national and provincial government officials to develop engagement structures with the communities in the absence of recognised leadership structures. Following numerous attempts to engage the communities, we established a steering committee through the provincial premier, chaired by the executive mayor, to address the outstanding community issues with all stakeholders. We presented a project framework with clearly defined timelines for the outstanding matters.

ENTERPRISE AND SUPPLIER DEVELOPMENT PROGRAMME
Sephaku Cement invested R88.4 million (2016: R83.6 million) in procuring services including transport, plant cleaning and catering from EDP participants. These enterprises’ employee profiles were consistent with 2016, constituting 189 individuals, of whom 35 (18%) are women and 108 (57%) are younger than 35.

Sephaku Cement’s EDP develops entrepreneurship by enabling small businesses to start up, and provides training, mentorship and coaching for business to the entrepreneurs. In 2017, nineteen SMMEs from the local communities of Verdwaal and Springbokpan were trained on disciplines of business management including:

- SMME gap assessment;
- sales and marketing skills;
- financial management; and
- innovation.

This initial phase of the enterprise development programme was completed in October 2017.

Sephaku Cement will contract a training service provider to formalise training for the beneficiaries and other selected local SMMEs. The training will be accredited and will develop the appropriate skills and knowledge for the participants to grow their enterprises. The service provider that has been identified is accredited with South African Qualification Authority and authorised to award national certification in new venture creation to the entrepreneurs. The training lasts 12 months and participants receive an NQF level 2 registered qualification on completion. The curriculum highlights the administrative and behavioural pitfalls that inhibit the success and sustainability of participants’ businesses. The disciplines covered include:

- literacy and effective business communication;
- numeracy and business funding;
- marketing and sales management; and
- legislative/compliance requirements.
EDP beneficiaries’ profiles

<table>
<thead>
<tr>
<th>Category</th>
<th>Number of employees for the year ended 31 December 2017</th>
<th>Details</th>
</tr>
</thead>
</table>
| Logistics and transportation      | 127                                                     | Twenty enterprises:  
  - Seven beneficiaries from Lichtenburg and five from Delmas transport raw materials.  
  - The beneficiaries reduced by 50% as they failed to fulfil their service mandate in spite of efforts through the EDP training programme to train and support their enterprises.  
  - Eight beneficiaries from Lichtenburg transport employees exclusively from the surrounding communities.  
  - This category performed satisfactorily with no accidents or incidents during the year.  
  - Twelve beneficiaries are in their second year of five-year supply agreements with Sephaku Cement. |
| Plant cleaning and cement recoveries | 50                                                      | Two beneficiaries, appointed in 2016 for each plant, continued providing their service in 2017:  
  - The Delmas beneficiary is 100 % black women-owned.  
  - These enterprises permanently employ a minimum complement of 50 employees, and an additional 50 during peak periods.  
  - The contracts are due for renewal at Aganang and Delmas in 2019 and 2020 respectively. |
| Office support cleaning           | 14                                                      | The beneficiary from Springbokpan village has been cleaning offices at Aganang since 2014.  
  - The contract is due for renewal in 2019.                                                                                                                                                                |
| Catering                          | 11                                                      | Two beneficiaries, one for each plant, provide catering services for all shifts:  
  - Both enterprises are 100 % black women-owned.  
  - The enterprises cater meals for 296 people at both plants for the day and night shifts.  
  - The contracts are due for renewal in 2019 (Delmas) and 2020 (Aganang).                                                                                                                                     |
| **Total jobs for 2017**           | **202**                                                 |                                                                                                                                                                      |

SOCIAL AND LABOUR PLAN

The proposed five-year social and labour plan (SLP) for the period 2017 to 2021 was submitted to the department of mineral resources (DMR) in April 2017 for approval. It focuses on the development of facilities for brick and block manufacturing, sports and recreational and agro-processing. The plan allocates R17 million for, among other things, projects to develop the local economies at Springbokpan and Verdwaal, skills development and SMME development. Pending the approval of the SLP, Sephaku Cement is implementing a monitoring programme to measure its progress over time for each of these projects.
Community skills development

Sephaku Cement offered skills development opportunities in line with the social and labour plan.

### Initiative

#### Graduate training programme
- Seven graduates completed the Sephaku Cement sponsored Mining Qualifications Authority (MQA) graduate development programme in 2017. Sephaku Cement employed three engineering graduates as interns since July 2015 and recruited them on a permanent basis in October 2017.
- Sixteen new graduates started a two-year internship training programme in 2017 to be completed in December 2019.
  - The training programme is supported through a partnership with the MQA. The MQA provides financial resources for the trainees while Sephaku Cement provides a practical and structured mentorship programme.

#### Apprentice training and learnerships
- The artisan training programme progressed well during the year:
  - Two of the six trainees who qualified as artisans in 2016 and 2017 were promoted to the positions of millwright and electrician at Aganang.
  - One employee at Aganang qualified to be a mechanical fitter and tuner artisan in July 2017.
  - Three learners, two at Delmas and one at Aganang, are expected to write and complete the trade test during 2018.

#### Bursaries and internships
- The objective is to build a pool for artisans for Sephaku Cement.
  - Eleven of the 20 youth from local communities that were awarded bursaries to study engineering and business management at the Taletso TVET College in 2017 will complete their studies in 2018.
  - Two of the youths were recruited for permanent employment in the public sector and are financing their own part-time studies.
  - Seven of the youths were withdrawn from the programme for not attending and will be replaced by new students in July 2018.

#### Educational support
- Funding for extra curriculum mathematics and science classes at Tswelelopele High School was withdrawn during the year due to the lack of performance reports from the school officials. The reports were essential to enable Sephaku Cement to assess the impact of the support against the objectives determined at the beginning of the intervention period.
  - Numerous requests for the specific reports were unsuccessful, and Sephaku Cement compromised by participating in the broader Department of Education support interventions for the 2018 academic year.

#### Leadership skills training
- Sephaku Cement continues to empower community leadership structures at Springbokpan and Verdwaal through workshops on various topics related to mining legislation, code of conduct and general transformation.

### Key community challenges

#### Key challenge
- Contestation regarding the legitimate community leaders has resulted in the ongoing absence of leadership structures. This has frustrated achieving conclusive decisions on key matters, including:
  - electing directors to the empowerment structure Torosesha;
  - SLP engagement; and
  - land utilisation options.

This leadership vacuum limited engagements, and communities often protested due to lack of information.

- Deterioration of the Aganang access road.

#### Response
- Although Sephaku Cement made progress on this challenge during the year (pages 54 – 55), the steering committee’s ultimate success will be ascertained in December 2018.
  - Sephaku Cement continues to engage the local and provincial authorities; Department of Rural Development and Land Reform as well as the Department of Culture, Arts and Traditional Affairs regarding the need to formalise the leadership structures of the communities affected by the mining and cement manufacturing operations.

- Upgrades to the main access road to the Aganang plant began in 2017. However, the road construction company appointed by the North West Department of Public Works and Roads terminated the contract due to violent community protests. Sephaku Cement is engaging the department on how to approach the outstanding upgrade during 2018.
NATURAL CAPITAL OVERVIEW

Sephaku Cement continually minimises its operations’ environmental impacts through decisions that serve the interest of the business and society.

Sephaku Cement is committed to a high standard of environmental performance and to sound principles of sustainable development. We believe that robust environmental management systems and a proactive approach to addressing the challenges and harnessing opportunities of climate change, are fundamental to operational success.

ENVIRONMENTAL MANAGEMENT STRATEGY AND COMPLIANCE

Sephaku Cement complies with all legislation and has the necessary environmental licences and permits. Our environmental management programme identifies and manages socio-environmental impacts, risks and liabilities during the environmental impact assessments. Our environmental management strategy minimises water consumption, improves energy efficiency and mitigates against point and non-point source emissions. The Aganang and Delmas plants were designed to have limited environmental impact, and we further reduce our impacts with mitigatory measures for any dust and/or noise pollution.

We need to thoroughly understand and manage increasing environmental legislation for mining and processing operations to comply and avoid unwarranted costs. We kept our focus on important stakeholder groups such as regulators, communities and internal stakeholder. The stakeholders requested additional information on the water quality. The concern was particularly from the local communities who wanted to know if the mining activities do not contaminate the ground water which could impact their boreholes. The management team presented the water analysis results which confirmed that the controls implemented are effective. The environmental manager collaborated with the stakeholder engagement team to engage the local farmers on Sephaku Cement’s environmental initiatives, emissions and water management matters.

OPERATING LICENCES

We have monitoring programmes to guarantee that the Aganang and Delmas plants comply with all permits.

Atmospheric emission licence

The Aganang provisional atmospheric emission licence which stipulates emission limits for nitrogen oxide, sulphur dioxide and particulate matter, was converted into a full licence in 2016.

Point source emissions

The continuous emissions monitors for the kiln and cooler stack at Aganang enable regular monitoring of pollutants such as nitrogen dioxide, sulphur dioxide, hydrogen chloride and hydrogen fluoride as required by the AEL. The average emissions recorded for the year were between 3 mg/Nm³ to 16 mg/Nm³ for dust and less than 1,000 mg/Nm³ for nitrogen dioxide.

Fugitive dust emissions

We managed fugitive dust emissions from process sources that include materials handling and raw milling, according to plans approved by the regulators. Weekly internal audits monitored fugitive dust emissions. Excessive emissions were recorded during preparations for plant maintenance shutdown during which the clinker silo has full capacity and any extra clinker is stored in the open.

Integrated water use licence

The plants have integrated water use licences (IWULs) from the Department of Water Affairs that Sephaku Cement complied with through monitoring water balance, managing storm water and conducting internal audits. The operations have water balances in place to manage and optimise water use and run closed circuit water systems to maximise recycling and minimise discharge into the environment.

Sephaku Cement monitored water use and quality each month to assess the potential impact of discharging the process water into the evaporation dam. We sampled ground and surface water at numerous boreholes. The surface monitoring points were measured against the water use licence parameters and have surface monitoring points against the water use licence parameters. The goal was to reduce fresh water consumption by using process water efficiently and minimising contamination of ground and surface water.

To that effect, Aganang consumed 54 litres of borehole water per tonne of clinker (2016: 56 litres). In addition, we carried out quarterly bio-monitoring tests on the surrounding aquatic environments. We measured more than 10 elements, and 90% of them complied with the regulatory quality specifications. We have developed a plan to improve the quality to achieve a full score.
Waste management licence
The Aganang plant has a waste licence awarded by the Department of Environmental Affairs to use energy-intensive materials, such as by-products from the steel manufacturing, energy and other industries. This can reduce Sephaku Cement’s energy consumption and carbon footprint.

We improved our waste management by accurately separating general or non-process waste into different streams such as domestic waste, mixed recyclables, wood, steel and rubber. The plant management collaborated with independent experts in recycling and disposing of domestic waste. We recycled process hazardous waste, such as used oil, through other specialist service providers and delivered oil-contaminated material and used filters to registered waste-disposal facilities.

Carbon tax bill
Sephaku Cement supports the government’s drive towards a low-carbon economy. We continue to engage with industry bodies and policymakers to ensure that the proposed regulatory mechanisms achieve this goal while keeping local industry competitive. We actively participated in consultations that established the appropriate tax regime with the government. Below are subordinate laws and regulations to the carbon tax bill that Sephaku Cement has to comply with.

Carbon budget
The regulation has been postponed in the past few years due to the complexity of establishing the appropriate frameworks for various industries. As part of its voluntary reporting commitments under the Association for Cement Manufacturing Producers’ Sustainability Initiative, Sephaku Cement submitted the first proposed carbon budget to the Department of Environmental Affairs for review in 2016. Following feedback from the authorities, Sephaku Cement re-submitted the budget in January 2018 and is awaiting approval from the relevant authorities.

Greenhouse gas reporting regulations
Sephaku Cement, as part of the industry lobby group, actively participated in the consultations to determine the appropriate reporting framework. Companies are required to report annually on their greenhouse gas (GHG) emissions for carbon dioxide, methane and nitrous oxide. Sephaku Cement submitted its initial report on 30 March 2018.

USE OF ALTERNATIVE FUELS AND RAW MATERIALS
Alternative fuels and raw materials (AFRs) from waste reduce fossil fuel consumption and costs. AFRs conserve natural resources, reduce carbon dioxide emissions and improve waste management. Sephaku Cement continued investigating projects to improve the carbon dioxide emissions to benefit from these allowances, and we applied for authorisation to use alternative fuels to substitute 5% of coal consumption with waste tyres and 10% of coal consumption in the kiln combustion with waste-derived fuels. We will continue exploring feasible alternative fuels and energy-efficient processes to address combustion-related emissions. Sephaku Cement anticipates the response from the DEA in November 2018 on the application based on the stated environmental impact assessment timelines.

Sephaku Cement proactively measures its carbon footprint in terms of specific carbon dioxide (CO₂) emissions and recorded between 800 tCO₂ to 900 tCO₂ per tonne of clinker produced in 2017.

KEY NATURAL CAPITAL CHALLENGES
The original Aganang AWUL was issued in 2016 with inconsistent compliance conditions, which were acknowledged by the Department of Water Affairs. The listed licence conditions are not applicable to the site activities. Management will engage with the DWA regional office to request urgent attention and rectification of this matter. The Delmas IWUL inconsistencies were rectified in 2017.

MINE REHABILITATION
Sephaku Cement complied with the National Environmental Management Act to provide adequately for various levels of rehabilitation. Independent specialists assess the cost of rehabilitation and closure annually in alignment with the requirements of relevant legislation, environmental management programme closure commitments, and applicable good practice.