2021

BUILDING BLOCKS FOR GROWTH

INTEGRATED ANNUAL REPORT

SEPHAKU HOLDINGS LTD

INDEX

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SEPHOLD AT A GLANCE

OUR INVESTMENT PROPOSITION

Sephaku Holdings Limited (SepHold or the company) is a JSE-listed company that offers investors a portfolio of assets focused on building and construction materials. SepHold's investment portfolio comprises a 100% subsidiary, Métier Mixed Concrete Proprietary Limited (Métier or the subsidiary), and a 36% 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 ready-mixed concrete manufacturing sectors present promising growth opportunities through infrastructure development. The group invests in modern, efficient capacity and is well positioned to generate growth and create value for shareholders over the long term. The group utilises state of the art, efficient production plants to enhance competitiveness. The operational management team has deep industry skills, extensive experience and successfully executes the strategic objectives.

SNAPSHOT OF OUR PERFORMANCE

Group

EBITDA*	EBITDA margin	EBIT**
R58,5 million FY 2020: R19,2 million	**9.2%** FY 2020: 2.6%	**R36,4 million** FY 2020 loss before interest and tax: R4,1 million
EBIT margin	**SepCem equity-accounted profit**	**Net profit after tax**
5.8% FY 2020 loss before interest and tax margin: 0.6%	**R15,9 million** FY 2020: R0,5 million	**R19,9 million** FY 2020 net loss after tax: R17,4 million
Basic earnings per share	**Headline earnings per share**	**Cash generated from operations**
7.83 cents FY 2020 basic loss per share: 8.12 cents	**6.09 cents** FY 2020 headline loss per share: 7.97 cents	**R47,3 million** FY 2020: R34,6 million
Net cash from operations	**Net asset value per share**	
R41,8 million FY 2020: R24,2 million	**440.74 cents** FY 2020: 432.54 cents	

Métier

Sales revenue	EBITDA	EBITDA margin
R634,3 million FY 2020: R727,0 million	**R55,1 million** FY 2020: R34,7 million	**8.7%** FY 2020: 4.8%
EBIT	**EBIT margin**	**Fatalities**
R33,1 million FY 2020: R12,1 million	**5.2%** FY 2020: 1.7%	**zero** FY 2020: zero
Lost-time injury frequency rate	**Debt principal balance**	
0.87 FY 2020: 1.71	Converted the revolving debt to an amortising loan, reducing the balance to **R71 million** through an injection of R15 million capital in August 2020 and capital repayments. In FY 2020, the total debt decreased by 23% to R94 million, with project debt decreasing by 95% to R2 million. The revolving debt balance was R90 million at year-end. Refer to the group chief executive officer's (CEO) report on pages 16 and 17 for further details.	

SepCem***

Sales revenue	EBITDA	EBITDA margin
R2,4 billion FY 2020: R2,2 billion	**R381,6 million** FY 2020: R358,8 million	**15.9%** FY 2020: 16.4%
EBIT	**EBIT margin**	**Fatalities**
R219,4 million FY 2020: R178,7 million	**9.1%** FY 2020: 8.2%	**zero** FY 2020: zero
Lost-time injury frequency rates		**Bank debt principal balance**
Aganang	**Delmas**	
0.66 FY 2020: 0.37	**0** FY 2020: 0	Decreased the balance by 25% to **R1,03 billion** FY 2020: Decreased by 17% to R1,37 billion

* *Earnings before interest, taxation, depreciation and amortisation.*

** *Earnings before interest and taxation.*

*** *SepCem has a December year-end as a subsidiary of Dangote Cement PLC. The FY 2021 figures are for the 12 months ended 31 December 2020, and FY 2020 figures are for the 12 months ended 31 December 2019.*

ABOUT OUR REPORT

Scope and boundary

This integrated annual report is for the financial year 1 April 2020 to 31 March 2021 (FY 2021 or the year), and there are no major restatements. As a subsidiary of Dangote Cement PLC (DCP), Sephaku Cement has a 31 December year-end. The equity-accounted profit included in this report relates to Sephaku Cement's results from 1 January 2020 to 31 December 2020.

How we report

The report provides an overview of the group and its governance practices, strategic matters and performance reviews. It complies with the Companies Act, the JSE Listings Requirements (Listings Requirements) and the International Integrated Reporting Council's (IIRC) Integrated Reporting <IR> Framework. The group applied the King Report on Corporate Governance™ for South Africa, 2016 (King IV)* to the extent possible.

The integrated annual report, annual financial statements and supplementary information constituting the notice of annual general meeting (AGM), proxy form, AGM electronic participation form and King IV application register are available at www.sephakuholdings.com.

Assurance

The group executive committee determines what information is material to disclose. Assurance over the report is obtained through management attestation, internal controls and internal audits. South African National Accreditation System agencies, the Assurance Verification Agency and 5 Star Compliance Solutions verified the group's Broad-Based Black Economic Empowerment (BBBEE) performance. SepHold's AFS were independently verified by external auditor, BDO South Africa Inc (BDO), and received an unmodified audit opinion.

Forward-looking statements

Opinions in this report are, by nature, subject to known and unknown risks and uncertainties. Changing information or circumstances may cause the group's actual results, plans and objectives 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 report. 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 report.

Forward-looking statements apply only at the date on which they are made. The group does not undertake any obligation to update or revise any opinions or forward-looking statements publicly, 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 auditor.

Approval of the integrated annual report

The board of directors (board) applied its collective mind to the preparation and presentation of this report to ensure its integrity and completeness in accordance with the IIRC's <IR> Framework. The board approved the report on 21 July 2021.

On behalf of the board:

Brent Williams
Chairperson

Neil Crafford-Lazarus
Chief executive officer

GROUP REVIEW – STRATEGY AND RISK MANAGEMENT

WHO WE ARE

The group's five value creation pillars are based on its founding principles and core values. The values of respect, integrity, accountability, transparency and honesty are reflected in the codes of ethics and conduct to obligate the board, executive management and employees to act ethically. Directors and employees are required to conduct business with stakeholders in line with these codes, available at www.sephakuholdings.com/corporate-governance/governance- documents/.

OUR INVESTMENTS

Sephaku Cement

SepCem manufactures and sells high-quality cement of various strengths to a broad range of users. Bagged cement, which constitutes approximately 80% of sales volumes, is distributed through major hardware retailers and second-tier distributors. Primary geographic markets include Gauteng, Limpopo, Mpumalanga, North West and northern KwaZulu-Natal (KZN). SepCem manufacturing operations comprise Aganang integrated plant (North West) and Delmas grinding plant (Mpumalanga). DCP, a Nigerian Stock Exchange-listed company with cement operations in Nigeria and nine other African countries, owns 64% of SepCem. Refer to www.dangcem.com for further information.

Métier

Métier manufactures ready-mixed concrete products for South Africa's industrial, commercial and residential markets. The subsidiary aims to be the building and construction ready-mixed concrete brand of choice in South Africa. Métier has 16 plants, including a mobile plant utilised between KZN and Gauteng. An administration office in Midrand supports its KZN-based head office. The geographic spread of the plants reduces market concentration risk.

Plants in Gauteng

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

Plants in greater Durban and Pietermaritzburg areas of KZN:

- Phoenix plant
- Canelands plant
- Mkondeni plant
- Umhlali plant
- Taylors Halt plant
- Mobeni plant
- Midmar plant

HOW WE CREATE VALUE

Operations utilise the cash they generate, equity from shareholders and borrowings from lenders to source inputs and services to manufacture building materials. Métier and SepCem have ongoing and planned initiatives to mitigate their negative environmental impact and uplift communities surrounding their operations.

Sephaku Cement

Aganang and Delmas have a combined cement capacity of 2,8 million tonnes per annum (mtpa). The Aganang operation constitutes a limestone opencast quarry with a proven life of over 30 years, and an integrated clinker and cement manufacturing plant. SepCem extracts limestone from the mine adjacent to the plant then processes it to clinker. The clinker is ground and blended with other inputs to produce bagged and bulk cement in different strengths. Bagged cement is distributed through retail channels to cement end-users. Bulk users such as ready-mixed concrete manufacturers purchase the cement directly from SepCem for various construction activities.

SepCem has limestone exploration projects at various stages of development in Dwaalboom (Limpopo), Vanrhynsdorp (Western Cape) and Groblersdal (Mpumalanga) that provide a pipeline for growth. There are four prospecting rights for the Groblersdal deposit, and SepCem is applying for a mining right. SepCem manages and monitors several environmental management parameters to better steward limited water resources. This stewardship, together with the closed-circuit water system at the plants, minimise discharge into the environment. Regular engagement with different government authorities and independent experts ensures compliance with licence conditions.

SepCem employs 356 people (75%) from adjacent communities at the Aganang and Delmas plants. The enterprise and supplier development programme (ESDP) has improved the local economies of the North West and Mpumalanga through the mentorship of entrepreneurs to build sustainable businesses.

Métier

Métier utilises the cement manufactured by, among others, SepCem to manufacture ready-mixed concrete, harnessing downstream synergies for the group. The subsidiary had 210 employees in FY 2021 and has a large complement of technical personnel in concrete technology who play a key role in the value creation process.

Métier sells its ready-mixed concrete, through its sales representatives, to various customers including building contractors, civil contractors, residential developers and government organisations.

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

Value creation pillar	Métier	SepCem
Service excellence driven by our high-performance culture which distinguishes us from our competitors and improves our value proposition.	**Inputs:** • The Métier Way **Outputs/outcomes** • R634 million in revenue • R36,5 million in operating profit **COVID-19 impacts on the ability of operations to implement customer service** Métier supplied all its customers without disruptions. Functionality and use of the proprietary sales digital application were enhanced to ensure all customer inquiries were expediently addressed.	**Inputs:** • Tokafatso organisation performance improvement programme **Outputs/outcomes** • R2,4 billion in revenue. • R219 million in operating profit **COVID-19 impacts on the ability of operations to implement customer service** Virtual platforms were used effectively to maintain customer relationships. Physical engagement with key customers was replaced by virtual meetings that proved to be more frequent, equally efficient and highly effective.
Technical skills and industry experience are critical to the group's ability to achieve its strategic objectives and understand the building materials market dynamics to maximise profitability.	**Inputs:** • 210 employees • Executive committee with over 85 years of combined management experience in ready-mixed concrete manufacturing, mining and technology • Expenditure of approximately R0,5 million on employee training and development **Outputs/outcomes** • Technically robust products for unique customer requirements • 66 employees trained **COVID-19 impacts on the preservation of critical skills and experience** Métier retained all of its key technical skills, which were enhanced by the return of the founding CEO.	**Inputs:** • 470 employees and contractors • Executive committee with over 260 years of combined management experience in cement manufacturing, project management, sales and distribution • Expenditure of R0,7 million on employee training and development **Outputs/outcomes** • Production of high-quality cement strengths • Enhanced skills in local communities **COVID-19 impacts on the preservation of critical skills and experience** Retained all critical skills and retrenchments were avoided through effective implementation of cost saving initiatives. Long-term retention of critical skills is ensured through retention scheme implementation.
Leading technologies produce high-quality cement and ready-mixed concrete.	**Inputs:** • Automated manufacturing anchored on modern information systems • Integrated digital platforms for precise quality control **Outputs/outcomes** • Expedient troubleshooting and efficient manufacturing of consistently high-quality products **COVID-19 impacts on the maintenance of leading technologies** There was no impact on Métier's production technologies. Product quality conformance was sustained during the year.	**Inputs:** • Integrated plant with vertical mills and a five-stage pre-heater with an inline calciner • Automated manufacturing anchored on advanced information management systems **Outputs/outcomes** • Enhanced energy efficiency **COVID-19 impacts on the maintenance of leading technologies** Alternative sources of raw material were secured to replace those negatively impacted by the pandemic restrictions. Product quality conformance was sustained during the year.

Value creation pillar	Métier	SepCem
Strategic relationships and deal-making abilities position the group as a major South African manufacturer of building and construction materials.	**Inputs:** • The consistent value proposition to customers and suppliers **Outputs/outcomes** • Partnerships with building contractors in large and/or long-term building projects **COVID-19 impacts on the ability to maintain strategic relationships** There was no significant impact on the ability to sustain strategic relationships.	**Inputs:** • Robust relations with the retail distribution channel through an attentive sales team **Outputs/outcomes** • Approximately 80% of sales volumes sold in bags through major building and construction materials retailers • Strong relationships enable the implementation of the strategic market segmentation plan for optimal value **COVID-19 impacts on the ability to maintain strategic relationships** Strategic retail partners were serviced throughout the year. Specific community projects were delayed, as contact meetings and engagement were postponed.
Sustainability emphasises responsible mining and manufacturing by continually seeking ways to minimise our negative environmental impacts.	**Inputs:** • Environmental management plan for each plant with executive responsibility **Outputs/outcomes** • Emissions below the standard of 1 200 mg/m² per day **COVID-19 impacts on the implementation of sustainability initiatives** Limited number of audits due to pandemic restrictions.	**Inputs:** • Valid environmental licences for the utilisation of alternative fuels and management of emissions, water and waste **Outputs/outcomes** • CO_2 emissions between 0.82 tonnes of CO_2 equivalent (tCO_2e) to 0.83 tCO_2e per tonne of clinker produced **COVID-19 impacts on the implementation of sustainability initiatives** Good progress was made on the use of alternative waste fuels, despite pandemic restrictions.

Strategy implementation

The group's strategic objectives focus on financial sustainability, product quality and operational efficiency. The COVID-19 pandemic impacted the operations' performance during the first half of the year, resulting in the outcomes below:

Strategic objectives	Initiatives towards objectives	Measures of success	Métier FY 2021**	Métier FY 2020**	SepCem* FY 2021**	SepCem* FY 2020**
Maintain sustainable sales volumes	Achieve targeted sales following the level 5 COVID-19 lockdown period Focus on the production of high-quality products despite the shortage of key raw materials	Sales volume growth	**(15%)**	(14%)	**9.0%**	(9.4%)
Maximise margins	Initiatives focused on: • competitively priced inputs; • reduction of expenses; • distribution rationalisation; and • Métier restructuring.	EBITDA margin	**8.7%**	4.8%	**15.9%**	16.4%
		EBIT margin	**5.2%**	1.7%	**9.1%**	8.2%
Increase cash flow	• The group focused on debtor management and price appreciation • Métier disposed of under-utilised assets	Cash generated from operations	**R56 million**	R35 million	**R329 million**	R464 million
		Average price increase per unit	**2% to 3%**	(2%) to 0%	**5% to 8%**	3.5% to 7.5%
Strengthen the balance sheet	Temporary debt repayment relief following lumpsum capital repayments	Net debt/equity	**0.1**	0.3	**0.6**	0.9

* *FY 2020 refers to SepCem figures for the 12 months ended 31 December 2019 and FY 2021 for 31 December 2020. Net debt to equity ratios are inclusive of the DCP shareholder loan.*

** *Brackets indicate negative figures.*

HOW WE ENGAGE OUR STAKEHOLDERS

Our engagement ethos

Experienced group management effectively manages key stakeholder matters, regularly reporting on these matters to the executive and board committees. The matters are considered in the group's determination and assessment of material matters, risks and opportunities.

Key stakeholder engagement themes

Stakeholder	Key matters of engagement	Context	Our response
Customers *Regular engagement*	***Métier and SepCem*** Customers require: • consistency of product quality; • punctual delivery and accessible after-sales service, particularly for concrete; • fair pricing; and • credit facilities providing stability during uncertain times.	***Métier*** Ready-mixed concrete customers have high negotiation power and require consistently high-quality concrete at competitive pricing. Punctual deliveries eliminate costly downtime and enable customers to meet their construction budgets. As the industry emerged from the level 5 lockdown, construction projects accelerated, resulting in a spike in concrete demand. ***SepCem*** Cement importers and blenders are the main competitors for bagged cement. Bulk users such as concrete manufacturers and building contractors purchase cement directly from the manufacturers.	***Métier*** • Utilises strong technical ability and knowledge in terms of product quality to ensure consistency • Efficient manufacturing and effective communication remain a priority • Regular engagement is essential to ensure customers make informed purchasing decisions and receive appropriate product specifications ***SepCem*** • Applies a robust sales strategy that includes after-sales interactions with customers to better understand their evolving needs • The combination of the field sales team and call centre agents ensures ease of communication for customers • Sales and logistics departments work closely together to ensure the timely delivery of cement • Highly experienced senior executives manage the product quality assurance process to ensure consistency • Falcon, the competitively priced fighter brand, increased the reach to price-sensitive retail markets
Employees and unions *Regular engagement*	***Métier and SepCem*** Employees require: • re-assurance on employment security; • career development opportunities; and • training and development opportunities. Unions demand: • fair remuneration; and • a safe working environment.	***Métier*** The continued low demand for ready-mixed concrete, coupled with the negative economic impact of the COVID-19 pandemic, have resulted in employee anxiety regarding job security and workplace infections. The number of unionised Métier employees reduced to 3% from 13% due to the restructuring process. Drivers constituted the highest membership and were terminated with the disposal of the fleet. ***SepCem*** Employees' main concern has been job security due to the continued severe downturn in the construction industry over the past three years. SepCem's relationship with the labour union has been guided by a charter enabling a cordial relationship with union leaders. The labour union at Aganang lost recognition during the year regarding collective bargaining rights because the membership numbers decreased below the threshold.	***Métier*** • Facilitated regular engagement through various platforms such as Toolbox meetings to ensure prompt feedback regarding employee concerns • Focused on a COVID-19 awareness campaign physically at all sites and virtually • Adopted social distancing working policies, including office rotation schedules and long-term remote working • Provided masks and access to sanitising stations for all employees ***SepCem*** • There is a retention scheme for high-performing employees, particularly those with critical skills • Engagement platforms enable employees to express their concerns to management regularly • The Tokafatso project introduced in January 2019 at Aganang invigorates the flagship operation and is rebuilding a foundation for long-term sustainability. Management will monitor its effectiveness through selected financial and non-financial metrics • Training requirements aligned to business needs were identified during performance reviews and implemented • SepCem concluded an organisational rights agreement with a new union at Aganang in June 2021 • The charter continued to create a mutually beneficial framework for engagement at Delmas

Stakeholder	Key matters of engagement	Context	Our response
Lenders *Regular engagement*	***Métier and SepCem lenders evaluated:*** • the sustainability of business models; and • assurance over debt repayment ability.	***Métier and SepCem*** The banks that have issued Métier and SepCem debt require regular updates on the general operating environment. Lenders are cognisant of the diminishing demand as private and public infrastructure investment declines. Negotiations to adapt the debt terms to the impact of the pandemic have been the focus of engagement during the year.	***Métier*** • Métier negotiated to service interest instalments from April 2020 to December 2020 subject to an injection of R15 million capital bullet payment, thereby reducing the debt balance to R75 million. The payment was made in August 2020 • Resumed full monthly instalments of approximately R1,7 million in January 2021. Capital balance at year-end at R71 million ***SepCem*** • Revised negotiations resulted in an agreement for lenders to waive August and November 2020 capital payments following shareholders' R125 million contribution on 11 August 2020 • By 31 December 2020, the debt capital balance was approximately R1 billion
Suppliers *Regular engagement*	***Métier and SepCem*** • The availability and quality consistency of raw materials were major concerns for the group • Competitive raw material pricing	***Métier and SepCem*** Over the past five years, the constrained demand for building materials has resulted in low demand and competitive building materials pricing. Although there was growth in demand for cement post-level-5 lockdown driven by increased home improvements and escalated construction in the residential building sector for concrete, the long-term demand trend continues to be downward. ***SepCem*** Suppliers of gypsum and electricity continued to yield a strong negotiation position, limiting SepCem's ability to attain below-inflation price increases. Widespread shortage in fly-ash used in the extension of cement resulted in suppliers prioritising primary cement producers over blenders, thereby improving sales prospects for incumbents.	***Métier*** • Negotiates with all suppliers to keep increases in line with inflation • Ongoing engagement on product quality ***SepCem*** • The recently installed burner in the processing plant is capable of combusting low-grade coals • The associate achieved approximately 19% thermal substitution rate against a target of 12% for the 12 months ended December 2020 using waste oils ***Métier and SepCem*** SepCem and Métier focused on negotiating competitive pricing for key raw materials to improve profitability.
Neighbouring communities *Regular engagement*	***SepCem neighbouring communities expect:*** • increased community support through ESDP and new venture creation programme (NVCP) initiatives; and • exclusive employment and training opportunities.	***SepCem*** Delmas and the Aganang communities experience high unemployment rates and a depressed local economic environment. These tough conditions increase protests and demand for opportunities above what is feasible for SepCem.	***SepCem*** • The ESDP and NVCP are SepCem's interventions to create viable small to medium locally borne enterprises • Torosesha is a BBBEE vehicle to benefit the communities most impacted by SepCem's operations through dividends paid out from the mining subsidiary for projects that uplift the socio-economic conditions of these communities • SepCem supported various communities by supplying masks and sanitisers to assist the local municipalities and leadership in reducing the spread of COVID-19

Stakeholder	Key matters of engagement	Context	Our response
Government and legislative authorities *Ad hoc engagement*	***Métier*** • BBBEE accreditation • Compliance with requisite bylaws remains a priority ***SepCem*** • Compliance with requisite laws remains a priority • Compliance with labour legislation to support transformation remains key • BBBEE accreditation	***Métier*** The subsidiary requires BBBEE accreditation to participate in government construction projects. ***SepCem*** The mining operations and plants are governed by several acts related to managing the impact on the environment and creating a safe working environment. The social and labour plan substantiates SepCem's social licence to operate. SepCem's compliance with mining and environmental legislation and licensing conditions is pertinent. BBBEE accreditation and improvement of the score are important for securing government supply contracts.	***Métier*** • Métier attained level 4 BBBEE accreditation in March 2021 • Métier complied with laws by implementing environmental plans for each plant ***SepCem*** • SepCem complied with all the requisite laws • SepCem collaborated with provincial and municipal officials on community engagement efforts
Industry association *Ad hoc engagement*	***SepCem*** • Collaboration between manufacturers to improve negotiation power with regulators such as the International Trade Administration Commission (ITAC) • Improving monitoring of anti-competitive and value-destructive behaviour by all competitors	***SepCem*** SepCem is a member of the Association of Cementitious Material Producers. The association has been essential in lobbying for tariffs against imports, engaging with the standards association on intensifying inspections of the cement supplied to the market by blenders in terms of quality and weight. The association was intensively involved in negotiations with the government on the applicable carbon tax regime for the industry.	***SepCem*** • SepCem actively participates in all industry association structures • SepCem also contributes to the association's success through its subscriptions and expertise as and when requested

For more on engagement with lenders, refer to the SepHold CEO's report on pages 16 and 17.

HOW WE MANAGE RISK

SepHold is fully or partially exposed to the risks of its investments. Therefore, the company actively monitors the risk management processes at Sephaku Cement and Métier. No undue or unusual risks were undertaken outside of risk tolerance levels.

Métier

Approach to risk management

Métier executive management identifies, measures, mitigates and monitors all material risks to which it is exposed and regularly reports on them to the board, audit and risk committee. The committee reviews the effectiveness of the risk framework and advises executives on strengthening it as part of its fiduciary responsibilities. Métier's exposure to the following risks increased during the year: industry competition, unavailability of raw materials and customer default.

Industry competition

The spike in concrete demand after the level 5 lockdown resulted in the proliferation of independent manufacturers with the flexibility to pursue narrow profitability margins. The additional competition neutralised the positive impact of plant reductions by a major integrated competitor. The low barriers of entry enabled new manufacturers to replace those unable to withstand the impact of the pandemic. The restructuring of Métier, initiated in April 2020, enabled it to compete effectively due to the reduced cost structure.

Unavailability of raw materials

Métier was impacted by the shortage of fly-ash utilised as an extender of purchased bulk cement for two months, inadvertently increasing the ready-mixed concrete cost base.

Customer default

The pandemic negatively impacted the cash flows of medium and small-scale construction projects resulting in an increased incidence of late customer credit payments and increased credit applications. Métier responded by implementing strict customer credit control measures to eliminate the incidence of debt write-offs. The Credit Guarantee Insurance Corporation credit insurance cover was replaced with a Santam credit partial cover product due to its significant reduction in cover for the construction industry. The subsidiary strategically opted to self-insure the bulk of the debtors.

Focus areas for FY 2021

Implement final recommendations from the information technology (IT) governance audit to strengthen the subsidiary's IT systems.

SepCem

Approach to risk management

SepCem proactively manages risks and opportunities in a dynamic and fluid operating environment in line with its board-approved enterprise risk management (ERM) framework. The SepCem board has overall responsibility for risk governance. The board delegates the audit and risk committee to assist it with discharging its enterprise risk governance and oversight duties. The risk division enhances SepCem's second line of defence and has been assigned to the board risk policies custodianship. The division partners with the executive and plant management teams in executing the policies by providing technical expertise on best practices.

The risk division maintains a degree of independence and therefore oversees, reviews and challenges risk information and any breaches in the board-defined risk appetite. In the first line of defence, the executive management committee has overall accountability for managing enterprise risks across the business. The committee has established sub-committees to assist it in discharging its oversight responsibility on key risks as follows:

- Credit management;
- Scenario validation and risk finance;
- Economic crime and ethics; and
- Health, safety, social and environmental.

The associate's risk universe is divided into three broad categories detailed below.

Strategic risks

Refer to threats to SepCem's strategic intent that directly affect plans such as expanding existing products and services, and mergers and acquisitions. The key strategic risks in FY 2021 were as follows:

- Business disruption due to COVID-19;
- Entrance of imports and substitutes products;
- Loss of market share/key customers;
- Price war;
- Inability to meet commitments and other requests agreed with the community; and
- Inability to meet lenders' covenant requirements.

Operational risks

Defined as the risk of loss resulting from failed or inadequate people, processes, systems and issues stemming from external events that are not directly under SepCem's control. The definition includes legal and compliance risks and included the following for FY 2021:

- Critical equipment failure and reliability;
- Cybersecurity breach;
- Product transportation risks including truck accidents, hijacking and riots;
- Process safety risks including fire, explosion and pre-detonation;
- Unavailability of raw materials within the required time frame;
- Production quality risks; and
- Extreme weather events and natural disasters.

Financial risks

SepCem key financial risks for FY 2021 were as follows:

- Credit;
- Market; and
- Liquidity.

During the year, risk culture initiatives focused on improving employee health and safety behaviour due to the pandemic. SepCem implemented awareness campaigns and training to enhance employee skills on limiting the workplace spread of COVID-19. It monitored compliance to the campaigns to enforce alignment with the guidelines. The associate recorded an improvement in risk-based decision making despite several employees working remotely.

SepCem's top risks in FY 2021

Risk	Context	Risk movement	Risk movement rationale	Key risk mitigations
Macroeconomic factors impacting SepCem's ability to sustain the business and execute its strategy	The demand for cement as a product is elastic to macroeconomic factors. When the economy is in boom cycle and consumers have higher disposable income, unemployment is low and the demand for cement increases. Consumers tend to spend more on items that improve their quality of life.	↑	The economy was under pressure at the beginning of the 2020 calendar year which was exacerbated by the pandemic, resulting in the gross domestic product (GDP) contracting by 7% year-on-year (y-o-y). The construction industry GDP contracted by 20.3% for the same period, marking the industry's fourth consecutive year of economic decline.	Cost management initiatives were implemented.
Risk of business disruption due to COVID-19	Government placed the country in lockdown from 27 March 2020 to 30 April 2020 to flatten the infection rate of COVID-19. SepCem had to cease all operations during the level 5 lockdown period.	↔	The risk of disruption from a pandemic has been in the SepCem risk register for a long time. However, since each pandemic has its own unique character, a COVID-19 risk was registered and assessed as a new risk in 2020.	SepCem developed a pandemic response plan, and a special task team was established to coordinate all COVID-19 activities.
Entrance of imports and substitutes products	South African cement manufacturers are severely undermined by cheap imports from countries such as China, Vietnam and Pakistan.	↔	No risk movement.	SepCem participates in the cementitious industry association which has applied for non-country-specific flat tariffs against imports from ITAC.
Social/community unrest disruptions	Numerous mining companies often have to stop operating for weeks due to community protests. Failing to maintain ongoing engagement with local communities and resolving issues promptly can cause major disruptions to SepCem mining operations.	↑	Several incidences of social unrest targeting foreign truck drivers resulted in trucks being burnt and drivers assaulted. SepCem opted not to use its trucks for several days, awaiting protection of specific routes by law enforcement before proceeding to load.	SepCem maintained regular communication with other commercial entities to determine safe routes.
Reliability and sustainability of power/electricity supply	Eskom is facing several challenges and has advised that the country will remain in a load-shedding situation for 18 to 24 months, as it is implementing the turnaround strategy.	↔	No risk movement.	SepCem is investigating its power generating options.

Feedback on FY 2020 focus areas

Enhancing data security

Following the benchmarking of SepCem's information security and cybersecurity, the programme was further improved in line with the Protection of Personal Information Act, 4 of 2013 (POPIA) guidelines in FY 2021. External consultants independently audited SepCem's information and cybersecurity programme against the International Organization for Standardization 27001, European Union General Data Protection Regulation, National Institute of Standards and Technology standards, Cybersecurity Framework and POPIA. Further developments in the POPIA post-year-end necessitated another review of the existing information and cybersecurity programme.

Enhancing disaster and continuity capabilities

SepCem's disaster recovery plans and business continuity plans were activated during the hard lockdown, and several processes continued to operate until the end of the year. The business resilience programme was effective in minimising the impact of COVID-19 on SepCem's operations.

Combined assurance

SepCem has a formalised combined assurance framework that ensures activities by internal and external assurance providers adequately cover key risks faced by each of our internal divisions. In FY 2021 enhancement efforts were made to improve the integration of risk assurance providers and improve reporting to management and board governance structures. Combined assurance is deemed an area of continuous improvement and will remain a focus area for FY 2022.

MATERIAL MATTERS

Low demand

SepCem marginally improved, Métier worsened

Context

Ready-mixed concrete

Declining private infrastructure investment has resulted in lower ready-mixed concrete demand resulting in fierce competition and lower profit margins.

Cement

Contestation between cement manufacturers, blenders and importers ensued during the year. Although there was a significant decline in rural market sales volumes, the increase in home renovations segment supported demand for the year.

Our response

Métier

- Retained customers to defend geographical positioning
- Targeted new customers across all market segments
- Sourced inputs strategically

SepCem

- Utilised the fighter brand Falcon as a defence against imported and blended cement
- Continued applying differentiated pricing to maximise margins

Our FY 2022 focus areas

Métier

- Continue minimising input costs to mitigate the impact of stagnant selling prices on margins
- Review potential growth opportunities in other regional markets through optimisation of current assets

SepCem

- Recover the volume lost due to competitor activity by strengthening existing customer relationships
- Continue implementing the defence strategy created for KZN against imports
- Continue implementing the pricing model based on market segmentation and product classification

Affected strategic objectives

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

Stakeholders

- Investors
- Lenders
- Employees
- Organised labour
- Communities
- Government

MÉTIER-SPECIFIC MATERIAL MATTER

Customer credit default risk

No change

Context

Several construction projects were suspended, as investor confidence waned, and funding was suspended during the height of the pandemic.

The challenging operating environment continued to place pressure on Métier's customer base.

Our response

- To mitigate the risk of financial loss from defaults, the subsidiary only dealt with reputable customers with consistent payment histories and suspended accounts for non-payment
- The subsidiary acquired partial credit risk cover against potential liquidations

Our FY 2022 focus areas

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 viable, insurance will be purchased. Debtors with credit balances will be reviewed regularly to match the inflow and outflow cash flows.

Affected strategic objectives

- Maximise margins
- Improve cost efficiencies

Stakeholders concerned

- Investors
- Government
- Customers

SEPCEM-SPECIFIC MATERIAL MATTERS

Availability and quality of raw materials

Worsened

Context

Cement

The local market has historically been supplied with low-quality coal at high prices. The poor coal quality has caused enormous technical challenges for the production plant and process.

Our response

- An alternative source of higher-quality coal was secured on favourable terms from Botswana
- SepCem purchased a specialised plant burner with the capacity to burn poor quality coal
- SepCem commenced the alternative fuels project plan for ramping up waste oil utilisation over four years to 2023. Its thermal substitution target was approximately 12% for the 12 months ended December 2020, and it achieved 19%

Our FY 2022 focus areas

- Proceed with the second-year ramp-up on alternative fuels utilisation to 34% for the 12 months ending December 2021

Affected strategic objectives

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

Stakeholders concerned

- Investors
- Customers

Managing local communities' expectations

Improved

Context

North West

The lack of formalised leadership structures has severely limited engagement on matters such as the approval of a new social and labour plan.

Mpumalanga

Engagement with communities located around the Delmas grinding plant improved. The municipality has developed broad engagement structures and platforms between the communities and businesses in the area. The engagement 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 Department of Mineral Resources and Energy (DMRE), on successfully engaging with the Lichtenburg communities.

The DMRE and the Department of Agriculture, Rural Development and Land Reform have intermittently intervened during the past two years in an attempt to conclude the outstanding matters in the North West.

Our FY 2022 focus areas

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

SepCem to collaborate with other cement manufacturers through the task team structure in the North West as recommended by the DMRE minister. SepCem has supported numerous small to medium-sized enterprises through the ESDP and NVCP.

Affected strategic objectives

- Improve cost efficiencies
- Maximise margins

Stakeholders Concerned

- Communities
- Government

Shortage of technical skills and industry knowledge

Improved

Context

The technical skills required to operate the manufacturing plants, produce consistent quality and effectively manage sales are limited.

The cement industry is highly concentrated, with six producers competing for the best skills.

Our response

- SepCem has a long-term retention scheme to attract and retain key employees
- The associate implemented the Tokafatso organisation transformation initiative at its Aganang plant
- Tokafatso includes training programmes for key positions to transfer knowledge and establish protocols for technical and scientific methodologies

Our FY 2022 focus areas

Expand Tokafatso to the Delmas plant and the Centurion administrative office to establish a high-performance organisation

Affected strategic objectives

- Maintain sustainable sales volumes
- Improve cost efficiencies

Stakeholders concerned

- Investors
- Lenders
- Employees
- Organised labour
- Communities

SEPHOLD-SPECIFIC MATERIAL MATTER

Concentrated SepHold investment portfolio

No change

Context

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

Our response

Due to the constrained industry trading environment and declining macroeconomic performance, the main group focus has been strengthening the operational balance sheets by servicing debt.

Our FY 2022 focus areas

SepHold will continue to explore upstream and downstream opportunities that have the potential to enhance shareholder value. The company will investigate potential mergers and acquisitions in building materials that will appropriately diversify risk and enhance returns.

Affected strategic objectives

- Maximise margins
- Strengthen balance sheets

Stakeholders Concerned

- Investors

LEADERSHIP REVIEWS

Brent Williams
Chairperson

"As a board, our key focus was on the group's resilience. We approved the response plans on managing workplace exposure to COVID-19 and the business continuity plans."

BOARD CHAIRPERSON'S REPORT

Dear stakeholders,

I am pleased to report on the group's strong performance during the challenging year defined by COVID-19. As a board, our key focus was on the group's resilience. We approved the response plans on managing workplace exposure to COVID-19 and the business continuity plans. Recognising that the health and safety of our employees, who are critical in implementing the group's strategic objectives, is paramount, we approved the implementation of protocols that protected employees from undue exposure in the workplace and provided them with extensive information to enhance awareness of the virus.

"The Métier turnaround process was essential to ensure that the business is appropriately structured for the pervasive low demand."

Our key operational oversights

The Métier turnaround process was essential to ensure that the business is appropriately structured for the pervasive low demand. The performance of the construction industry directly impacts the ready-mixed concrete sector in particular. With the continued decline in non-residential and other large infrastructure projects, the need for the subsidiary to adapt was clear. When we re-appointed the founding Métier CEO, Kenneth Capes, we gave him the mandate to turn around the operations urgently. I am pleased that he was successful at returning the subsidiary to profitability. As a board, our oversight role ensured that the process had minimal retrenchments and aligned with the group's empowerment ethos.

The SepCem management team focused on cost reduction measures to mitigate the negative impacts of the pandemic. Due to the lean workforce, retrenchments were not an option for the associate. Following the national migration to COVID-19 level 4 restrictions, SepCem was able to restart its plants faster than other producers which, combined with the relatively high stock piles, enabled the associate to respond quickly to demand. Essentially, the associate was well positioned to supply the retail demand uptrend for bagged cement driven by the home renovations ahead of its peers. The overall increase in SepCem's sales volumes against the decline in total industry demand indicates that the associate's response to the restrictions was ingenious.

The common key operational matters to which the board applied oversight included managing bank debts and information security at both Métier and SepCem. Negotiations with lenders resulted in repayment schedules better aligned to the challenging trading environment exacerbated by the pandemic. Strengthening the balance sheets of the operations by reducing debt continued to be a priority for the group during the year. We reviewed and approved the disaster management plans in line with the long-term governance plan to contribute to effective IT and information security management. We are confident as a board that the operations are sufficiently equipped to deal with incidences of cybersecurity attacks. Further details on the operational performance and the impact of COVID-19 can be found on pages 18 to 29.

At the SepHold level, we approved the extension application from the JSE for dual executive roles of CEO and financial director (FD) to be held by Neil Crafford-Lazarus. The application was successful, and we believe that this is an appropriate short-term structure based on the reasons articulated in the governance section of this report. Accordingly, the extension was granted for an additional 24-month period until 31 December 2022.

"The SepCem management team focused on cost reduction measures to mitigate the negative impacts of the pandemic. Due to the lean workforce, retrenchments were not an option for the associate."

Board and group management changes

The Métier managing director (MD), Jürgens du Toit, resigned on 8 June 2020 to pursue other career opportunities. The MD role was not refilled due to the re-appointment of Kenneth Capes as Métier CEO and executive director of SepHold on 1 April 2020. Kenneth has extensive experience that spans from quarrying to ready-mixed concrete manufacturing.

SepCem's CEO and SepHold non-executive director, Pieter Fourie, sadly passed away on 19 May 2021. Pieter brought to the board deep experience in cement manufacturing and marketing spanning several decades and continents. We lost an individual with enormous institutional insight and knowledge of the cement industry. The operations executive, Duan Claassen, was immediately appointed the acting CEO to lead the experienced executive team. Duan has been a member of the executive management in charge of operations since the inception of SepCem.

"As the pandemic continues into FY 2022, we will remain vigilant in our oversight role in reducing workplace exposure."

Appreciation

On behalf of the board, I thank management and employees who have remained diligent in executing their tasks in this difficult environment. As the pandemic continues into FY 2022, we will remain vigilant in our oversight role in reducing workplace exposure.

I also thank our customers and suppliers who have supported the group throughout the year. I thank the communities adjacent to our operations for their continued patience as we strive to meet our responsibilities. I thank the officials in the various government structures and municipalities who have been extremely supportive in resolving challenging matters related to our community engagement initiatives. Finally, to the providers of capital, our shareholders and bankers, we thank you for your continued support in our efforts to achieve our strategic objectives.

Brent Williams
Chairperson

Neil Crafford-Lazarus
Joint chief executive officer and financial director

"The improved (Métier) comparative results validate the decision to re-appoint Kenneth and the success of the restructuring process."

JOINT SEPHOLD CEO AND FD REPORT

Introductory remarks

The 2021 financial year contrasts what I can term pandemic hard-lockdown phase and post hard-lockdown phase. The level 5 restrictions during the hard lockdown halted all our operations with limited administrative and maintenance activity throughout the group. The uncertainty of this initial phase led us to negotiate with lenders on adapting the debt repayment terms to accommodate the lack of activity. I am pleased to confirm that we successfully provided the prerequisite capital injection for both Métier and SepCem to enable lenders to suspend full debt repayments for nine months and five months of the year, respectively.

By the time the pandemic hit our shores in March 2020, the board had decided to re-appoint Kenneth Capes on 1 April 2020 as CEO of Métier, with the mandate to restructure the subsidiary's business model to better align with the prevailing trading environment. The severe macroeconomic impact of the pandemic accelerated the implementation of the restructuring process to ensure that Métier emerged a lean and profitable business by the end of the year. The improved comparative results validate the decision to re-appoint Kenneth and the success of the restructuring process. Unfortunately, the mixed concrete sector continues to experience low demand and high competition due to the significantly lower cost base of the independent manufacturers and forward integration by the aggregates producers. Nonetheless, we are confident that the restructured Métier is well positioned to be profitable and competitive in the current and new markets such as the Western Cape, where a plant is being constructed with production targeted to commence during the 2022 calendar year.

On the cement front, we were pleasantly surprised by the surge in bagged cement demand in the post hard-lockdown phase, which we believe resulted from additional consumer discretionary income. The increase in cement demand was correlated with increased home renovations, as numerous people worked remotely during the year. The increase in the sales of other home improvement components as reported by the major building materials merchants seemed to confirm this trend. As detailed in the business review section of this report, SepCem had a revenue increase of approximately 10% y-o-y, mainly due to increased sales volumes. The unit price increase was unfortunately muted due to competition from other cement producers, blenders and imports.

SEPHOLD

Cost management

The company head office expenses were 24% lower y-o-y at R12,6 million from R16,6 million, mainly due to a 60% reduction in non-cash costs related to vesting expenses and the depreciation of an intangible asset. The balance was due to a temporary reduction and suspension of salary increases to mitigate the impact of the pandemic on group profitability. The real expenses will remain at this level for the medium term as the group continues with austerity measures to support profitability.

MÉTIER

Management of customer credit risk

Exposure to credit risk and the creditworthiness of customers are continuously monitored at Métier. To mitigate the risk of financial loss from defaults, the subsidiary was selective in transacting with customers with consistent payment history and ceased supply for late payment where appropriate. Métier terminated the Credit Guarantee Insurance Corporation insurance contract because the cover for construction-related companies was significantly reduced.

The subsidiary subsequently purchased insurance to partially hedge against potential bad debts. As of 31 March 2021, the loss allowance for trade and other receivables was reduced to R1,9 million (FY 2020: R2,9 million) mainly due to a R1 million provision reversal on settled trade receivables.

Bank debt management

Due to the COVID-19 impact on profitability, the lender agreed for Métier to pay the interest portion of the monthly instalments from April 2020 until December 2020, subject to a R15 million lumpsum payment to reduce the facility capital balance to R75 million in August 2020. As a result, the subsidiary resumed monthly repayments of both capital and interest in January 2021. The total interest payments for the 12 months ended March 2021 were approximately R7,2 million. The amortising facility balance was R71 million on 31 March 2021 (FY 2020: R92 million). The facility bears an interest rate of three-month Johannesburg Inter-bank Average Rate (JIBAR) plus 5%, which was 8.51% at year-end. The facility is repayable in varying instalments, with the final payment on 31 March 2023. Details on Métier's performance are in the business review on pages 18 to 22.

Sephaku Cement

Debt management

In August 2020, DCP contributed R125 million capital into SepCem's debt service reserve account, increasing the balance to approximately R152 million. The funds in the debt service reserve account were then applied as pre-payment to reduce the six capital instalments as of February 2021 on a straight-line basis. The capital contribution is currently defined as a deposit for equity to be converted into a shareholders' loan on the same terms as the existing DCP loan. The debt service cover and debt to EBITDA ratios were revised to align with the prevailing trading environment.

By 31 December 2020, the bank loan capital balance was R1,03 billion, following the total repayment of R450 million, including accrued interest of approximately R110 million. The interest rate on the loan is the preceding three-month JIBAR plus 4.5%, equating to 7.8% by 31 December 2020, which is lower than the 11.3% in 2019 due to the lower interest rate regime. The DCP shareholder loan at an interest rate of JIBAR plus 4% had a balance of R581 million, with interest accrued and capitalised by 31 December 2020. SepCem bank debt repayments are current, and the associate is in full compliance with the loan covenants. Details on SepCem's performance are in the business review on pages 23 to 29.

Post-period update*

Sephaku Cement

Q1 2021 performance

Following the DCP results announced on 30 April 2021 for the first quarter (Q1) ended 31 March 2021, I am pleased to state that SepCem's revenue increased by 16% to R541 million (Q1 2020: R466 million). The quarterly sales volumes were 6% higher y-o-y attributed to the continued home renovations trend. In addition, all cement manufacturers implemented price increases between January and February 2021.

* *Post-period for SepCem is January 2021 – June 2021.*

"Industry experts project that residential buildings will likely remain the growth sub-sector through calendar year 2021, spurred by significant interest rate cuts."

Outlook

Market expectations

Industry experts project that residential buildings will likely remain the growth sub-sector through calendar year 2021, spurred by significant interest rate cuts. Eventually, however, the immediate pent-up demand stimulus effect of cheaper mortgages is expected to subside without improved actual production levels pertinent to grow the economy and generate wealth.

An area of optimism for the industry is the current commodity cycle, which significantly benefits an economy that is still a beneficiary of the global demand for raw materials such as South Africa. An external demand improvement factor such as this tends to flow through to improved private and public construction demand if sustained. We therefore remain cautiously optimistic about the positive cement demand trend and recognise that a longer-term trend will require impetus from civil infrastructure.

Métier's plant footprint expansion

Métier will be expanding into the Western Cape market during FY 2022 as part of its strategy to diversify its market reach. The subsidiary will require minimum capital expenditure for the initial expansion phase because under-utilised assets from the current business structure will be deployed.

Group focus

The group will focus on cost management to sustain the gains from the numerous initiatives during FY 2021. SepCem and Métier will continue to strengthen their balance sheets by reducing debt while seeking diversification opportunities within the construction value chain.

In addition, the mitigation measures instituted by the group to reduce the spread of COVID-19 in the workplace will be maintained until such a period that the risk has been eliminated through vaccination.

Entering FY 2022, we continue to operate within the COVID-19 protocols that include rotational office attendance and remote working where appropriate throughout the group to mitigate workplace infections. We will retain the cautious approach by implementing stipulated guidance from government, own governance processes and progress in the national vaccination programme.

Neil Crafford-Lazarus
Chief executive officer and financial director

BUSINESS REVIEW – MÉTIER MIXED CONCRETE

Kenneth Capes
CEO

CHIEF EXECUTIVE OFFICER'S REPORT

How did the COVID-19 pandemic affect your ability to operate?

Returning to Métier in April 2020, after a three-year hiatus from the operations, the board mandated me to restructure the business model to align to the prevailing trading environment and position the company for value-accretive growth. The negative macroeconomic impact of the pandemic accelerated our implementation of the restructuring process to ensure that Métier emerged as a lean and profitable business by the end of the year. The initial task of reducing the costs and improving cash flow required us to dispose of under-utilised assets and improve transport utilisation. Unfortunately, we had to retrench 50 employees, the majority of whom were drivers, as a consequence.

Despite the 38 days of hard lockdown during which we were unable to operate, volumes recovered to CY 2019 levels during the second half of the year, resulting in an overall decrease in sales volumes of 15% y-o-y. We experienced challenges in receiving fly-ash, a significant component of our products, in the Gauteng region, which impacted our input costs for two months. Fortunately, concrete supply to all of our customers as demand increased was uninterrupted during this time. The schedules of construction projects impacted by the restrictions during the level 5 lockdown were escalated following activity commencement. Although the enhanced activity resulted in extended working hours and stretched resources, we maintained our high customer service levels.

Most suppliers struggled to gather output momentum after the hard lockdown. However, the strategic partnerships with our suppliers ensured that Métier did not run out of raw materials. We operated within strict health and safety protocols to minimise the spread of COVID-19 at all of our plants. Sales efforts were initially conducted remotely and remained effective in keeping in touch with our clients. From August 2020, we reverted to physical engagement with our customers while observing necessary health and safety protocols.

> **"The initial task of reducing the costs and improving cash flow required us to dispose of under-utilised assets and improve transport utilisation."**

How did the pandemic impact the competitive landscape?

Although some of the larger players in the industry restructured by closing some of their batch plants, new entrants emerged in KZN and Gauteng as if the pandemic had not affected the industry. Price increases have been below inflation for many years due to the highly competitive ready-mixed concrete market, thereby requiring one to "think like a fox"* to be able to navigate the challenging operational terrain. The residential sector that has kept the construction industry from collapse creates low barriers to entry for smaller ready-mixed concrete entrants into the fray.

How did Métier perform overall compared to the previous year?

Our revenue decreased to R634 million (FY 2020: R727 million) due to a 15% decline in sales volumes y-o-y. The EBITDA and EBIT improvement to 8.7% (FY 2020: 1.7%) and 5.2% (FY 2020: 4.8%) respectively was due to the various initiatives we implemented to restructure the business, including reducing costs and disposal of underutilised assets. Métier's net profit increased to R17 million (FY 2020 net loss: 0,6 million).

* *The Mind of a Fox: Scenario Planning in Action by Chantell Ilbury and Clem Sunter.*

Did you have any unique supply opportunities compared to your competitors? If so, what were they and how did you harness their value?

We secured a contract in our northern region to supply approximately 50 000 m^2 of concrete for external hardstands and a main office block. Our ability to combine the use of our mobile and fixed plants enabled us to successfully fulfil our contracted volumes without compromising supply to our regular client base. We demonstrated our *Service, Quality, Reliability* customer value proposition through our deep technical and sales skills. In particular, our in-house, developed digital sales tracking and forecasting system has proven simple and effective.

How did Métier ensure a safe working environment for its workforce?

We maintained our impeccable zero fatalities record this year, and the recorded lost-time injury frequency rate decreased to 0.87 (FY 2020: 1.71). The total number of lost hours decreased from 351 to 135 during the year. Unfortunately, 11 employees, constituting 5% of our employee complement, contracted COVID-19, but they all fully recovered. The reduction in the lost-time injury frequency rate can be attributed to the reduced working hours and approximately 62% of the improvement to effective safety protocols and training. Sixty-four Toolbox meetings and 40 health and safety meetings were held to enable effective social distancing through smaller group meetings. We used these platforms to communicate COVID-19 developments and to refresh employee knowledge on standard health and safety protocols.

To combat the spread of the virus, we instituted a hybrid system of working from home and rotational office attendance. We provided all employees with masks, sanitisers and soaps. To enhance awareness of the virus, we placed informative posters and signs at all of our sites. We also shared updates on the pandemic in the Toolbox meetings and through training, emails and COVID-19 site induction posts. We prohibited air travel from April to October 2020 and, where essential, required our employees to drive. COVID-19 compliance officers were appointed within the departments and assigned to operations, workshops and administration offices.

Finally, internal safety audits confirmed broad compliance with all safety procedures, meetings and record-keeping. An audit conducted by external inspectors confirmed the high standard of Métier plants' health and safety protocols.

How did Métier fare against the focus areas stated in FY 2020's integrated annual report, and what are the focus areas for FY 2022?

Our performance against the focus areas is as follows:

- **To reduce debt:** We lowered the capital debt balance to R71 million by 31 March 2021, a reduction of 22.8% y-o-y. Further details on the loan status can be read in the group CEO's report on pages 16 and 17.
- **To evaluate potential new markets:** We identified the Western Cape as an expansion opportunity for Métier's national footprint due to its significance as a ready-mixed concrete market. We will utilise existing assets to start the Western Cape operations and provide full administrative support from existing structures.
- **To enhance customer focus to accurately understand their needs and deliver an enduring experience:** The focus area was adapted to actively manage the increased debtors' days in the initial months following the recommencement of operations. Prudent support of our customers through the continued supply of ready-mixed concrete despite late payments demonstrated our understanding of their key needs post the level 5 lockdown.
- **To improve technical innovation by leveraging deep technical expertise:** Métier continued to focus on this area by creating products that are fit for purpose or for a unique customer requirement.

The focus areas for FY 2022 are:

- Expand into the Western Cape market;
- Minimise capital expenditure and implement tight cost control;
- Continue to reduce bank debt; and
- Manage customer credit risk.

Kenneth Capes
CEO

HUMAN CAPITAL

Executive committee

Kenneth Capes (53)

CEO

Kenneth has approximately 35 years of experience in the mining and construction materials industries. He has extensive knowledge of ready-mixed concrete, mining aggregates and calcium carbonate for the construction and allied industries. He held various senior management positions within these industries and founded Métier in 2007. Kenneth has been a director of Métier and SepHold since the purchase of Métier by SepHold in 2013. Kenneth was re-appointed as Métier CEO and SepHold executive director following a three-year hiatus in April 2020.

Jürgens Du Toit (47)

MD

NDip (Civil Engineering) (Technikon Pretoria)

Jürgens has approximately 29 years' experience in the mining and building, and construction materials industries. He held senior management positions in several aggregates and ready-mix businesses in South Africa, Botswana and Lesotho. He was appointed MD on 1 March 2016 and resigned on 8 June 2020 to pursue other opportunities.

Stacey Venter (39)

Finance manager

BAcc (Rhodes University), CA(SA)

Stacey is a qualified Chartered Accountant with 18 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.

Gregg Hollins (50)

Regional manager – eastern region

NDip (Civil Engineering) (Technikon Natal)

Gregg is a civil technician and concrete technologist. He has extensive experience spanning 24 years in the ready-mix concrete and aggregates industry. He held various management positions in Lafarge's technical, production and commercial departments for over 11 years. He joined Métier on 1 June 2007.

Glen Talmage (50)

Regional manager – northern region

NHDip (Civil Engineering) (Technikon Witwatersrand)

Glen has extensive experience in the ready-mix concrete and aggregates industry. He has held various senior positions in the technical, production and commercial sectors at a building and construction materials entity for over 23 years. He joined Métier on 1 June 2011 to establish and expand Métier's footprint in Gauteng.

Ceri Rayne (40)

Human resources manager

BSocSci (Hons) (University of KZN), 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 over 15 years. She joined Métier with a focus on training, human development, employee performance and talent management. Ceri was appointed on 1 July 2013.

Doug Thring (53)

National maintenance manager

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

Doug has extensive construction and project management experience spanning 31 years including tenure at Bosch & Associates Consulting Engineers, Murray & Roberts and his own construction business. Doug joined Métier on 1 November 2015.

EMPLOYEE OVERVIEW

Employment ethos

Ethics and integrity

Métier has codes of ethics and conduct that clearly articulate the requisite standards to ensure employees align with a common value system. Elements of the code of good conduct are explicitly included in the employee performance management process to emphasise their importance.

Fairness and transparency

Métier strives to be an employer with fair, transparent and non-discriminatory practices. Employees are rewarded based on the value of their work, competence and performance guided by the board-approved remuneration framework to ensure non-discrimination.

Honesty

To promote a culture of honesty, Métier has an externally managed whistle-blowing line to report unethical and unfair practices. The service provides stakeholders with a channel to report fraud and unethical behaviour by employees and management. Internally, the subsidiary has a stipulated grievance procedure that enables employees to report unethical behaviour in the workplace to either their direct line manager, the human resources department or the MD.

Employee profile

Métier's employee turnover rate was 34.7% (FY 2020: 15.8%). The subsidiary reduced the workforce by 75 employees, mainly through retrenchments, as part of the operational restructuring to align to the prevailing operating landscape. Fifty employees were retrenched when the subsidiary disposed of the fleet, and the balance of the terminations was due to resignations or dismissals. In line with its non-discriminatory approach to recruitment, Métier had three employees with disabilities and six learners with disabilities in the learnership programme. Despite the reduced workforce, Métier achieved its equity targets at middle and junior management levels. Furthermore, the subsidiary promoted five employees, three of whom were African, coloured and Indian individuals.

31 March 2021	Male				Female				Foreign nationals		
Occupational level	**African**	**Coloured**	**Indian**	**White**	**African**	**Coloured**	**Indian**	**White**	**Male**	**Female**	**Total**
Top management	0	0	0	3	0	0	0	2	0	0	5
Senior management	1	0	3	14	0	0	0	0	0	0	18
Professionally qualified and experienced specialists and mid-management	8	0	7	12	1	0	3	2	1	0	34
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	22	0	6	6	11	0	1	6	2	0	54
Semi-skilled and discretionary decision making	28	0	1	0	0	0	0	0	0	0	29
Unskilled and defined decision making	65	0	0	0	2	0	0	0	0	0	67
Total permanent	124	0	17	35	14	0	4	10	3	0	207
Temporary employees	1	1	0	0	0	0	1	0	0	0	3
Grand total	125	1	17	35	14	0	5	10	3	0	210

Promotions during FY 2021	Male				Female				Foreign nationals		
Occupational level	African	Coloured	Indian	White	African	Coloured	Indian	White	Male	Female	Total
Top management											0
Senior management	1		1	1							3
Professionally qualified and experienced specialists and mid-management			1	1							2
Total permanent	1		2	2							5
Grand total	1	0	2	2	0	0	0	0	0	0	5

Training and development

The subsidiary's investment in training was approximately R500 000 (FY 2020: R1 million) below the budgeted R1,2 million due to the COVID-19 impact. Métier focused on critical training for 66 employees across 77 interventions, of which 46 were historically disadvantaged South Africans (HDSAs). Four HDSA employees were granted tertiary study bursaries in economics, accounting, general science, law and credit management qualifications. Métier has continued to fund the National Qualifications Framework levels 2 and 3 production technology learnerships, which are expected to be completed by 2022, for six learners with disabilities.

BBBEE

Métier and SepHold were collectively awarded level 4 BBBEE certification, a decline from level 3 in FY 2020. The main reason for the lower score was due to the skills development element. The pandemic lockdowns eliminated physical training, and the subsidiary resorted to virtual training, which was limited to employees with access to digital devices. The lower rate of training, therefore, negatively impacted the skills development score.

ENVIRONMENTAL CAPITAL

Métier conducted 32 audits, a 43% decrease from the comparative period (FY 2020: 56), to monitor and minimise the environmental impact on the surrounding areas. The fewer audits were due to a combination of factors including the COVID-19 restrictions, reduced operational activity and resignation of the environmental management manager. The audits identified Métier's main environmental impacts as dust emissions from silos and aggregate stockpiles, washout concrete residue and wash water management.

In line with Métier's commitment to zero tolerance to non-compliance with environmental and safety protocols, the subsidiary has ongoing costs of approximately R1 million per year for mitigating and handling the impacts. The mitigatory measures are as follows.

Dust emissions

Suppression sprinklers ensure that stockpiles remain damp to minimise dust. Dust levels from silos and loading areas are controlled through the use of filters and screens. The dust emissions were sustained at the regulatory limit of 1 200 mg/m^2 per day as stipulated by the national dust control regulations.

Water management

Métier recycles and re-uses between 85% to 90% of all excess water generated on the premises in production. Additional water utilised for the production of ready-mixed concrete is supplied via the municipal supply.

- **Excess wash water disposal:** Water used to wash trucks and clean the yard area is recycled through the settlement ponds and re-used in ready-mixed concrete production. Any excess water that is kept at a minimum is cleaned and released into the municipal systems.

Waste management

Métier's main objective for the year was to ensure efficient waste management at all plants and correct disposal in line with municipal bylaws. Waste was categorised and allocated to separate disposal bins as stipulated by the legislative framework.

- **Washout concrete residue:** There are washout facilities with recycling units at each plant. The recycled residue is loaded and taken to quarries, where it is recycled back into aggregates for onward uses.

BUSINESS REVIEW – SEPHAKU CEMENT*

Duan Claassen
Acting CEO

"Even before the pandemic arrived in South Africa, we had created a dedicated task team in January 2020 composed of internal and external experts to ensure an effective response to the virus."

CHIEF EXECUTIVE OFFICER'S REPORT

How did the COVID-19 pandemic affect your ability to operate?

Due to our December year-end, the pandemic's impact was nine months from April to December 2020, and the quarter ended June 2020 was most severely impacted by the restrictions. I will begin by discussing how we responded to the pandemic related to our employees and neighbouring communities.

Stakeholders

Employees

In this period, we prioritised the health of our employees by implementing COVID-19 awareness campaigns and protocols such as remote working. The pandemic unfolded marginally differently in South Africa to what we had anticipated in our business continuity planning. I am pleased to say that we had projected several scenarios with optimal responses as part of our disaster recovery and business continuity planning process. Even before the pandemic arrived in South Africa, we had created a dedicated task team in January 2020 composed of internal and external experts to ensure an effective response to the virus.

The task team was mandated to work with management at all our operational sites to develop risk-based response protocols, monitor regulatory developments on the pandemic, continually align to global best practice responses to limiting the spread of the virus, and implement fact-based communication with all of our employees and communities. We had a relatively low infection rate with no COVID-19-related deaths, and 80% of the employees who tested positive were not infected at the workplace. The low infection rate was achieved mainly due to the risk-based protocols, including workplace screening of critical employees whose functions could not be implemented remotely. We also provided our employees access to professional wellness programmes, including mental health support, to assist them in coping with anxieties related to the pandemic.

Neighbouring communities

I am also proud to report that we supported our neighbouring communities by providing masks, sanitisers and social distancing signage for public areas such as schools. We worked with local small businesses with the production capacity to make the masks, to promote the local economy. Furthermore, we collaborated with several community leaders and provincial health officials to implement awareness campaigns to limit the spread of the virus.

Operations

The level 5 government-imposed restrictions resulted in our plants halting all production of cement for 38 days. In the second quarter, we experienced challenges securing the supply of key raw materials, namely coal and fly-ash, mainly due to logistics constraints. The supply of the higher-quality coal sourced in Botswana was particularly impacted due to the border restrictions into South Africa. The strategic decision to procure a customised burner to process lower-quality coals during FY 2020 proved timely. It enabled us to substitute some of the imported coal with lower-

* *Refers to SepCem figures for the period ended 31 December 2019 for FY 2020 and 31 December 2020 for FY 2021.*

quality local coal for the duration of the restrictions. The fly-ash supply was constrained due to delays in the awarding of tenders by Eskom. The shortage was worsened by supply chain constraints such as bulk tanker availability immediately after the hard lockdown. We developed and implemented a cost saving plan for the nine months from April 2020 to mitigate the pandemic's negative impact, resulting in a 9% savings y-o-y in fixed costs in real terms based on average PPI.

How did the pandemic impact the competitive landscape?

Some competitors implemented aggressive pricing strategies to retain market share when restrictions were reduced during level 3 lockdown, which reversed some of the first quarter price increases. Although the industry experienced significant recovery in the third quarter ended September 2020, the uncertainty of the pandemic resulted in all producers implementing minimal price increases during the year.

The widespread shortage in fly-ash limited the ability of some cement producers to offer sufficient extended products. We were able to leverage our ability to extend with limestone and adjusted our product mix offering to meet customer demand. Production challenges and downscaling at some competitors benefited manufacturers such as SepCem better placed to supply the increasing bagged cement demand post-hard-lockdown. Based on industry data released in June 2021 on locally manufactured domestic sales volumes, excluding CEMZA, approximately 7,7 million tonnes were sold for nine months to September 2020. CEMZA is the only manufacturer without the capacity to produce clinker and therefore imports it for conversion into cement. The third quarter sales matched the comparative quarter volumes in 2019. The industry data further indicated that the moving annual tonnage to September 2020 was 10,8 million tonnes, representing a 17% decrease from 13.1 million tonnes y-o-y.

Due to the restrictive global lockdown conditions, the imported cement volume for CY 2020 decreased by approximately 5% y-o-y to approximately 990 Kt. The cement industry's application for safeguard protection from ITAC progressed well, but the pandemic prolonged the decision timeline. If approved, the application will result in a non-country-specific flat tariff on all imported cement. During calendar year 2020, approximately 81% of the imported cement entered the country via the Durban port into KZN, implying that SepCem is well positioned to benefit from the tariff application because the province is one of the associate's key markets. Approximately 537 Kt of cement was imported into South Africa by the end of May 2021, with 69% from Vietnam and 83% through Durban.

How did Sephaku Cement perform overall compared to the previous year?

Sales volumes for the 12 months ended 31 December 2020 were 9% higher y-o-y. However, in the initial six months to June 2020, volumes were 8.5% lower due to the persistently weak demand during the first quarter ended 31 March 2020 and the impact of the COVID-19 lockdown in the second quarter. The significant increase in the second half sales volumes was mainly due to the third quarter performance that contributed 62% to the total volume for the year.

SepCem's strong performance is attributable to its ability to ramp up its operations to meet increased demand. Furthermore, technical plant challenges, extender and clinker shortages hampered competitor activity. Post-year-end, for the three months ended March 2021, all cement manufacturers implemented effective price increases of between 6% to 8%. The next price increases are scheduled for June, July and August 2021.

What were the key operational opportunities and how did Sephaku Cement harness them?

Alternative fuels

We commenced using alternative fuels through waste oils and ultra-fines waste, surpassing our target of an 11.9% thermal substitution rate for the year by achieving 18.8%. The plan is to progressively increase the use of alternative fuels to approximately 40% substitution by December 2023 by using waste oil, ultra-fines waste, tyres and refuse-derived fuels. We foresee that the use of alternative fuels will improve our cost savings and reduce our carbon tax obligation once implemented.

Torosesha non-profit company

Our greatest success in community engagement continues to be Torosesha, the non-profit company we established in 2013 as an empowerment vehicle to benefit the Verdwaal and Springbokpan communities in the North West. Torosesha has received R8 million in dividends from Sephaku Development Proprietary Limited (SepDev) since the commencement of the mining operations in 2014. During the year, the Torosesha board approved the construction of multi-purpose centres at both Verdwaal 1 and Verdwaal 2 communities. The centres are designed to provide the community with recreational space for various activities and services, including:

- provision of a waiting room for the mobile clinic;
- study hall for local students without appropriate facilities at their homes;
- offices for Torosesha board members and the community headman;
- advisory services office for the provision of skills development, employment and small, medium and microenterprise (SMME) recruitment; and
- general community information centre.

Furthermore, the Torosesha board is finalising a memorandum of understanding with the North West Department of Health to provide experienced medical staff to manage a clinic constructed in Springbokpan. The Department of Health has agreed in principle, provided the structure is built and fully equipped before handover.

What were the key operational challenges, and how did Sephaku Cement mitigate their impact?

The community leadership vacuum at Aganang

This challenge has been ongoing for several years and has limited our ability to conclude various community empowerment initiatives. The lack of leadership structures recognised by all community groups has prohibited finalising a surface lease agreement, implementing the social and labour plan projects and finalising the long-term grazing plan. I am pleased to report that the delay in the approval of the social and labour plan due to outstanding community resolutions has received ministerial attention after year-end. A task team has been set up by the minister of the DMRE consisting of senior government representatives, cement manufacturing representatives and local authorities to facilitate engagement with communities to obtain a resolution on the local economic development projects to be implemented during the 2021 to 2022 calendar years. The task team is expected to provide the minister feedback by September 2021 on the progress achieved and areas requiring further intervention.

Community agitation for procurement and employment opportunities

Communities at Delmas and Aganang continued to agitate for additional employment, training and local procurement opportunities. At Aganang, local small business owners referred their grievances to the DMRE for intervention. Subsequently, the DMRE engaged cement manufacturers and recommended that we collaborate through the newly established task team to increase the scale of common empowerment projects proposed to the communities. We then created the cement producers forum in the North West to support community development projects in the Ditsobotla municipal area. At Delmas, the mayoral forum created two years ago provided a constructive engagement platform eliminating protracted community contestation. Community issues of concern are expediently addressed through the structure.

ESDP challenges

Our ESDP develops entrepreneurs by providing small businesses with training, mentorship and coaching on business administration. To that effect, we continued developing and supporting SMMEs from the local communities in the areas we operate at Aganang and Delmas by procuring goods and services. We spent over R74 million in FY 2021 (FY 2020: R80 million) through 21 SMMEs for services ranging from employee transport, raw materials transport, cement plant cleaning, materials handling and catering.

The expenditure directed at SMMEs accounted for 10% of the total for Aganang and Delmas operations. Unfortunately, we had to temporarily suspend the catering service due to the closure of the plant canteen to minimise the spread of COVID-19 at the operations. Consequently, the total number of individuals employed from the local communities by these SMMEs marginally reduced to 174 (FY 2020: 182).

Since its inception, the programme has evolved, informed by the challenges encountered in implementing the empowerment initiatives. Post-year-end, we launched a renewed SMME supplier programme to empower entrepreneurs who have demonstrated an unwavering commitment to managing their businesses on a full-time basis, through supply contracts and training. The programme is implemented through an integrated structure, including formal and practical training for the identified SMMEs. As of April 2021, we contracted 10 SMMEs from local communities to provide services ranging from cement plant cleaning and recoveries to materials handling, office cleaning, catering and training. To further improve the programme outcomes, we included in the service level agreements a clause mandating all SMMEs supplying our operations to participate in either the new venture training programme or the recently launched supplier training programme depending on the owner's level of experience and performance. Despite the challenges in several of the SMMEs not achieving performance targets as stipulated in the service level agreements, we are proud of our progress to enhance the local economies in our plants' areas.

How did Sephaku Cement ensure a safe working environment for its workforce?

There were no fatalities at our operations (FY 2020: 0). The lost-time injury frequency rates were 0.66 at Aganang (FY 2020: 0.37) and zero at Delmas (FY 2020: 0). The Delmas plant had no lost-time injuries, and Aganang had three lost-time injuries. Investigations conducted on the three lost-time injuries identified that they were all behaviour based. Therefore, we have intensified behaviour-based training and other interventions to curb incidents of this nature re-occurring.

How did Sephaku Cement fare against the focus areas stated in FY 2020's integrated annual report, and what will the focus areas for FY 2022 be?

The progress in FY 2021 was as follows:

- **To further reduce debt:** By 31 December 2020, we reduced the project loan capital to R1,03 billion through shareholder support. Renegotiation of terms with lenders is detailed in the group CEO's report on pages 16 and 17.
- **To be vigilant on cost control:** SepCem implemented various cost saving initiatives to mitigate the negative impact of lockdown restrictions resulting in a 9% savings y-o-y in fixed costs in real terms based on average PPI.
- **To attain social and labour plan approval:** This focus area is outstanding due to the leadership vacuum in the Aganang community. The progress made post-year-end through the engagement with the DMRE minister is expected to expedite the achievement of this goal in FY 2022.
- **To conclude on alternative fuels:** We commenced the alternative fuels project and surpassed our targeted thermal substitution rate.

The focus areas for FY 2022 are:

- to further reduce bank debt;
- to improve plant reliability through project Tokafatso roll-out at Delmas;
- to attain the social and labour plan; and
- to achieve the targeted use of alternative fuels.

Duan Claassen
Acting CEO

HUMAN CAPITAL

Executive committee

Pieter Frederick Fourie (65)

Chief executive officer

BCom (Accounting) (University of Pretoria), Executive Development Programme (PRISM) for Global Leaders (Switzerland)

Pieter had extensive experience in the cement industry, coupled with more than 25 years leading various companies in the construction sector. He was appointed the CEO on 1 May 2007 and sadly passed away on 19 May 2021.

Duan Claassen (53)

Acting CEO and operations executive

BEng (Metallurgical Engineering) (University of Pretoria), Young MDP (INSEAD, France), MDP (Duke University, USA)

Duan completed his graduate engineer training at the De Beers Group before joining Blue Circle Cement in 1997. He was involved with Blue Circle Cement's integration into Lafarge in 1998. He subsequently worked for PPC before being appointed on 1 January 2008. Duan was appointed acting CEO in May 2021.

Suleiman Oladapo Olarinde (58)

FD

BSc (Hons) (Economics) (Ahmadu Bello University, Nigeria), Fellow of the Institute of Chartered Accountants of Nigeria

Suleiman started his career with PwC and has over 36 years of experience. He joined the Dangote Group in 1991 as head of internal audit and financial services. Suleiman is employed by Dangote Industries as an executive director (finance). He was appointed FD on a fixed-term contract on 21 August 2014.

Gay de Witt (52)

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 was working for Danone Clover before being appointed on 1 July 2009.

Heinrich de Beer (54)

Executive manager projects

BEng (Mechanical) (North-West University), MDP (North-West University), LDP (Gordon Institute of Business Science)

Heinrich started his career as a project engineer and maintenance manager at Mittal Steel South Africa before joining Indian Ocean Fertilizers. He later worked at Lafarge, where he held various maintenance, project management, logistics, and procurement positions. Heinrich was appointed on 1 June 2008.

Khumo Mphake (41)

Executive manager organisational performance

BA (Industrial Psychology) (University of Cape Town), BA (Hons) (Industrial Psychology) (University of South Africa), PGDip (Management and Business Administration) (Witwatersrand Business School), MDP (BBBEE) (University of South Africa – School of Business Leadership)

Khumo has comprehensive experience in human resources management with a career that started in the banking sector, and later joined Lafarge in 2006. She subsequently worked for Sentula Mining and Tongaat Hulett Starch. She was appointed on 9 March 2020.

Robert Mathye (45)

Executive manager sustainable development

MPhil (Rand Afrikaans University), BA (Hons) (Geography and Environmental Sciences), BAED (University of Venda)

Robert is a social scientist with a career that spans 18 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.

Jennifer Bennette (58)

Company secretary

Jennifer has extensive experience in paralegal and company secretarial work. She previously filled the company secretary roles at Platmin and SepHold. She was appointed on 1 February 2008.

Permanent invitees to the executive committee

Mziwakhe Matola (39)

Head of risk management

BCom (Economics) (University of Pretoria), Bachelor of Christian Entrepreneurship (Team Impact Christian University: USA), PGCert (Risk Management) (University of South Africa)

Mziwakhe has experience ranging from establishing to maturing ERM programmes. He has a track record in implementing ERM in various risk management roles in the energy, chemicals, banking and insurance industries within African countries, including South Africa, Namibia, Zambia and Botswana. Mziwakhe was appointed on 15 March 2016.

Alfred Radebe (39)

Head of internal audit

BCom (Accounting) (University of KZN), AGA(SA)

Alfred completed his South African Institute of Chartered Accountants articles in 2003 before assuming the internal audit role at Imperial Group and Nampak. He later moved to Ernst & Young, where he managed internal audit engagements in various sectors across sub-Saharan Africa. He was appointed on 1 January 2015.

EMPLOYEE OVERVIEW

The total employee complement as of 31 December 2020 was 470 (FY 2020: 464). Included in this total are 460 permanent employees and 10 fixed-term employees.

	Male				Female				Foreign nationals		Internal targets		
Occupational level	African	Coloured	Indian	White	African	Coloured	Indian	White	Male	Female	Target HDSA (%)	Actual HDSA (%)	Actual black (%)
Top management	1	0	0	3	1	0	0	2	1	0	42	50	25
Senior management	4	1	0	11	2	0	0	4	1	0	45	48	30
Professionally qualified	11	1	3	13	2	0	3	5	1	0	75	64	51
Skilled technical	64	3	3	19	26	2	5	8	1	0	85	85	79
Semi-skilled	110	1	0	0	25	0	0	2	0	0	100	100	99
Unskilled	99	0	1	0	30	1	0	0	0	0	100	100	100
Total	289	6	7	46	86	3	8	21	4	0			
Grand total	289	6	7	46	86	3	8	21	4	0			

Employment equity

The employment equity (EE) committee met three times during the year to measure progress against the annual targets and discuss ways of addressing the identified barriers to and measures of affirmative action. SepCem continued to make notable progress towards achieving its EE target at the senior management level, promoting female employees. The focus for FY 2022 will be to improve the representation of women, particularly at the middle management level, and to strive for a workforce that is more representative of the economically active population.

The Women in Mining initiative supported SepCem's transformation agenda by raising gender-sensitive issues affecting women in the workplace. Some of the issues discussed include personal protective equipment, health and safety, and sexual harassment in the workplace.

BBBEE

SepCem retained the Level 5 status by scoring exceptionally through indirect empowerment initiatives such as preferential procurement, supplier development and socio-economic development. The associate's score was negatively impacted by direct empowerment elements such as ownership, management control and skills development.

Employees with disabilities

In line with non-discriminatory practices, SepCem promotes the employment of people with disabilities. In FY 2021, 0.85% (FY 2020: 1.30%) of the associate's workforce comprised employees with disabilities. Although this is a decline, SepCem remains committed to recruitment efforts aimed at attracting people with disabilities. The EE committee continues to monitor the possible barriers to the reasonable accommodation of people with disabilities.

Labour relations

Due to the impact of COVID-19 on SepCem, the associate had to implement drastic survival measures. As a result, the associate initiated a consultative process with the labour union, and a settlement was reached between the parties. The amendments to collective agreements entered into were a six-month deferral of the annual increase from July 2020 to January 2021 and the payment of 25% of the 13th cheque on a sliding scale based on targeted sales volumes. SepCem achieved the targeted volumes; therefore, the 25% was paid out in January 2021.

Learning and development

Learning and development was another area severely impacted by the pandemic, resulting in the suspension of non-critical training. The training expenditure for FY 2021 was R650 000 (FY 2020: R3,61 million), which represents 0.28% of the payroll. The critical training interventions rolled out included risk assessment, basic and advanced firefighting, fitness to work, fatigue management, hygiene, emergency preparedness, conveyor belt, rigging and slinging, first aid training and training for health and safety representatives. The training objectives were to ensure that employees and SepCem remain legally compliant even during the pandemic.

The requirement to adhere to social distancing and workplace access limitations resulted in SepCem providing training live on virtual platforms or in a pre-recorded format. This approach required an adjustment from the traditional methods of delivering training. The negative impact of the pandemic on training extended to the BBBEE scorecard.

The pandemic also limited the momentum of the roll-out of Tokafatso at Aganang due to the hard lockdown and focus on production ramp-up with the easing of lockdown levels. Inadvertently, the implementation of the next phase of the organisation performance enhancement programme was postponed. Aganang management responded by re-energising the workforce through leadership training during calendar year 2021.

ENVIRONMENTAL CAPITAL

The plan for the year was to maintain compliance with all applicable permits and licences by expediently rectifying any non-compliances identified by authorities during audits and site inspections. The focus areas were carbon tax, greenhouse gas emissions reporting, waste management and air quality management. SepCem was successful in greenhouse gas emissions reporting and carbon tax submission.

Operating licences

Carbon emissions

SepCem proactively measures its carbon footprint in terms of CO_2 emissions and recorded between 0.82 tCO_2e to 0.83 tCO_2e per tonne of clinker produced (FY 2020: 0.82 tCO_2e to 0.83 tCO_2e).

Atmospheric emission licence

Continuous emission monitors are installed at stacks in both operations, enabling the plants to monitor daily all pollutants and assess results against the atmospheric emission licence. Emissions data is reported internally, discussed at the quarterly operational meetings and assessed regarding its risk to the business.

Carbon tax bill

The carbon tax initially applies only to scope one emitters in the first phase from 1 June 2019 to 31 December 2022 and the second phase from 2023 to 2030. The tax rate commenced at R120/tCO_2e for the 2019 period and will increase at a rate of consumer price index plus 2% each year until the end of the first phase on 31 December 2022. The rate for 2021 is R127/tCO_2e.

Water consumption

The Aganang plant successfully renewed its water use licence, and it is now well aligned to site-specific water uses. Water conservation consists of comprehensive water quality monitoring programmes, minimising pollution by separating clean and impacted water streams, recycling impacted streams and treatment where required. Water quality compliance was measured against the applicable water use licence limits assigned for each discharge to the receiving environment.

The Aganang and Delmas plants re-use the water from return water dams and silt traps as process water, and offset the use of boreholes or freshwater from the municipality. The annual volume of water extracted from five boreholes was 137 352 m^3. SepCem utilised 104 litres of freshwater per tonne of clinker (FY 2020: 85 litres) and recycled 108 703 m^3 (FY 2020: 116 412 m^3). The increase in water consumption was mainly due to its use for cooling down the coal stockpiles during the level 5 lockdown.

Waste management

The approach to waste management aims to improve operational efficiencies by reducing the waste produced from the process, effectively sorting waste and promoting recycling wherever possible. Waste that cannot be recycled is safely disposed of at appropriate waste facilities, and safe disposal certificates are obtained. Each plant maintains waste inventories that detail the source, volume and type of waste generated by each process, and the disposal method.

The plants are registered on the South African Waste Information System, and the volume and type of waste generated and disposed of are reported monthly.

General waste is separated at the plant into its component waste streams, including domestic waste, ready-mixed recyclables, wood, steel and rubber. Waste for recycling and re-use is collected from internal transfer areas, such as the salvage yard, by an independent contractor for re-use, recycling and disposal of the residual domestic waste stream. Hazardous waste, such as used oil, is recycled through specialist service providers, and oil-contaminated material, including used filters, is delivered to registered waste disposal facilities. SepCem's disposal of waste and recyclables fully complied with the conditions of its waste management licence.

Environmental audits

As in the previous year, SepCem implemented two environmental audits. The main findings from the audits identified minor housekeeping activities related to spillages which were immediately rectified.

Focus areas for FY 2021

Legal compliance

- Maintain requisite environmental licences
- Achieve emissions below regulatory limits
- Comply with requirements for audits and reporting

Implementation of alternative fuels

- Implement the alternative fuels road map – a matrix of available and feasible waste streams
- Implement a tyre feeding system
- Increase the thermal substitution rate to 34% by December 2021

CORPORATE GOVERNANCE OVERVIEW

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 is the vanguard of the group's corporate governance practices and delegates the responsibility of inculturation of ethical practices and integrity to executive management.

Board committees enhance governance by discharging their statutory responsibilities according to clear terms of reference and a charter. The charter regulates members' conduct in line with King IV principles and recommended practices. 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 oversight on their implementation. The board delegates authority to the executive directors to manage the group's operations according to the approved strategy and policies. The board is satisfied that it has fulfilled its responsibilities per the charter in FY 2021.

<table>
<tr><th colspan="3">SEPHOLD BOARD</th></tr>
<tr><td colspan="3">The SepHold board utilises three committees to lead ethically and by good governance practices.</td></tr>
<tr>
<td>Audit and Risk Committee (ARC)
The ARC is an independent statutory committee appointed by the shareholders. ARC's primary function is to oversee risk management and internal financial controls for the group. The committee advises the group on:
• the external audit function and statutory and regulatory compliance;
• financial reporting
• internal audit functions; and
• risk management and combined assurance.</td>
<td>Social and Ethics Committee (SEC)
The SEC focuses on group compliance-related matters regarding:
• environmental management;
• health and safety management at all operations;
• stakeholder management in line with good corporate citizenry;
• labour unions and employee relations;
• black economic transformation; and
• ethical conduct.
The SEC oversees and evaluates management's performance against the board targets on each of these matters.</td>
<td>Remuneration and Nomination Committee (REMCO)
The REMCO deals with the nomination and appointment of new directors, the appropriateness of the board's composition and succession planning. Furthermore, the REMCO decides on remuneration and incentives, and recommends long-term incentives for the executive directors. The REMCO then submits all policy amendments to the board for approval.
The governance structure includes the Métier and SepCem unique operational governance matters to enable the SepHold board to focus on overarching group-related practices.</td>
</tr>
<tr><td>Métier Board</td><td colspan="2">Métier board membership was reduced to three from five post-year-end, constituting the Métier CEO, SepHold CEO and a non-executive director.</td></tr>
<tr><td>SepCem Board</td><td colspan="2">The board comprises nine main members and two alternates, including the SepHold CEO, SepCem CEO and chaired by DCP's CEO.</td></tr>
</table>

BOARD COMPOSITION

Director profiles

Brent Williams (57)

Chairperson 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 chairperson of SepHold on 3 March 2012. He was admitted as an attorney in 1992 and has held several key positions. He is currently the CEO of Cliffe Dekker Hofmeyr.

Martie Jacoba Janse van Rensburg (64)

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 and Wits Business School)

Martie was appointed as a director of SepHold on 22 September 2016. Between 1994 and 2008, she was the chief financial officer (five years) and then CEO (10 years) of the Trans-Caledon Tunnel Authority. Martie has served as a non-executive director and member or chairperson of audit committees for Bond Exchange of South Africa, Airports Company South Africa, Johannesburg Water SOC, Denel SOC and the Independent Regulatory Board of Auditors. She is a non-executive director of the Development Bank of Southern Africa, Etion Limited, Ivanhoe Mines Limited and a non-executive member of the FirstRand Wholesale credit committee (international and specialised finance) and Ashburton credit committee.

Moses Modidima Ngoasheng (64)

Independent non-executive director

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

Moss was appointed a director of SepHold on 1 February 2008. He was instrumental in the industrial policy of the African National Congress and an economic advisor to President Thabo Mbeki from 1995 to 2000. He consulted for the World Bank and National Housing Forum (South Africa) on aspects of economic policy in South Africa. Moss is a CEO, deputy chairman, and cofounder of Safika Holdings, an investment holding company with a broad range of interests in the mining, industrial, gaming, financial services, telecommunication, and technology sectors. He is a board member of Trakka Corp (Pty) Ltd (an Australian-based company), and chairman of South African Breweries Foundation, to mention but a few. Moss is a Trustee of the Nelson Mandela Children's Hospital.

Bukelwa Bulo (43)

Independent non-executive director

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

Bukelwa was appointed a director of SepHold on 26 October 2018. She has over 16 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 cofounder of Jade Capital Partners, an investment holding company focused primarily on the property, industrial, construction and building materials sectors. Her current directorships include non-executive directorships on the boards of Value Group, Capital Appreciation and Netcare.

Pieter Frederick Fourie (65)

Non-executive director

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

Pieter was appointed a director of SepHold on 20 November 2009. He had extensive experience in the cement industry and became CEO of Sephaku Cement in May 2007. Pieter passed away on 19 May 2021 following a brief illness.

Dr Lelau Mohuba (64)

Non-executive director

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

Lelau is a founding director of SepHold. He became the original chairperson on 3 February 2005 and 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 (61)

Executive director, SepHold CEO and FD

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 FD on 28 March 2012. He started his career in mining finance in 1988. Since then, Neil has held various senior positions in taxation, business development and corporate finance with Anglo American plc, Gencor Industries Inc. and BHP Billiton. He also served as FD of Xstrata South Africa between 1998 and 2005.

Kenneth Capes (52)

Executive director and Métier CEO

Kenneth has over 35 years of experience in the mining and construction materials industries. He has extensive knowledge of ready-mixed concrete, mining aggregates and calcium carbonate for the construction and allied industries. He held various senior management positions within these industries and was the founder of Métier in 2007. Since the purchase of Métier by SepHold, Kenneth has been a Métier and SepHold director.

Board diversity policy

The board is constituted of two executive, two non-executive and four independent non-executive directors. The diversity policy focuses on gender and race while promoting attributes such as culture, age, field of knowledge, skills and experience. The board is committed to increasing female members and ensuring female applicants are considered for all vacant board positions. On 31 March 2021, female representation was 25%, and African, coloured and Indian representation was 57%, in line with the SepHold diversity policy revised during the year. The policy can be accessed on our website at www.sephakuholdings.com/corporate-governance/governance-documents/.

Board changes

Métier's cofounder, K Capes, was re-appointed to the board as an executive director and CEO with effect from 1 April 2020. K Cape's extensive technical experience and entrepreneurial flair informed the board's decision to appoint him to restructure the subsidiary to improve long-term profitability. P Fourie, the SepCem CEO and non-executive director, passed away in May 2021, resulting in the reduction in board membership to seven members.

Induction and training

All new directors are inducted by the company secretary and SepHold executive(s) through a structured induction process to enhance their understanding of the group operations, the prevailing business environment, building materials markets and sustainability matters. The induction includes a briefing on their fiduciary and statutory responsibilities, including the Listings Requirements.

Training includes ongoing support and information that is included in board and committee meeting documentation. Furthermore, directors are provided regular updates on amendments to applicable laws and legislation. The board engages the services of external facilitators for requisite training in specialised governance practices.

Board meeting attendance

Director	Board	ARC	REMCO	SEC	Director up for rotation
B Williams	4/4*	4/4	3/3	2/2*	
PF Fourie (deceased)	4/4	4/4	–	2/2	**
MJ Janse van Rensburg	4/4	4/4*	3/3	–	
MM Ngoasheng	4/4	–	3/3*	–	**
B Bulo	4/4	4/4	–	–	
Dr L Mohuba	4/4	–	3/3	2/2	**
NR Crafford-Lazarus	4/4	4/4	3/3	2/2	**
K Capes	4/4	4/4	–	2/2	

* *Chairperson.*

** *Not applicable.*

BOARD EVALUATION AND INDEPENDENCE

SepHold evaluates the effectiveness and performance of the board, its committees and individual directors annually. During the year, a formal comprehensive board evaluation was conducted by Acorim that identified the need for a focus on the transformation strategy and the BBBEE scorecard for both SepCem and Métier, which is being considered by the SEC. In addition, while the board has approved an IT governance charter and framework, they will be revised to incorporate the protection of information processes being undertaken by the company. The board is satisfied that the evaluation process has improved its performance and effectiveness.

MM Ngoasheng has been a member of the board for 13 years and his independence was scrutinised by the board with the assistance of the REMCO. Although he is a shareholder of SepHold through Safika Resources Proprietary Limited, the board is satisfied that his ownership constitutes a small portion of his overall wealth and is unlikely to influence his independence. The assessment highlighted that MM Ngoasheng's extensive knowledge in deal structuring and the building materials sector is valuable to SepHold's strategic intent. The board values the depth of his experience and concluded that his independence of character and judgement is not in any way affected or impaired by his years of service to SepHold.

Specific independence consideration

In evaluating the directors' independence, the assessment considered the provisions in the Companies Act, King IV and the Listings Requirements. From the assessment, the board was satisfied that directors serving more than nine years on the board remain fully independent and maintain a relationship with management that does not exceed accepted comfort limits.

Company secretary

SepHold's company secretary, Acorim, represented by N Hunter, advises the directors on regulatory requirements, governance procedures and on how to discharge their duties and responsibilities. The board's arrangements regarding accessing Acorim's services and enabling N Hunter unfettered access has been effective. Acorim maintains an arm's-length relationship with the group and its boards. In its assessment, the board considered the independence of Acorim and its collective qualifications and track record. The company secretarial services were assessed, and the board is satisfied that N Hunter has the requisite knowledge, skill and discipline to perform the functions and duties of the group company secretary.

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 Listings Requirements; and
- prohibits directors dealing in SepHold shares when in possession of non-public, price-sensitive information.

Board members are required to confirm their trading in SepHold shares and compliance with the regulatory requirements with the board chairperson or CEO. Directors are required to formally update their directorships and other relevant interests at least annually. Directors are immediately notified when the company enters into a closed financial period, and they are 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

SepHold complies with several codes and regulations, including the Companies Act, the Listings Requirements and King IV.

Compliance arrangements

Board committees are tasked with monitoring compliance with requisite regulations within their area of focus and expertise. In particular, the REMCO and SEC monitor matters related to labour regulations, while the ARC monitors compliance with financial regulations. Group companies report on compliance with applicable laws at all board meetings. Non-compliance with any group policies, standards or procedures by employees and executives is subject to disciplinary action or dismissal. SepCem's compliance is monitored through selected SepHold directors participating in the DCP board. Furthermore, the associate reports directly to all SepHold committees, which enables the monitoring of compliance management.

The JSE sponsor provides a critical oversight service to ensure that SepHold complies with the Listings Requirements. The company secretary has a fundamental role in ensuring that the board broadly prioritises compliance.

Combined assurance

SepHold applies a model that incorporates components of combined assurance as recommended by King IV. The model integrates the coordination and alignment of risk management to assurance processes. The group corporate governance framework provides four lines of defence defined as:

- Functions that own and manage risks as part of their day-to-day activities are the first line of defence;
- Functions related to monitoring risk management practices constitute the second line of defence;
- Functions providing independent assurance, such as internal audit, provide the third line of defence; and
- The board and its committees fulfil a broad oversight function as the fourth and final line of defence.

BOARD COMMITTEES

ARC

The ARC has specific statutory duties to shareholders, and the chairperson's tenure should not be longer than five consecutive years unless the REMCO determines otherwise. The ARC is constituted as a statutory audit and board committee in respect of its duties. According to its terms of reference, statutory provisions and King IV, the ARC must be constituted of three independent non-executive directors. The SepHold CEO, FD and Métier CEO are standing invitees at all ARC meetings to execute the ARC's mandate. The three members are appointed by shareholders annually at the SepHold AGM.

Although King IV does not recommend the appointment of the board chairperson to the ARC, the decision to re-appoint B Williams in FY 2021 was due to the limited number and availability of independent non-executive directors on the board. Furthermore, in line with the constrained building materials trading environment and the group's cost reduction drive, the board decided not to increase its membership. The REMCO recommended that B Williams fill the position to comply with the ARC composition requisites based on his experience.

Having reviewed the qualifications, experience and independence of each of the ARC members, the REMCO satisfied itself that the members continue to meet the requirements of the Companies Act. Accordingly, the REMCO unanimously recommends and supports the re-election of MJ Janse van Rensburg, B Williams and B Bulo to the ARC for the 12 months ending 31 March 2022.

The ARC fulfilled its obligations as contained in the Companies Act, board charter, terms of reference and company memorandum of incorporation. The ARC members elected the chairperson and reviewed their performance in terms of the committee mandate, confirming that they performed their obligations effectively.

Statutory duties in FY 2021

The ARC executed all of its statutory responsibilities, including nominating a registered independent external auditor, BDO, for appointment by shareholders at the AGM. The ARC determined the appropriate fees and terms of engagement with BDO.

The ARC prepared the requisite report on how it executed its oversight role in terms of internal controls, internal audit, statutory duties and appointment of the external auditor. The report can be read on pages 2 to 4 of the AFS, and the external auditor's report on the compliance of the AFS with IFRS and the Companies Act can be read on pages 5 to 7 of the AFS. The preparation of the AFS remains the responsibility of the board. The AFS can be downloaded from the company website: www.sephakuholdings.com.

External reporting

The committee ensured the integrity of all external reports, including the integrated annual report, and approved management's determination of the reporting frameworks, including the reporting standards to be used, considering legal requirements, the intended audience and the purpose of each report. The ARC chairperson reviewed and approved SepHold's basis for determining materiality for disclosure for this report.

King IV

The ARC is responsible for biannually monitoring and reviewing the delegated authorities against the recommendations in King IV. There were no outstanding matters related to the application of King IV.

Feedback on FY 2021 focus areas

1. **The renewal application for the dual role of FD and CEO** to be held by N Crafford-Lazarus premised on the persistent industry downturn that has severely limited investment opportunities. The reduced activity at SepHold does not warrant two executive directors.

   Update: The JSE approved the dual role special dispensation for an additional 24 months until December 2022, subject to the ARC providing the JSE with an assessment report by 4 January 2022 of the prevailing economic conditions and whether the ARC believes they warrant continuation of the dual role for a further year.

2. **Métier off-site monitoring and implementation**

   Update: Off-site monitoring was conducted on a trial basis at a single Métier site to determine whether and how to implement it across all sites. The subsidiary has implemented on-site basic security infrastructure at each site. Furthermore, several internal audits of risk and IT governance were implemented by external third parties whose recommendations were integrated into Métier's IT action plans.

3. **Métier business interruption insurance**

   Update: Following repudiation of the SepCem claims for business interruption due to the impact of COVID-19 restrictions, a decision was made not to proceed with the procurement of the business interruption insurance.

4. **To approve and monitor the effective application of the risk management and combined assurance policy framework**

   Update: The framework was approved, and the ARC will continue monitoring the application of the framework.

Focus areas in FY 2022

1. Review the Métier technology and information management strategic framework to determine appropriate risk tolerance levels
2. Approve and continue to monitor the effective application of the group governance framework as per the Institute of Directors in South Africa's Group Governance Practice Notes

SEC

The SEC comprises six members from SepHold and DCP boards and five standing invitees from SepCem.

Statutory duties in FY 2021

The SEC focused on community engagement and development through the SepCem Torosesha empowerment structure, progress on cybersecurity and employee relations concerning the COVID-19 impact on health and general morale of the workforce at both Métier and SepCem.

The continued challenges in attaining the SepCem social and labour plan were assessed to determine further options on engaging the DMRE and communities. A strategic engagement plan was approved that included enhancing the role of Torosesha in engaging the DMRE and communities.

Progress on using alternative fuels at SepCem, especially to mitigate the costs of complying with the amended Air Quality Act, 39 of 2004, was assessed. The Act requires phased compliance with highly restrictive emissions limits for plants that commenced operations from 2014, thereby directly impacting SepCem. The SEC approved the associate engaging all potential legal options to highlight the challenges of the Act, which would place SepCem and other new plants at a competitive disadvantage.

Feedback on FY 2021 focus areas

1. **Update IT security**

   Update: Phase 1 of developing a comprehensive information security plan was in line with the International Organization for Standardization standards prescribed by external consultants. The information data classification policy was developed and reviewed by the group's IT and risk management experts.

2. **Monitor the separation of SepDev and SepCem**

   Update: The associate did not complete the separation due to various challenges including the COVID-19 restrictions limiting external consultants' access to the site. Further delays were due to the DMRE's interpretation of the SepCem and SepDev organisational structure.

3. **Update SepCem cloud-based server migration**

   Update: Update was completed by year-end.

4. **Monitor the Métier retrenchment process**

   Update: The process was completed successfully with minimal retrenchments.

Focus areas in FY 2022

1. Ensure the approval of the SepCem social and labour plan
2. Finalise the Métier EE plan
3. Complete the IT security plan
4. Conclude the separation of SepDev and SepCem

Moses Modidima Ngoasheng
Chairperson: remuneration and nomination committee

"I believe that our responsiveness in implementing shareholders' feedback on the executive directors' scoreboard resulted in the resounding support for the remuneration policy and its implementation."

REMUNERATION REPORT

Chairperson's statement

Introduction

I am pleased to report that at the AGM on 14 September 2020, shareholders approved the non-binding advisory resolutions on the SepHold remuneration policy and implementation report by 93%, an improvement from 83% in the previous year. I believe that our responsiveness in implementing shareholders' feedback on the executive directors' scoreboard resulted in the resounding support for the remuneration policy and its implementation. Due to the economic circumstances and weak group performance, SepHold management did not submit proposals for annual bonuses for FY 2020. Therefore, there were no bonuses paid during FY 2021. As the REMCO, we remain committed to continuous improvement in the remuneration framework and believe that the policy stated below is appropriate for the current level of trading. Therefore, the policy will be maintained until there is a material change in business activities to warrant a review of the scorecard.

Response to COVID-19

Métier and SepHold executive management and employees took salary cuts. All salary increases were suspended for FY 2022 pending improvement in operational performance and profitability.

JSE special dispensation for dual CEO and FD role

We applied for a further extension for the special dispensation from the JSE to allow SepHold's FD, N Crafford-Lazarus, to hold the dual CEO and FD roles. The JSE granted a further 24 months until 31 December 2022. The extension is subject to the ARC providing an assessment report on the prevailing economic conditions by 4 January 2022, motivating if they warrant the continuation of the dual role for a further year.

Feedback on statutory duties

The REMCO is constituted of myself as chairperson, B Williams and MJ Janse van Rensburg. The REMCO fulfils its obligations as contained in the Companies Act, the board charter, memorandum of incorporation and terms of reference. As a committee, we are satisfied that we fulfilled all of our responsibilities under the terms of reference for FY 2021. To contribute to the group's implementation of the strategic objectives, the REMCO achieved the following:

1. We reviewed Métier's initial succession plan; and
2. We successfully extended the special dispensation for N Crafford-Lazarus to hold the dual role of CEO and FD until 31 December 2022.

Métier's updated succession plan and talent map were presented to the REMCO. The plan will be discussed and approved during FY 2022. Although we were unable to apply the remuneration policy's stated objectives related to executive bonuses and salary increases due to the COVID-19 impact in FY 2021, we believe that we broadly achieved the spirit of the policy by temporarily diverting in line with the prevailing challenges caused by the pandemic.

Moses Modidima Ngoasheng
Chairperson: remuneration and nomination committee

Remuneration policy

The group applies a total cost to company approach in remunerating its employees. The main objectives of the remuneration framework are to:

- appropriately reward employees for services provided;
- ensure equitable and fair remuneration;
- ensure that variable remuneration is aligned to performance;
- implement a competitive remuneration structure that:
  - is tailored to the specific circumstances of the group;
  - is referenced to appropriate benchmarks;
  - reflects the market and industry practices;
- comply with all relevant legal requirements.

The total guaranteed package (TGP) is based on an employee's level of demonstrated competency, qualifications, experience and performance. The TGP of new employees is 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 performance measurement criteria is used:

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 framework as a subsidiary of DCP.

Objective		Practice
Total guaranteed package	• Remunerate above the market and industry average for key positions. • Remunerate market-related salaries for all other positions. • Review total guaranteed pay annually in March.	• The level of skill and experience, the scope of responsibility and the total remuneration package are considered when rewarding employees. • Appropriate market percentiles based on skills, experience and competitiveness are applied.
Short-term incentive (STI)	• To motivate employees and incentivise the 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. • Continued support of the company strategy is through awards relating to total shareholder return. The vesting of these awards is against a pre-determined framework.	• 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 role 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's 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 long-term incentive scheme also provides for early vesting 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%).

STI SCORECARD

Financial measures (75%)

Performance indicator	Weighting %	Performance condition detail	Minimum (30%)	Target (50%)	Stretch (70%)
Real* growth in headline earnings per share (HEPS)	**37.5**	HEPS growth over the previous year above inflation	Real HEPS growth of more than 0%	Real HEPS growth greater than 4% per annum	Real HEPS growth greater than 8% per annum
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
Implementation of corporate governance best practices.	**15**	*Level of group compliance and standards achieved* • JSE compliance • Application of King IV principles • Attainment of BBBEE rating • Achievement of safety and environment targets as determined by the company will be measured against a portfolio of evidence	**SepHold and Métier CEOs and FD**
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**
		Optimisation of group funding structures to enable sustainability during negative cycle and value accretive expansion during positive cycle *Investigating and mitigating risk on alternative funding sources for deals* • Achieve targeted debt:equity ratio • Compliance with all debt loan covenants • Increase free cash flow	**FD**
		Operational executives to demonstrate the 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 CEO**

* *Real relative to CPI.*

LTI SCORECARD

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

Illustration 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 SepHold and Métier CEOs in a single total figure. The projections are based on the policy framework detailed on page 37.

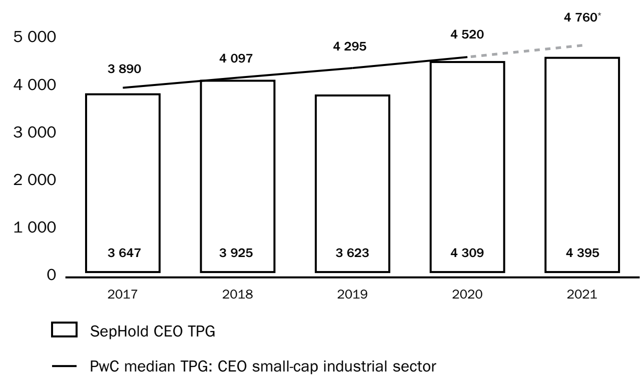
	SepHold CEO/FD			
2022	**TGP R**	**STI**	**LTI**	**Total R**
Base	4 550 000	–	–	4 550 000
Min	4 550 000	1 365 000	2 275 000	8 190 000
Target	4 550 000	2 275 000	4 550 000	11 375 000
Stretch	4 550 000	3 185 000	9 100 000	16 835 000

	Métier CEO			
2021	**TGP R**	**STI**	**LTI**	**Total R**
Base	2 925 000	–	The LTIs will only be measurable from FY 2023	2 925 000
Min	2 925 000	877 500		3 802 500
Target	2 925 000	1 462 500		4 387 500
Stretch	2 925 000	2 047 500		4 972 500

Determination of the guaranteed executive base salary

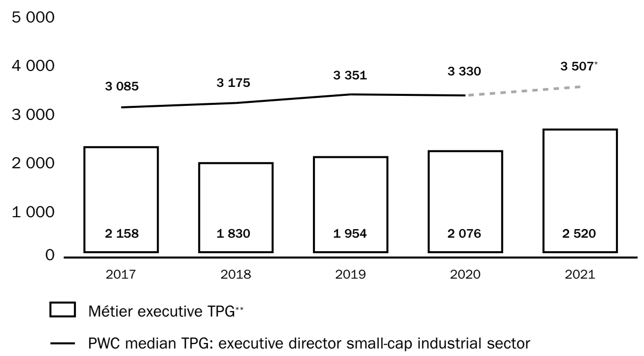
As in previous years, the REMCO researched the guaranteed base salary benchmark extensively and used PwC's 2020 executive directors' remuneration and practices report for the period 1 May 2019 to 29 February 2020. The report covered 10 instead of the usual 12 months to avoid the impact of COVID-19 on the results. The report summarised its findings for JSE-listed entities based on sectors and market capitalisation enabling the REMCO to focus on the small-cap remuneration findings for the industrial sector as illustrated on the graphs below. Based on the small-cap industrial sector, the board was satisfied that the current executive remuneration is within the median to upper quartile bands. The PwC remuneration report can be downloaded from: https://www.pwc.co.za/en/publications/executive-directors-report.html. No remuneration consultants were engaged during the period.

Comparison of SepHold executive remuneration to JSE median for industrial small-cap sector (R000)



* The 2021 JSE median estimate is based on the 5.3% forecast provided in the PwC report.

Comparison of Métier executive remuneration to JSE median for industrial small-cap sector (R000)



* The 2021 JSE median estimate is based on the 5.3% forecast provided in the PwC report.

** The remuneration for 2018 to 2020 was for the managing director WJ du Toit who resigned in June 2020.

Non-executive directors' remuneration

Elements and purpose

The group 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 commitment. The non-executive directors are remunerated by an annual fee paid in recognition of board and committee membership. The non-executive directors, including the group's chairperson, 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 a written service contract with the group, and all of the directors rotate in terms of the memorandum of incorporation.

Non-binding shareholder advisory vote

In terms of the Listings Requirement 3.84(J), the remuneration policy must record the measures that the board commits to take if these non-binding resolutions are voted against by 25% or more of the voting rights exercised. The company will:

- invite dissenting shareholders (those who voted against the policy and/or the implementation report) to engage with the group; and
- provide details on the manner and timing of such engagement.

Subsequently, the REMCO and executive management will engage with the shareholders to address matters of concern.

Implementation report

There were no bonuses paid in FY 2021 for the FY 2020 performance to executive management and no increases in non-executive director fees for the third year since FY 2019. The SepHold executive management did not motivate for bonuses related to its achievement against the non-financial targets of approximately 13%. For instance, the BBBEE equity ownership score improved through Safika's participation in the Rights Issue in February 2020. Management's decision not to motivate for the bonus was informed by the overall weak FY 2020 performance due to the depressed building materials demand and adverse impact of the COVID-19 pandemic. The FY 2021 remuneration is detailed below.

Directors' and prescribed officer's emoluments

Executive

	Emoluments R	Prior year performance bonuses** R	Travel allowances R	Pension fund R	IFRS 2 share-based payments expense R	Total R
2021						
NR Crafford-Lazarus	**4 094 812**	**–**	**150 000**	**150 188**	**220 110**	**4 615 110**
KJ Capes*	**2 520 000**	**–**	**–**	**–**	**–**	**2 520 000**
	6 614 812	**–**	**150 000**	**150 188**	**220 110**	**7 135 110**
2020						
Dr. L Mohuba***	2 157 148	300 000	–	92 852	298 112	2 848 112
NR Crafford-Lazarus	4 012 017	418 000	150 000	147 151	392 836	5 120 004
	6 169 165	718 000	150 000	240 003	690 948	7 968 116

* *KJ Capes was re-appointed as CEO of Métier and executive director of SepHold on 1 April 2020.*

** *The bonus paid in FY 2020 relates to the FY 2019 performance. No bonuses were awarded for FY 2020 performance for the 12 months ended 31 March 2020.*

*** *Dr. L Mohuba retired during the prior year as CEO of SepHold and was appointed as a non-executive director on 1 January 2020.*

Non-executive

	Fees for services as director R	Remuneration R	Performance bonus R	IFRS 2 share-based payments expense R	Total R
2021*					
B Williams	**440 000**	**–**	**–**	**–**	**440 000**
MM Ngoasheng	**335 000**	**–**	**–**	**–**	**335 000**
MJ Janse van Rensburg	**335 000**	**–**	**–**	**–**	**335 000**
B Bulo	**335 000**	**–**	**–**	**–**	**335 000**
Dr. L Mohuba**	**335 000**	**–**	**–**	**220 110**	**555 110**
PF Fourie***	**–**	**5 742 921**	**1 810 120**	**–**	**7 553 041**
	1 780 000	**5 742 921**	**1 810 120**	**220 110**	**9 553 151**
2020					
B Williams	440 000	–	–	–	440 000
MM Ngoasheng	335 000	–	–	–	335 000
MJ Janse van Rensburg	335 000	–	–	–	335 000
B Bulo	335 000	–	–	–	335 000
Dr. L Mohuba**	83 750	–	–	99 371	183 121
PF Fourie***	–	5 594 213	1 947 514	–	7 541 727
	1 528 750	5 594 213	1 947 514	99 371	9 169 848

* *Third year without an increment*

** *Dr. L Mohuba retired during the prior year as CEO of SepHold and was appointed as a non-executive director on 1 January 2020.*

*** *PF Fourie was a non-executive director of SepHold and an executive director of SepCem. Therefore, all remuneration as disclosed was paid to him by the associate, SepCem.*

Other prescribed officer

	Emoluments R	Performance bonus R	Travel allowance R	Pension fund R	IFRS 2 share-based payments expense R	Total R
2021						
WJ du Toit*	**216 468**	**–**	**2 520**	**4 390**	**13 066**	**236 444**
2020						
WJ du Toit	1 873 758	230 046	25 200	177 223	122 029	2 428 256

* *WJ du Toit resigned during the financial year as managing director of Métier. All remuneration paid to him by the subsidiary company has been disclosed.*

CORPORATE INFORMATION

Directors	B Williams*	(Chairperson)
	MJ Janse van Rensburg*	
	B Bulo*	
	MM Ngoasheng*	
	NR Crafford-Lazarus°	(CEO)
	Dr L Mohuba	
	KJ Capes°	(Métier CEO)
	° *Executive*	
	* *Independent*	

Company secretary	Acorim Proprietary Limited Email: sephaku@acorim.co.za Telephone: +27 11 325 6363
Registered office	Southdowns Office Park First floor, Block A Cnr Karee and John Vorster Streets Irene, X54 0062 PO Box 7651 Centurion 0046 Website: www.sephakuholdings.com
Transfer secretaries	Computershare Investor Services Proprietary Limited Rosebank Towers, 15 Biermann Avenue, Rosebank, Johannesburg 2196 Private Bag X9000, Saxonwold, 2131 Telephone: +27 11 370 5000
JSE sponsor	QuestCo Corporate Advisory Proprietary Limited Telephone: +27 11 011 9200
Auditors	BDO South Africa Inc Chartered Accountants (SA) Registered Auditors
Bankers	Nedbank
Métier Mixed Concrete (wholly owned subsidiary)	Physical address: Romead 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 Proprietary Limited (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
Investor relations officer	Sakhile Ndlovu Email: info@sephold.co.za Telephone: +27 12 648 6300

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SEPHAKU
HOLDINGS LTD