FINANCIAL DIRECTOR'S REPORT

OVERVIEW

Our group financial management focus for FY 2018 was on strengthening the balance sheets. We increased the magnitude of the Métier debt capital repayments to reduce the interest burden and successfully negotiated for the reshaping of the Sephaku Cement project loan to eliminate the pressure on covenants.

Neil Crafford-Lazarus
Financial director

The operating environment remained challenging for a significant portion of the year resulting in weaker financial performance from Métier and normalised Sephaku Cement results. The tough trading environment was evidently severe for Métier's customer base, who were impacted by the turmoil in the construction industry. Consequently, the subsidiary experienced a high incidence of overdue receivables thereby increasing customer credit default risk. The level of this risk was assessed resulting in a decision to increase Métier's provision for bad debts by R5 million at year-end.

GROUP

Sephaku Cement's equity accounted profit **R20,8 million** (2017: R24,8 million)	**EBIT** **R54,3 million** **at a margin 6,5%** (2017: R84,7 million)
NPAT **R44,2 million** (2017: R68,1 million)	**HEPS** **20.9 cents** (2017: 33.4 cents)

MÉTIER

Revenue	EBITDA margin	EBIT margin	NPAT
R830,7 million (2017: R839,9 million)	**10,9%** **R91,2 million** (2017: 15,0%)	**9,6%** **R79,6 million** (2017: 12,9%)	**R48,0 million** (2017: R67,4 million)

SEPHAKU CEMENT

Revenue	EBITDA margin	EBIT margin	NPAT
R2,4 billion (2016: R2,2 billion)	**21,3%** **R504,2 million** (2016: 23,1%)	**14,1%** **R333,3 million** (2016: 16,0%)	**R57,8 million** (2016: R69,8 million)

FINANCIAL PERFORMANCE

Group net profit was R44,2 million at a revenue of R830,7 million resulting in basic earnings per share of 21.60 cents.

Analysis of the comprehensive income

Métier

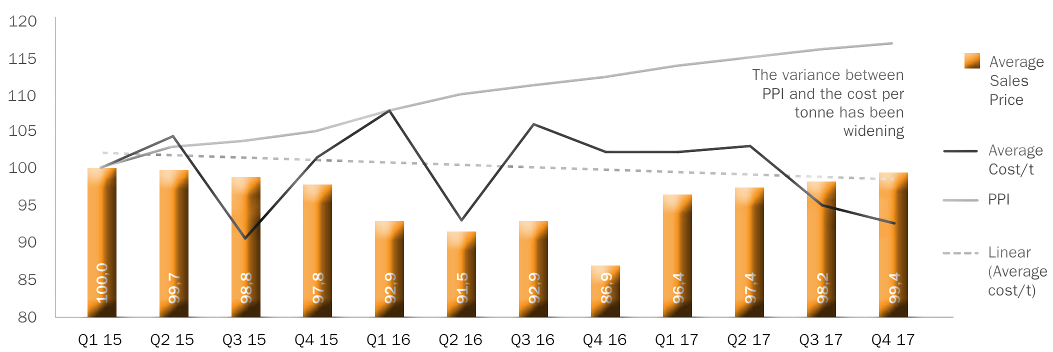
Métier implemented an average marginal price increase of 1,8% per cubic metre but due to a 3% decline in sales volumes had a 1,1% decrease in revenue to R830,7 million. The twelfth plant that commenced production in March 2017 contributed 7% to the sales volumes with commensurate increase in production cost of 8,5%. The increases in costs on lower volumes resulted in comparatively lower EBITDA and EBIT margins of 10,9% (R91,2 million) and 9,6% (R79,6 million) respectively. Métier's net profit was R48,0 million compared to R67,4 million achieved in the previous year.

Sephaku Cement[1]

Sephaku Cement achieved a 3,7% increase in revenue to R2,4 billion for the 12 months ended 31 December 2017. The price increases implemented in February and August 2017 were sustained in most markets resulting in an effective annual increase of 5% per tonne. The associate's performance was distinctive between the interim periods. The significant improvement in the second six months of the year reduced the negative impact on profitability of the weak performance in the first six months caused by excessive rainfall and low demand that resulted in a loss of R16,1 million. The associate's second half net profit increased by R90 million to R74 million as a result of increased sales volumes, higher cement pricing and improvements in operational efficiencies. The optimisation programme initiated in 2016 was successfully concluded in December 2017 with total cost savings of R152 million. The EBITDA margins recorded for the second half were 23% in the third quarter and 25% in the fourth quarter.

The annual EBITDA margin at 21,3% (R504,2 million) and net profit of R57,8 million were lower than the figures achieved in 2016 of 23,1% (R527,0 million) and R68,9 million, respectively. This was due to the fact that the previous year's results included the once-off income of R138 million from the closure agreement with Sinoma on the final handover of the plants and did not reflect a normalised position. The equity accounted income translated to SepHold's income statement was R20,8 million (2016: R24,8 million).

Sephaku Cement optimisation cost efficiencies impact on average cost

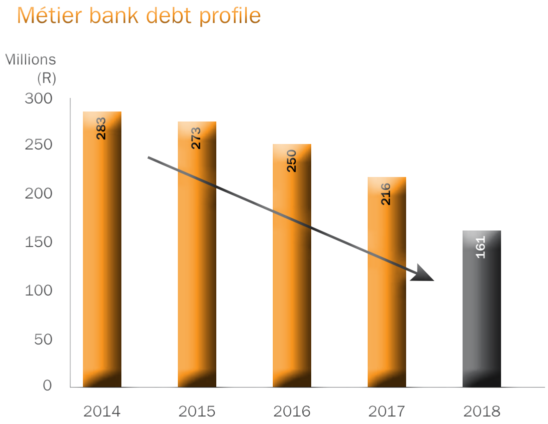


[1] *Sephaku Cement has a December year-end as a subsidiary of Dangote Cement PLC.*

FINANCIAL DIRECTOR'S REPORT (continued)

Strengthening the financial position through debt management

Métier



Métier has steadily reduced its principal bank debt by 43% since 2014 while simultaneously increasing its plant footprint in Gauteng by constructing two plants. Approximately R112 million of the debt in FY 2014 was the loan for the acquisition of Métier. Furthermore, the subsidiary distributed a R50 million dividend to SepHold during the FY 2017 and commissioned a mobile plant to access new demand nodes in the Centurion area in March 2018. Métier achieved all these milestones in a trading environment with declining concrete prices and above inflation increases in costs and general expenses.

The subsidiary has two loan facilities with the same bank. The first one is a revolving credit facility of R100 million, which was R81,7 million as at 31 March 2018 and bears quarterly interest at JIBAR plus 400 basis points (bps). The second loan was R80,4 million at year end and is repayable in equal instalments of R3,7 million per month bearing interest at JIBAR plus 350 bps. The instalments are repayable over a period of three years and include payments of the interest and capital portions. The final contractual payment for both facilities is scheduled for February 2020 at which time it is envisaged that the revolving credit facility will be renegotiated.

Métier paid R55,5 million towards the principal during the year with R20 million into a revolving facility. The annual finance costs were R21,3 million. The ability of the subsidiary to reduce its debt exposure in the current constrained environment has demonstrated the resilience of the business model. The plan going forward is to further reduce the debt by repaying R35 million per annum for the next two years.

Sephaku Cement

In the FY 2017 report we highlighted the increasing pressure on Sephaku Cement's project loan covenants and that we were advanced in our negotiation with the lenders' consortium to reshape the loan to enable the associate to comply with the terms in a highly competitive trading environment. We are pleased that the negotiations were successful and the emerging upward trend in cement pricing observed in the past 18 months has resulted in Sephaku Cement comfortably fulfilling all its loan terms.

Background and original repayment profile of the project loan

The loan of R1,95 billion had a tenor of 10 years from 1 November 2012 with a 36-month payment holiday and capital repayable in 28 equal quarterly instalments. The loan attracted interest equal to the 3-month JIBAR rate plus a margin of 400 basis points. The accrued interest during the payment holiday was capitalised against the project loan to a final loan amount of R2,4 billion. Loan covenants included a loan life cover ratio of greater than or equal to 1,5; a debt service cover ratio of greater than or equal to 1,3; a reserve tail ratio greater than or equal to 30% and a gearing ratio of less than or equal to 75:25.

Reshaping of the loan

The highly competitive market and downward pressure on cement pricing during Sephaku Cement's financial year ended 31 December 2016, resulted in the debt service cover ratio being increasingly under pressure. This ratio for the financial year ended 31 December 2016 was 1,23 instead of the requisite 1,30, resulting in a R135 million equity injection by the shareholders, SepHold and DCP.

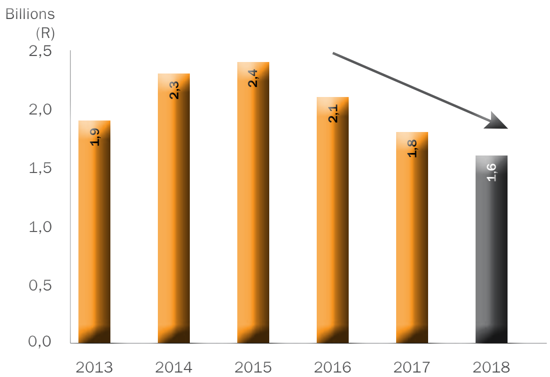
In September 2017, the lenders consortium collectively agreed to change the repayment profile of the remaining R1,8 billion on the loan from equal capital instalments to increasing capital amounts over five years from 2018. The annual instalments as a proportion of the outstanding debt would amount to approximately 10% in 2018; 15% in 2019 and the balance of 75% over the final three years. The covenants were maintained at the original levels, but the interest rate was increased by 50 bps to JIBAR plus 450 bps. The lenders agreed to condone this breach and the forecast breaches for the measurement periods ended 30 June 2017, 31 December 2017 and 30 June 2018. By December 2017 Sephaku Cement had made R600 million (25%) in capital repayments since the initial instalment in the first quarter of 2016.

Requisite contribution from shareholders

An additional R95 million capital injection required by the lenders to reshape the loan was settled in full by DCP in September 2017 as per the relationship agreement terms between SepHold and DCP. SepHold will be required to make a payment of R34,2 million at a future date, still to be determined between SepHold and DCP, to avoid the dilution of SepHold's 36% interest in Sephaku Cement. SepHold's board and management has decided that it will not follow through on its right if the required contribution will be based on the valuation used for the subscription in March 2017 thereby decreasing SepHold's interest in Sephaku Cement to just below 35%. Refer to page 35 of the annual financial statements.

For the 12 months ended December 2017, Sephaku Cement repaid R474 million constituting R217 million towards interest and R257 million towards the capital. The loan will decrease to R1,62 billion by December 2018 accelerating the achievement of Sephaku Cement's targeted debt to EBITDA ratio of x2,5 in the next 12 to 18 months.

Sephaku Cement project debt profile



Update on the DCP (shareholder) project loan

In 2013 to 2014, DCP granted Sephaku Cement a standby debt facility of R275 million at an interest of JIBAR plus 400 bps to complement the bank project loan for the construction of the cement plants. At the end of December 2017, the balance of the loan was R418 million including accrued interest. The interest accrued during the construction phase was capitalised against the loan. The repayment of the accumulated debt will be subject to available cash which is anticipated to increase with improved profitability margins. The plan is to reduce the debt once there is sufficient excess free cash after complying with the requisite bank obligations.

Cashflow and customer credit default risk management

Métier

The receivables inflow was lower than planned as Métier's customers struggled to comply with their payment terms because of the tumultuous construction industry characterised by delayed projects and termination of contracts. This coupled with the liquidation of a long-term Métier customer who owed R5,2 million due to the unexpected termination of a major construction project, heightened the credit default risk management of all customers. By the end of the financial year, the receivables were R131 million with R15 million past the payment due date, and not impaired. Within the initial week of the new financial year, Métier had received R10,3 million of the outstanding R15 million. In our assessment of the balance of receivables which were neither past due nor impaired confirmed that they were of satisfactory credit quality. To continue to mitigate this risk, Métier is strengthening the credit management process for all new customers to ensure that profitability is protected and there is full compliance with the credit terms.

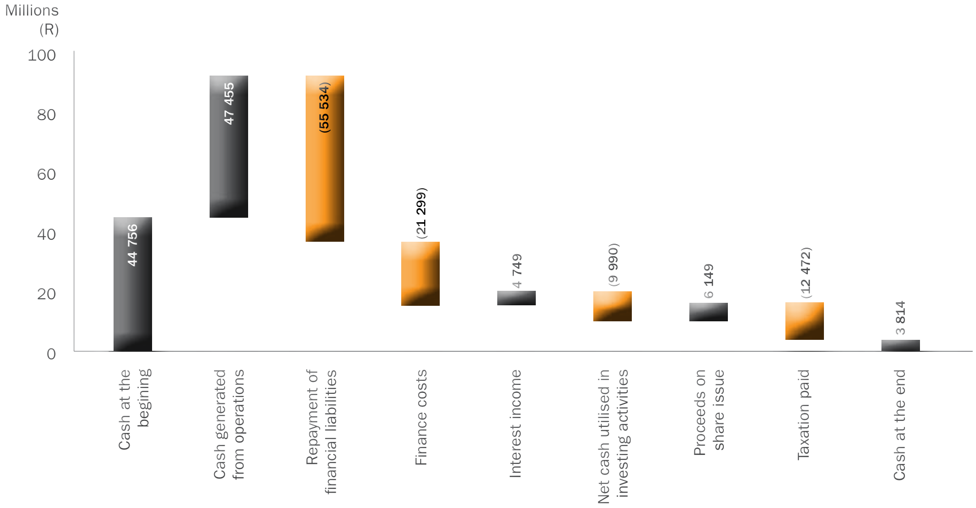
Sephaku Cement

Sephaku Cement did not and continues not to experience the same customer credit default risk because of the profile of its customer base. Approximately 80% of its sales volumes is in bagged cement distributed through large retailers. These retailers have a low risk of default and furthermore Sephaku Cement has no exposure to major construction companies as customers. At the end of December 2017, the associate's provision for receivables impairment was slightly below R1 million representing 0,4% of the R232 million in outstanding credit sales.

Sephaku Cement generated R516 million cash from operations and began the year with R288 million in cash and cash equivalents. The main cash outflows during the year were towards finance costs and capital repayments totalling R529 million. This reflects the group's focus of strengthening the balance sheet through the reduction of debt.

The annual net cash movement was R125 million resulting in an ending cash balance of R413 million. Sephaku Cement's strong cash generative ability is expected to continue subject to sustainable price increases. As the cashflow increases, the possibility of the associate accelerating the repayment of the project loan is significantly enhanced.

Group cash movement analysis



GROUP

Although the group cash balance at the financial year end was fairly low at R3,8 million, the combined undrawn balance was R36,5 million through Métier's revolving bank facility, overdraft and SepHold's overdraft.

SEPHAKU CEMENT POST-PERIOD PERFORMANCE

Sephaku Cement's first quarter sales volumes for the period ended 30 June 2018 increased by 7% year-on-year albeit from a fairly low base in the comparable period. The positive pricing trend continued to the end of March with Sephaku Cement implementing increases of 5% – 6% per tonne in February 2018. These prices have sustained in most markets with Gauteng continuing to be a highly contested market. Additional price increases are planned for during the second half of 2018.

GROUP INVESTMENT PORTFOLIO ENHANCEMENT

Cato – Ridge aggregates joint venture

The rationale for the 50% investment into the aggregated joint venture was to secure a major mixed concrete raw material. The synergistic benefits of the joint venture include favourable pricing and control of the aggregates source which is critical in supporting margins.

FOCUS AREAS FY 2019

The construction industry which is strongly linked to Métier's customer base is anticipated to continue to be weak for the near term. A building perception survey conducted between April and June 2018 by Bureau for Economic Research, revealed that the confidence index for the second quarter decreased to 29 points which is a six-year low. Equally the civil contractors are pessimistic and anticipate weak demand for this year. This will require astute and perpetual customer credit management processes to preserve value. Management of Métier's debt covenants will also be of high priority in view of the weak demand and downward pressure on profitability.

We will also ensure that a 13th mixed concrete plant is brought to full production in the most cost-efficient manner through rationalisation of movable plant equipment and trucks.

APPRECIATION

I extend gratitude to my colleagues, who have enabled me to manage the group finance functions effectively through their support. I thank the dedicated and competent group finance professionals who have worked tirelessly with me to guard the resources with which we have been entrusted. Finally, I thank the board members for their insights on how to enhance the financial management efficacy in a highly volatile trading environment.

Neil Crafford-Lazarus
Finance director

SUMMARISED CONSOLIDATED FINANCIAL RESULTS

STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 31 March 2018

	GROUP		COMPANY	
	2018 R	2017 R	**2018 R**	2017 R
Revenue	**830 686 042**	839 984 931	**12 073 869**	19 242 280
Cost of sales	**(488 756 744)**	(483 668 229)	**–**	–
Gross profit	**341 929 298**	356 316 702	**12 073 869**	19 242 280
Other income	**4 732 869**	2 429 156	**205 307**	214 465
Operating expenses	**(292 334 309)**	(273 996 024)	**(22 985 204)**	(30 762 448)
Operating profit/(loss)	**54 327 858**	84 749 834	**(10 706 028)**	(11 305 703)
Investment income	**4 749 191**	7 172 130	**1 336**	50 058 450
Reversal of impairment loss	**–**	–	**–**	89 410 741
Profit from equity-accounted investment	**20 819 672**	24 803 788	**–**	–
Finance costs	**(22 032 115)**	(26 695 077)	**(1 170 690)**	(1 202 079)
Profit/(loss) before taxation	**57 864 606**	90 030 675	**(11 875 382)**	126 961 409
Taxation	**(13 697 584)**	(21 892 284)	**–**	–
Profit/(loss) for the year	**44 167 022**	68 138 391	**(11 875 382)**	126 961 409
Other comprehensive income/(loss)				
Items that will not be reclassified to profit or loss:				
Revaluation reserve on land of associate written back	**1 207 663**	–	**–**	–
Total comprehensive income/(loss) for the year	**42 959 359**	68 138 391	**(11 875 382)**	126 961 409
Total comprehensive income/(loss) attributable to:				
Equity holders of the parent	**42 959 359**	68 138 391	**(11 875 382)**	126 961 409
	42 959 359	68 138 391	**(11 875 382)**	126 961 409
Basic earnings per share (cents)	**21.60**	33.63		
Diluted earnings per share (cents)	**21.49**	33.36		

FINANCIAL DIRECTOR'S REPORT (continued)

STATEMENTS OF FINANCIAL POSITION
as at 31 March 2018

	GROUP		COMPANY	
	2018 R	2017 R	2018 R	2017 R
ASSETS				
Non-current assets				
Investment property	–	–	18 427 525	18 427 525
Property, plant and equipment	143 665 110	142 797 829	103 098	152 022
Goodwill	223 421 981	223 421 981	–	–
Intangible asset	2 867 551	5 161 591	–	–
Investments in subsidiaries	–	–	299 378 029	299 378 029
Investment in joint ventures	120 552	–	–	–
Investment in associate	765 870 275	743 842 941	683 689 159	683 689 159
Other financial assets	8 459 008	10 638 527	8 459 008	10 638 527
Operating lease asset	–	–	1 105 338	613 869
Long-term loans	2 000 000	2 000 000	2 000 000	2 000 000
	1 146 404 477	1 127 862 869	1 013 162 157	1 014 899 131
Current assets				
Inventories	16 829 437	16 972 080	–	–
Loans to group companies	–	–	10 249	10 149
Trade and other receivables	133 331 514	121 613 883	326 256	253 002
Cash and cash equivalents	10 510 169	44 756 833	337 984	1 225 306
	160 671 120	183 342 796	674 489	1 488 457
Total assets	1 307 075 597	1 311 205 665	1 013 836 646	1 016 387 588
EQUITY AND LIABILITIES				
Equity				
Stated capital	644 443 723	635 403 188	644 443 723	635 403 188
Reserves	12 025 844	19 262 087	12 025 844	20 469 750
Retained income	378 928 819	329 214 333	213 012 820	219 340 739
	1 035 398 386	983 879 608	869 482 387	875 213 677
Liabilities				
Non-current liabilities				
Loans from group companies	–	–	12 625 620	13 647 025
Other financial liabilities	121 353 224	180 132 807	–	–
Deferred income	1 555 444	2 233 359	–	–
Deferred taxation	21 022 839	19 696 446	–	–
	143 931 507	202 062 612	12 625 620	13 647 025
Current liabilities				
Loans from group companies	–	–	128 278 008	126 115 900
Other financial liabilities	39 781 797	35 803 432	–	–
Current taxation payable	307 491	408 615	–	–
Operating lease liability	4 090 842	4 101 068	5 684	15 910
Trade and other payables	76 192 231	84 272 472	3 444 947	1 395 076
Deferred income	677 887	677 858	–	–
Bank overdraft	6 695 456	–	–	–
	127 745 704	125 263 445	131 728 639	127 526 886
Total liabilities	271 677 211	327 326 057	144 354 259	141 173 911
Total equity and liabilities	1 307 075 597	1 311 205 665	1 013 836 646	1 016 387 588
Net asset value per share (cents)	501.79	484.74		
Tangible net asset value per share (cents)	392.51	372.83		

STATEMENTS OF CASH FLOWS

for the year ended 31 March 2018

	GROUP		COMPANY	
	2018	2017	**2018**	2017
	R	R	**R**	R
Cash flows from operating activities				
Cash generated from/(utilised in) operations	**47 455 351**	96 978 796	**(7 635 415)**	(7 054 616)
Interest income	**4 749 191**	7 172 130	**1 336**	58 450
Dividends received	**–**	–	**–**	50 000 000
Finance costs	**(21 298 838)**	(24 320 458)	**(29 987)**	(1 202 079)
Taxation paid	**(12 472 313)**	(19 049 210)	**–**	–
Net cash generated from/(utilised in) operating activities	**18 433 391**	60 781 258	**(7 664 066)**	41 801 755
Cash flows from investing activities				
Purchase of property, plant and equipment	**(14 915 358)**	(28 535 101)	**(23 390)**	(28 494)
Disposal of property, plant and equipment	**4 314 861**	1 852 035	**–**	–
Loans repaid	**650 837**	349 023	**650 837**	349 023
Investment increase in joint venture	**(40 754)**	–	**–**	–
Investment increase in associate	**–**	(48 571 875)	**–**	(48 571 875)
Government grant received	**–**	1 153 240	**–**	–
Net cash (utilised in)/generated from investing activities	**(9 990 414)**	(73 752 678)	**627 447**	(48 251 346)
Cash flows from financing activities				
Proceeds on share issue	**6 149 397**	2 453 033	**6 149 397**	2 453 032
Repayment of other financial liabilities	**(55 534 494)**	(35 195 345)	**–**	–
Facility raising fee paid	**–**	(760 867)	**–**	–
Advances of loans to group companies	**–**	–	**(100)**	(1 060 817)
Net cash (utilised in)/generated from financing activities	**(49 385 097)**	(33 503 179)	**6 149 297**	1 392 215
Total cash and cash equivalents movement for the year	**(40 942 120)**	(46 474 599)	**(887 322)**	(5 057 376)
Cash and cash equivalents at the beginning of the year	**44 756 833**	91 231 432	**1 225 306**	6 282 682
Total cash and cash equivalents at the end of the year	**3 814 713**	44 756 833	**337 984**	1 225 306