2019

BUILDING BLOCKS FOR GROWTH

INTEGRATED ANNUAL REVIEW

SEPHAKU
HOLDINGS LTD

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view this review online: www.sephakuholdings.com

OUR INVESTMENT PROPOSITION
SEPHAKU HOLDINGS IS A BUILDING AND CONSTRUCTION MATERIALS COMPANY

Sephaku Holdings Limited (SepHold or the company) is a JSE-listed company that offers investors a portfolio of assets focused on the building and construction materials industry. SepHold's investment portfolio comprises a subsidiary, Métier Mixed Concrete Proprietary Limited (Métier or the subsidiary), and an associate, Dangote Cement South Africa Proprietary Limited (Sephaku Cement or SepCem or the associate), which are collectively referred to as the group.

The South African cement and mixed concrete manufacturing sector presents promising growth opportunities as it is vital to infrastructure development. The group invests in modern, efficient capacity for this sector and is well positioned to capitalise on its opportunities, generate growth and create value for shareholders over the long term. The group strives for sustainable returns through:

Strategically focusing on the building and construction materials sector and its potential earnings and growth opportunities.

State-of-the-art production plants with cost efficiencies that enhance competitiveness.

Profitable concrete operations with a renowned concentration of technical skills that provide solid earnings and positive net operating cash flows.

Operational management with deep industry skills and experience, and the ability to successfully execute the strategic objectives.

FINANCIAL AND SAFETY PERFORMANCE

Salient points

Group for the financial year ended 31 March 2019

EBITDA
R76,6 million
(2018: R89,1 million)

Operating profit
R14,7 million
(2018: R54,3 million)

Sephaku Cement equity-accounted earnings
R46,3 million
(2018: R20,8 million)

NPAT
R44,0 million
(2018: R44,2 million)

Basic earnings per share
21.21 cents
(2018: 21.60 cents)

HEPS
21.08 cents
(2018: 20.92 cents)

Cash generated from operations
R66,6 million
(2018: R47,5 million)

Net cash from operations
R49,1 million
(2018: R18,4 million)

NAV per share
521.25 cents
(2018: 501.79 cents)

Métier for the financial year ended 31 March 2019

Sales revenue
R835,8 million
(2018: R830,7 million)

EBITDA margin
6.2%
(2018: 10.9%)

EBIT margin
4.7%
(2018: 9.6%)

ZERO fatalities
at all 13 plants
(2018: Zero fatalities)

Lost-time injury frequency rate
3.11
(2018: 3.96)

Debt principal
reduced by **49%** to
R41 million

Sephaku Cement* for the financial year ended 31 December 2018

Sales revenue
R2,3 billion
(2017: R2,4 billion)

EBITDA margin
20.2%
(2017: 21.3%)

EBIT margin
12.2%
(2017: 14.1%)

ZERO fatalities
at all 3 plants
(2017: Zero fatalities)

Lost-time injury frequency rates

Aganang	Delmas
0.37	**1.36**
(2017: 0)	(2017: 0.65)

Project debt
reduced by **10%** to
R1,65 billion

* *The 2017 figures are for the year ended 31 December 2017.*

ABOUT THIS ANNUAL REVIEW

SCOPE AND BOUNDARY

SepHold hereby presents its integrated annual review (review)[1] to its stakeholders for the period 1 April 2018 to 31 March 2019 (the year). As a subsidiary of Dangote Cement Plc (DCP), Sephaku Cement has a 31 December year-end. The equity-accounted profit included in this review relates to Sephaku Cement's results in the period 1 January 2018 to 31 December 2018. There has been no significant change to the group's size and structure since the 2018 review.

REPORTING BOUNDARY

Métier Mixed Concrete – **100%** owned

Sephaku Holdings Ltd

Sephaku Cement – **36%** owned

HOW WE CREATE VALUE
(Page 11)

Strategy
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Operating context
(Page 34 and 44)

Risk management
(Page 17)

Stakeholder overview
(Page 15)

OUR MATERIAL MATTERS
(Page 20)

Performance
(Pages 3 and 28)

- Service excellence
- Technical skills and industry experience
- Leading technologies
- Strategic relationships and deal-making abilities
- Sustainability
- Corporate governance

[1] *This 2019 review reports on SepHold, Métier and Sephaku Cement, which are collectively referred to as the group.*

HOW WE REPORT

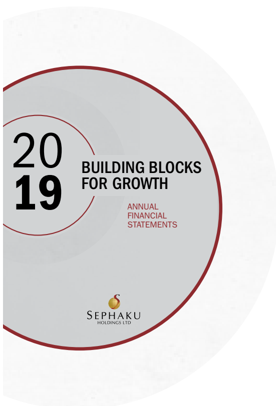
We use the International Integrated Reporting Council's (IIRC) Integrated Reporting <IR> Framework to guide us in structuring our review. All significant information is reported on a like-for-like basis to the previous review, and there are no major restatements.

2019 annual reporting suite

Our reporting suite is available at www.sephakuholdings.com/investor-centre/results-and-reports

Integrated annual review

The review provides an overview of the group and its governance practices, strategic matters and performance reviews. It complies with the South African Companies Act, 71 of 2008, as amended (Companies Act) and the JSE Limited's (JSE) Listings Requirements. The group applied the King IV Report on Corporate Governance of South Africa, 2016 (King IV) to the extent possible (refer pages 59 and 64 for more detail).



Annual financial statements

The annual financial statements contain the statutory financial results. They comply with International Financial Reporting Standards (IFRS) and the Companies Act.

The following supplementary information is available on the website: www.sephakuholdings.com

- Notice of annual general meeting and proxy form
- King IV application register

ASSURANCE

The group executive committee determines what information is material to disclose. Assurance is through internal controls, management attestation, independent BBBEE verification and internal audits.

SepHold's financial statements were independently assured by our external auditors, BDO South Africa Inc.

South African National Accreditation System accredited verification agencies, 5 Star Compliance Solutions and Empowerdex, verified the Broad-Based Black Economic Empowerment (BBBEE) performance for Métier, SepHold and Sephaku Cement respectively.

APPROVAL OF THE INTEGRATED ANNUAL REVIEW

The board applied its collective mind to the preparation and presentation of this integrated annual review to ensure its integrity and completeness.

The board approved the 2019 integrated annual review on 24 July 2019, taking into consideration the completeness of its material matters and the reliability of its data and information.

On behalf of the board:

Brent Williams Chairman	**Dr Lelau Mohuba** Chief executive officer

FORWARD-LOOKING STATEMENTS

Opinions in this review are, by nature, subject to known and unknown risks and uncertainties. Changing information or circumstances may cause the actual results, plans and objectives of the group to differ materially from those expressed or implied in any forward-looking statements. Undue reliance should not be placed on such opinions, forecasts or data. No representation is made on the completeness or correctness of opinions, forecasts or data in this review. Neither the group nor any affiliates, advisors or representatives accept any responsibility for any loss arising from the use of any opinion, forecast or data in this review.

Forward-looking statements apply only at the date on which they are made and the group does not undertake any obligation to publicly update or revise any opinions or forward-looking statements, whether to reflect new data or future events or circumstances. The financial information on which the forward-looking statements are based has not been audited or reported on by SepHold's independent external auditors.

Feedback

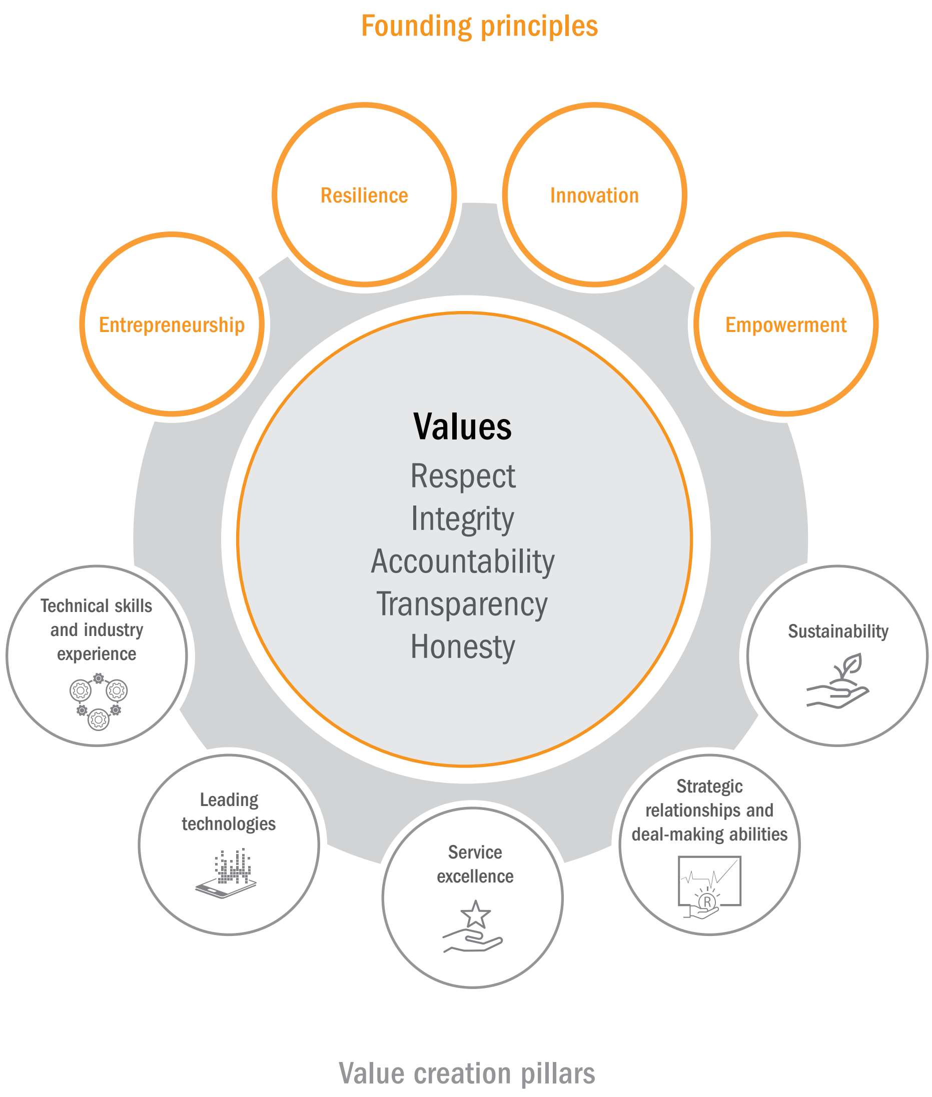
We welcome your feedback and comments. Please direct any queries or suggestions on the content and form of this review to info@sepman.co.za.

2 AN OVERVIEW OF THE GROUP

AN OVERVIEW OF THE GROUP

WHO WE ARE

SepHold strives to be a leading building and construction materials investment company in South Africa.



The group's five value creation pillars are based on its founding principles and core values. The values are reflected in the codes of ethics and conduct to obligate the board, executive management and employees to act ethically. The directors and employees are required to conduct business with stakeholders in line with these codes. The board reviews the codes of ethics biannually to ensure it sufficiently inculcates a group-wide ethical culture. The board has mandated the group entities to consolidate the various codes of ethics and conduct into a single comprehensive policy for adoption by the end of FY 2020.

The SepHold code of ethics is available at www.sephakuholdings.com/corporate-governance/governance-documents/

OUR INVESTMENTS

SepHold is a JSE-listed investment holding company that focuses on businesses in the building and construction materials value chain. The company's core investments are a 36% stake in Dangote Cement South Africa Proprietary Limited and 100% in Métier Mixed Concrete Proprietary Limited.

MÉTIER MIXED CONCRETE PROPRIETARY LIMITED (MÉTIER OR THE SUBSIDIARY)

Métier manufactures ready-mix concrete products for South Africa's industrial, commercial and residential markets. The subsidiary aims to be a trusted building and construction materials brand and to build a lasting legacy as South Africa's leading mixed concrete manufacturer. Métier has 13 plants located in KwaZulu-Natal and Gauteng. This geographic spread marginally reduces market concentration risk.

Northern operations: Plants located in Gauteng. The regional administration office is in Midrand.

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

DANGOTE CEMENT SOUTH AFRICA PROPRIETARY LIMITED (SEPHAKU CEMENT OR SEPCEM OR ASSOCIATE)

Sephaku Cement manufactures and sells high-quality cement of various strengths to a broad range of users and SepCem products are well known. The bagged cement, which constitutes approximately 80% of the sales volumes, is distributed through all major hardware retailers and second-tier distributors. Sephaku Cement primarily supplies the Gauteng, Limpopo, Mpumalanga, North West and northern KwaZulu-Natal markets.

The associate's plants comprise Aganang integrated plant and Delmas milling plant. Aganang and Delmas have a combined cement production capacity of 2,8 million tonnes per annum (mtpa). The Aganang operation is constituted of a limestone opencast quarry with a proven life of over 30 years, as well as a clinker and cement manufacturing plant.

SepCem extracts limestone from the mine that is in close proximity (1 km) to the plant and then processes it to clinker. The clinker is ground and blended with other elements to produce bagged and bulk cement. The associate has limestone exploration projects at various stages of development, such as Groblersdal and Dwaalboom, which provide a pipeline for growth.

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

Sephaku Cement categorises operations into cement manufacturing and exploration projects. The cement manufacturing category comprises Aganang, Delmas and Sephaku Ash. Sephaku Ash primarily supplies fly ash as an extender for bagged cement.

Exploration projects consist of limestone assets at various stages of development, such as the Dwaalboom and Groblersdal projects. This provides a pipeline for growth.

WHERE WE OPERATE

We have manufacturing operations in four provinces: Gauteng, KwaZulu-Natal, North West and Mpumalanga.

MÉTIER OPERATIONS

GAUTENG

Northern operations

Six plants located in Gauteng with the regional administration office in Midrand.

- OR Tambo plant
- Sandton plant
- Midrand and Chloorkop (double) plant
- Denver plant
- Centurion plant

KWAZULU-NATAL

Eastern operations

Seven plants in the greater Durban and Pietermaritzburg areas of KwaZulu-Natal.

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

SEPHAKU CEMENT OPERATIONS

NORTH WEST

Aganang integrated cement plant

The plant is approximately 25 km west of Lichtenburg, North West.

MPUMALANGA

Delmas grinding plant

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

SEPHAKU CEMENT PROJECTS

The **Groblersdal deposit**, composed of limestone and calcrete, is approximately 18 km south of Groblersdal in Limpopo. There are four prospecting rights for the resource. In 2018 prospecting work, including trenching and diamond drilling, was performed on the prospecting right areas. A mining right application was submitted in December 2018 for the prospecting areas.

The **Dwaalboom resource** is a calcrete deposit, that is 8 km south-west of Dwaalboom and approximately 80 km west-south-west of Thabazimbi in Limpopo. The prospecting rights were granted and the environmental performance assessment report was submitted to the Department of Mineral Resources (DMR) in November 2018 in preparation for mining licence application.

HOW WE CREATE VALUE

Métier and Sephaku Cement create value for the group's stakeholders through the production of concrete and cement respectively. The operations utilise the cash they generate, equity from our shareholders and borrowings from lenders to source inputs and services to sustainably manufacture building materials. The group recognises that business sustainability entails environmental and social responsibility. To that effect, Métier and SepCem have ongoing and planned initiatives to mitigate their negative environmental impact and to uplift communities surrounding their operations.

Sephaku Cement

Sephaku Cement's value creation begins with identifying and mining limestone, which is the principal raw material for cement manufacture. Limestone is used to manufacture clinker at our technologically advanced plants, which is further processed into different strengths of bagged and bulk cement. The cement is then distributed through retail channels to bagged cement users. Bulk users such as mixed concrete manufacturers purchase the cement directly from SepCem for various construction activities.

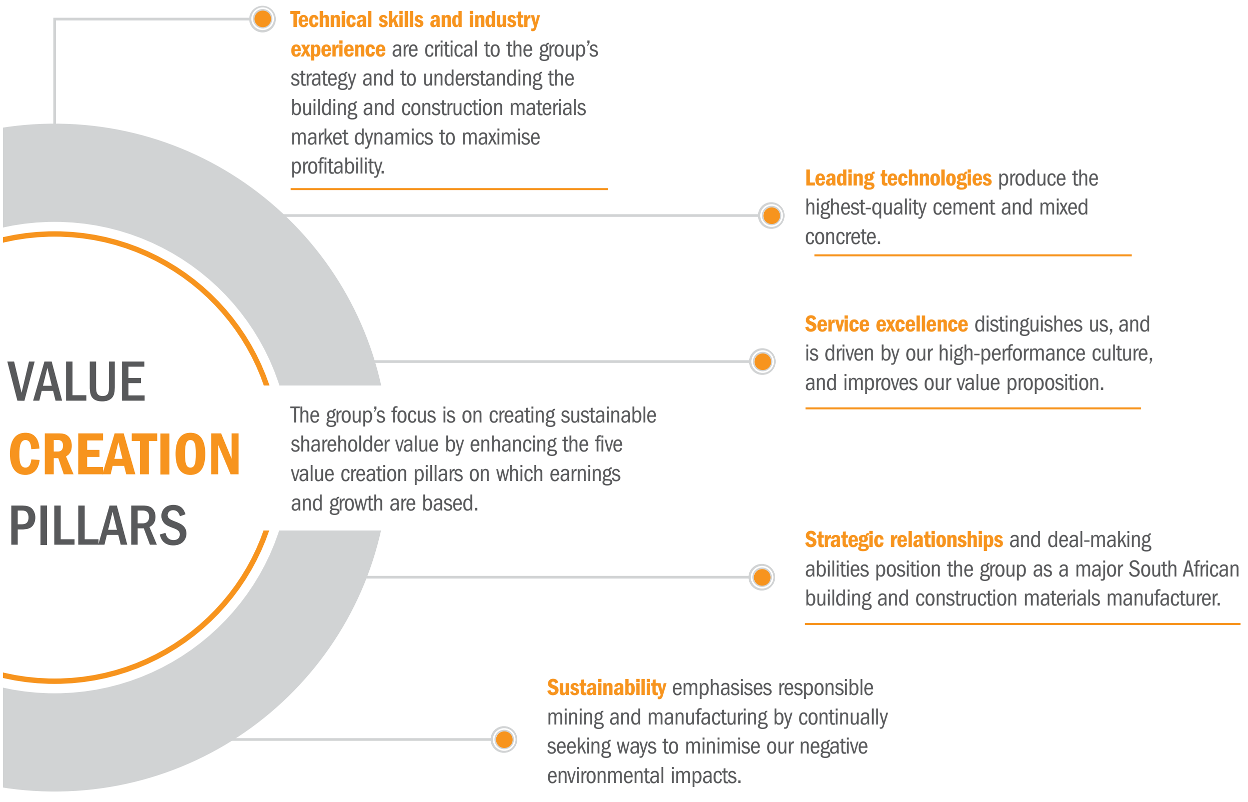
The associate's responsible approach to mining and manufacturing minimises environmental impacts. To better steward limited water resources, the associate manages and monitors several parameters including water balance. This, together with the closed-circuit water systems at the plants, minimise discharge into the environment. Sephaku Cement regularly engages with different government authorities and independent experts to ensure compliance with licence conditions.

SepCem employs people from adjacent communities at the Aganang and Delmas plants. Furthermore, the enterprise and supplier development programme (EDP) has improved the local economies of the North West and Mpumalanga provinces, as it mentors entrepreneurs to build sustainable businesses.

Métier

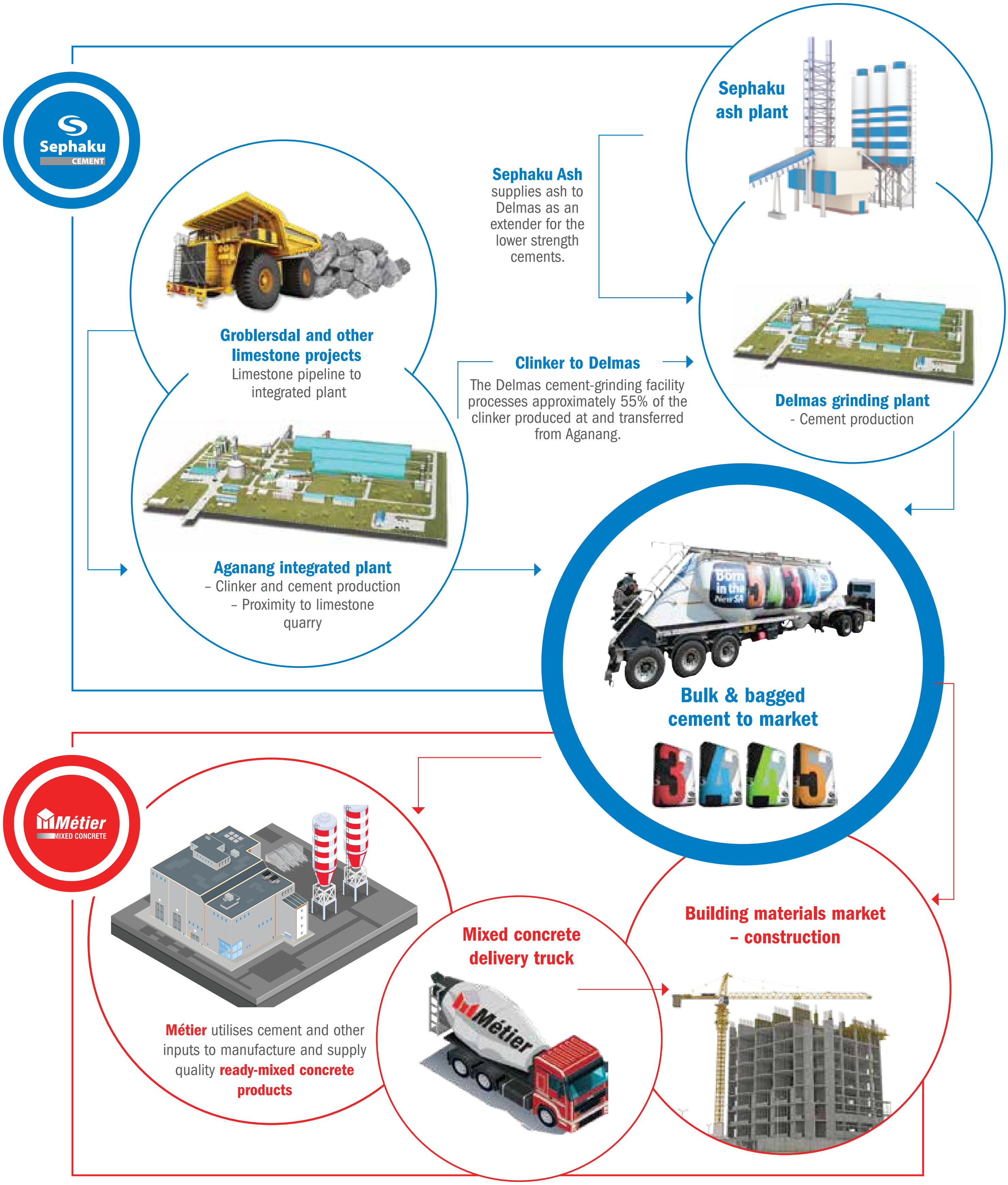
Métier utilises the cement manufactured by, among others, SepCem to manufacture mixed concrete, to harness upstream value for the group. Métier upholds high-quality standards for its concretes and maintains high customer service levels. The subsidiary sources its raw materials from different suppliers and secures strategic inputs from sustainable producers. It has a large complement of technical personnel in concrete technology who contribute to producing a good quality product. Métier sells its ready-mix concrete, through its sales representatives and general managers, to various customers including building contractors, civil contractors, residential developers, government organisations and various smaller segments within the building industry.

Métier regularly engages independent experts on how to develop effective environmental programmes that mitigate any negative impact and comply with the regulatory framework.



HOW WE CREATE VALUE (continued)

The group's manufacturing and exploration projects aim to create sustainable shareholder value by enhancing the five value creation pillars on which earnings and growth are based.



Material matters page 20

The group's competitive advantages are derived from its value creation pillars on which earnings and growth are based.

Sephaku Cement	Value creation pillars	Métier Mixed Concrete
Inputs: • High-performance culture *Impacts:* • R281 million in operating profit • R2,29 billion revenue	**Service excellence** driven by our high-performance culture distinguishes us from our competitors and improves our value proposition.	*Inputs:* • The Métier Way *Impacts:* • R39 million in operating profits • R836 million revenue
Inputs: • 452 direct employees including contractors • Over 250 years of combined management experience in cement manufacturing, project management, sales and distribution • R3,1 million spent on employee training and development, representing 2% of payroll *Impacts:* • Production of various cement strengths • Enhanced skills in local communities	**Technical skills and industry experience** are critical to the group's ability to achieve its strategic objectives and to understanding the building materials market dynamics to maximise profitability.	*Inputs:* • 273 total employees • Over 85 years of combined management experience in mixed concrete manufacturing, mining and technology • Approximately R1 million spent on employee training and development *Impacts:* • Value-added products for unique customer requirements • 177 certifications achieved • University internships
Inputs: • Integrated plant with vertical mills and a four-stage preheater • Automated manufacturing anchored on robust information management systems *Impacts:* • Enhanced energy efficiency	**Leading technologies** produce high-quality cement and mixed concrete.	*Inputs:* • Automated manufacturing anchored on modern information systems • Integrated digital platforms for concrete quality control *Impacts:* • Effective communication and efficient production of consistently high-quality products
Inputs: • Robust relations with the retail distribution channels through an attentive sales team *Impacts:* • Approximately 80% sales volumes sold in bags mainly to major building and construction materials retailers • Facilitates the implementation of the strategic market segmentation plan for optimal value	**Strategic relationships and deal-making abilities** position the group as a major South African building and construction materials manufacturer.	*Inputs:* • Consistent value proposition to customers • Mutually beneficial relations with mid-tier contractors *Impacts:* • Partnerships in significant and or long-term building projects
Inputs: • Valid environmental licences for utilisation of alternative fuels and management of emissions, water and waste *Impacts:* • Dust emissions: 5 mg/Nm^3 to 15 mg/Nm^3 against a standard of 30 mg/Nm^3	**Sustainability** emphasises responsible mining and manufacturing by continually seeking ways to minimise our negative environmental impacts.	*Inputs:* • Valid environmental licences in dust, water and waste management *Impacts:* • Emissions below the standard of 1 200 mg/m^2 per day

Governance page 58

HOW WE CREATE VALUE (continued)

STRATEGY OVERVIEW

The group's strategic objectives focus on financial sustainability, product quality and operational efficiency. The economic downturn has negatively impacted our ability to perform well on our objectives as follows:

Strategic objectives	Initiatives against objectives	Measures of success	Métier 2019	Métier 2018	SepCem* 2019	SepCem* 2018
Maintain sustainable sales volumes	Targeted sales at an appropriate balance of volumes and margins	Sales revenue	**R836 million**	R831 million	**R2,3 billion**	R2,4 billion
	Production of consistently high-quality products	Sales volume growth/(decrease)	**1%**	(3.2%)	**(6.4%)**	Flat
Maximise margins	Initiatives focused on: • Competitively priced inputs • Reduction of expenses • Distribution rationalisation	EBITDA margin	**6.2%**	10.9%	**20.1%**	21.3%
Strengthen balance sheets	Reduction of debt	Debt:equity ratio	**0.4 x**	0.5 x	**1.1 x**	1.3 x
Increase free cash flow	Focus on debtor management and cement pricing appreciation	Debtor days	**50**	64	**37**	35
		Average annual price increase per tonne or per m³	**Flat**	1.8%	**4.6%**	3.5%
		Cash generated from operations	**R73 million**	R55 million	**R483 million**	R516 million

* *Refers to SepCem figures for the period ended 31 December of the previous year.*

The performance of Métier and Sephaku Cement against the objectives is detailed in their respective business reviews from page 32.

HOW WE ENGAGE OUR STAKEHOLDERS

OUR ENGAGEMENT ETHOS

> *"Stakeholders' legitimate needs and expectations are appropriately addressed"*

We aim for effective stakeholder engagement to develop and maintain mutually beneficial relationships. The stakeholders' legitimate needs and expectations are appropriately addressed. The key stakeholder matters are effectively managed by experienced group management who regularly report on these matters to the executive committees and respective boards. The matters are considered in the group's determination and assessment of material matters and risks.

We engage with our stakeholders through, the integrated annual review, annual financial statements, written submissions, newsletters, roadshows, conferences, focus group discussions, meetings, workshops, forums, websites, presentations, working groups, community engagement and surveys.

Our stakeholder engagement aims to:

1. **Enhance investor confidence** in the group's strategy and our ability to deliver on it by providing complete, accurate and timely disclosure of material matters and performance information.
2. **Position the group as an employer of choice by:**
   - appropriately rewarding all employees;
   - treating employees fairly and with dignity;
   - providing a safe working environment that supports overall wellness; and
   - offering career advancement opportunities for employees who surpass expected performance.
3. **Partner with communities and authorities** to the furthest possible extent, to enhance our social licence to operate by:
   - providing skills development opportunities, mainly for historically disadvantaged individuals;
   - promoting enterprise and supplier development initiatives in communities located near our operations; and
   - complying with all licence conditions awarded by the various government departments.
4. **Establish robust and mutually beneficial relationships** with all our stakeholders by:
   - regularly and transparently engaging them to better understand their expectations;
   - supplying consistent, good quality building and construction materials; and
   - ensuring that suppliers and contractors align to the group's terms that promote responsible and ethical manufacturing practices.

KEY STAKEHOLDER ENGAGEMENT THEMES

	Related matters	Response
Increased competition due to low demand *Stakeholders impacted* • Investors • Lenders	**Mixed concrete market** • Industry trend of subsidiary concrete manufacturing entities used as distribution channels for their parent cement producers – Market share through sales volumes prioritised, leading to unsustainable concrete pricing for the industry • Low mobility costs, leading to intense competition in high-demand nodes **Cement market** • Increased blender activity in high-demand markets due to low-priced bulk cement • Increase in cement import volumes by over 80% in 2018 due to rand appreciation	**Métier** Métier is focused on defending sales volumes in its markets by enhancing its sales strategy. The subsidiary continues to explore new supply opportunities to restore or increase volumes. **SepCem** SepCem is focused on achieving targeted profitability at sustainable sales volumes. The sales drive is to achieve value by effectively serving the different customer segments.

HOW WE ENGAGE OUR STAKEHOLDERS (continued)

	Related matters	Response
Decreasing or low profitability margins due to price competition *Stakeholders impacted* • Investors • Lenders • Customers	• Industry price competition resulting from low demand continues to exert downward pressure on profit margins • Group's ability to meet its debt covenants is under pressure **Cement market** • Enforcement of the carbon tax legislation in a low-demand environment may significantly impact sales volumes **Mixed concrete market** • Supply to medium and small-scale contractors has increased the risk of payment default • Excess industry supply capacity has increased the customer's negotiation power, leading to the subsidiary's limited ability to achieve and/or maintain targeted profit margins	**SepHold** • SepHold is exploring diversification opportunities within the building and construction industry. **SepCem** • SepCem increased prices in most markets in February and August 2018. **Métier** • Métier focused on rationalising the distribution fleet • Continuous cost management initiatives at Métier focused on: – competitively priced inputs; and – reduction of expenses.
Community support within areas surrounding our operations *Stakeholders impacted* • Communities • Government	• Expectations for increased community support through SepCem's EDP initiatives • Expectations for SepCem to exclusively employ and train members of local communities	• Métier and SepCem preferentially employ people who live near their operations • The SepCem EDP empowers local businesses and indirectly provides employment opportunities • Métier supports non-profit organisations that focus on early childhood education
Employee relations and expectations *Stakeholders impacted* • Employees • Organised labour	• Performance-related incentives and rewards • Employment security • Career development and training • Safe and non-discriminatory working environment • Retention of critical skills	• Retention schemes at SepCem and Métier for high-performing employees, specifically those with critical skills • The group's engagement platforms enable employees to express their concerns to management • Training requirements are identified during performance reviews • Regular safety workshops and inspections are conducted at Métier and SepCem
Compliance with all legislative requirements *Stakeholders impacted* • Government • Investors • Customers	• Métier and SepCem's compliance to mining and/or environmental legislation and licensing conditions is pertinent • Broad-Based Black Economic Empowerment (BBBEE) accreditation and improvement of score are important for securing concrete supply contracts	• Proactive internal environmental audits of SepCem and Métier operations ensure full compliance to the requisite regulations • Métier and SepCem have qualified and experienced environmental managers, and specialised competencies are outsourced • Métier improved its BBBEE rating from level 6 to level 4

HOW WE MANAGE RISK

SepHold is fully or partially exposed to the risks of the operational companies. Therefore, the company actively monitors the risk management processes at Sephaku Cement and Métier.

OPERATIONS KEY RISKS

SepCem and Métier identify, measure, mitigate, monitor all material risks to which they are exposed and regularly report on them to the board audit and risk committee, who reviews the effectiveness of risk management and reports thereon to the board.

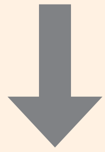
SepCem

Enterprise risk management is an integral part of operating SepCem's business. Proactive risk management is a critical element of the associate's robust corporate governance practices through minimising downside risk. SepCem has an adequately resourced enterprise risk division which serves as the second line of defence by ensuring that the board-approved risk framework is effectively implemented at all levels of the business. The enterprise risk management process provides structure for assessing, aggregating and reporting risk exposure. It provides management with line of sight to the associate's risk universe to ensure appropriate responses to exposure(s) nearing or in breach of the stipulated risk appetite level.

Below is a summary of the major risks for the period under review.

Context and rationale	Key mitigation	Movement
The risk of increased competition from cement imports and blenders resulting in market share loss		
The cement industry experienced increased competitive pressure from the burgeoning cheap imports, especially in the coastal markets. Cement blenders increased their production due to the low bulk cement prices. This intensified competition and increased downward pressure on inland market share.	• SepCem's operating model is geared to fiercely encounter competitor actions and to adapt • SepCem continually monitors imports for compliance with regulatory requirements in order to report any commercial breaches or unfair market practices to authorities • SepCem continues to offer exceptional customer service and good quality products	↑
The risk that macroeconomic factors negatively impact SepCem's ability to implement its strategic objectives		
The South African economy went into technical recession during the second quarter of 2018 due to the weak macroeconomic performance. The economic downturn resulted in negative growth in the construction sector and reduction in cement demand. The low demand was exacerbated by the increase in value added tax (VAT), enforced in Q2 2018, which lowered bagged cement consumers' purchasing power.	• The completion of the optimisation programme to reduce costs enabled SepCem to be resilient to the prevailing economic challenges • SepCem has formulated adaptive strategies should the situation worsen	↑
The risk that SepCem's ability to achieve strategic objectives, is adversely affected by the increase in coal and fuel prices		
Fuel prices have been increasing since 2017. In 2018, sharp price increases surpassed the record highs of 2014. Constrained availability of coal as a result of increased global demand resulted in significant increase in the coal prices.	To mitigate the risk of increases, SepCem is: • implementing logistics efficiency improvements; • investigating alternative fuel options for utilisation in plant processes; and • embarking on coal efficiency optimisation while investigating alternatives to coal.	↑

HOW WE MANAGE RISK (continued)

Context and rationale	Key mitigation	Movement
The risk of business interruption arising from community unrest and disturbances		
SepCem is committed to contributing towards improving the unemployment rate in South Africa. The high rate of unemployment, particularly in the communities around SepCem plants has created unsustainable expectations for companies operating in these areas to create employment opportunities. Members of the community who are unemployed continue to disrupt SepCem's operations through protests. The problem is exacerbated by the lack of recognised community leadership in the Lichtenburg area.	• To aid executive focus on this risk, the sustainability development department has been further resourced to adequately focus on community management • An independent company was appointed to manage the Torosesha empowerment structure elections of community board of directors, which resulted in the appointment of three main and three alternate directors from adjacent communities • SepCem worked with the DMR to intervene in community engagements	

The enterprise risk division focus areas in the following 12 to 24 months are:

Enhancing data security
Based on internal research, attempted and successful data security breaches in South Africa have increased in the past two years. In view of this trend, the enterprise division has been tasked to review SepCem's cyber security resilience. To date, SepCem has successfully managed cyber security as part of its information security programme which emphasises procedures and technologies to protect the company against cyber threats. The increased sophistication of cyber attacks, combined with SepCem's zero tolerance for breach of customer and supplier data, are the motivation for the proactive review of the existing systems.

The review will be on the:

- cyber security strategy;
- cyber risk programme; and
- cyber capability.

Enhancing disaster and continuity capabilities
Intermittent electricity supply from the national grid towards the end of 2018 triggered the review of SepCem's business continuity programme. The current programme includes risk management, emergency response and crisis communication. The programme is being further enhanced to ensure that it is sufficiently robust to appropriately respond to any potential challenges.

Risk culture improvement
The establishment of positive synergies between the first, second and third lines of defence has significantly improved SepCem's risk culture. It has resulted in improved quality of internal reporting on unethical behaviour, as well as increased participation of employees in the annual fraud and ethics training. The enterprise division will partner with management to identify and implement further initiatives to enhance the risk culture and behaviour at SepCem as mandated by the board.

Métier

Métier's exposure to market-related risks increased as a result of the continued downturn in the pro-cyclical construction sector.

Context and rationale	Key mitigation	Movement
Increased competition in a declining demand environment		
The low barriers to entry have resulted in new entrants targeting high-demand nodes. The new competitors are mainly building contractors and independent concrete manufacturers with the ability to supply small quantities. The latter compete on price with lower volumes because of their lower operational costs and expenses. Furthermore, incumbents migrate from low-demand areas to higher-demand nodes.	Métier improved the sales strategy and implementation to enhance repeat and new supply orders from current and new customers respectively.	↑
The continued risk of low demand adversely impacting profitability		
The weak macroeconomic performance has resulted in price competition due to low demand.	Management completed a fleet rationalisation programme and continued to optimise the raw material sourcing. Furthermore, Métier actively sought value-added product supply contracts that are not easily replicable by competition.	↑
Credit risk due to inability to comply with debt covenants: Total debt to EBITDA of 2.0 x and debt service cover ratio of 1.15 x		
The low pricing environment has resulted in low profitability and reduced Métier's ability to meet its debt obligation. The subsidiary's declining profitability has resulted in the breach of the related debt covenants.	• Ongoing discussions with the lender to restructure the debt covenants in line with economic downturn • Exploring alternative funding options as part of the process of deleveraging the subsidiary	↑
Customer default risk		
The low demand has resulted in the suspension and or early termination of construction projects resulting in customers defaulting on their payments to Métier. Lower cash flow due to increased debtor days and or incidents of bad debts.	• Review of credit limits for all customers and adhere to limits as per credit vetting institutions • Subsidiary to increase the proportion of cash sales to minimise the incidence of default	↑

OUR MATERIAL MATTERS

The group's material matters affect our value creation process and are assessed according to:

- the risks and opportunities they present;
- the degree to which they enhance or hinder the group's business model; and
- the likelihood of them becoming more significant.

The following section outlines the group's material matters, how they impacted performance and how they were addressed.

GROUP MATERIAL MATTERS

Low demand and pricing competition

Worsened for both Métier and SepCem

Context

Cement industry

The building and construction materials manufacturers continued to experience tough operating conditions. The estimated annual gross domestic product (GDP) growth was 0.8% for 2018. Macroeconomic expenditure on construction works, residential and non-residential sectors decreased, contributing to a 1.4% contraction in gross fixed capital formation.

The low cement demand heightened competition between the cement manufacturers, blenders and importers resulting in SepCem's sales volumes being 6.4% lower year-on-year. Although SepCem, like other cement manufacturers, increased pricing twice during the year, the effective annual price increase was lower than targeted because of increased competition from blenders and importers as well as a higher proportion of bulk sales volumes.

Mixed concrete industry

Métier experienced fierce competition that negatively impacted margins and sales volumes. The mixed concrete pricing competition continued to intensify mainly due to vertically integrated manufacturers offering extremely low prices as channels for the cement volumes.

The two plants added in Gauteng over the past 24 months have supported revenue through increased sales volumes. Métier's total sales volumes were up by 1% due to the additional plant in Centurion. The subsidiary's price per cubic metre (m^3) was essentially flat year-on-year against inflationary increases in input costs and expenses.

Our response

Métier

- Métier improved cost management through rationalisation of the delivery fleet
- Strategic sourcing of inputs
- Focused on achieving and defending sales volumes

Sephaku Cement

- SepCem continued applying the market segmentation approach enabling the flexibility to apply differentiated pricing to maximise margins. The sales drive was to achieve value by effectively serving the different customer segments.
- SepCem focused on achieving targeted profitability at sustainable sales volumes. To that effect, the associate strategically implemented price increases resulting in an effective average annual price increase of 3.5%.

Our focus for 2020

Métier

- Retention of existing customers to defend current geographical positioning, and identification of new customers across all market segments
- To continue minimising input costs to mitigate the impact of stagnant selling prices on margins
- Identify opportunities to supply value-added products into new and existing markets

Sephaku Cement

- Recover the volume lost due to competitor activity by strengthening existing customer relationships
- SepCem will continue implementing the pricing model based on market segmentation and product classification
- The associate will implement the defence strategy it has created for KwaZulu-Natal against imports

Affected strategic objectives

- Maintain sustainable sales volumes
- Maximise margins
- Increase free cash flow
- Strengthen balance sheets

Stakeholder concerned

- Investors
- Lenders
- Employees
- Organised labour
- Communities

Shortage of technical skills and industry knowledge

No change for SepCem and Métier

Context

The technical skills to operate the manufacturing plants, produce consistent quality and effectively manage sales are limited in both cement and mixed concrete. The cement industry is highly concentrated with six producers jostling for the best skills.

Our response

The group has identified competitive remuneration and comprehensive training as the two main solutions for retaining and expanding the internal complement of scarce skills.

Métier

- Métier implemented extensive in-house training and development for all technical skills with a focus on concrete technology.
- Have a targeted retention scheme to mitigate losing high-performance employees and those with key technical skills.

Sephaku Cement

- SepCem has a long-term retention scheme to attract and retain key employees. The scheme has retained 70% of the participating employees since inception.
- The associate also focused on competence training as a means of equipping supervisory employees to better perform in their current role. Specifically, SepCem implemented training programmes for key positions to transfer knowledge and establish protocols for technical and scientific methodologies. Developmental opportunities were identified and planned for CY 2019.

Our focus for 2020

Métier and Sephaku Cement

- Maintain the retention schemes

Sephaku Cement

- Complete the planned internal interventions on comprehensive and focused training for plant supervisor level employees

Affected strategic objectives

- Maintain sustainable sales volumes
- Improve cost efficiencies

Stakeholder concerned

- Investors
- Employees
- Organised labour
- Industry associates

Concentrated investment portfolio

No change

Context

The group's investments are concentrated in South Africa's building and construction materials industry through Métier and SepCem. This means that the group is exposed to both industry and single country risks such as cyclicality and economic downturn respectively.

Our response

- To diversify the portfolio and simultaneously improve access to raw materials for Métier, the group continued engagement with the Ethekwini municipality on the approval of the Cato Ridge Quarry, a greenfield aggregates business
- Alternative aggregates investment opportunities were explored

Our focus for 2020

- Investigate mergers and acquisitions of strategic investments in building materials that will appropriately diversify risk and enhance returns

Affected strategic objectives

- Maintain sustainable sales volumes
- Maximise margins

Stakeholder concerned

- Investors
- Employees
- Organised labour
- Industry associates

OUR MATERIAL MATTERS (continued)

SEPCEM SPECIFIC MATERIAL MATTERS

Managing local communities' expectations

Marginally improved

Context

North West province

Aganang mining and cement manufacturing operations are located within the Ditsobotla municipality in Lichtenburg, North West province. The communities located in the surrounding areas lack formalised leadership structures, which has severely limited engagement on matters including alternative long-term grazing land and the approval of a new social and labour plan since 2017.

The communities habitually demand employment and enterprise development opportunities by protesting or disrupting engagement processes. The situation is exacerbated by the fact that the municipality has been under administration and therefore unable to mediate. To date, SepCem has supported numerous small to medium-sized enterprises in the North West and Mpumalanga provinces through the EDP. Furthermore, approximately 60% of the employee complement at the plants are from the local community.

Mpumalanga province

Engagement with communities located around Delmas milling plant in Mpumalanga has been successful due to the oversight from the mayor and councilors in the Victor Khanye municipality. The municipality has developed broad engagement structures and platforms between the communities and businesses in the area. This has enabled a cordial relationship between SepCem and the communities.

Our response

- SepCem consulted with provincial and national legislative structures, including the Ditsobotla administrator and the DMR on how to successfully engage with the Lichtenburg communities.
- The DMR and the Department of Land Affairs have intermittently intervened during the past two years in an attempt to conclude the outstanding matters in the North West province.
- SepCem aims to establish trust with all stakeholders for enduring and mutually beneficial relationships.

Our focus for 2020

- To resolve the outstanding matters with top priority being attaining the approval of the social and labour plan.

Affected strategic objectives

- Improve cost efficiencies
- Maximise margins

Stakeholder concerned

- Communities
- Government
- Investors

Poor quality raw materials

Context

The shortage in global coal supply since Q2 of CY 2016 resulted in a significant increase in the pricing of the commodity in international markets. Local producers have been exporting most of their coal output. The local market has been supplied low-quality coal at high prices. The poor coal quality has caused enormous technical challenges on the plant and production process, resulting in high maintenance costs.

Related to this matter is the poor quality of ash which is a by-product from the combustion of coal. It is an extender for cement supplied by Eskom to SepCem. The quality has been inconsistent and poor, leading to less extension utilised in low-strength cement.

Our response

- Alternative sources of coal have been explored and the decreasing prices since June 2018 have been favourable in achieving a good deal.
- Management has been expediting the alternative fuels project to partially replace the required coal quantity.

Our focus for 2020

- To purchase an additional burner for the plant with capacity to heat poor quality coal. This will eliminate the negative impact of the poor coal quality on the plant and lower maintenance costs.
- To identify and secure viable alternative fuels.

Affected strategic objectives

- Maintain sales volumes
- Maximise margins
- Increase free cash flow

Stakeholder concerned

- Investors
- Customers

MÉTIER SPECIFIC MATERIAL MATTER

Customer credit default risk

No change

Context

Several construction projects were suspended as investor confidence waned and funding was suspended. The challenging operating environment continued to place pressure on Métier's customer base, resulting in a R8,95 million write-off in debtors.

Our response

- Métier continued to implement a rigorous debtors' management process and the executive management team closely monitored the risk.

Our focus for 2020

- The construction sector is expected to continue being fraught with customer liquidity challenges and bad debt. As such, debtor management will remain a focus area and, where required, insurance will be purchased.

Affected strategic objectives

- Strengthen balance sheets
- Increase free cash flow

Stakeholder concerned

- Lenders
- Investors
- Customers

LEADERSHIP REVIEWS

JOINT CHAIRMAN'S AND CEO'S REPORT

Brent Williams
Chairman

Dr Lelau Mohuba
Chief executive officer

Dear stakeholders,

The building and construction materials industry continued to experience tough operating conditions. As a result, Sephaku Cement and Métier's sales volumes decreased due to declining demand. As a group, we focused on sustainability by lowering debt, defending market share, improving cost efficiencies, enhancing the risk management processes and strengthening our stakeholder engagement efforts.

PURSUING THE LONG-TERM VISION

We recognise the pro-cyclicality of building materials demand and in the downturn, as we have been experiencing, it is imperative that the board and executive management strategically steer the business in the trajectory of our long-term vision. To that end, we continued to explore diversifying investment opportunities to enhance shareholder value. The group's strategic intent of being a renowned building materials investment company requires that we actively explore value-accretive complementary assets that enhance the current portfolio. Nonetheless, we are cognisant that the current low SepHold valuation as a result of the depressed and volatile earnings, has limited the ability to conclude lucrative deals. Therefore, the plan is to continue to evaluate opportunities in preparation for the period following the repayment of operational debt. The group has also been investigating how to restructure the business to further unlock value from the current entities.

REDUCING DEBT TO STRENGTHEN THE BALANCE SHEET

We know what needs to be done during a downcycle and lowering debt to strengthen the balance sheet is one such action. Since FY 2015 the group has repaid approximately R1 billion towards capital debt in spite of a highly constrained trading environment. The operations have consistently complied with their debt obligations in terms of repayment of capital and interest charges. The restructuring of the SepCem covenants to align with the prevailing trading environment relieved the associate from pressure during CY 2018.

MATERIAL MATTERS

We have detailed the material matters for the year on page 20; however, we want to discuss the three main issues that were particularly limiting in the achievement of our strategic goals.

Low demand and price competition

The declining demand and price competition have been characteristic of the cement and mixed concrete market for over four years and since we commenced production at the Delmas milling plant. Although numerous scenarios were considered for the business case, we believe it would not have been possible to anticipate the current economic and political landscape.

Nonetheless, we are confident that we have competent and highly experienced management, a robust strategy and modern plants to ensure that we maintain our market position, and are able to expand the operations when the business cycle turns.

Poor quality raw materials for SepCem

Profitability was negatively impacted by the poor quality of coal, through high maintenance costs. The initiatives being implemented at SepCem to mitigate this, will ensure that the associate achieves its long-term profitability target.

Minority ownership of SepCem

SepHold's 36% shareholding in SepCem is our most significant and valuable asset. This limits our ability to attract some targeted investors and to independently execute corporate action that is not considered as priority for DCP.

CORPORATE GOVERNANCE ENHANCEMENT

The group, with the guidance of the board, focused on strengthening the corporate governance processes and systems in line with the King IV Report on Corporate Governance™ for South Africa 2016 (King IV)[1], with emphasis on enhancing our stakeholder engagement efforts. This was particularly essential in our interactions with the communities surrounding the SepCem operations in the North West province.

The engagement processes have been laden by lack of recognised community leadership and unsustainable demands for employment and enterprise supply opportunities. Be that as it may, we made significant progress by successfully appointing six directors, including their alternates, from three neighbouring communities to the associate's empowerment structure, Torosesha.

We are pleased that the various provincial and national government departments have continued providing support to facilitate effective engagement for the mutual benefit of all our stakeholders. We also initiated the development of the group governance, information technology and risk management frameworks.

BOARD CHANGES

The board membership decreased by three directors during the year. Mr. PM ("Mpho") Makwana resigned from the board on 1 October 2018 from his position as independent non-executive director and member of the audit and risk committee. Mpho's resignation followed his appointment as a non-executive director and chairman of another board, which will require a significant proportion of his time. He was a member of the board for over five years, during which he brought wealth of experience to the benefit of the group. He contributed immensely to the implementation of governance best practices.

Ms. RR ("Shibe") Matjiu resigned on 12 November 2018. Shibe was one of the founding members of the SepHold board. She was instrumental in the group attaining the requisite legislative licences and permits to operate during the initial years. She continued to lead in establishing mutually beneficial relationships with the communities in the areas the operations are located. Shibe initially served as an executive director responsible for social development issues before becoming a non-executive director from FY 2017.

Mr. KJ ("Kenneth") Capes resigned on 30 November 2018. Kenneth joined the board as an executive director in 2013 as part of the founding owners of Métier. He was the subsidiary's managing director for eight years until March 2016 before being appointed the group business development executive director. Kenneth's prowess in building materials and his entrepreneurial flair enabled Métier to outperform its peers and be renowned for its superior profitability.

We extend gratitude on behalf of the board to Mpho, Shibe and Kenneth for their outstanding and stellar service during their tenure, and wish them well in their future endeavours.

Finally, I, Dr Lelau Mohuba, will be retiring as group CEO at the end of December 2019. As a founding member and group chairman from 2005 to 2012, I had a vision of making our mark and a difference to our country's economic landscape. That dream was realised. We took our place at the table.

I became the group CEO in 2012 when the group introduced an independent chairman in compliance with the King III code, our future looked very bright. Between 2010 and 2012, SepHold established the partnership relationship with DCP to become the first cement manufacturers in South Africa in over 80 years. We were "the new kids on the block" with a very potent machine and a powerful partner. There was no stopping us, but the economic climate dictated otherwise with the promising economic landscape greying up – and it continues to do so today.

[1] *Copyright and trademarks are owned by the Institute of Directors in Southern Africa NPC and all of its rights are reserved.*

JOINT CHAIRMAN'S AND CEO'S REPORT (continued)

The time has sadly come for me to hand over the baton due to my health challenges after 14 years of active involvement in building a dream in which I still strongly believe. I leave a strong group in a depressed economy, but with a hope of finding that pot of gold at the end of this rainbow. I am a great believer in the new dawn.

I will continue to be available to the group in any non-executive role deemed fit, and to support the enduring stakeholder relationships we have built over the many years. These are critical for our long-term sustainability.

I wish the whole team the best of luck going forward and may God bless all of us.

APPRECIATION

We would like to thank the employees who have remained diligent in executing their tasks in this volatile and challenging environment. Our customers and suppliers who have been essential in us achieving our strategic objectives. The communities in which we operate have been a key source of employees at various levels of the business. The provincial government officials, departments and municipality who have been extremely supportive in resolving challenging matters related to our community engagement efforts. To all of these stakeholders, we extend our gratitude in contributing to our value-creation activities.

Finally, to the providers of capital, our shareholders and bankers, we thank you for your continued support and faith in our efforts to achieve our strategic objectives in a highly constrained operating environment.

LOOKING FORWARD

Going forward, Métier and SepCem will focus on paying down debt; SepHold will diligently reduce head office expenses; and Métier will rationalise the 12th and 13th plants to improve its sales reach.

We see our future in three broad time horizons of short (1 – 2 years), medium (2 – 5 years) and long term (being over 5 years). Therefore short-term, we expect the building materials demand to remain constrained due to the immediate challenges in stimulating the economy against the backdrop of high sovereign debt and loss-making state-owned entities. The uncertainty in the political and policy direction has informed our cautious sentiment towards the business prospects.

We recognise that unless the newly elected government urgently provides the requisite economic stimulus through pro-infrastructure investment policies, the country will experience the pervasive anemic economic growth in the short to medium term.

At the time of writing this report, the elections had resulted in the predicted African National Congress (ANC) victory under the leadership of Cyril Ramaphosa, who is pro-business and is anticipated to implement policies that will stimulate the South African economy. We therefore remain cautiously optimistic about the medium-term group performance.

Nonetheless, long term, the board believes that the business model is still viable due to the significant upside potential in infrastructure demand nationally and Africa as a whole.

Brent Williams
Chairman

Dr Lelau Mohuba
Chief executive officer


Sephaku

FINANCIAL DIRECTOR'S REPORT

Neil Crafford-Lazarus
Financial director

INTRODUCTION

The low-demand market significantly impacted profitability as pricing remained flat year-on-year. While profit after tax was on par with the previous year, both operations saw a decline in EBITDA with the gap being filled by an energy-saving tax incentive received by SepCem that resulted in a R46 million equity-accounted contribution.

As a result of the reduced EBITDA numbers, the group's focus on prudent debt management intensified further during the year under review. The downward pressure on profitability margins resulted in bank debt covenants being constantly under pressure for SepCem and Métier. The operational finance teams closely monitored cash flows and forecasts throughout the period to ensure that they complied with the repayment obligations and developed the appropriate quarterly reports to facilitate accurate communication with the lenders. The decrease in profitability also required the group to test for the impairment of the investable assets, receivables and goodwill related to Métier.

Another area of focus was that of debtors' management at Métier, whose customers are mainly construction contractors. The lack of public and private investment in infrastructure, suspension and delay in construction project funding has led to some customers delaying or defaulting on their payments. The difficulties experienced by some of the large contractors has increased Métier's exposure to small-scale contractors with inconsistent cash flows. Métier had to write off approximately R9 million in bad debts during the financial year. At SepHold level, we started the initiatives to reduce expenses from October 2018, targeting a total reduction of 25% by end of the FY 2020 compared to FY 2018 expenses.

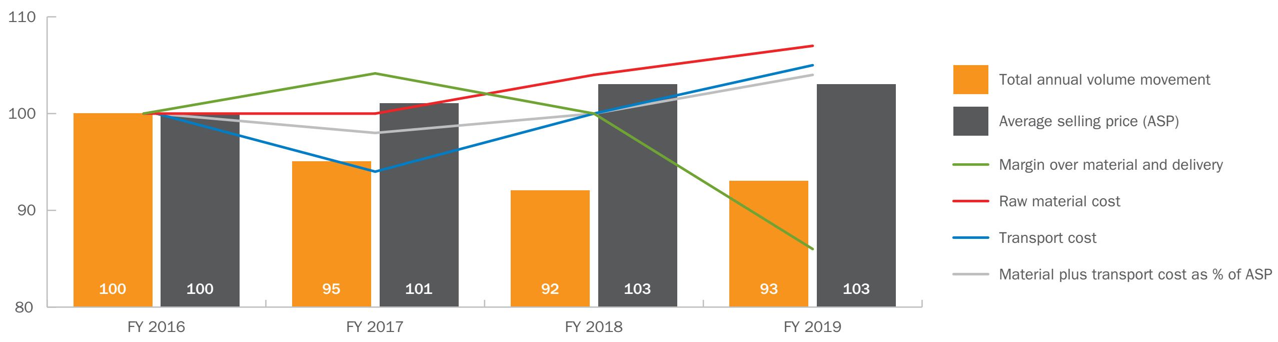
FINANCIAL PERFORMANCE

Métier

Sales revenue was R835,8 million (FY 2018: R830,7 million) and gross profit was R320,5 million, compared to R341,9 million in FY 2018, mainly due to 6.7% increase in the cost of sales as a result of the product mix against flat pricing. Profitability margins decreased mainly due to pricing competition, resulting in an EBITDA margin of 6.2% (FY 2018: 10.9%), operating margin of 4.7% (FY 2018: 9.6%) and net profit after tax of R21,5 million (FY 2018: R48,0 million). The subsidiary reduced the outsourced delivery fleet by 16% to support margins by maximising the utilisation of owned fleet.

Indexed average pricing and cost comparison

Inflationary input costs and flat pricing reduced profitability



Sephaku Cement[1]

SepCem's revenue decreased by 3.1% to R2,29 billion (2017: R2,37 billion) and the EBITDA margin was 20.1% (R461,5 million) compared to 21.3% (R504,2 million) for the prior period ended 31 December 2017. The profit margins were further impacted by above-inflation cost increases in inputs such as coal, electricity and fuel.

SepCem has started various initiatives to eliminate or mitigate these challenges. SepCem's net profit was R128,7 million mainly due to a R81,7 million tax credit that was granted in 2018 for the 2017 tax period. Excluding the tax credit, the net profit was R46,9 million compared to R57,8 million in 2017.

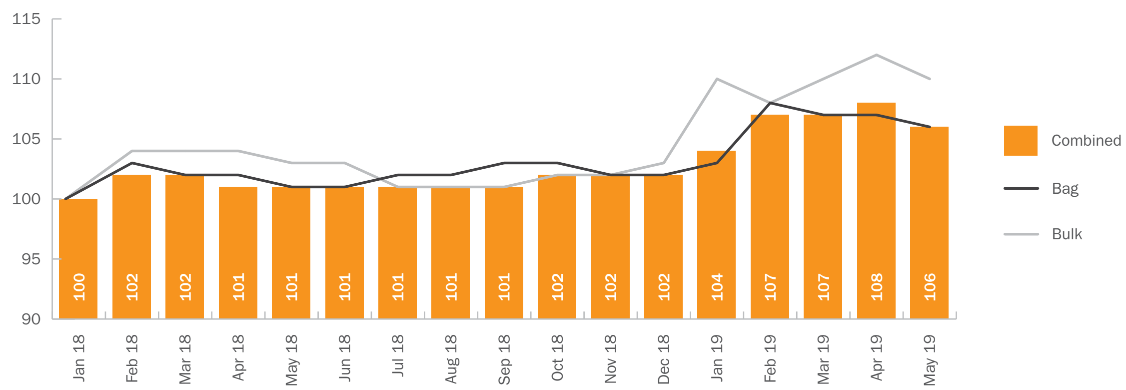
Post-period performance

SepCem's revenue, for the first quarter ended 31 March 2019, decreased to R487 million (Q1 2018: R566 million). The quarterly sales volumes to 31 March 2019 were 19% lower year-on-year, mainly owing to the anomalously high comparative volumes in the previous year. Furthermore, despite the increased imports in the coastal markets sold at low pricing, SepCem maintained its prices to achieve targeted margins, albeit at lower volumes. To that end, SepCem increased pricing by 8% to 10% per tonne on bagged and bulk cement in all its markets during Q1 2019. The effective increases were 5% to 7% per tonne due to pricing competition as demand remained low.

These quarterly results will be accounted for in the SepHold interim financial results for the six months ending 30 September 2019. A further price increase was implemented in July that incorporates the cost of carbon tax that was introduced on 1 June 2019. The impact of this tax on pricing is an increase between 1.5% and 2% depending on the strength of the cement produced.

Indexed average pricing per tonne of cement

Price increases expected to sustain



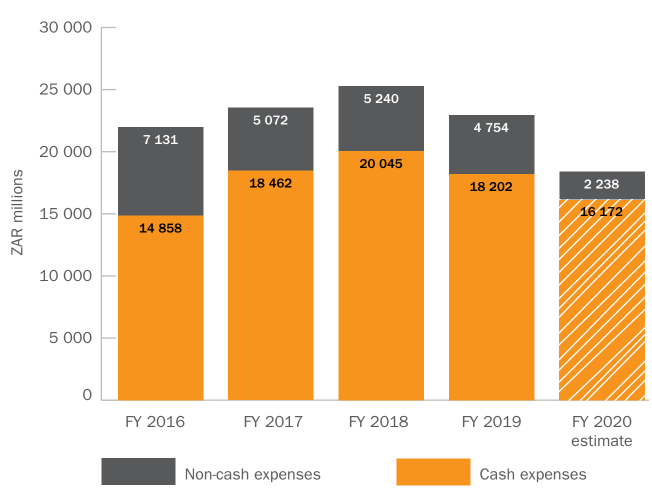
[1] *Sephaku Cement, as a subsidiary of DCP, has a year-end of 31 December.*

Group

Group net profit after tax was R44,0 million (FY 2018: R44,2 million) with the SepCem equity-accounted profit at R46,3 million (FY 2018: R20,8 million). The resultant basic earnings per share was 21.21 cents (FY 2018: 21.60 cents) and headline earnings per share was 21.08 cents (FY 2018: 20.92 cents).

In line with the constrained operating environment, SepHold's executive management commenced the implementation of the head office expenses reduction plan. The comparative annual expenses were 9% lower at R22,9 million from initial savings achieved for the six months ended 31 March 2019. The non-cash portion was approximately 21% (R4,8 million) mainly constituting depreciation and option vesting expenses. The plan will result in expenses 25% lower than FY 2018 (R25,3 million) by the end of March 2020.

SepHold initiative to reduce head office expenses



FINANCIAL DIRECTOR'S REPORT (continued)

DEBTORS' MANAGEMENT

To mitigate the risk of financial loss from customer defaults, Métier only deals with reputable customers with consistent payment histories. Sufficient collateral or guarantees are obtained where appropriate. Each customer is analysed individually for creditworthiness before terms and conditions are offered. Statistical credit scoring models are used to analyse customers. Customer credit limits are in place and are reviewed and approved by the credit management committee.

Exposure to customer credit risk

Métier continued to implement stricter credit terms during the year under review and suspended concrete supply for late remittances to ensure customer compliance. The exposure to credit risk and the creditworthiness of customers are continuously monitored. Furthermore, a loss allowance is recognised for all trade receivables. In addition to the loss allowance, trade receivables are written off when there is no reasonable expectation of recovery. To this effect, the subsidiary wrote off R8,95 million in debtors for the year, with R4,59 million through the income statement and R4,35 million against the R6 million provision for bad debts.

Debtor insurance

Insurance of debtors was obtained during the financial year, and contributed favourably in the assessment of credit risk exposure.

DEBT MANAGEMENT

Métier

Métier has two loan facilities with the same lender, a term loan principal that was reduced by 49% to R41 million (FY 2018: R80,4 million) in line with the group's stated priority of deleveraging the balance sheets, and a revolving credit facility for R100 million at a quarterly interest rate of JIBAR plus 400 bps. The revolving credit facility balance as at 31 March 2019 was R81,4 million. The final contractual payment for the term loan is scheduled for 15 April 2020. Agreement has been reached with the lenders to repay this facility on substantially the same terms and conditions that the current principal loan is being repaid over a three-year period.

Sephaku Cement

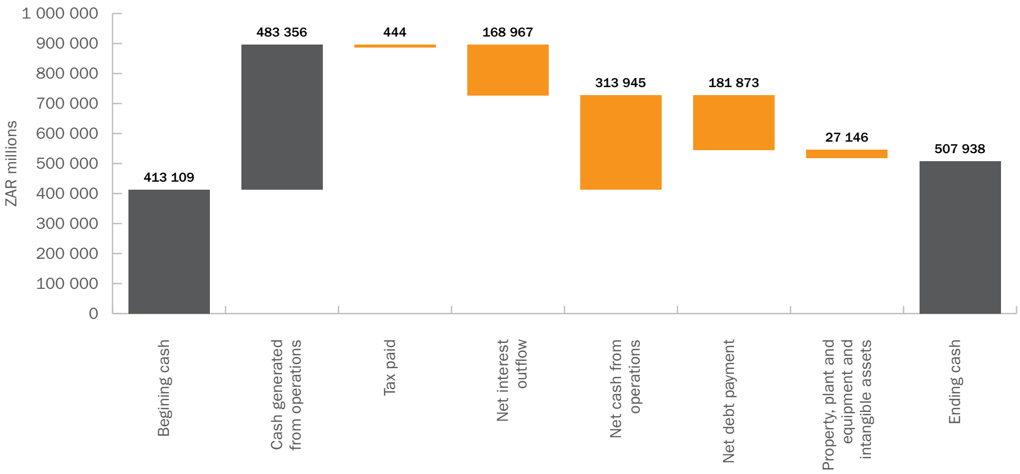
SepCem repaid R181,9 million of the project loan capital, resulting in a balance of R1,65 billion at the end of December 2018. The associate had reduced the debt capital by a total of R750 million by December 2018. The total debt service was R379,4 million, including an interest expense of R197,5 million. The DCP shareholder loan increased to R474,0 million from R424,3 million, accruing interest at JIBAR plus 4%. SepCem's cash balance at the beginning of the year was R413 million and the associate generated R483 million from its operations during the year, ending with a cash balance of R508 million.

This confirms that SepCem has sufficient cash to comply with its debt repayment requirements for the current year, with the potential to enhance its cash generative capacity through higher cement prices.

At the beginning of 2019, SepCem approached the lenders to adjust the bank covenants in light of the cash available in the company and the current trading conditions. Discussions are currently underway to reduce the capital amount by a voluntary payment that will again facilitate lower future debt service requirements.

SepCem cash flows

Cash generative, enabling debt repayment



IMPAIRMENT CONSIDERATIONS

Goodwill

The decline in profitability of Métier over the past two years focused the auditor's attention on the goodwill assessment. We believe that the prevailing trading results are representative of the downcycle for construction and several other cyclical industries. The low-demand environment is envisaged to continue for up to 18 months. The company's assets and key employees are well positioned to return to prior levels of turnover and profitability once the cycle recovers. The recoverable amount of Métier against the goodwill of R223 million was determined based on a value-in-use calculation by projecting three-year cash flows. The following assumptions were applied in reviewing goodwill impairment:

- A growth rate of 5.24% (2018: 6.00%) was applied and cash flows were discounted at a pretax rate of 17.93% (2018: 17.93%), which is the estimated cost of capital as it relates to Métier.
- Asset values were based on the carrying amounts for the financial year.
- Future profits were estimated using historical information and approved three-year budgets. Sales growth and gross margins were based on historical achievement or known future prospects.
- Costs were assumed to grow in line with expansion and expected inflation.
- Cash flows were extended into perpetuity at the growth rates noted above, as management has no reason to believe the company will not continue past the budget period.

Based on the results of the impairment test, no impairment was required.

Investment in subsidiaries

At 31 March 2019, the company's investment in Métier was R299 million. Reduced profitability and general economic downturn in the construction industry were identified as indicators of potential impairment. The same assumptions were applied as utilised to test for goodwill impairment in the performance of an impairment test on the investment. The fact that the industry is cyclical and at the bottom of the curve, while Métier remains relatively profitable, supports our view that this status quo can be turned around quickly if infrastructure investments increase, bearing in mind that debt is reducing by R36 million per year. Therefore, no impairment was deemed necessary.

CONCLUSION

The focus for the next 18 to 24 months remains on reducing debt and agreeing revised debt covenants reflective of the current trading conditions. At the time of completing this report, negotiations with the lenders were at an advanced stage. Details of the deal will be communicated to the market as soon as they are finalised.

In closing, I would like to thank all group finance employees for their commitment and diligence during the year. I also appreciate the support from the board, whose wealth of wisdom has been instrumental in our success regarding corporate governance matters.

Neil Crafford-Lazarus
Financial director

3

BUSINESS REVIEW:
MÉTIER MIXED CONCRETE


Métier
C M 19
Métier

BUSINESS REVIEW:

MÉTIER MIXED CONCRETE

Métier Mixed Concrete is well positioned as a market leader and will remain at the forefront of ready-mix concrete technology and innovation in South Africa. The subsidiary strives to live up to its brand maxim of service, quality and reliability, and will continue to offer value-added partnerships with clients.

SERVICE EXCELLENCE

The primary objective for Métier was to maintain its market share

Métier ensures that its clients' experiences are excellent from the time a contract is confirmed, to the supply of concrete. This is achieved by maintaining its operational standards and by accurately measuring performance. Métier continued to strive towards excellent customer service, despite challenges due to price competition resulting from diminishing demand. The subsidiary has had to adopt a sustainable balance between the level of service and costs.

OPERATING CONTEXT

Targeted performance was not achieved, primarily due to the reduced infrastructure investment from the private and public sectors. Métier experienced delays and suspensions of several supply contracts, as funding for these construction projects was delayed or terminated.

VOLUMES AND PRICING

The subsidiary realised relatively flat volume growth at 1% due to the continued slowdown in construction activity. The KwaZulu-Natal volumes were 11% lower year-on-year, but Gauteng volumes increased by 15% due to the mobile and 13th plants that were operational for three and six months respectively. The strategic decision to increase plant footprint in the relatively high-demand node of Pretoria supported Métier's volumes. On a like-for-like basis, excluding the new tonnage, the subsidiary's volumes decreased by 2.6%.

REVENUE AND PROFITABILITY

Price competition persisted and the average price per m³ was flat. Métier's revenue increased by 1% to R836 million (2018: R831 million) and gross profit was R321 million (2018: R342 million), mainly due to an inflationary increase in cost of sales. The value-added product range characterised by high strengths of between 55 Mpa and 80 Mpa contributed to the subsidiary achieving flat pricing in a trading environment defined by price competition. The industry's ability to manufacture the value-added products is estimated at 30% of the producers.

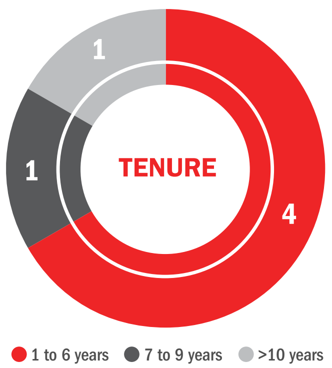
As profitability margins continued to be under pressure, eliminating downtime was a priority at all plants. To support margins, management optimised production and logistics assets to align to prevailing demand. The subsidiary reduced the outsourced fleet by 16% to maximise the utilisation of owned fleet. The delivery fleet was optimised to achieve balance between costs and demand in order to provide the shortest possible uptime for customers. Optimal plant performance was sustained through regular audit assessment and maintenance. Métier's net profit decreased from R48 million to R22 million for the year.

The primary objective for Métier was to maintain its market share by reassessing the market segments, and implementing a differentiation strategy.

TECHNICAL SKILLS AND INDUSTRY EXPERIENCE

Métier strives to be an employer with fair, transparent and non-discriminatory practices

EXECUTIVE COMMITTEE



GENDER

4 Male

2 Female

RACE

6 White

0 ACI[1]

Experience and skills

- Over 85 years' combined experience in mixed concrete manufacturing
- Concrete technology
- Deep quarrying and mining

[1] *African, Coloured and Indian*

TECHNICAL SKILLS AND INDUSTRY EXPERIENCE (continued)

Jürgens du Toit (45)

Managing director

NDip (Civil Engineering) (Technikon Pretoria)

Jürgens has gained a wealth of experience in the mining and building and construction materials industries over the past 26 years. He has held senior management positions in several aggregates and ready-mix businesses in South Africa, Botswana and Lesotho. He was appointed as managing director on 1 March 2016.

Doug Thring (51)

National maintenance manager

BSc (Hons) (Environmental Management) (University of KwaZulu-Natal), NHDip (Civil Engineering) (Technikon Natal)

Doug has extensive experience in construction and project management gained from over 27 years with Bosch & Associates Consulting Engineers, Murray & Roberts, and his own construction business. Doug joined Métier on 1 November 2015.

Gregg Hollins (48)

Regional manager, eastern region

NDip (Civil Engineering) (Technikon Natal)

Gregg has extensive experience in the ready-mix concrete and aggregates industry. He held various management positions in the technical, production and commercial departments of Lafarge South Africa over 11 years. Gregg is a civil technician and concrete technologist. He joined Métier on 1 June 2007.

Glen Talmage (48)

Regional manager, northern region

NHDip (Civil Engineering) (Technikon Witwatersrand)

Glen has extensive experience in the ready-mix concrete and aggregates industry. He held various senior positions in the technical, production and commercial sectors at a building and construction materials entity over 16 years. He joined Métier on 1 June 2011 to establish and expand Métier's footprint in Gauteng.

Stacey Venter (37)

Financial manager

BAcc (Rhodes University), CA(SA)

Stacey is a qualified Chartered Accountant with six years of commercial management experience. She has accounting, tax and financial experience from eight years with KPMG. Stacey is responsible for all administrative and financial aspects of the business. She was appointed on 1 October 2015.

Ceri Rayne (38)

Human resource manager

BSocSci (Hons) (University of KwaZulu-Natal), Cert: Retail Management (University of South Africa), Cert: Practical Labour Law (University of Cape Town), Cert: Advanced Human Resource Management (University of Cape Town)

Ceri has extensive experience in human resources gained from eight years with The Foschini Group. She joined Métier with a focus on training, human development, employee performance and talent management. Ceri was appointed on 1 July 2013.

EMPLOYMENT ETHOS

Ethics and integrity

Integrity is encapsulated in Métier's values of honesty, fairness, ethics, quality and respect. To ensure employees align to a common value system, Métier has codes of ethics and conduct that clearly articulate the requisite standards to retain their employment at Métier. Elements of the code of conduct are implicitly included in the employees' key performance indicators (KPIs) to emphasise their importance.

Fairness and transparency

Métier strives to be an employer with fair, transparent and non-discriminatory practices. The subsidiary remunerates fairly and applies the principle of equal pay for equal work with any differentials being due to experience, skills level and tenure. Employees are remunerated in accordance with the value of their work, competence and performance. Furthermore, the subsidiary utilises independent professional salary market surveys to appropriately grade the different roles and benchmark the remuneration structure. Importantly, management is guided by the board-approved remuneration framework to ensure non-discrimination.

Honesty

To promote a culture of honesty, Métier has a whistle-blowing service, externally managed by Wisecall, to report unethical and unfair practices. The service provides stakeholders a channel to report fraud and any form of unethical behaviour by the employees and management. Internally, the subsidiary has a stipulated grievance procedure that enables employees the opportunity to report unethical behaviour in the workplace to either their direct line manager, the human resources department or, the managing director. Métier's employment equity and skills development committee is another internal forum available for employees to report unfair employment practices.

EMPLOYEE OVERVIEW

Métier's employee complement decreased by 3.2% from 282 to 273. It retained all its critical skills despite the increased turnover rate of 15.8% (2018: 12.1%). The subsidiary recruited 35 people against 44 terminations. The reasons for the latter were mainly resignations, dismissals and retrenchments. The dismissals were due to misconduct and incompetence.

The executive committee complement has been stable since the subsidiary was acquired in 2013. This has been invaluable in cohesively implementing strategic objectives in a highly competitive and constrained trading environment.

Employee complement

	31 March 2019			31 March 2018		
	Male	**Female**	**Total**	Male	Female	Total
White	44	12	56	46	11	57
African	169	15	184	171	13	184
Coloured	2	0	2	3	0	3
Indian	26	5	31	32	6	38
Total	**241**	**32**	**273**	**252**	**30**	**282**

Employment equity

The two-year employment equity (EE) plan ended in August 2018, at which time 21 ACI employees had been promoted within and between different occupational levels. The plan targeted a fair demographic representation across different occupational categories and levels.

Métier achieved its targets for black women at middle and junior management levels, as well as people with disabilities. The number of black men in junior, middle and senior management increased by 7.6% during the year. The goal is to improve historically disadvantaged South Africans (HDSAs) representation at senior and middle management levels primarily through internal promotions. Métier's new EE plan will span a three-year period starting September 2019 to allow sufficient time to implement the plan effectively.

Training and development

Métier strives to up-skill its employees to achieve the high-performance culture espoused in the Métier Way. Employee skills were enhanced through strategically aligned training that encompassed a combination of technical, administration and legislation courses. Individual performance review discussions were utilised to identify any skills gaps to inform the requisite training to improve employees' efficacy. As a result of the constrained trading environment, the subsidiary decreased its investment in training by 23% to R930 000 (2018: R1,2 million).

Of the 177 employees trained (2018: 183), 84 (2018: 127) were HDSAs. Health and safety certification was attained by 97 employees, and the balance (80) completed computer science, technical and administration training. Of these

TECHNICAL SKILLS AND INDUSTRY EXPERIENCE (continued)

80 employees, seven were granted tertiary study bursaries in commerce, civil engineering and industrial psychology. In February 2019, Métier embarked on a 13-month leadership development programme with an external service provider, for 11 middle management employees whose personal and professional leadership potential is being developed.

Logistics is an essential element of Métier's business model. Therefore, delivery truck drivers participated in an externally managed driving monitoring programme and an internally managed advanced monthly driving course. Métier conducted internal training for its employees, comprising 36 delivery truck drivers (2018: 52) and seven front-end loader drivers. The customised programme entailed the use of an online programme, which utilises a live tracking system to monitor and measure driver performance. A secondary benefit of the programme has been real-time monitoring of deliveries, which facilitates optimal routing resulting in savings in fuel expenses.

INTERNSHIPS

Métier hosted two interns, one of whom completed training in logistics management in December 2018 and the other will complete civil engineering training in December 2019. The intern for logistics and fleet management was a black female student from University of Zululand who was hosted from October 2018 for a period of three months. The civil engineering student is on an 18-month programme and Métier is planning to retain him subject to satisfactory completion and final assessment of his performance.

LEARNERSHIPS FOR DISABLED INDIVIDUALS

In July 2017, Métier recruited six physically disabled black learners on a 12-month business administrative service learnership (NQF level 2). They all successfully completed the learnership in June 2018 and two learners were offered permanent placements at other companies. They were replaced by two new learners who, together with the other four, proceeded to the NQF level 3 learnership on business administration for 12 months at Métier.

Broad-Based Black Economic Empowerment

Métier was awarded level 4 BBBEE certification, an improvement from level 6 in 2018. The subsidiary scored well for the supplier, enterprise and skills development criteria but performed poorly for management control and ownership. Métier's executive committee acknowledges the need to address the current imbalances in occupational categories in which ACI employees are under-represented. The main hurdle in addressing the gender and race imbalances has been the low staff turnover within these employment categories. Métier has committed to increasing the race and gender diversity across occupational levels for positions that include plant supervisor, plant manager and sales representative.

LEADING TECHNOLOGIES

INNOVATION

Métier continued benchmarking its operational performance to best practice to ensure high levels of product quality at an optimal cost. Métier successfully supplied consistent general and technical concretes for all its contracts, demonstrating its deep technical expertise in concrete technology.

The subsidiary consistently delivered on both the technical and after-sales performance for all its customers.

INFORMATION MANAGEMENT TECHNOLOGY

Métier understands the value of timely and accurate data. The subsidiary uses several information management digital solutions to effectively and efficiently manage several core functions. The main digital platforms are the Concrete Equipment (CE) program, which is the central business tool. From this platform extend the related Concrete Performance System (CPS), for the quality control process, and the customised Métier Information system (MIS), for reporting and data intelligence analysis. The CE program processes information from the quotation phase to manufacturing, during which the CPS analyses the composition of the concrete to verify that it meets the required specifications. The MIS then compiles the sales report on the volume, costs and margins achieved from the supply contract.

The field sales team utilises a mobile application (SAPP) to primarily measure the effectiveness of its activities. SAPP tracks client interaction, time management and assists the sales employees to efficiently plan meetings. Furthermore, it provides an analysis of customer segmentation, including margins per segment and demand node penetration. The delivery fleet data completes the information loop by analysing route efficiencies in relation to the optimal number of trips required to balance between the customer's stringent requirement for delivery within a specific period, the fleet size and prevailing pricing regime. The combined analysis of this business data provides information on the operational strengths and weaknesses, which enable management to implement corrective measures and controls.

Métier launched a plant fault notification application (FAPP), that primarily serves to notify all relevant employees to ensure that the fault is rectified expediently. The FAPP has the ability to disseminate written and visual (photographic) information to eliminate ambiguous communication. The secondary benefit is that, after monitoring several fault rectification cycles, the FAPP provides analytics on the plant's efficiency level through accurate records of maintenance activity, period of optimal operational performance and cost forecasts.

Information security

Information management requires astuteness in securing proprietary and confidential data. To this end, Métier audits its information systems annually for any breaches to the internally hosted digital platforms. During the year, the audit identified attempts of infiltration which were unsuccessful due to the security system. Métier has identified further measures to strengthen its firewalls and the management team is actively improving its knowledge on cyber security, disaster recovery and IT governance. The subsidiary will contract independent experts to conduct a full audit of the information systems to recommend how to improve its effectiveness and security against cyber-attacks in 12 to 24 months.

STRATEGIC RELATIONSHIPS AND DEAL-MAKING ABILITIES

CUSTOMER RELATIONS

Métier's executive management considers relationships with customers as strategic and pivotal to its success. The sales teams are managed by regional general managers. The field sales representatives report to the managers on a regular basis regarding customer purchasing trends, concerns and market activity. This intelligence is utilised to enhance Métier's sales implementation plan to protect its market share. This approach to sales has enabled Métier to develop stable and strong relationships with its core customers. All departments collaborate closely to ensure that the service excellence promise is experienced by the customers from receipt of the order to delivery of the concrete.

"Want to thank you folks and the dispatching crew for great customer service. Today has been a true example of Métier's professional service going the extra mile. In our brief business dealings, there has not been a problem that could not be resolved. Much appreciated. Thanks again." ***Customer***

"Thank you for the excellent service and experience received yesterday from your organisation. From the communication, dispatch, and delivery it was truly remarkable." ***Customer***

SUSTAINABILITY

FINANCIAL STABILITY

Debt management

Métier's term loan principal was reduced by 47% to R41 million in line with the group's stated priority of deleveraging the balance sheets.

Debtor management

To minimise customer default risk, the subsidiary continued to intensively manage debtors by implementing stricter terms, including suspension of concrete supply for late payment to ensure customer compliance. The debtor days improved from 64 to 50 and by year-end the receivables past due date but not impaired were R32 million which is approximately 4% of the FY2019 revenue. The impact of defaulting customers was partially mitigated through the credit guarantee insurance cover.

HEALTHY WORKFORCE AND SAFE ENVIRONMENT

Métier complies with the Occupational Health and Safety Act, 85 of 1993, and recorded zero fatalities (2018: zero). Safety induction is mandatory for new employees, and refresher sessions are regularly held at all supply construction sites, during which safety procedures are reinforced. Métier pursued safety awareness and training initiatives, through toolbox talks, safety meetings, employee newsletters and posters.

The recorded lost-time injury rate frequency decreased to 3.11 (2018: 3.96) and total number of lost hours decreased from 806 to 623 during the year. The safety audit's main findings were the need to reinforce the use of safety devices at the raw materials receiving bay and of wheel chocks for the delivery trucks when the vehicles are offloading at construction sites. Management is committed to creating a safe environment for employees and inculcating a culture of zero tolerance to non-compliance to safety protocols.

NATURAL ENVIRONMENT STEWARDSHIP

Métier is committed to mitigating any negative environmental impacts from its operations. To minimise the impact on the surrounding areas, 53 audits (2018: 52) were implemented, with focus on dust emissions.

Dust emissions

Métier proactively monitored dust at its operations and utilised mist sprayers and sprinklers to control emissions to suppress dust emitted from aggregates stockpiles and during the loading of mixer trucks. All silos are fitted with dust filters to minimise emissions during the refilling process. The level of dust was determined to be within the regulatory limit of 1 200 mg/m^2 per day at all operations.

Waste disposal

Concrete returns are the main source of waste at Métier plants, which are dried out in bins before being responsibly disposed in crushed form at authorised waste dumps, open mine pits or construction sites.

SOCIAL LICENCE TO OPERATE

Métier continued the social investment in early childhood development initiatives in spite of the constrained trading environment by donating R512 000 (2018: R750 000) in cash and mixed concrete to schools, crèches and orphan villages. Métier donated to three non-for-profit organisations that focus on children from disadvantaged communities affected by HIV/Aids and/or impoverished circumstances. Of special mention was Ithemba Lethu, which received a donation towards its family integration programme that facilitates the reunification or adoption of orphaned or abandoned children.

Jürgens du Toit
Managing director

FY 2020 FOCUS

Métier focus areas for the next 12 to 24 months are:

- reducing debt;
- evaluating potential supply opportunities;
- enhancing customer focus to accurately understand their needs and deliver an enduring experience; and
- improving technical innovation by leveraging on the deep technical expertise.


Métier
MIXED CONCRETE
Métier
CM 112
CM 43

4 BUSINESS REVIEW: SEPHAKU CEMENT


Sephaku
CEMENT

BUSINESS REVIEW:
SEPHAKU CEMENT

Passion and enthusiasm align with one of the associate's core value statements that, "SepCem wants to have inspired employees who are passionate, engaged and love what they do".

SERVICE EXCELLENCE

OPERATING CONTEXT

The low cement demand was exacerbated by intense competition between the cement manufacturers, blenders and importers. SepCem's sales management targeted to increase prices, retain bulk market share and to closely manage expenditure. This focus resulted in the associate maintaining profitability margins.

VOLUMES AND PRICING

Targeted volumes were not achieved due to the depressed construction environment, an increase in imported cement, growth in the blenders activity and aggressive pricing from the other primary producers. This resulted in an estimated 5% to 10% decline in industry sales volumes. The associate focused on profitability over volume growth, and ensured that a viable balance was achieved albeit under challenging market conditions. Price increases were implemented in February and August, resulting in 3.5% average price increase per tonne. The price increase achieved was lower than targeted, because of a higher volume proportion of bulk cement and intense competition in highly contested geographic markets such as Gauteng and Mpumalanga.

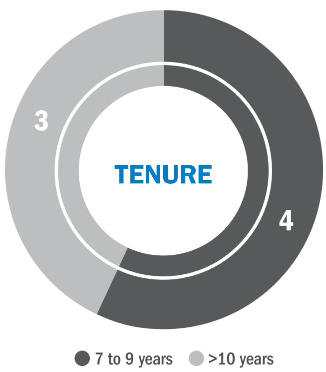
REVENUE AND PROFITABILITY

SepCem's revenue decreased by 3.1% to R2,29 billion as a result of decreased sales volume and realised an earnings before interest, taxation, depreciation and amortisation margin of 20.1%. Profit margins were further impacted by above-inflation input cost increases for coal, electricity and fuel. The resultant net profit was R128,7 million mainly due to a tax credit granted for energy savings during the 2017 tax period.

TECHNICAL SKILLS AND INDUSTRY EXPERIENCE

SepCem management strives to promote a positive, energising and optimistic working environment

EXECUTIVE COMMITTEE



GENDER

5 Male

3 Female

RACE

5 White

3 ACI[1]

Experience and skills

- Key management with over 250 years' combined experience in cement manufacturing
- Sales, marketing and channel management
- Project management

[1] *African, Coloured and Indian*

TECHNICAL SKILLS AND INDUSTRY EXPERIENCE (continued)

Pieter Frederick Fourie (63)

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 (CEO) of Sephaku Cement on 1 May 2007.

Suleiman Oladapo Olarinde (56)

Financial 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 34 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 financial director since 21 August 2014.

Duan Claassen (51)

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.

Heinrich de Beer (52)

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 (50)

Chief financial officer

BCom (Hons) (University of Pretoria), CTA (University of South Africa), CA(SA)

Gay has experience in several fields, including finance, operations and risk management. She previously worked for Clover Danone before joining Sephaku Cement on 1 July 2009.

Robert Mathye (43)

Executive manager sustainable development

MPhil (Rand Afrikaans University), BA (Hons), BAED (University of Venda)

Robert is a social scientist with a career that spans 17 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 his current position on 1 April 2018.

Puseletso Makhubo (46)

Executive manager organization performance

MBL (UNISA), BA (Hons) (University of Westville), BPA (University of Westville), GMP (GIBS)

Puseletso Makhubo has over 18 years Human Resources experience in the banking and manufacturing sector. She previously worked for DCSA for over 7 years and was instrumental in setting up the business. During that period, Puseletso worked tirelessly to ensure that we develop all human resources management tools to support the business both during project and operational phase. She left in May 2016 to work in the Steel Industry to broaden her capability in a unionised environment. She re-joined DCSA in January 2018 on a fixed term basis and was appointed on a permanent basis in April 2018.

Jennifer Bennette (56)

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 (37)

Head of internal audit

BCom (Accounting) (University of KwaZulu-Natal), AG (SA)

Alfred completed his SAICA 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 (37)

Head of risk

BCom (Economics) (University of Pretoria), Bachelor of Christian Entrepreneurship (Team Impact Christian University: USA) PGCert (Risk Management) (University of Johannesburg), PGDip (Hons) (Risk Management) (Unisa)

Mziwakhe has over 14 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. Mziwakhe joined Sephaku Cement on 15 March 2016 after holding various risk management roles in the energy, chemicals, banking and insurance industries.

TECHNICAL SKILLS AND INDUSTRY EXPERIENCE (continued)

The executive management team created project Tokafatso – "Heading for success" for the Aganang integrated plant to re-energise the flagship operation from January 2019.

EMPLOYMENT ETHOS

High-performance culture

SepCem acknowledges that critical skills are essential in achieving superior performance, especially in the prevailing constrained trading environment. SepCem continued to strengthen the plant teams by recruiting individuals with highly sought-after technical skills. The upskilling of the plant's supervisory level management through skills transfer was identified as imperative to ensure a high-performance culture. The reconfiguration of plant operational teams, and a concerted effort to increase employees' knowledge on how to achieve strategic goals, were identified as the main effective methods to achieve this goal.

The executive management created project Tokafatso – "Heading for success" for the Aganang integrated plant to re-energise the flagship operation from January 2019. The project is premised on six elements which include:

- ensuring clarity of purpose throughout the operation;
- efficient processes and systems; and
- effective leadership.

Spearheaded by the executive operations manager, the project aims to establish the foundation for the long-term sustainability of the business. Tokafatso will transform the strategy into appropriate action plans that are implemented by employees who are fully engaged to the vision.

Empowerment of employees

Empowerment of employees to think and act in ways to get the job done, while adhering to processes that ensure good governance is core to SepCem's ethical culture. It is imperative for employees to be empowered at their different work stations to instil confidence and relevance that promotes teamwork. The executive committee (exco) identified training as an effective method to improve the understanding and application of company values to all employees. SepCem invested R3,1 million (2017: R5 million) towards training, which represents 2% of the 2018 payroll. The training needs were informed by the outcomes of the quarterly performance reviews.

A leadership development programme was implemented at senior management level through an independent consultant. The programme entailed coaching on principles of good corporate citizenry to ensure that they are fully understood and implemented at the highest level of the company. The middle and lower management and supervisory level employees were trained on performance management and how to appropriately institute discipline in line with the SepCem values at their respective departments.

Furthermore, all employees were trained on whistle-blowing with the objective of eliminating the misuse of the platform for employee grievances that ought to be channelled through other appropriate platforms. The Sephaku Cement

Communication forums (SepComs) are the primary platform of employee engagement. These were evaluated for effectiveness. SepComs facilitate communication on the status of industry, SepCem's roadmap to achieve success in the tumultuous operating environment, and the importance of upholding the values of the company. Several ways of improving the platform were identified and an implementation plan was developed for 2019.

Passion and enthusiasm

Passion and enthusiasm align with one of the associate's core value statements that, "SepCem wants to have inspired employees who are passionate, engaged and love what they do".

SepCem management strives to promote a positive, energising and optimistic working environment. To this end, the following programmes were implemented in 2018:

- The exco medium-term strategy and desired leadership brand was discussed with senior and middle management. The main objectives of the engagement were to provide clarification on SepCem's route to success, emphasise the importance of creating a conducive environment for employees to thrive, and how to work as a team towards common goals. The concept of leadership branding inculcates appropriate behaviour that ensures common understanding and effective implementation of strategy across all levels of management. Leadership style and team assessments were completed to ensure that all employees in leadership positions are equipped with tools to enhance business performance through creating an environment conducive for their subordinates to excel.
- A task team was constituted to address matters related to the bargaining unit employees. The relationship charter with the labour union AMCU is based on the mutual objective of ensuring the prosperity of the business. This charter was the framework used for engagement.
- To retain the high-performing employees, a quarterly bonus incentive was introduced to motivate and reward them more frequently. Monthly performance recognition was established for the call centre and logistics departments, who offer essential support to the sales team. SepCem has successfully retained 70% of initial participants in the scheme and has not lost any critical skills.
- SepCem is an employer with fair, transparent and non-discriminatory remuneration structures. All positions within SepCem were profiled and evaluated against market benchmarks to ensure that employee remuneration is competitive.
  - The associate participates in salary surveys and remuneration is based on the grade of the role with inflation-related increments annually.
  - Annual salary survey reports compiled by various reputable sources such as Mercer, PE Corporate are used to assess SepCem's competitiveness relative to the market.
- A wellness day was rolled out at all operations to promote good health and sound emotional state of mind. The concept of wellness was further promoted through the commemoration of people living with HIV, which was held at Delmas and Aganang to promote inclusivity, increase awareness on the virus and educate employees on how infected individuals can continue to live a full life.

EMPLOYEE OVERVIEW

The total employee complement as at 31 December 2018 was 452, including three apprenticeships (2017: 397 including 27 learnerships).

TOTAL EMPLOYEE COMPLEMENT: 452

Centurion	Delmas	Aganang	Kendal	Transport
88	85	189	5	72

335 men	3 learnerships and apprenticeships
117 women	439 permanent; 10 fixed-term employees

Employment equity

In preparation for the expiry of the initial employment equity (EE) plan in September 2018, a committee was constituted through a structured company-wide nomination process by the internal audit department. The committee members we trained on the Employment Equity Act to ensure a thorough understanding of the law and to inform them of their responsibilities. The second five-year employment equity plan was developed following a qualitative and quantitative analysis of SepCem's work environment. The committee meets quarterly to measure progress and to determine how to address challenges encountered in implementing the plan.

TECHNICAL SKILLS AND INDUSTRY EXPERIENCE (continued)

Employment equity statistics as at December 2018

Occupational levels	African			Coloured			Indian			White			Total			Target %	Actual EE %	Actual African %
	M	F	T	M	F	T	M	F	T	M	F	T	M	F	T			
Executive management	1	1	2	0	0	0	0	0	0	3	2	5	4	3	7	42%	57%	29%
Senior management	5	0	5	1	0	1	0	0	0	8	1	9	14	1	15	45%	47%	40%
Middle management	12	6	18	1	0	1	2	3	5	11	6	17	26	15	41	75%	73%	59%
Skilled (junior management)	52	29	81	3	2	5	1	4	5	19	9	28	75	44	119	85%	84%	76%
Semi-skilled	107	21	128	2	0	2	0	0	0	1	2	3	110	23	133	100%	99%	98%
Unskilled	94	28	122	0	1	1	1	0	1	0	0	0	95	29	124	100%	100%	100%
Total	**271**	**85**	**356**	**7**	**3**	**10**	**4**	**7**	**11**	**42**	**20**	**62**	**324**	**115**	**439**			
Fixed-term contractors	6	0	6	0	0	0	1	0	1	2	1	3	9	1	10			
Learnerships	2	1	3	0	0	0	0	0	0	0	0	0	2	1	3			
Total	**279**	**86**	**365**	**7**	**3**	**10**	**5**	**7**	**12**	**44**	**21**	**65**	**335**	**117**	**452**			

Gender and race representation

SepCem achieved notable progress towards improving its EE goals, but gender representation was less satisfying due to lack of requisite skills in the female talent pool. African women remain under-represented, particularly at senior and junior management levels. The target from 2019 is to increase the number of female employees by 18 across several occupational levels as follows (depending on the availability of vacancies):

- One senior management
- Ten technical or academically qualified
- Seven semi-skilled or unskilled

Over the tenure of the initial EE plan, 85% (44) of promotions were of HDSAs, with majority being black men.

	2017	2018
	Total	**Total**
ACI	17	17
White	3	1
Total	**20**	**18**

In the two years from CY 2017, 22 of the people promoted were black men, 17 of whom were in either management, supervisory or technical roles. A total of 20 employees promoted were from the local communities near the Aganang and Delmas plants. The associate acknowledged 66 employees who have been working for the company for five years and more through long service awards during the year. Of these employees, 12 were from Aganang and 38 from Delmas, comprising approximately 82% Africans.

Employees with disabilities

In line with non-discriminatory practices, SepCem promotes the employment of people with disabilities into suitable roles. In 2018, the associate had eight individuals, constituting five women and three men in its employee complement. It aims to increase the number by two, depending on available vacancies.

Labour union relations

A relationship charter served to provide a framework for effective engagement between SepCem management and the labour union representatives. AMCU submitted a list of onerous demands to SepCem in May 2018 that included the re-grading of bargaining unit roles, wage increases, structure proposals, proposals for housing and meal allowances.

SepCem and AMCU concluded the agreement in June 2018 based on the proposals submitted by the task team on the following issues:

- Remuneration and benefits – including the structure of salary packages and benefits
- Bonuses – inclusive of performance-related remuneration
- Housing assistance

LEADING TECHNOLOGIES

The associate was awarded a tax credit for energy efficiency savings of 307 GWh during 2017

ENERGY EFFICIENCY

The integrated plant with vertical mills and a four-stage pre-heater has enabled SepCem to achieve efficiencies in energy consumption. The associate was awarded a tax credit for energy efficiency savings of 307 GWh during 2017. The manufacturing process is automated, which requires diligence in ensuring that the technology infrastructure is functioning optimally and the related software is providing accurate information. The plant's technology is monitored and secured through sophisticated firewalls to ensure that manufacturing is not disrupted due to avoidable malfunction or malicious cyber attack.

TECHNOLOGY AND INFORMATION MANAGEMENT

SepCem has a team of information and technology management experts (IT team). They are tasked with providing strategic input on the procurement and application of technology infrastructure and systems requisite for achieving the associate's strategic goals. Following the launch of the IT three-year strategy in 2017 to create an infrastructure environment that leverages current and emerging information technology solutions, the associate has achieved the following objectives:

a. **Automated interfaces** – refers to a unified information management system and automation hub which facilitate the roll-out of new digital platforms

b. **Standards** – refers to the adoption of a single set of IT standards across the company which improves support and controls

c. **Tableau®** – is an outsourced reporting analytic software that enables the logistics and sales departments to utilise market data to create statistical reports.

The IT team monitor the effectiveness of the IT equipment using standard tools such as network and server uptimes, as well as reports to the help desk. Additional tools are being developed to account for monitoring change of control at the plants and other equipment or software incidents.

Business information systems

SepCem utilises SAP® as the main business enterprise software and during the year purchased the Business Process Management Software Suite to transition the company to a paperless environment. The drive to replace all paper-based transactions with electronic processes enhances control, transparency and speed of transactions. Furthermore, electronic processes significantly improve accessibility through various mobile devices and from remote workstations.

Information security

Although no material incidents of cyber crime were experienced, SepCem contracted an independent specialist company to audit its technology infrastructure and information management systems on the robustness of its security. The potential for cyber attack was assessed and registered as one of the key risks. Security gaps in the setup and configuration of the associate's equipment and systems were immediately addressed. A comprehensive security action plan was developed and approved by the board. Cyber crime training for employees to increase user awareness was implemented during H1 2019 as part of the first phase of the action plan.

STRATEGIC RELATIONSHIPS AND DEAL-MAKING ABILITIES

The investment in customer relations has been pivotal in establishing mutually beneficial strategic relationships with all customers at SepCem

SUPPORTING PROFITABILITY

SepCem recognises the importance of strategic relationships with its suppliers and customers, particularly in a weak economic environment.

Customer relations

A high intensity of interactions was maintained through regular meetings, workshops and merchandising support for promotional campaigns to improve understanding of customer expectations. A revised and improved customer complaint system was introduced to ensure speedy responses to any issues raised. The investment in customer relations has been pivotal in establishing mutually beneficial strategic relationships with all customers.

Supplier relations

The associate has established robust relationships with suppliers of key inputs and services to facilitate price negotiations that are mutually sustainable. Due to the above-inflation increases in regulated input costs such as fuel and electricity, the importance of limiting excessive increases on the other inputs has been imperative. SepCem successfully negotiated competitive pricing on the outsourced services to maintain margins in a fiercely competitive market.

BROAD-BASED BLACK ECONOMIC EMPOWERMENT

SepCem maintained a level 6 BBBEE rating (2017: level 6) due to low scores in management control and ownership, which scored below the associate's target. SepCem's B-BBEE performance assessment was done under the amended B-BBEE construction sector codes, which came into effect on 1 December 2017. Previously, SepCem was measured based on the generic B-BBEE scorecard. SepCem performed well in the following criteria by achieving full scores:

- Enterprise and supplier development
- Socio-economic development

SepCem is exploring ways to improve preferential procurement and management control elements by focusing on black-owned enterprises and the recruitment of ACI women at management level.

Enterprise and supplier development (EDP)

SepCem continues to support local economic development in the areas where it operates by providing business opportunities to the small and medium-sized enterprises. The EDP develops entrepreneurship by enabling small businesses to start up, and provides training, mentorship and coaching on business administration to the entrepreneurs.

In 2018, the associate spent R87 million (2017: R88,4 million) through procurement from the EDP beneficiaries for services ranging from transportation to plant cleaning services. The beneficiaries collectively employed 185 individuals from the local communities of which 48 (26%) were female and 107 (58%) were youth below the age of 35. To improve its ability to achieve the objective of sustainable empowerment, SepCem will revise the programme in the medium term to be broad-based and stringent on the participation requirements.

Torosesha

Torosesha is a non-profit entity established as a community empowerment vehicle for benefit of the Verdwaal and Springbokpan communities who are in close proximity to Aganang. The entity has 15% shareholding in Sephaku Development Proprietary Limited (SepDev), a SepCem subsidiary that manages mining activities and generates earnings that can be paid out to its shareholders. To ensure the full participation of the community, Torosesha's board of directors had to include members of the communities. The process of identifying the appropriate nominees has been protracted over several years for various reasons including the lack of leadership fully endorsed by the community.

In 2018, SepCem received the community resolution to proceed with the election of community directors from the Verdwaal One, Verdwaal Two and Springbokpan communities. The elections were facilitated by the Independent Elections Facilitators of Southern Africa to ensure a fair and transparent process. All the candidates were vetted for eligibility according to the Companies Act, 71 of 2008, before elections. The elections resulted in three main directors and an additional three alternate directors being appointed. The six directors were provided extensive training on several topics including legislative requirements, empowerment laws, community project identification and company reporting. The objective of the training was to capacitate the directors to effectively fulfil their mandate of identifying the appropriate spend for the dividend income from SepDev for the benefit of the Springbokpan and Verdwaal communities.

SUSTAINABILITY

FINANCIAL STABILITY

Debt management

As at 31 December 2018[1], the project loan balance was R1,65 billion following the repayment of R182 million in capital and R195 million in interest. Sephaku Cement's management has targeted a debt:equity ratio of 2.4 x in the long term.

HEALTHY WORKFORCE AND SAFE ENVIRONMENT

There were no fatalities at SepCem's operations (2017: 0). The lost-time injury frequency rates were 0.37 at Aganang (2017: 0) and 1.36 at Delmas (2017: 0.65). SepCem maintains its unwavering commitment towards zero fatalities and injuries in the workplace. Every injury at SepCem undergoes comprehensive independent investigation and lessons learnt are shared across the organisation. Remedial actions to prevent reoccurrence are speedily implemented and the affected employees and their families are afforded the necessary care and support.

Delmas's 2018 lost-time injury frequency rate exceeded the strict target of less than one, as a result of two lost-time injuries experienced at the plant. This was an increase from the one lost-time injury in 2017. Additional focus has been placed on the plant's safety programme and management is confident that the remedial actions implemented in 2018 will reverse this trend.

NATURAL ENVIRONMENT STEWARDSHIP

The environmental management strategy aims to minimise water consumption, improve energy efficiency and mitigate emissions.

In line with the group's commitment to be a responsible corporate citizen, SepCem complied with all legislation and has the requisite environmental licences and permits.

HIGHLIGHTS

- Awarded the waste management licence for use of alternative fuels and resources
- Dust emissions of 5 mg/Nm³ – 15 mg/Nm³ against the permit standard of 30 mg/Nm³

[1] *As a subsidiary of Dangote Cement Plc (DCP), Sephaku Cement has a 31 December year-end.*

Operating licences

Carbon emissions

Cement production by its nature causes a high level of carbon dioxide (CO_2) emissions. The cement manufacturing process emits CO_2 generated from two sources:

- combustion of coal in the kiln to maintain the required kiln temperature;
- decarbonation of limestone within the kiln.

Of the two sources, decarbonation of limestone generates the highest proportion of the CO_2 emissions at approximately 60%. The raw milling, calcination and cement milling steps all have heating requirements. The most heat-intensive process is calcination, which requires a fine coal feed during operations.

Processing of limestone in the kiln results in limestone being turned to lime and carbon dioxide. The calcination process therefore results in process emissions. Coal, paraffin and diesel are used as fuels in the kiln resulting in fuel combustion emissions.

SepCem proactively measures its carbon footprint in terms of specific CO_2 emissions and recorded between 840 tCO_2 to 850 tCO_2 per tonne of clinker produced in 2018. Emissions data is reported internally, discussed at the quarterly operational meetings and assessed in terms of the risk it poses to the business.

Carbon tax bill

The carbon tax came into effect on 1 June 2019. The tax rate per tonne of carbon dioxide equivalent emissions (tCO_2e) will escalate by CPI +2% until 2022 after which the rate will only be at CPI. Multiple allowance mechanisms are included in the bill, which reduce the effective carbon tax rate to between R48 per tCO_2e and R6 per tCO_2e for most emitters.

There are seven allowances included in the carbon tax bill for the first phase, of which the following six are applicable to the cement industry; basic combustion emissions, process emissions, trade exposure, performance, carbon budget, and carbon offsets allowances.

The basic tax-free allowance for fossil fuel combustion emissions is a 60% allowance that applies to all fuel combustion activities during the first phase. Process emissions receive a 70% allowance.

SUSTAINABILITY (continued)

A trade exposure allowance of 0%, 5% or 10% is provided to assist sectors that are heavily trade exposed. Regulations regarding the application of the trade, carbon offsets and performance allowances are still outstanding.

Based on SepCem's estimated carbon emissions, the tax payable will be approximately R35 million to R40 million per annum. The associate will apply the tax on its products based on the proportion of clinker per tonne, which translates to between 1.5% and 2.5% price increases on lower strength and high strength cement respectively.

Atmospheric emission licence (AEL)
Sephaku Cement has a licence to manage the air quality at its operations according to the Air Quality Act, 34 of 2004. The associate's control of emissions was satisfactory, with both plant operations recording figures well below the stipulated limits.

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 5 mg/Nm^3 to 15 mg/Nm^3 for dust, and less than 1 200 mg/Nm^3 for Nox. Fugitive dust emissions from process sources such as materials handling were monitored through weekly audits according to the plan approved by the regulators.

Integrated water use licence (IWUL)
The plant operations manage water use and storage as prescribed by the IWULs issued by the Department of Water Affairs (DWA) according to the National Water Act, 36 of 1998. The operations have water balances in place to manage water consumption. Furthermore, they operate closed-circuit water systems to maximise recycling and minimise discharge into the environment. At Aganang, the return water dam is a reservoir for run-off from the plant processes and stockpiles.

Aganang consumed 72 litres of borehole water per tonne of clinker (2017: 54 litres). Quarterly bio-monitoring tests on the surrounding aquatic environments to measure the 17 elements stipulated in the IWUL confirmed a satisfactory score against the required quality specifications.

Delmas and Aganang each had two audits conducted by an external auditor, which concluded compliance scores of 85% and 77% respectively against the licence requirements. The main non-conformance matters were:

1. Aganang renewal of IWUL application to include all required listed activities including water storage.
   - The volume and location of the water storage facilities must be included.
2. Delmas inconsistency in the frequency and source of water quality measurements.

The licences are due for renewal at the end of 2019 and 2026 for Aganang and Delmas respectively. Therefore, licence conditions for the Aganang application will incorporate the identified listed activities for the new application.

Amendments to the Delmas IWUL to incorporate conditions for effective and consistent measurements will be applied for by December 2019.

Waste management licence (WML)
Aganang has a WML that stipulates the protocols for handling waste materials from the plant operations and permits the use of energy-intensive materials from varied sources. It was awarded by the Department of Environmental Affairs (DEA) according to the Waste Act, 59 of 2008 (Waste Act).

Two internal and one external audits were conducted by internal experts and an independent auditor respectively. The audits concluded that the storage of hazardous containers and management of hydrocarbon spillage were 88% compliant. Intensive training based on best practices and awareness campaigns for the employees directly impacted were implemented to mitigate the issues identified.

Use of alternative fuels and raw materials
SepCem was awarded another WML for use of alternative fuels and raw materials (AFRs) in 2018 by the DEA according to the Waste Act. The use of AFRs effectively results in the recovery and re-use of by-products from other industries to serve as alternatives for specific raw materials in cement manufacture, where such materials are usually disposed. Therefore, energy is recovered from waste material which would have been disposed.

The plan for 2019 is to determine the availability of varied sources of the alternative fuels and assessment of potential technical challenges in using them at Aganang.

SepCem proactively measures its carbon footprint in terms of specific carbon dioxide emissions and recorded between 840 tCO_2 to 850 tCO_2 per tonne of clinker produced in 2018.

SOCIAL LICENCE TO OPERATE

Social and labour plan

The new social and labour plan (SLP) was submitted to the DMR in February 2018. It has not been approved due to outstanding resolutions from the Ditsobotla Local Municipality, Verdwaal and Springbokpan communities. The Ditsobotla municipality was placed under administration in September 2018 and has not been able to hold successful council meetings. SepCem has been engaging with the various government departments and municipalities to expedite the approval process.

Community relations

The tough economic environment has resulted in increased demands from the local communities for SepCem to provide employment and business opportunities. There were several incidents of community protest action at Aganang that resulted in minor disruption to the mining and cement manufacturing processes. The community demands included additional employment opportunities, preferential procurement and skills development opportunities. The Delmas operation did not experience the same level of community unrest due to the municipality founded business forum initiative. It is an engagement platform for businesses and communities on issues including employment opportunities and SME development programmes.

Stakeholder management team continues engagement efforts with the Aganang communities, local leadership and government structures to attempt to reach resolutions on:

- The alternative grazing land for communities affected by the mining operations
- Review of the new SLP to align it with government's developmental objectives

Pieter Frederick Fourie
Chief executive officer

FY 2020 FOCUS

SepCem focus areas for the next 12 to 24 months are:

- to further reduce debt;
- to be vigilant on cost control;
- to attain the SLP approval; and
- to conclude on alternative fuels.

5 CORPORATE GOVERNANCE OVERVIEW

CORPORATE GOVERNANCE OVERVIEW

A robust governance framework is characterised by effective, accountable, fair, transparent and responsible leadership

GOVERNANCE FRAMEWORK

SepHold recognises that good corporate governance and transparent business practices are essential for sustainable performance and preserving shareholder value. A robust governance framework is characterised by effective, accountable, fair, transparent and responsible leadership. The board of directors is the vanguard of the group's corporate governance practices and delegates the responsibility of enculturation of ethical practices and integrity to executive management. The board committees enhance governance by discharging their statutory responsibilities according to clear terms of reference and a charter. The board charter regulates the members' conduct in line with the principles and recommended practices set out in the King IV Report on Corporate Governance™ for South Africa, 2016 (King IV)*. The charter defines the board's authority parameters and stipulates its role as the governance structure with ultimate accountability and responsibility for the group's performance and affairs.

The board approves the group strategy and governance policies, and provides overall strategic direction within a framework of incentives and controls. This maintains an appropriate balance between long-term sustainable growth and short-term performance. The board considers future economic trends and assumptions, opportunities and risks that could impact the group's strategic intent. The board delegates authority to the executive directors to manage the group's operations in accordance to the approved strategy and governance policies. The audit and risk committee is responsible for annually monitoring and reviewing the delegated authorities against the recommendations in King IV. The board is satisfied that it has fulfilled its responsibilities in accordance with the charter.

SEPHOLD BOARD		
The SepHold board of directors leads ethically and is committed to good governance practices that add value to the business.		
AUDIT AND RISK COMMITTEE The committee is an independent statutory committee appointed by the shareholders. It advises and makes submissions on financial reporting and oversees risk management and internal financial controls. The committee advises on the external audit function and statutory and regulatory compliance of SepHold and Métier. It advises on the internal audit functions of the subsidiary and associate.	**SOCIAL AND ETHICS COMMITTEE** The committee assists the board in compliance related matters pertaining to: environmental; health and safety; stakeholder management; good corporate citizenship; ethics; labour; and transformation. The committee oversees and evaluates management's performance against the board targets on each of these matters.	**REMUNERATION AND NOMINATION COMMITTEE** The committee decides on remuneration and incentives for the executive directors. The committee makes recommendations on long-term incentives and submits all policy amendments to the board for approval. The committee deals with the nomination and appointment of directors, the appropriateness of the composition of the board, and succession planning.

MÉTIER BOARD	Chaired by SepHold's CEO. Members include the SepHold financial director, SepCem CEO, SepCem executive manager organisation performance and the Métier managing director.
SEPCEM BOARD	Chaired by DCP's CEO. Members include the SepHold CEO, SepHold financial director and the SepCem CEO.

KING IV APPLICATION

The group applied the King IV Code to the furthest possible extent and, based on the gap analysis from the company secretary in FY 2018, the group identified six focus areas for FY 2019. The objective is to narrow and eventually close the gap. The progress achieved on each of the areas is summarised below:

Focus area	Progress made
Incorporate the code of ethics into the group's third-party supplier agreements	Management confirmed that the code of ethics and conduct have been circulated to all employees and, when applicable, third-party supplier agreements. The social and ethics committee attended to the annual review of the code of ethics and conduct, which were recommended to the board for approval. The board approved the code of ethics and conduct and noted they should be applicable to all subsidiaries.
Develop and implement an overarching group governance framework	The board has agreed to implement an overarching group governance framework in line with King IV and the practice notice – *Group Governance* published by the Institute of Directors in Southern Africa (IoDSA) on 6 March 2019.
Develop and implement a group stakeholder engagement policy	This has been considered in conjunction with the group communication, information disclosure and social media policy.
Implement a group information and technology governance policy at all levels	The board has considered the various information and technology procedures implemented for its subsidiaries and associates. At SepHold, it was noted, due to the size of the holding company, the risks relating to information and technology security were low. Management has engaged with a third party to conduct an overall analysis on the information and technology systems and procedures in place. Based upon the report received, an appropriate and detailed information and technology governance framework policy will be compiled, reviewed and approved by the board with the assistance of the audit and risk committee.
Enhance the board evaluation process	The board completed a basic board evaluation assessment conducted by Acorim. The board considered the report and recommendations made in the board evaluation. The board was satisfied with its performance. The board has engaged Acorim to conduct a comprehensive evaluation for FY 2020 and will conduct an external board assessment in FY 2021.
Enhance the remuneration policy	The remuneration and nomination committee attends to the annual review of the remuneration policy and implementation report. The remuneration and nomination committee attended to the review of the remuneration policy and implementation report in relation to executive KPIs. In its review, the committee considers various operational considerations, shareholder feedback and previously received remuneration benchmarking report.

Appointment of board chairman to the audit and risk committee

The board acknowledges that the King IV recommends against the appointment of the board chairman to the audit committee. The decision to re-appoint Mr. B Williams to the audit committee was informed by the number of independent, non-executive directors in the board, the individual director's availability, the director's level of experience and expertise, as well as the SepHold cost reduction programme. In considering all these factors, the nomination committee re-appointed Mr. B Williams into the audit and risk committee following the resignation of Mr. PM Makwana. This decision is aligned to the requirement of three independent directors in the committee without the appointment of an additional director.

For details on the group's application of the King IV Code, refer to the application register on the company website www.sephakuholdings.com/corporate-governance/governance-documents/

COMPANY SECRETARY

SepHold's company secretary, Acorim, represented by Amy Parker, advises the directors on regulatory requirements, governance procedures and how to discharge their duties and responsibilities. The board is cognisant of the role of the company secretary, and is committed to supporting Acorim in performing its duties. The board believes its arrangements on accessing Acorim's services and enabling them unfettered access has been effective. Acorim maintains an arm's-length relationship with the company and its board.

GOVERNANCE FRAMEWORK (continued)

None of the Acorim employees are directors of any group entity, nor do they have any interests or relations that may affect independence. In its assessment, the board considered the independence of Acorim directors, shareholders, employees, collective qualifications and track record. The company secretarial services were assessed and the board is satisfied that Amy Parker has the required knowledge, skill and discipline to perform the functions and duties of the group company secretary.

BOARD APPOINTMENTS

The board, through the remuneration and nomination committee (REMCO), appoints directors through a formal, fair and transparent process. REMCO consists of a majority of independent directors and is chaired by the board chairman in all matters relating to nominations. The board believes that a plethora of factors need to be appropriately balanced in order to attain an optimal and effective composition of board members. These factors will contribute to the diversity of perspectives and will strengthen the company. In the annual performance evaluation of the board's effectiveness, the directors consider the balance of skills, experience and diversity representation among other relevant factors requisite to achieve the strategy. In accordance with the approved board diversity policy, the board emphasised its commitment to increasing the number of female members and will consider women for all vacant board positions. The minimum threshold target for female representation on the board of 30% was achieved during the year. The board had three female members, two of whom are highly experienced African females. However, at year-end, on 31 March 2019, the gender representation was 29% due to the resignation of three board members by 30 November 2018. The board was constituted of seven members including two females.

Due to the constrained operating environment and the head office cost reduction programme, SepHold will not increase the size of the board and is therefore satisfied with the current proportion of female members. The ACI representation ended at 57%.

The SepHold board diversity policy can be accessed on our website – http://sephakuholdings.com/corporate-governance/governance-documents/

Changes to the board

Mr. PM Makwana resigned from the board on 1 October 2018 from his position as independent non-executive director and member of the audit and risk committee. Mr. Makwana's resignation followed his appointment as a non-executive director and chairman of another board which will require a significant proportion of his time. Mr. Makwana was a board member for five years and nine months.

Ms. RR Matjiu and Mr. KJ Capes resigned on 12 November 2018 and 30 November 2018 respectively. Their active participation in the board had been gradually decreasing due to additional external commitments, hence their decision to resign from the board.

Ms. Matjiu was one of the founding members of the SepHold board when she was appointed in 2005. She initially served as an executive director responsible for social development before being appointed a non-executive director.

Mr. Capes was a co-founder of Métier, and was appointed to the board as an executive director in July 2013 following the acquisition of Métier in February 2013. He was then appointed as the group business development executive director in March 2016.

Induction and further training

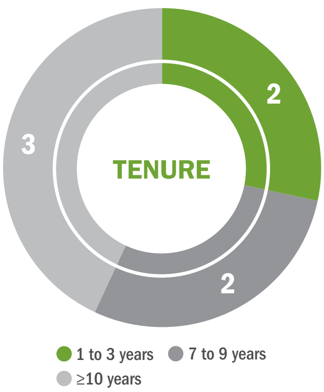
In accordance with the board charter, all new directors are inducted through formal processes which are aimed at deepening their understanding of the group, as well as the business environment and markets in which the group operates. The company secretary, together with the exco, conduct all new director inductions. New appointees meet with the exco, the company secretary and a representative of the JSE sponsor to understand the group's operations, business environment and sustainability matters.

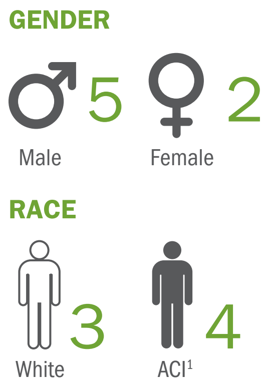
The induction includes a briefing on the directors' and employees' fiduciary and statutory responsibilities, including the JSE Listings Requirements.

The board and its subcommittees consider, on a per meeting basis, the need for additional board training. Training includes ongoing support and resources that are included in committee meeting documentation. Directors receive professional development and training through regular updates on changes and proposed changes to laws and regulations affecting the group. The board engages with external facilitators on areas where they have identified they require additional training and development. The board held interactive training sessions on the governance of ethics within the organisation and King IV. The principles and application of King IV were the focus for training in FY 2019.

BOARD COMPOSITION

The board comprised of seven directors by year-end comprising two executive, one non-executive and four non-executive directors.





[1] *African, Coloured and Indian*

DIRECTOR PROFILES

Brent Williams (55)

Chairman and independent non-executive director

BA (University of Cape Town), BProc (University of Western Cape), LLM (Harvard University Law School)

Brent was appointed as director and chairman of SepHold on 3 March 2012. He was admitted as an attorney in 1992 and has held a number of key positions since. He is currently the CEO of Cliffe Dekker Hofmeyr.

Martie Jacoba Janse van Rensburg (62)

Independent non-executive director

BCompt (University of the Free State), BCompt Hons (University of South Africa), CA(SA), Executive Programme in Strategy and Organisation (Stanford University Business School), TCTA Leadership Development Programme (Gordon Institute of Business Science), AltX Director Programme (JSE & WBS)

Martie was appointed as a director of SepHold on 22 September 2016. Between 1994 and 2008, she was the chief financial officer (CFO) (five years) and then CEO (10 years) of the Trans Caledon Tunnel Authority. She has served as non-executive director and member or chairman of audit committees for Bond Exchange of SA, Airports Company South Africa, Johannesburg Water SOC and Denel SOC. She is a non-executive director of the Development Bank of Southern Africa and the Independent Regulatory Board of Auditors and a non-executive member of the FirstRand Wholesale Credit Committee (International and Specialised Finance) and Ashburton Investment Credit Committee.

Moses Modidima Ngoasheng (61)

Independent non-executive director

BA (Economics and International Politics) (University of South Africa), BSocSci (Hons) (University of KwaZulu-Natal), MPhil (University of Sussex)

Moses was appointed a director of SepHold on 1 February 2008. He was instrumental in the industrial policy of the ANC and was economic advisor to former President Thabo Mbeki from 1995 to 2000. He serves on a number of boards, including AB InBev, SA Breweries and Dimension Data. Moses through his family trust owns 28.4% of Safika Holdings Proprietary Limited, which was owns 85% of Safika Resources Proprietary Limited.

Justin Pitt (49)

Alternate director to Moses Modidima Ngoasheng

BCom (Accounting) (University of the Witwatersrand), CA(SA), CFA, Member of South African Institute of Chartered Accountants and Association for Investment Management and Research

Justin was appointed as an alternate director of SepHold on 21 August 2014. He co-founded Safika Resources and QuestCo in 2002 and is currently the managing director of Safika Resources.

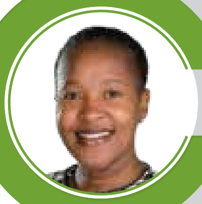
Paul Mpho Makwana (48)

Independent non-executive director

BAdmin (University of Zululand), BAdmin (Hons) (University of Pretoria), PGDip: Retailing Management (University of Stirling Institute of Retail Studies), Kellogg's Executive Development Programme

Mpho was appointed as a director of SepHold on 11 January 2013. He is the chairman of ArcelorMittal, and an independent non-executive director at Adcock Ingram Holdings Limited, Nedbank Group Limited and Nedbank Limited, among others. He also serves on a number of unlisted companies and trustee boards. Mpho resigned as a director on 1 October 2018.

DIRECTOR PROFILES (continued)



Bukelwa Bulo (41)

Independent non-executive director

BBusSc (Finance) and PGDip in Accounting (University of Cape Town), CFA, Leadership Development Program at Harvard Business School

Bukelwa was appointed a director of SepHold on 26 March 2018. She has over 10 years' experience in private equity with exposure to a wide spectrum of sectors, including industrial services and retail. Bukelwa has expertise in investment and divestment evaluation, deal structuring, and strategic and stakeholder management. She is a co-founder of Jade Capital Partnership Proprietary Limited, an investment holding company focused primarily on the property, industrial, construction and building and construction materials sectors.

Her current directorships include non-executive directorships on the boards of directors of Franki Geotechnical Proprietary Limited, Capital Appreciation Limited and Netcare Limited.

Pieter Frederick Fourie (63)

Non-executive director, CEO (SepCem)

BCom (Accounting), Executive Development Programme (PRISM) for Global Leaders (IMD, Switzerland)

Pieter was appointed a director of SepHold on 20 November 2009. He has extensive experience in the cement industry and became CEO of SepCem in May 2007.

Rose Raisibe Matjiu (58)

Non-executive director

BA (Hons) (Social Work) (University of the North), MA (Medical Social Work) (University of Pretoria), Certification in Mining and Minerals (University of the Witwatersrand)

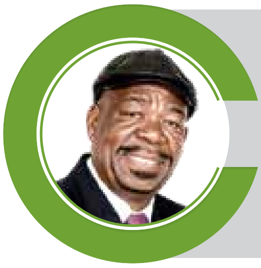
Rose was appointed a director of SepHold on 23 August 2005. She has extensive experience as a professional community and social worker in government and the private sector. She has served in a number of directorate positions and is a member of South African Women in Mining and the Business Women's Association. Rose resigned on 12 November 2018.

Kenneth John Capes (50)

Executive director and business development director

Kenneth was appointed a director of SepHold on 29 July 2013.

He has extensive experience in the ready-mixed concrete and aggregates industry. Kenneth spent 20 years in a building and construction materials entity, holding various management positions. He was directly involved in developing the ready-mixed concrete and quarrying business as a general manager. Kenneth's extensive knowledge of, expertise in and passion for concrete manufacture led him to be a co-founder of Métier. Keith resigned on 30 November 2018.



Dr Lelau Mohuba (62)

CEO and executive director

MBChB (Nelson Mandela School of Medicine, former University of KwaZulu-Natal)

Lelau is a founding director of SepHold. He became the original chairman on 3 February 2005 and became CEO on 28 March 2012. He retired as a medical practitioner in 2001 after a 22-year career. His commercial career began in 2002 and since then he has served in various capacities in several entrepreneurial endeavours.

Neil Robus Crafford-Lazarus (58)

Financial director and executive director

BCompt (University of the Free State), BCompt (Hons) (University of South Africa), CA(SA)

Neil was appointed a director and CEO of SepHold on 1 June 2007 and became financial director on 28 March 2012. He started his career in mining finance in 1988. Since then, he has held various senior positions in taxation, business development and corporate finance with companies such as Anglo-American Plc, Gencor and BHP Billiton. He also served as financial director of Xstrata SA Proprietary Limited between 1998 and 2005.

ATTENDANCE

Director	Designation	Board	Audit and risk committee	Remuneration and nomination committee	Social and ethics committee	Director up for rotation[7]
B Williams	Independent non-executive director	5/5*	1/3[1]	2/3	2/2*	2020
RR Matjiu	Non-executive director	2/5	–	–	2/2	[2]
KJ Capes	Executive director	4/5	–	–	–	[3]
PF Fourie	Non-executive director	4/5	3/3	–	2/2	2020
MJ Janse van Rensburg	Independent non-executive director	5/5	3/3*	2/3	–	2019
PM Makwana	Independent non-executive director	3/5	–	1/3	–	[4]
MM Ngoasheng	Independent non-executive director	3/5	–	2/3*	–	2019
J Pitt	Alternate to Mr. MM Ngoasheng	1/5	–	–	–	[5]
B Bulo[6]	Independent non-executive director	4/5	3/3	–	–	2021
Dr L Mohuba	Chief executive officer	5/5	3/3	3/3	2/2	[5]
NR Crafford-Lazarus	Financial director	5/5	3/3	3/3	2/2	[5]

* *Chairman.*

[1] *Appointed to the committee 12 November 2018.*

[2] *Resigned on 12 November 2018.*

[3] *Resigned on 30 November 2018.*

[4] *Resigned on 1 October 2018.*

[5] *Not applicable.*

[6] *Appointed 26 March 2018.*

[7] *Dates refer to calendar year.*

BOARD EVALUATION AND INDEPENDENCE

SepHold evaluates the effectiveness and performance of the board, its committees and individual directors annually. During the year, a formal externally facilitated review of the performance and effectiveness of the board, its committees and members was conducted by Acorim.

The assessment considered the board's effectiveness as a collective; the effectiveness of committees in discharging their duties as stated in the respective terms of reference; and the performance of individual members, including an independence review of all directors. None of the directors raised major concerns in respect of the functioning of the board or any of its committees. The board, assisted by the REMCO, specifically considers the independence of directors and their commitments on the date of appointment and annually thereafter. This evaluation determines whether a director has sufficient time to discharge his or her duties effectively and is not constrained by conflicts that cannot be managed satisfactorily. The board is satisfied that the evaluation process has improved its performance and effectiveness.

SPECIFIC INDEPENDENCE CONSIDERATION

The externally facilitated board evaluation considered the independence of all directors. In evaluating the directors' independence, the assessment considered the provisions contained in the Companies Act, King IV and the JSE Listings Requirements. The question regarding directors' independence was considered and determined holistically and on a substance-over-form basis. From the assessment, the board determined that it was satisfied that those directors who are shareholders, specifically Mr. MM Ngoasheng, applied their minds independently in the best interest of SepHold and are not tainted by their shareholding or years of tenure on the board.

INSIDER TRADING AND CONFLICT OF INTEREST

In addition to the regulatory requirements, the board charter:

- sets out the approval process relating to dealing in SepHold securities;
- sets out the required notification process of share transactions in terms of the JSE Listings Requirements; and
- prohibits director dealings in SepHold shares when in possession of non-public, material (price-sensitive) information.

Board members are required to continually confirm their trading in SepHold shares and compliance with the regulatory requirements with the board chairman or CEO. Declaration of interests is a standing agenda item at all board meetings. Directors are required to formally update their directorships and other relevant interests at least annually. Directors who have an interest in specific matters discussed at board or committee meetings are recused during the relevant discussion and/or decisions. Directors are notified when the company enters into a financial closed period and reminded thereof on a per meeting basis. Executive managers are reminded, at least biannually, and during financial results closed periods, that trading in company shares is prohibited when in possession of price-sensitive information.

COMPLIANCE

STATEMENT OF COMPLIANCE

The board is responsible for the group's compliance with applicable laws, rules, codes and standards as reported throughout the integrated annual review and attends to the consideration thereof on a per meeting basis. Compliance is integral to the group's culture and one of the essential components to its strategy. SepHold, as the listed entity, complies with various codes and regulations, including the Companies Act, the JSE Listings Requirements and King IV. There were no material or repeated regulatory penalties, sanctions or fines for contraventions of, or non-compliance with, statutory obligations imposed on the group entities, board members, executive directors or prescribed officers.

BOARD COMMITTEES

The board delegates specific functions to the committees in which independent non-executive, executive and non-executive directors participate. The committees fulfil their obligations as contained in the Companies Act, the board charter, committee terms of reference and company memorandum of incorporation. The board delegates authority to committees and individuals through clearly defined terms of reference that are reviewed annually.

The committee chairmen are elected by the members of each committee. The board believes that the group will remain a going concern in the 12-month period ahead. Their main statement in this regard is contained in the directors' approval to the financial statements.

AUDIT AND RISK COMMITTEE

The members reviewed their performance in terms of the committee's mandate and were of the opinion that they had performed their obligations adequately.

The committee has specific statutory duties to shareholders and the chairman's tenure should not be longer than five consecutive years unless the REMCO determines otherwise.

Statutory duties

The committee executed its statutory responsibilities in 2019 including the nomination of a registered, independent auditor for appointment by shareholders, and determined their fees and terms of engagement. The committee prepared the requisite report for the annual financial statements, describing how the committee executed its functions. The audit and risk committee recommended the independent external auditor, BDO South Africa Inc, which was then appointed by the shareholders. The external auditor reports on whether the annual financial statements are fairly presented in compliance with International Financial Reporting Standards (IFRS) and the Companies Act. The preparation of the annual financial statements remains the responsibility of the board.

The statement from the audit and risk committee as per the JSE Listings Requirements in accordance with paragraph 22 can be read in the annual financial statements on pages 1 to 3. The annual financial statements can be accessed at http://sephakuholdings.com/investor-centre/financial-reports.

Internal controls

The board evaluates the adequacy and effectiveness of the internal controls as well as the combined assurance processes of group entities at every meeting. Risk management and financial reporting are essential to internal control. The subsidiary and associate provide internal audit reports to the audit and risk committee for due consideration. The committee is responsible for ensuring that reported information is reliable and that the group adheres to all requisite rules and regulations.

Métier

The subsidiary has five lines of defence as follows:

First	Internal controls
Second	Management control
Third	Risk management
Fourth	External auditors and regulators
Fifth	Métier board

Sephaku Cement

The CEO and financial director are primarily responsible for robust controls that are implemented in the company. The internal audit department provide assurance on the controls implemented and reports to the chairman of the audit and risk committee. SepCem has five lines of defence as follows:

First	Management control and internal controls
Second	Risk management department
Third	Internal audit department
Fourth	External auditors and regulators
Fifth	Sephaku Cement board

The lines of defence were generally effective with recommendations of improvement on specific areas to strengthen the defence system by the internal audit department, which were effectively implemented.

Internal audit

Due to the nature and size of SepHold, the accounting function is appropriately structured to effectively deal with all current requirements and, as such, the audit and risk committee does not believe that an internal audit function is necessary at this stage. SepHold's FD fulfils Métier's internal audit function which is better suited to the subsidiary's needs than an internal audit function would be.

SepCem has an internal audit department that reports to its board audit and risk committee chairman, on which SepHold is represented. To ensure independence, the head internal auditor reports functionally to the chairman of the SepCem board audit and risk committee and administratively to the CEO.

The department is constituted of internal auditors who are members of the Institute of Internal Auditors and the International Standards for the Professional Practice (IIA). They comply with the IIA's code of ethics and standards. The department's main objective is to assist the board and exco to effectively discharge their responsibilities by evaluating the adequacy and effectiveness of risk management, internal controls and governance processes. In executing its board-assigned mandate, the department follows a risk-based audit methodology in compliance with the IIA.

BOARD COMMITTEES (continued)

The internal audit department provides its services and support to all the SepCem entities.

The internal audit plan is based on defined risk assessments, SepCem's strategic objectives and input from executive management. The audit and risk committee approves the annual audit plan and budget. Quarterly progress feedback on the annual plan is provided to the audit and risk committee. It is the opinion of the internal audit department that, based on the processes and assurance obtained, all significant internal financial controls were effective or required limited improvement during the year. The department confirmed that there were no instances noted that would have compromised its independence and objectivity in the execution of its mandate.

Financial director

The committee considered and satisfied itself of the appropriateness of the expertise and experience of the financial director (FD), Mr. NR Crafford-Lazarus, whose curriculum vitae appears on page 63. The committee also considered and satisfied itself of the appropriateness of the expertise, adequacy of the resources of SepHold's financial function and the experience of the responsible senior members of management.

Feedback on 2019 focus areas

IFRS 9 and 15

The requisite application of IFRS 9 and 15 was completed with detailed feedback in the annual financial statements accessible on –
http://sephakuholdings.com/investor-centre/financial-reports/

Information technology framework

The development of a group information technology framework was a focus area for the committee. An initial high-level assessment to ascertain the status of the group technology and information management systems and processes was completed.

SepHold has basic information technology and management systems that support its administrative processes. The group entities have information technology management strategies and processes specific to their requirements. For details refer to page 39 for Métier and page 51 for SepCem.

Risk management

The board considers risk management as an appropriate balance between realising opportunities and minimising adverse impacts. The audit and risk committee reviews the group's risks, and the effectiveness of their management.

Therefore, operational excos implement and monitor their risks monthly, in line with the board-defined risk tolerance targets. SepCem and Métier routinely identify, measure, monitor, manage and report on all material risks to which they are exposed to the audit and risk committee. The operations were systematic, disciplined in the evaluation and improvement of risk management effectiveness. The committee tasked executive management to assess emerging risks such as cyber security.

The board is satisfied that SepCem and Métier maintain effective ongoing risk assessments and adequately measure the likelihood and impact of risks. Details on their risk management processes are on page 17. No member of management exceeded their authority or acted contrary to the board's risk appetite nor, in so doing, exposed the group to unnecessary risk during the financial year and up to the date of this report.

FY 2020 key focus areas:

- To approve the group technology and information management framework
- To monitor the effective application of the group governance framework as per the IoDSA, Group Governance practice note

SOCIAL AND ETHICS COMMITTEE

The members reviewed their performance in terms of the committee's mandate and were of the opinion that they had performed their obligations adequately.

The social and ethics committee comprises seven members of SepHold and DCP boards and four standing invitees from SepCem. The purpose of the committee is to assist the board in complying with legislative requirements pertaining to corporate citizenry including environmental management, health and safety, stakeholder engagement, labour practices and ethics.

Statutory duties

The committee focused on aligning the group's codes of ethic and conduct. The framework of a comprehensive code was authorised for all group entities to adopt by the end of FY 2020. An external ethics expert was invited twice to present to the board to enhance its capacity to guide and lead the group entities on effective models. The committee reviewed and approved its charter with minor amendments. The committee reviewed the group communication plans considering issues pertaining to social media, cyber security and stakeholder engagement. Based on their discussions, they have tasked management to develop a policy that is all-encompassing. The communication information disclosure and social media policy will be reviewed by the committee in July FY 2020 with the intention that is will be adopted by the board by the end of FY 2020.

Feedback on 2019 focus areas

SepCem SLP approval

The engagement process was not concluded, which is a pre-requisite for the approval of the SLP. This matter remains outstanding due to the impasse with the communities residing around Aganang. The committee has proposed several approaches to be implemented by management through the DMR to ensure progress. SepCem to leverage on the goodwill established through the Torosesha board elections to attain community participation in the community engagement process.

Torosesha board appointments

The community directors were successfully appointed through a transparent election process adjudicated by an external company. SepCem successfully appointed six directors including their alternates from three neighbouring communities to the Aganang integrated cement plant's empowerment structure, Torosesha.

FY 2020 key focus areas:

- To approve the revised group stakeholder engagement framework
- To ensure the approval of the SepCem social and labour plan

REMUNERATION COMMITTEE

It is the view of the remuneration committee that the remuneration policy achieved its stated objective.

The remuneration and nomination committee is chaired by Mr. MM Ngoasheng with the board chairman, Mr. B Williams, chairing the meeting portion dealing with nominations. The group CEO and the FD are standing invitees at all committee meetings and assist the committee in executing its mandate.

STATUTORY DUTIES

To contribute to the group's implementation of the strategic objectives the committee achieved:

- group succession plans for executive positions;
- the approval of the SepHold and Métier short-term incentive plans;
- the approval of the King IV aligned remuneration policy;
- the nomination of Ms. B Bulo as non-executive director; and
- the review of the committee charter to align with King IV.

Feedback on 2019 focus areas

On the focus areas stated in the previous integrated report the REMCO is pleased to provide the following update:

Group succession: The REMCO developed succession plans for all key positions. The succession plan for the CEO was finalised during the year and the REMCO is confident that the group is sufficiently prepared for all eventualities related to the CEO's tenure.

Board gender and skills diversity: REMCO reviewed the board gender diversity policy.

Enhancement of executive key performance areas to align to strategic objectives: REMCO updated the KPIs for SepHold executive management. The REMCO considered and applied King IV's guidance of fairness, responsibility and transparency stipulated in principle 14 to enhance the group's remuneration policy. The group's remuneration policy excluding SepCem is described in the report below. The group participates in the determination of the appropriate remuneration strategy and policy at Sephaku Cement through the representation of three directors.

FY 2020 key focus areas:

- Approve the appointment of new CEO

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.

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

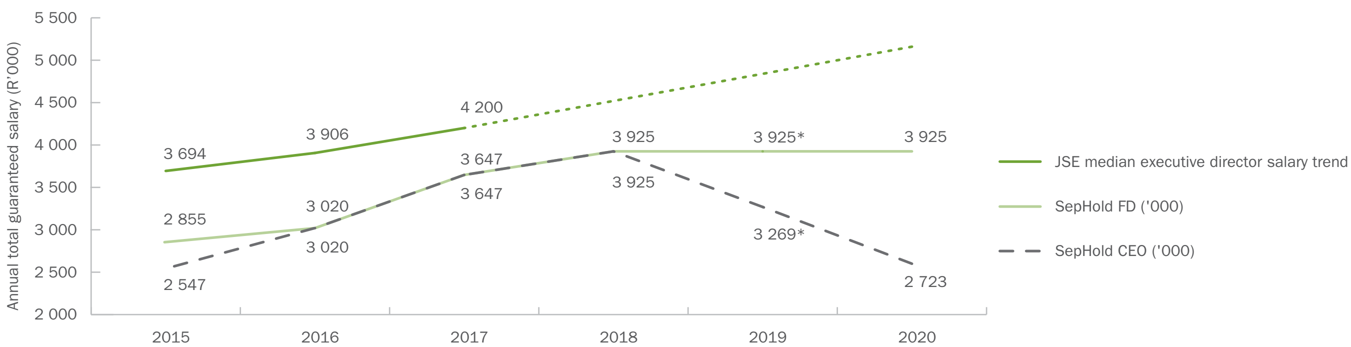
[2] *Base includes travel allowance where applicable.*

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).

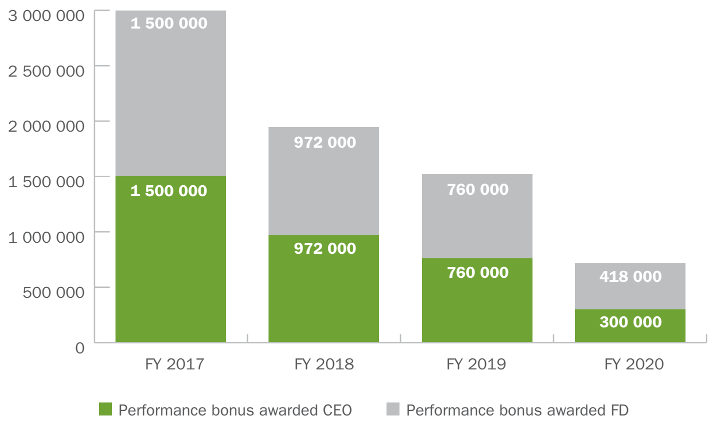
	Remuneration R	Prior year performance bonuses R	Travel allowances R	Pension fund R	IFRS 2 staff cost relating to share-based payments vesting expense (non-cash) R	Total R
EXECUTIVE						
2019						
Dr L Mohuba	2 895 366	760 000	–	123 802	593 140	4 372 308
NR Crafford-Lazarus	3 349 200	760 000	150 000	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.

CORPORATE INFORMATION

COUNTRY OF INCORPORATION AND DOMICILE	South Africa	
NATURE OF BUSINESS AND PRINCIPAL ACTIVITIES	Construction materials company	
DIRECTORS	B Williams	Chairman independent non-executive director
	PF Fourie	Non-executive director
	MJ Janse van Rensburg	Independent non-executive director
	MM Ngoasheng	Independent non-executive director
	B Bulo	Independent non-executive director
	Dr. L Mohuba	Chief executive officer
	NR Crafford-Lazarus	Financial director
REGISTERED OFFICE	Southdowns Office Park First floor, Block A Cnr Karee and John Vorster Streets, Irene X54, 0062	
WEBSITE	www.sephakuholdings.com	
POSTAL ADDRESS	PO Box 7651, Centurion, 0046	
BANKERS	Nedbank	
AUDITORS	BDO South Africa Inc Chartered Accountants (SA) Registered auditors	
GROUP COMPANY SECRETARY	Acorim Proprietary Limited Telephone: +27 11 325 6363 Email: sephaku@acorim.co.za	
COMPANY REGISTRATION NUMBER	2005/003306/06	
TRANSFER SECRETARIES	Computershare Investor Services Proprietary Limited Rosebank Towers, 15 Biermann Avenue, Rosebank, Johannesburg, 2196 PO Box 61051, Marshalltown, 2107, South Africa	
JSE SPONSOR	Questco Corporate Advisory Proprietary Limited Telephone: +27 11 011 9200	
INVESTOR RELATIONS OFFICER	Sakhile Ndlovu Email: info@sepman.co.za Telephone: +27 12 612 0210	
MÉTIER MIXED CONCRETE (WHOLLY OWNED SUBSIDIARY)	Physical address: Rosmead Business Park, 23 Malone Road, Maxmead, 3610 Postal address: Postnet Suite #546, Private Bag x4, Kloof, 3640 Telephone: +27 31 716 3600/0861 638437 Website: www.metiersa.co.za	
DANGOTE CEMENT SOUTH AFRICA (ASSOCIATE)	Physical address: Southdowns Office Park, Block A, Ground Floor Cnr Karee and John Vorster Streets, Irene X54, 0062 Postal address: PO Box 68149, Highveld, 0169 Telephone: +27 12 684 6300 Website: www.sephakucement.co.za	

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