REMUNERATION REPORT

BACKGROUND STATEMENT

The REMCO recommends and advises the board on remuneration practices and long-term employee incentives, and it submits policy amendments to the board for approval. To ensure market-related remuneration, consultants are contracted from time to time to provide an independent opinion on prevailing remuneration trends and to ensure that the group remains competitive. Competitive remuneration is critical in attracting and retaining high-performing individuals due to the shortage of technical skills in the building and construction materials manufacturing industry. Competitive remuneration motivates employees and improves their performance in line with the group's strategic objectives. The board is committed to continuous improvement in the remuneration framework and will seek further ways to improve the policy.

The board, through REMCO, is responsible for making decisions regarding the remuneration of executive directors, the FD and the CEO. The CEO and FD are subsequently responsible for determining the appropriate total guaranteed remuneration and incentives of the rest of the group's employees. The CEO is on a permanent contract and there will be no unusual obligation for the group at retirement, which is set at 65 years. The CEO is a member of eight boards including SepHold, Métier and SepCem, which require his active participation regularly.

At the annual general meeting held on 6 September 2018, the resolutions on the remuneration policy and non-executive directors' remuneration were approved by 81.18% and 76.75% votes in favour, respectively. Although the requisite positive votes were achieved, executive management decided to engage with the dissenting shareholders who expressed concerns on the structure of the KPI measures. These were mainly related to the compilation of the short-term incentive (STI) scorecard and development of long-term incentives (LTIs) to replace the share option scheme. These recommendations were considered by REMCO and incorporated commencing FY 2020 as detailed below in the implementation report.

REMUNERATION POLICY

The group adopts a total cost to company approach in remunerating all its employees. This ensures that employees are appropriately rewarded and are aware of the terms and conditions under which they are employed.

The remuneration framework ensures that the group companies:

- align remuneration practices with the business strategy, objectives, values and long-term interests of the company;
- appropriately compensate employees for services provided;
- ensure equitable and fair remuneration to facilitate the deployment of people throughout the business;
- ensure variable remuneration is aligned to company performance, at both a divisional and individual level;
- implement a flexible and competitive remuneration structure that:
  - is referenced to appropriate benchmarks;
  - reflects market and industry practices;
  - is tailored to the specific circumstances of the group; and
- comply with all relevant legal requirements.

Positioning of the total guaranteed package is based on an employee's level of demonstrated competency, qualifications, experience and performance. The total guaranteed package of employees new to the position are normally at the low end of the salary range. As the employee demonstrates increased experience, learning and performance, the package is adjusted based on the objective outcome of performance reviews. The following summarises the performance measurement criteria:

- **Entry point:** New to the job or building the skill.
- **Needs improvement:** The skill needs enhancing to improve performance.
- **Effective:** Meets expectations.
- **Excellent:** Exceeds expectations.
- **World-class:** Expert and fully competent.

The table below summarises the main components of the reward package for group employees. SepCem applies a different reward framework as a subsidiary of Dangote Cement PLC.

	Objective	Practice
Guaranteed pay	• Remunerate above the market and industry average for key positions. • Remunerate market-related salaries for all other positions. • Review total guaranteed pay annually on 1 March.	• The level of skill and experience, scope of responsibility and the total remuneration package are taken into account when rewarding employees. • Appropriate market percentiles based on skills, experience and competitiveness.
Short-term incentive (STI)	• To motivate employees and incentivise delivery of performance over the financial year. • The appropriateness of measures and weightings are reviewed annually to ensure ongoing support of the strategy.	• Performance over the financial year is measured against targets set in the balanced scorecards. • Target bonus (30%, 50% and 70%) of the total guaranteed pay aligned with the level achieved as defined in the performance management policy. • The executive committee annual bonus is paid in cash in July each year for performance over the previous financial year.
Long-term incentive (LTI)	• To motivate and incentivise delivery over the long term. • Awards relating to total shareholder return and against a framework for determining vesting to ensure continued support of the company strategy.	• Performance over three financial years is measured against targets for the performance period with vesting ranging between 0%, 50%, 100% and 200% of the total guaranteed pay. The award will consist of a share award bought in the open market.
Termination benefits	• To retain executive management	• The CEO is on a permanent contract and there will be no unusual obligation for the group at retirement which is set at 65 years. • The CEO and FD's employment contracts have a provision for a minimum payment equivalent to annual remuneration on termination of employment due to change of control. The share incentive scheme also provides for an early vesting of options in case of change of control.

SepHold executive management performance criteria

The board-approved performance indicators to measure executive management's performance are reviewed annually. The indicators are broadly categorised into financial (75%) and non-financial measures (25%). Contrary to the remuneration policy which states that key employees should be remunerated at the upper percentile rate, executive management has deemed it prudent to receive guaranteed annual packages aligned to the JSE median for directors of listed companies one year in arrears since FY 2014 because of the construction industry downturn. Following the prolonged downturn in the construction sector, the executive directors' basic remuneration has not been adjusted upwards for the past three years to date.

REMUNERATION REPORT (continued)

Following consultations with the shareholders owning approximately 40% of the shares in issue, the STI and LTI score cards were revised as indicated in the tables below. The engagement was a combination of one-on-one meetings and group conference calls. The short term assessment criteria will be applied to the FY 2020 performance bonus to be paid in FY 2021 and the long-term criteria will be applicable from FY 2022.

Short-term incentives scorecard

Financial measures (75%)					
Performance indicator	**Weighting (%)**	**Performance condition detail**	**Minimum (30%)**	**Target (50%)**	**Stretch (70%)**
Real[1] growth in headline earnings per share (HEPS)	37.5	HEPS growth over the previous year in excess of inflation	Real HEPS growth of more than 0%	Real HEPS growth of 4% per annum	Real HEPS growth of 8% per annum or more
Gearing, debt covenants and free cash flow	37.5	Measuring: 1. Total debt to equity 2. Debt service coverage ratio 3. Free cash flow	Company specific	Company specific	Company specific

Non-financial measures (25%)			
Performance indicator	**Weighting (%)**	**Performance criteria**	**Executive(s) responsible**
Group implementation of corporate governance best practices.	15	Level of group compliance and standards achieved • JSE compliance • Application of King IV principles • Attainment of BEE rating • Achievement of safety and environment targets as determined by the company, will be measured against a portfolio of evidence	CEO, FD and MD
Achievement of job specific personal goals. The achievement of job specific personal goals as determined by the company will be measured against a portfolio of evidence.	10	Stakeholder engagement and relationship management. • Satisfactory resolution of main stakeholder issues	CEO
		Optimise funding structures to enable sustainability in down cycle and value accretive expansion in positive cycle Investigate alternative sources of financing deals and mitigating risk of funding being withdrawn • Achieve targeted debt/equity ratio • Compliance with all debt terms • Increase free cash flow	FD
		Operational executives to demonstrate ability to: • Utilise and maintain core competencies • Develop human capital and sustain an effective high-performance organisational culture • Promote ethical practices • Establish robust organisational controls	Métier MD

[1] *As measured against CPI.*

Long-term incentives scorecard

Performance indicator	Weighting (%)	Performance condition detail	Minimum (50%)	Target (100%)	Stretch (200%)
Total shareholder return (TSR)	100	TSR is measured against the median of 6 comparable companies.	Median	Median +15%	Median +40%

The revised LTI scheme replaces the option scheme that ended in FY 2018 and will only be applicable from FY 2021. The option scheme will continue to vest until July 2022. To limit dilution of shareholders' interests through the option scheme, the new LTIs are awarded in cash after a three-year vesting period during which the executive's performance is assessed against the key performance indicators. The cash awarded is used to purchase shares in the market to align the executives to shareholder interest. The executives are required to hold the shares for a period of two years during which they may benefit from capital appreciation and any dividends paid.

Summary of single total remuneration figure for minimum, target and stretch performance

The table below summarises the assumption of the delivery of the minimum, target and stretch performance achievement on total remuneration of the CEO and FD in a single total figure based on the revised remuneration policy.

	Chief executive officer			
2020	**Base R**	**STI R**	**LTI R**	**Total R**
Base[2]	2 600 000		The long-term incentives will only be measurable from FY 2021	2 600 000
Min (30%)	2 600 000	780 000		3 380 000
Target (50%)	2 600 000	1 300 000		3 900 000
Stretch (70%)	2 600 000	1 820 000		4 420 000

	Financial Director			
2020	**Base R**	**STI R**	**LTI R**	**Total R**
Base[2]	3 500 000		The long-term incentives will only be measurable from FY 2021	3 500 000
Min (30%)	3 500 000	1 050 000		4 550 000
Target (50%)	3 500 000	1 750 000		5 250 000
Stretch (70%)	3 500 000	2 450 000		5 950 000

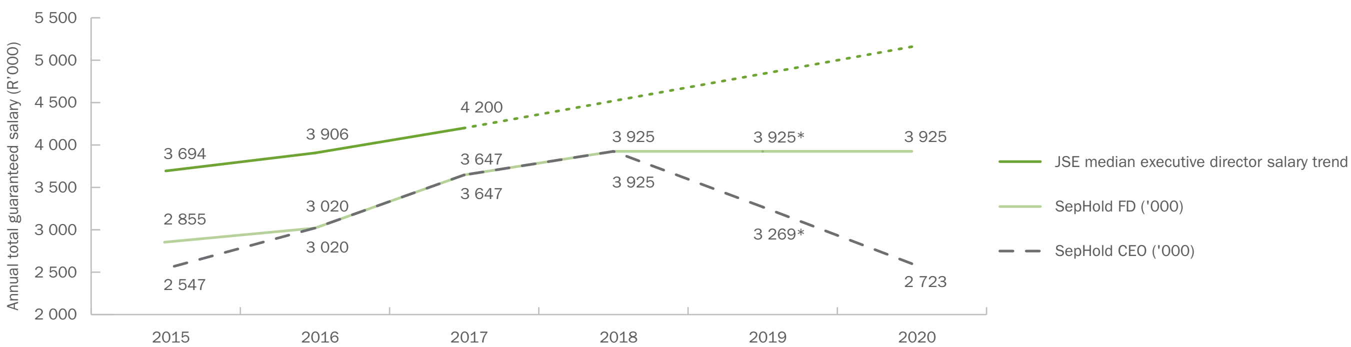
[2] *Base includes travel allowance where applicable.*

The STI's have been below the minimum achievable target due to the prevailing challenging trading conditions.

Guaranteed executive base salary analysis

The guaranteed base salary benchmark for the executives is the practices and remuneration trends report compiled by PWC. The report is based on a survey of the executive directors' salaries of all JSE-listed companies. The 2018 report released in July 2018 on the 2017 salaries reveals that the REMCO and management have demonstrated prudence by not increasing the base salaries of the CEO and FD since FY 2017 in line with the challenging building materials operating context. The data utilised in the graph below was extracted from the report to demonstrate the alignment of the FD and CEO's total guaranteed salary to the challenging building materials operating context.

Comparison of listed JSE company directors' median total guaranteed salary to SepHold executives' remuneration



** The actual payment was R3 624 000 for the FD and R3 019 000 for the CEO due to suspension of the 13th cheque.*

Source: JSE directors' TGP data extracted from the PwC 2018 Executive Directors' Practices and Remuneration trends report, tenth edition released July 2018.

REMUNERATION REPORT (continued)

IMPLEMENTATION REPORT

At the AGM in September 2018, the executive directors announced a cost reduction plan for head office expenditure focusing on remuneration, which constitutes a high percentage of total head office cost. The first step was to not replace a board director not available for re-election and two other directors who resigned thereby reducing the members of the board from 10 to 7. The annualised saving in the reduction of the salary bill was R2,28 million and the largest portion was R1,2 million in basic salary of the CEO.

Furthermore, over the last two years, the executive directors' annual bonuses have decreased by R1,5 million combined and for the second consecutive year, no increase in basic salaries was proposed by management.

The executive directors decided to suspend the annual 13th cheque in FY 2019 and the STI bonuses were reduced to R760 000 in line with the FY 2018 performance against target measures. The table below shows the remuneration for FY 2018 and FY 2019. The FY 2019 numbers contain the saving in the CEO base salary for the six months since implementation of austerity measures commenced in October 2018 and is expected to double in the current financial year (FY 2020).

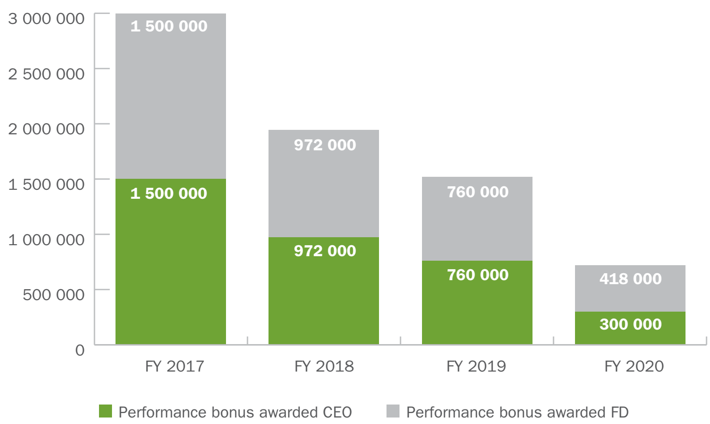
	Remuneration R	Prior year performance bonuses R	Travel allowances R	Pension fund R	IFRS 2 staff cost relating to share-based payments vesting expense (non-cash) R	Total R
EXECUTIVE						
2019						
Dr L Mohuba	2 895 366	760 000	–	123 802	593 140	4 372 308
NR Crafford-Lazarus	3 349 200	760 000	150 000	123 802	581 136	4 964 138
KJ Capes	720 000	–	–	–	–	720 000
	6 964 566	1 520 000	150 000	247 604	1 174 276	10 056 446

	Remuneration R	Prior year performance bonuses R	Travel allowances R	Pension fund R	IFRS 2 staff cost relating to share-based payments vesting expense (non-cash) R	Total R
EXECUTIVE						
2018						
Dr L Mohuba	3 801 117	972 000	–	123 802	568 555	5 465 474
NR Crafford-Lazarus	3 649 620	972 000	151 497	123 802	870 533	5 767 452
KJ Capes	1 080 000	–	–	–	–	1 080 000
	8 530 737	1 944 000	151 497	247 604	1 439 088	12 312 926

Reconciliation of the CEO and FD FY 2019 bonus to FY 2018 performance

Measure of performance	Weight %	Actual performance	Metric achieved %	Bonus awarded %
Financial measures				
Real growth in HEPS	30	Flat	0	0
EBITDA	25	64% of budget	0	0
Gearing/covenants	20	Not achieved	0	0
Non-financial measures				
Safety, environment and transformation	15	Achieved 80% of target	12	6
Personal goals				
– CEO	10	Achieved 70% of target	7	3.5
– FD	10	Achieved target	10	5
Total awarded %				
– CEO				9.5
– FD				11

Awarded performance bonus trend



The CEO and FD STI's awarded for the FY 2019 performance to be paid in FY 2020 were based on the measures in the table above. The bonus to be paid will be R418 000 for the FD and R300 000 for the CEO representing the 11% and 9.5% weighted scores respectively. The bonuses have decreased by 72% for the FD and 80% for the CEO since the R1,5 million paid out for each executive in FY 2017.

	Remuneration R	Prior year performance bonuses R	Travel allowances R	Pension fund R	IFRS 2 staff cost relating to share-based payments vesting expense (non-cash) R	Total R
PRESCRIBED OFFICER						
2019						
WJ du Toit	**1 761 567**	**242 769**	**25 200**	**166 692**	**146 383**	**2 342 611**
2018						
WJ du Toit	1 648 350	385 492	25 200	156 081	125 970	2 341 093

Further details on the directors' interests in share options, refer to pages 12 and 13 of the annual financial statements on the Company website at www.sephakuholdings.com/investor-centre/financial-reports/

REMUNERATION REPORT (continued)

Non-executive directors' fees

	Fees for services as director R	Remuneration R	Performance bonus R	IFRS 2 staff cost relating to share-based payments vesting expense (non-cash) R	Total R
NON-EXECUTIVE					
2019					
B Williams	**440 000**	**–**	**–**	**–**	**440 000**
PM Makwana*	**167 500**	**–**	**–**	**–**	**167 500**
MM Ngoasheng	**335 000**	**–**	**–**	**–**	**335 000**
MJ Janse van Rensburg	**335 000**	**–**	**–**	**–**	**335 000**
B Bulo	**335 000**	**–**	**–**	**–**	**335 000**
RR Matjiu**	**–**	**–**	**–**	**111 910**	**111 910**
PF Fourie	**–**	**4 415 351**	**1 758 559**	**–**	**6 173 910**
	1 612 500	**4 415 351**	**1 758 559**	**111 910**	**7 898 320**
2018					
B Williams	410 000	–	–	–	410 000
PM Makwana	310 000	–	–	–	310 000
MM Ngoasheng	310 000	–	–	–	310 000
MJ Janse van Rensburg	310 000	–	–	–	310 000
B Maluleke	155 000	–	–	–	155 000
RR Matjiu	–	–	–	165 028	165 028
PF Fourie	–	3 914 256	805 837	–	4 720 093
	1 495 000	3 914 256	805 837	165 028	6 380 121

* *Resigned 1 October 2018. His director fees for services were paid pro rata for 6 months.* ** *Resigned 12 November 2018.*

PF Fourie is a non-executive director of both SepHold and an executive director of SepCem. All remuneration paid to him by the associate company, SepCem, has been disclosed above.

Elements and purpose

The company aims to attract and retain suitably skilled and experienced non-executive directors. An appropriate level of competitive remuneration is necessary to reward them for their time and its committees. The non-executive directors are remunerated by way of an annual fee paid in recognition of membership of the board and its committees. The non-executive directors, including the company's chairman, do not receive any other employment benefits, performance-related remuneration, or any form of compensation for loss of office. The fee structure is reviewed and benchmarked annually to ensure that the proposed fees are aligned to market levels and support the attraction and retention of high-quality individuals.

Service contracts

None of the directors have written service contracts with the company and rotate in terms of the MOI.

Non-binding shareholder advisory vote

In terms of JSE LR 3.84(k), the remuneration policy must record the measures that the board of directors commits to take in the event these non binding resolutions are voted against by 25% or more of the voting rights exercised, the Company will, as recommended by King IV and required by the JSE, implement certain measures, including:

- an invitation to dissenting shareholders (those who voted against the policy and/or implementation report) to engage with the Company; and
- the manner and timing of such engagement.

Thereafter, the Company will engage with the shareholders to address the matters of concern.