BUILDING BLOCKS FOR GROWTH

2017

SEPHAKU
HOLDINGS LTD

INTEGRATED ANNUAL REVIEW

OUR INVESTMENT PROPOSITION

SEPHAKU HOLDINGS LIMITED IS A BUILDING AND CONSTRUCTION MATERIALS COMPANY

Sephaku Holdings Limited (SepHold or the group) is a JSE-listed company that offers investors a portfolio of assets focused on the building and construction materials industry. The group invests in modern, efficient capacity in the South African cement manufacturing sector.

The cement manufacturing sector is a primary contributor to infrastructure development, and presents current and prospective opportunities. SepHold is well positioned to generate earnings growth and create value for shareholders by taking advantage of these.

The group has one subsidiary, Métier Mixed Concrete Proprietary Limited (Métier), and one associate, Dangote Cement South Africa Proprietary Limited (CEMENT). Métier and CEMENT facilitate sustainable long-term growth through their competitive advantages:

New technologically advanced production plants with higher cost efficiencies that enhance competitiveness.

Long-term strategic focus on the building materials sector that offers increased earnings and growth opportunities.

Profitable concrete operations with technical skills providing solid earnings and positive net operating cash flows.

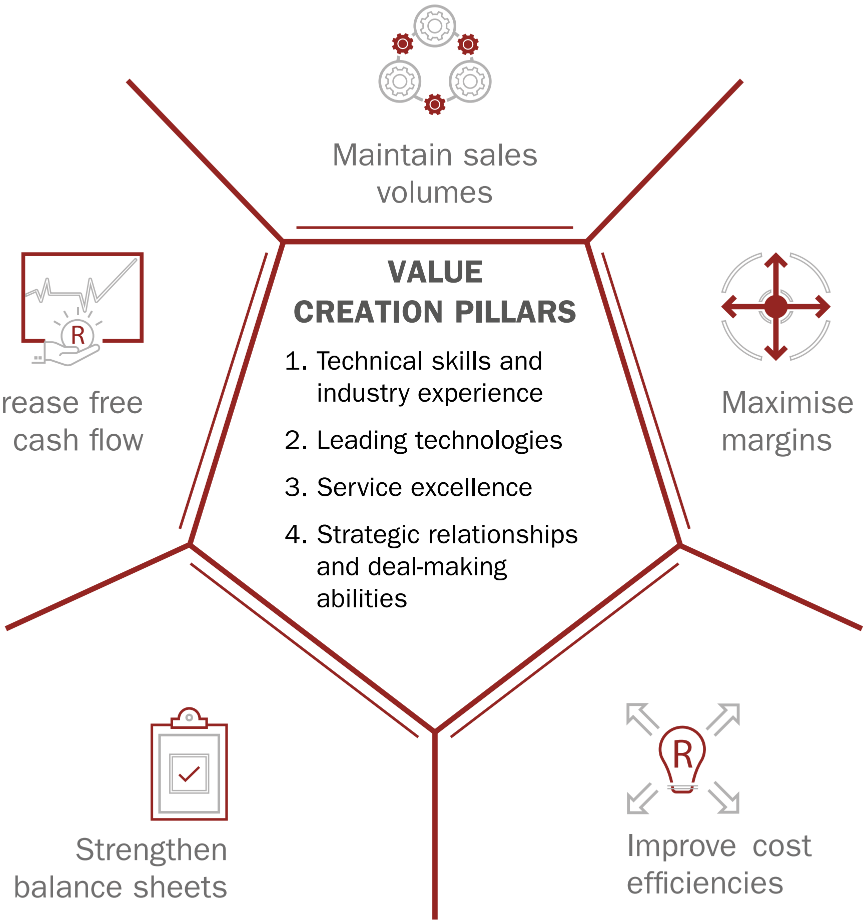
Operational management with deep industry skills and experience, with the ability to successfully execute the strategic objectives.

view this review online:
www.sephakuholdings.com

SEPHAKU AT A GLANCE

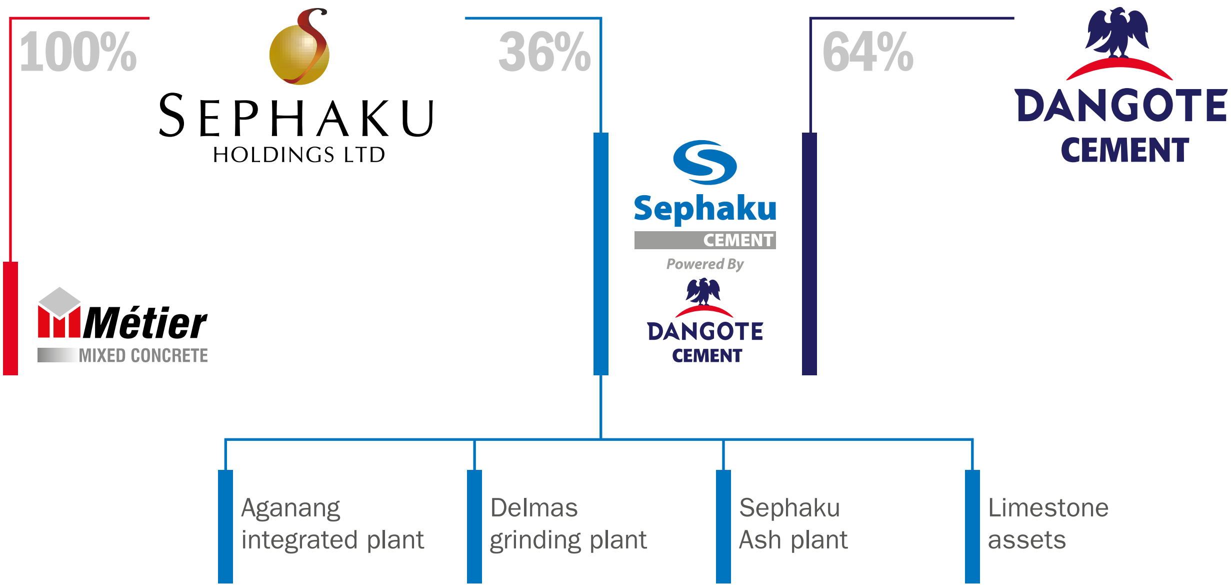
STRATEGY OVERVIEW

SepHold's five strategic objectives are built on four value creation pillars. Refer to page 12 for more information.



OPERATIONAL STRUCTURE

SepHold provides strategic leadership to its subsidiary and associate in achieving the group's objectives. Refer to page 8 for more information.



GROUP FINANCIAL PERFORMANCE

for the financial year ended 31 March 2017

⇩ 3,9%	Revenue R839,9 million
⇩ 0,3%	EBITDA[1] R140,6 million
⇧ 0,6%	Operating profit R84,7 million
⇧ 12,8%	Net profit after tax R68,1million

⇧ **12,1%**
Basic earnings per share 33,63 cents

⇧ **11,8%**
Headline earnings per share 33,37 cents

⇧ **7,5%**
Net asset value per share 484,74 cents

GROUP SHARE PRICE PERFORMANCE

as at 31 March 2017

202 969 487	Number of shares in issue
R589 000 000	Market capitalisation
R838 877	Average monthly value traded
236 481	Average monthly volume traded

290 cents
Share price close

260 cents
12 months share price low

480 cents
12 months share price high

OPERATIONAL PERFORMANCE

for the financial year ended 31 March 2017

Métier Mixed Concrete

15,1%	EBITDA margin decreased from 15,7%
12,9%	EBIT[2] margin increased from 12,7%
R104,2 million	Cash generated from operations
R69,1 million	Net cash from operating activities

0 fatalities
at all 12 plants

0,05
Lost time injury frequency rate

for the financial year ended 31 December 2016

CEMENT

R 2,28 billion	Sales revenue flat
23,1%	EBITDA margin increased from 21,9%
15,7%	EBIT margin increased from 14,7%

0 fatalities
at all three plants

Delmas **0**
Sephaku Ash **0**
Aganang **0,10**
Lost time injury frequency rates

[1] *Earnings before interest, tax, depreciation and amortisation.*
[2] *Earnings before interest and tax.*

ABOUT THIS REPORT

SCOPE AND BOUNDARY

This 2017 integrated annual review (review) reports on the SepHold companies, which comprise the 100%-owned Métier Mixed Concrete Proprietary Limited (Métier or subsidiary) and the 36%-owned Dangote Cement South Africa Proprietary Limited (CEMENT or associate). Together with SepHold, they are referred to as the group.

This review is our primary report to our stakeholders and covers the period 1 April 2016 to 31 March 2017 (the year). CEMENT has a 31 December year-end as a subsidiary of Dangote Cement Plc (DCP). The equity-accounted profit included in this review relates to CEMENT's 2016 financial year, which covers the period 1 January 2016 to 31 December 2016.

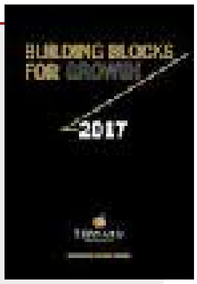
There has been no significant change to the group's size and structure since the 2016 integrated annual review.

The review provides an overview of the context in which the group operates, its business strategy, and the material risks and opportunities that drive the strategy. It discusses the operational, financial, environmental and social performance of the group, and how these contribute to value creation.

HOW WE REPORT

We use the International Integrated Reporting Council's (IIRC) Integrated Reporting <IR> Framework to guide us in structuring our review. To ensure comparability, all significant information is reported on a like-for-like basis and there are no major restatements. During 2017 the group streamlined the allocation of segment expenses between the different business segments. Refer to note 39 in the annual financial statements.

2017 reporting suite



Integrated annual review

The review provides an overview of the group, and highlights strategic matters and performance reviews. It complies with the Companies Act of South Africa, 71 of 2008, as amended (Companies Act) and the JSE Limited's Listings Requirements, and applies the King Report on Governance for South Africa 2009 (King III).

http://www.sephakuholdings.com/investor-centre/results-and-reports/

Annual financial statements

The annual financial statements contain the statutory financial results. They comply with International Financial Reporting Standards (IFRS) and the Companies Act. They are audited by Grant Thornton Johannesburg Partnership, whose unqualified audit report is available in our annual financial statements.

http://www.sephakuholdings.com/investor-centre/financial-reports

The following **supplementary information** is available on our website:

- Notice of annual general meeting at http://www.sephakuholdings.com/investor-centre/results-and-reports/
- King III checklist at http://www.iodsa-gai.co.za/gai/Reports/Public/ApplicationRegisterPractice.aspx?L=003d0f1e-7ba5-488e-a6d5-71ecd559fcb1#Principle88

APPROVAL OF THE INTEGRATED ANNUAL REVIEW

The board is responsible for overseeing the integrity and completeness of the integrated annual review and has applied its collective mind to the preparation and presentation of the review.

The board approved the 2017 integrated annual review on 17 August 2017, taking into consideration the completeness of the material matters dealt with and the reliability of data and information presented.

FORWARD-LOOKING STATEMENTS

Opinions expressed in this review are, by nature, subject to known and unknown risks and uncertainties. Changing information or circumstances may cause the actual results, plans and objectives of SepHold to differ materially from those expressed or implied in any forward-looking statements. Undue reliance should not be placed on such opinions, forecasts or data.

No representation is made on the completeness or correctness of opinions, forecasts or data in this review. Neither SepHold nor any affiliates, advisors or representatives accept any responsibility for any loss arising from the use of any opinion, forecast or data in this review.

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

Feedback

We welcome your feedback and comments. Any queries or suggestions on the content and form of this review should be directed to info@sepman.co.za.

AN OVERVIEW OF SEPHOLD

2

AN OVERVIEW OF SEPHOLD

WHO WE ARE

SepHold invests in building materials-focused businesses with the goal to create value for shareholders. By actively participating in operations, SepHold ensures they generate positive earnings and maintain sales volumes.

The group is founded on the principles of entrepreneurship, innovation, resilience and empowerment. We subscribe to the values of respect, integrity, accountability, transparency and honesty. The board and management seek to balance the expectations of investors for reasonable capital growth. It acts responsibly concerning the interests of other stakeholders, including customers, employees, suppliers and contractors, communities, industry associations, government, and organised labour.

Entrepreneurship and resilience enabled SepHold's founders to drive it towards its goal to be the first cement manufacturer in South Africa in over 80 years. These principles continue to resonate in the group as the competitive landscape intensifies and producers compete for market share. The group's entities are successful in their respective markets due to: innovation in the configuration of their modern cement plants; specialised concrete manufacturing; and the implementation of the enterprise and supplier development programme at CEMENT. The group is committed to the transformation agenda and is progressing towards empowering the communities in the areas in which it operates.

SepHold is guided by a code of ethics, which recognises that, as a member of society, the group and its people have an obligation to act ethically. Our directors and employees conduct business relationships with stakeholders in line with the code of ethics. Although shareholders entrust management teams with the responsibility of looking after the financial and social wellbeing of the group, employees play an important role in abiding by and living the group's values and ethics.

Our investments

SepHold listed on the JSE in 2009 as a multimineral entity and refined its strategy to focus on the building materials sector. The development of the limestone assets accelerated faster than other minerals, prompting SepHold to redefine its business strategy. The strategic acquisition of Métier in 2013 to complement cement manufacturing enabled the group to immediately generate income and benefit from synergies between CEMENT and Métier.

Refer to the inside front cover for our operational structure.

The group's performance is based on the four value creation pillars highlighted on the facing page. These pillars are based on the group's core values and founding principles. Operational management inculcates these values and principles into the daily execution of the strategic objectives.

2009
SepHold listed on the JSE

2011
Construction of CEMENT plants commenced

2013
Acquisition of Métier

2014
CEMENT started producing clinker and cement

2015
Reached steady-state capacity at CEMENT

An overview of SepHold continued

Dangote Cement South Africa Proprietary Limited

CEMENT specialises in manufacturing, marketing and distributing high-quality cementitious products to a broad range of users. Its integrated cement plant in Aganang and grinding plant in Delmas have a combined production capacity of 2,8 million tonnes per annum (mtpa) (Delmas 1,5 mtpa and Aganang 1,3 mtpa). Its products are well known and are available at major hardware retailers and numerous second-tier distributors. The brand increased its market share among bulk cement users, particularly ready-mix concrete manufacturers.

CEMENT operates at steady-state production capacity and supplies primarily to Gauteng, Limpopo, Mpumalanga, North West and northern KwaZulu-Natal markets. In the 2016 financial year, approximately 80% (2015: 80%) of sales volumes were in bagged cement. Gauteng continues to be the largest and most contested inland market.

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

CEMENT categorises operations into cement manufacturing and exploration projects.

The cement manufacturing category comprises Aganang, Delmas and Sephaku Ash. Sephaku Ash primarily supplies fly ash as an extender for bagged cement.

The exploration projects category is constituted of the limestone resource assets at various stages of development, such as the Dwaalboom project, that provide a pipeline for growth.

Métier Mixed Concrete Proprietary Limited

Métier's core business is manufacturing ready-mix concrete products for South African industrial, commercial and residential markets. The subsidiary's vision is to be a highly trusted brand, an industry leader, and to build a lasting concrete legacy in South Africa.

Métier has 12 plants in two geographical locations. Métier's head office and seven of its plants are in KwaZulu-Natal, referred to as the eastern region, and five plants are in Gauteng, referred to as the northern region. In Gauteng, its 12th plant commenced production in March 2017.

The diversification of its plants by location enables Métier to reduce market concentration risk.

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

Gauteng operations: Plants are positioned to target active construction sites in the area. The regional administration office is in Midrand.

An overview of SepHold continued

HOW WE CREATE VALUE

The group has differentiated itself by manufacturing both specialised and consistent quality products and offering superior customer service. The efficiency derived from the use of leading technologies combined with management's industry knowledge and expertise have enabled us to achieve distinctive competitive advantages and establish strong strategic relationships.

Our value chain

Limestone raw material to integrated plant

Bulk cement

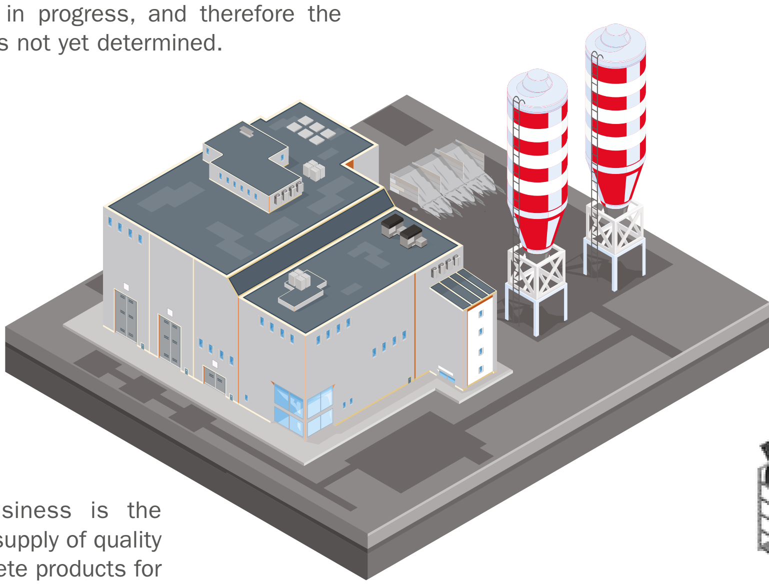
Limestone pipeline

Bagged cement to market

CEMENT
Dwaalboom and other limestone projects

The project is the most advanced limestone exploration asset in SepHold's portfolio. It has the potential to be the second major 3 000-tonne-per-day clinker and cement production facility near Dwaalboom. Mining rights application is in progress, and therefore the plant's construction is not yet determined.

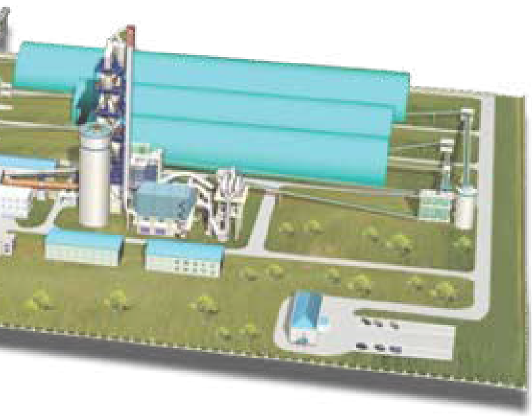
Bulk cement to market



Métier Mixed Concrete

Métier's core business is the manufacture and supply of quality ready-mixed concrete products for the residential, commercial and industrial markets in South Africa. Métier has achieved significant growth by positioning its business in markets that offer strong and growing demand for its products.

Mixed concrete to market



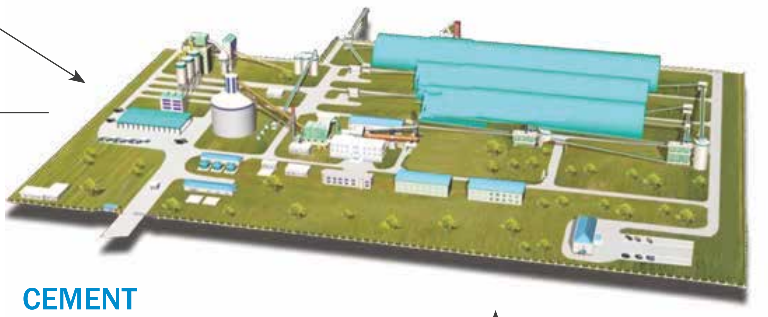
CEMENT
Aganang integrated plant
Limestone quarry and cement production

The Aganang plant consists of a limestone open-cast quarry, a clinker and cement production plant. The operation mines the limestone raw material, processing it to clinker, grinding approximately 45% of the clinker and blending it with other components to produce the finished cement product in bagged and bulk form.

Bagged cement

Clinker to Delmas

Bulk cement

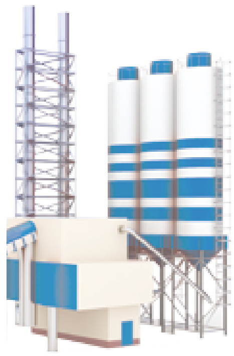


Bagged cement

CEMENT
Delmas grinding plant
Cement production

Approximately 55% of the clinker produced at Aganang is transferred to the Delmas cement-grinding facility for further processing.

Fly ash to Delmas



CEMENT
Sephaku ash plant

CEMENT has a fly ash processing plant contract with Eskom to acquire and remove waste ash from the coal-burning process at Kendal Power Station. The ash produced from this plant is used as a cement extender at the Delmas grinding plant to produce blended cement.

Building materials market

An overview of SepHold continued

Value creation pillars

The group's focus is on creating sustainable shareholder value by enhancing the four value creation pillars on which earnings and growth are based.

1. **Technical skills and industry experience** are critical for implementing the group's strategy and understanding the building materials market dynamics to maximise profitability:
   - The group has skilled and experienced management with comprehensive industry knowledge and experience in cement and concrete manufacturing.
   - There are sufficient technical and project management skills at management level to ensure the ability to:
     - produce consistent, high-quality cement and specialised concrete; and
     - bring targeted projects to account.
   - The group has marketing and logistics management abilities that have established CEMENT in the cement supply market and increased Métier's footprint in Gauteng.
   - Training and mentoring eliminate competence and knowledge gaps identified at lower management levels. The group's performance management system is structured to motivate employees and aligns their output to business objectives.
2. **Leading technologies** facilitate the production of high-quality cement and mixed concrete:
   - Métier manages distribution logistics through integrated software to meet customers' needs.
   - CEMENT's modern, efficient plants and state-of-the-art equipment are vital elements of operations.
3. **Service excellence** is a distinguishing characteristic:
   - Métier has built its brand equity through innovative, specialised concretes and a superior service offering.
   - CEMENT and Métier are preferred suppliers, known for their ability to meet their customers' expectations.
4. **Strategic relationships and deal-making abilities** contribute to positioning the group as a major building materials manufacturer in the country:
   - The group has solid and mutually beneficial relationships with key stakeholders, including retailers, communities, employees, funders and suppliers.

Strategic objectives

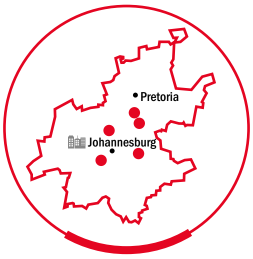
The board provides oversight and direction through strategic planning and establishing clear key performance indicators to measure the group's operational performance.

SepHold's leadership ensures the group achieves targeted performance by ensuring that the operations:

- produce high-quality products and implement effective marketing activities to **maintain sales volumes and maximise margins**;
  - remain focused on implementing cost management programmes to **improve cost efficiencies**; and
- adhere to their respective action plans to **strengthen their balance sheets** and **increase free cash flow**.

WHERE WE OPERATE

We have operations in the Gauteng, KwaZulu-Natal, North West and Mpumalanga provinces in South Africa.



GAUTENG

KWAZULU-NATAL

NORTH WEST

MPUMALANGA

MÉTIER MIXED CONCRETE OPERATIONS

Gauteng

Johannesburg office | OR Tambo plant | Sandton plant | Chloorkop plant | Midrand plant | Denver plant

Employs

105 people (94% from local communities).

KwaZulu-Natal

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

Employs

157 people (100% from local communities).

CEMENT OPERATIONS

Aganang integrated cement plant

Aganang is CEMENT's main operation, consisting of a limestone mine and an integrated cement manufacturing plant. The plant is approximately 25 km west of Lichtenburg, North West. The secured limestone deposit on the adjacent farms has a proven life of over 30 years, starting in 2014.

- Employs **191** people.
- The plant has created **110** indirect employment opportunities through the enterprise and supplier development programme (EDP) since inception.

Delmas grinding plant

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

- Employs **86** people.
- The plant has created **93** indirect employment opportunities through the EDP since inception.

CEMENT PROJECTS

Dwaalboom limestone project

The Dwaalboom resource is approximately 8 km south-west of the town Dwaalboom, and 80 km west-south-west of Thabazimbi, Limpopo.

An overview of SepHold continued

OUR OPERATING CONTEXT

The building materials industry experienced declining demand, particularly for bulk cement, due to a decrease in large-scale construction projects. Vertically integrated concrete manufacturers responded by increasing their supply to the diminishing market segment to support related cement manufacturers.

The impact of this competitive landscape was a sharp decrease in CEMENT's bulk cement pricing, which was lowest in October 2016 at 15% below the January 2016 level. Following the price increases implemented in February 2017, the bulk cement pricing was, on average, 6% higher than January 2017 by the end of May 2017.

The bagged cement market was also under pressure with prices flat for the 2016 financial year. CEMENT recorded an average 3% price increase in May 2017 following the February 2017 increase.

The tough operational environment was exacerbated by 0,3% macroeconomic growth for the 2016 calendar year.

For more information on our responses to the challenging environment refer to the leadership reviews (page 26) and operational reports (pages 40 and 50).

STAKEHOLDER OVERVIEW

Our engagement ethos

The group promotes and supports effective stakeholder engagement, and is committed to developing mutually beneficial relationships.

Our high-level objectives for stakeholder engagement are to:

1. **increase investor confidence** in the group's strategy and our ability to deliver on it to create sustainable value:
   - by ensuring complete, accurate and timely disclosure of material matters and performance information to providers of financial capital;
2. **partner with communities and authorities,** to the furthest possible extent, to implement sustainable community upliftment initiatives that enhance our social licence to operate:
   - by promoting enterprise and supplier development initiatives in the communities in which we operate; and
   - by supporting skills development opportunities, mainly for historically disadvantaged youth;
3. **position the group as an employer of choice** and ensure that all employees are appropriately rewarded, and treated fairly and with dignity at all times; and
4. **establish robust and mutually beneficial relationships** with customers, suppliers and contractors, through open communication to better understand and effectively deliver on their expectations.

The diagram below sets out how we engage with our stakeholders.

How often we engage
Daily
Weekly
Monthly
Quarterly
Annually
On request

Investors
Annual and interim financial results
Integrated annual review
Investor roadshows, conferences and meetings
Corporate website

Industry associations
Meetings
Working groups
Forums

Employees
Team meetings
Management briefings
Employment equity and skills development committees
Plant meetings
Employee newsletters

Customers
Customer roadshows
In-store meetings
Marketing activities
Visits
Technical support
Strategic reviews

Communities
Meetings
Focus group discussions
Written submissions

Suppliers and contractors
Service-level agreements
Performance reviews
Tender processes
Meetings

Government and organised labour
Meetings
Written submissions
Workshops

An overview of SepHold continued

Stakeholder concerns and how they are addressed

The table below highlights key stakeholder concerns and their link to our strategic objectives.

Stakeholder and why we engage	Concerns raised	How we address concerns
Investors		
Shareholders and lenders fund the group and are the principal owners of the business. They invest to receive a return and increase their value. Investors require accurate, timely and complete information to accurately assess and establish the group's value.	• CEMENT's ability to meet its debt covenants • Price competition • The group's ability to achieve and maintain targeted profitability margins	• Negotiations with banks to review the CEMENT debt repayment profile are ongoing • We are strengthening sales teams to ensure they achieve targeted pricing levels • We are advancing optimisation programmes to improve cost efficiencies • We are renegotiating supply contracts to minimise escalating input costs

Affected strategic objectives

Maintain sales volumes · Maximise margins · Improve cost efficiencies · Strengthen balance sheets · Increase free cash flow

Stakeholder and why we engage	Concerns raised	How we address concerns
Employees		
Employees' skills and competence are vital to the success of the business strategy. We are focused on creating a safe and ethical work environment.	• Career development • Training opportunities • Performance-related incentives and rewards • Job security • Safe working conditions	• Management and supervisory development programmes are a component of succession planning • We provide study assistance to employees • We have benchmarked remuneration structures to attract and retain critical skills and management • Our biannual performance reviews ensure we achieve targets such as improved service levels • We promote healthy lifestyles and strive to establish a safe working environment for employees which, in turn, ensures high levels of productivity

Affected strategic objectives

Maximise margins · Improve cost efficiencies

Stakeholder and why we engage	Concerns raised	How we address concerns
Organised labour		
Organised labour engages with operations to ensure employee matters are afforded adequate attention, and participates in creating an environment conducive to optimal productivity. The Association of Mineworkers and Construction Union (AMCU) secured sufficient membership at CEMENT to be granted statutory organisational rights.	• Formalisation of collective bargaining structures • Restructuring at CEMENT	• CEMENT established an engagement framework with AMCU that promotes collaboration • We engaged with AMCU and employees to identify alternative opportunities for employees who were affected by the restructuring at CEMENT
Affected strategic objectives		
Maximise margins Improve cost efficiencies		
Customers		
In a competitive environment, it is essential to attract and retain high-quality customers. We commit to understand and cater for retailers' and end-users' needs.	• Product consistency and quality • Consistent supply • Competitive pricing • Merchandising support • Timely delivery of product and after-sales support	• CEMENT focuses on improving its quality control systems and plant automation • The strategic location of Métier plants ensures that the product is delivered timeously and cost effectively • We meticulously source raw materials to ensure the consistent product quality of cement and mixed concrete • Our product storage facilities support consistent supply • We regularly train our sales teams to ensure effective merchandising and after-sales support
Affected strategic objectives		
Maintain sales volumes Maximise margins Increase free cash flow		

An overview of SepHold continued

Stakeholder and why we engage	Concerns raised	How we address concerns
Communities		
The communities of areas in which we operate are our primary source of labour. By adhering to our social licence, we collaborate on empowerment projects and contribute to reducing poverty and unemployment rates.	• Preference of local community members for employment opportunities • Support for enterprise and supplier development initiatives • Opportunities for skills training and development • Ownership opportunities • Information and clarity on the business model and company performance	• The CEMENT EDP empowers local businesses and indirectly provides employment opportunities • We up-skill and train employees from local communities who started their careers at CEMENT operations • The group prioritises job seekers in the areas it operates for employment opportunities

Affected strategic objective

Improve cost efficiencies

Stakeholder and why we engage	Concerns raised	How we address concerns
Suppliers and contractors		
Suppliers and contractors are key in the provision of good quality inputs. Procurement through the EDP at CEMENT positively impacts the local economies at plant locations.	• Alignment of suppliers and contractors to business objectives such as employment equity practices • Pricing • Payment terms	• We regularly engage with suppliers and contractors to monitor and effectively manage our supply chain • We have service-level agreements with all suppliers • The group is considered a significant customer, and can therefore negotiate for preferential pricing and payment terms • Partnering with local small and medium sized enterprises has improved CEMENT's relations with local communities and authorities

Affected strategic objectives

Maximise margins

Improve cost efficiencies

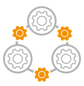
Stakeholder and why we engage	Concerns raised	How we address concerns
Government		
Government primarily influences our legal licence to operate and must be satisfied that the group complies with requirements such as environmental and mining laws and regulations, and social and labour plans. Local authorities influence economic development projects in the communities in which we operate.	• Support for community upliftment projects such as schools and clinics • Information and clarity on the business model and company performance • Provision of employment and training opportunities for local communities • Licensing and compliance	• We engage with regulators to ensure compliance with licensing requirements • We monitor environmental management performance at the operations to ensure compliance • We achieved social and labour plan targets at CEMENT • We are strengthening the CEMENT EDP • CEMENT provides financial support to a local school that provides extra lessons in mathematics and general science

Affected strategic objective


Maximise margins

Stakeholder and why we engage	Concerns raised	How we address concerns
Industry associations		
Industry associations present matters of concern to regulators. They ensure that association members are updated on the relevant regulatory matters, and provide information on prevailing global trends and new technology.	• Proposed carbon tax legislation • Proposed amendments to environmental legislation • Threat of imports • Technical skills shortage	• CEMENT voluntarily submitted the carbon emission analysis report and budget to legislators to contribute to the finalisation of the tax framework for the cement industry • As natural suppliers to the KwaZulu-Natal market, CEMENT is well positioned to defend the threat of dumped imports by participating in industry initiatives • The group's retention and training programmes are in place to acquire and retain key skills

Affected strategic objectives


Maintain sales volumes


Maximise margins

An overview of SepHold continued

OUR MATERIAL MATTERS

Our material matters are linked to our key risks, and are identified by executive management and the board. Matters arising from interactions with our stakeholders are considered during this process. We use internal deliberations in our strategic interactions and independent research to identify and assess material matters. We continuously monitor the external environment for trends signalling opportunities and risks that could impact our operations. Refer to page 75 for our risk management processes.

Material matters are those that affect our value creation process and were assessed regarding:
- the level of risks and potential opportunities they present;
- the level to which they impact strategic objectives by enhancing or hindering the business model; and
- the likelihood of them becoming more significant in future.

The assessment below relates to the group's material matters, how they impact the group, and how each is addressed. There are additional matters that only impact CEMENT, and these are listed separately as they are considered to materially impact the group.

Group material matters

Supply/demand imbalance

Context

Industry production capacity for cement is approximately 17 million tonnes against an estimated annual demand of 13 million tonnes. The excess capacity resulted in intense competition and lower prices for CEMENT. Similarly, the reduced levels of construction activity resulted in price competition in the mixed concrete sector.

Our response

Although CEMENT successfully maintained its sales volumes, the low pricing and profitability environment placed pressure on the maintenance of its loan covenants during the financial year. Refer to the loan covenant pressure material matter on page 23.

Métier's understanding of the market and ability to secure profitable concrete supply deals enabled it to maintain its market share. The subsidiary enhanced its focus on managing the input costs and operational expenses to support margins. Métier increased the proportion of specialised concretes that provide higher margins per cubic metre in its product offering.

Our focus for 2018[1]

Métier:
- Target complex construction projects requiring specialised concrete
- Focus on balancing the order book between the large and complex projects to maximise profitability

CEMENT:
- Pursue the differentiated marketing strategy by optimising the product and geographic mix to achieve maximum margins

Affected strategic objectives

Maintain sales volumes

Maximise margins

Strengthen balance sheets

Increase free cash flow

Stakeholders concerned

Investors
Customers
Suppliers and contractors

[1] *CEMENT reporting for financial year 2018 will be for the 12 months ending December 2017.*

Industry-concentrated investment portfolio

Context

SepHold is invested in the building materials sector through CEMENT and Métier, thereby concentrating the industry risk. SepHold owns 36% of CEMENT, which constitutes a major component of the group valuation.

Our response

The group is actively considering inter alia the acquisition of an aggregates entity to improve access to raw materials and diversify its portfolio. The board and executive management identified the targeted asset based on current and future market demand.

Our focus for 2018[1]

SepHold:
- Integration of the aggregates business

Métier:
- Pursue lucrative growth opportunities in mixed concrete

Affected strategic objectives

Maximise margins

Strengthen balance sheets

Stakeholder concerned

Investors

Shortage of technical skills and industry knowledge

Context

Due to the technical nature of manufacturing cement and concrete products, the industry pool of technical skills is particularly small. The lack of skills could potentially limit the group's ability to achieve its strategic objectives. It is essential to employ the right people and retain critical skills.

Our response

The group implemented benchmarked remuneration structures and long-term incentive schemes to attract and retain key skills. CEMENT implemented training for critical technical skills for employees with requisite aptitude and commitment. Métier continued implementing mentoring and executive development training to ensure employees are equipped to achieve performance targets.

Our focus for 2018[1]

Métier:
- Management and supervisory development programmes

CEMENT:
- Prioritise training in critical skills

Affected strategic objectives

Maintain sales volumes

Improve cost efficiencies

Stakeholders concerned

Investors
Employees
Organised labour
Industry associations

[1] *CEMENT reporting for financial year 2018 will be for the 12 months ending December 2017.*

An overview of SepHold continued

Customer credit default risk

Context

The challenging macroeconomic environment has resulted in viability challenges for several customers due to lower levels of profitability. The smaller-sized companies are particularly challenged in managing their cash flows, resulting in a higher incidence of late payments. This risk requires significant monitoring and management by senior management.

Our response

Métier was exposed to this risk during the year because it directly supplies the construction sector, which has a high prevalence of small-scale companies. The subsidiary was diligent in monitoring its debtors and ensured that defaulters did not receive further supply. CEMENT supplied over 80% of its product in bags to major retailers and distributors, and therefore had limited exposure to construction companies.

The group improved its debtor management processes to include a rigorous credit approval procedure with the provision of guarantees.

Our focus for 2018[1]

Métier:

- Debtor management will continue to be high priority

CEMENT:

- To continue obtaining credit guarantees for all major customers and manage the balance of debtors closely

Affected strategic objectives

Strengthen balance sheets

Increase free cash flow

Stakeholders concerned

Investors
Customers

CEMENT material matters

Cement price competition

Context

The price competition experienced in the cement industry has been intensifying since the entry of CEMENT in 2014 and, subsequently, a new entrant in early 2016. The lower pricing regime has negatively impacted the profitability and sustainability of the industry. Pressure on profitability reduces CEMENT's value proposition to providers of financial capital. The competition is still strong, but pricing has stabilised since February 2017.

Our response

CEMENT supported margins by implementing the differentiation marketing strategy, and pursued cost-reduction efforts and increased its customer service level to protect its sales volumes.

Our focus for 2018[1]

- Increase discipline in the pricing policy
- Stronger focus on high-margin market segments

[1] *CEMENT reporting for financial year 2018 will be for the calendar year ending December 2017.*

Affected strategic objectives

Maintain sales volumes

Maximise margins

Strengthen balance sheets

Stakeholders concerned

Investors
Customers

Loan covenant pressure

Context

The highly competitive landscape and downward pressure on pricing resulted in CEMENT's loan covenants, particularly the debt service cover ratio, being increasingly under pressure.

Our response

CEMENT is negotiating with lenders to review the debt repayment profile without changing the original repayment period.

Our focus for 2018[1]

- To agree revised terms with the funders

Affected strategic objectives

Increase free cash flow

Strengthen balance sheets

Stakeholder concerned

Investors

Managing local communities' expectations

Context

Persistent macroeconomic pressures, high youth unemployment rates in the areas in which CEMENT operates, and challenges in local service delivery levels, resulted in increased tension between communities and businesses. The communities demand employment and opportunities for enterprise and supplier development to alleviate poverty.

Our response

CEMENT implemented a comprehensive stakeholder engagement plan involving all levels of management. A dedicated team engaged regularly with the local community leadership structures and government authorities to accurately identify matters requiring intervention and align all parties involved.

CEMENT fulfilled its agreed enterprise and supplier development targets for the year, including awarding long-term logistics contracts to 12 beneficiaries on 10 August 2016 to supply raw materials transportation services.

The EDP has created 203 indirect jobs at Aganang and Delmas since inception. The beneficiaries of the programme are regularly trained on business management skills including cash flow management, sales and marketing.

Our focus for 2018[1]

- Increase engagement with relevant government departments, such as the Department of Land Reform and Rural Development

Affected strategic objectives

Improve cost efficiencies

Stakeholders concerned

Communities
Government
Industry associations

[1] *CEMENT reporting for financial year 2018 will be for the calendar year ending December 2017.*

An overview of SepHold continued

Ensuring overall equipment effectiveness at Aganang integrated plant

Context

Overall equipment effectiveness (OEE) is a reliable standard for measuring manufacturing productivity. OEE incorporates plant availability, product quality and plant output performance into a single measure. CEMENT considers it a good metric for predicting production shortfalls, benchmarking progress and improving the productivity of manufacturing equipment.

Consistently improving OEE rates ensures that the plant can adequately supply good-quality product to meet customers' requirements. Maximising OEE is imperative in an excess demand scenario, in which the plant operates at full capacity. Although sufficient finished product inventory can reduce the impact of shortfalls in the OEE, it is prudent to strive for the targeted rates to enable CEMENT to respond to any demand increase.

Our response

Due to having a single kiln plant, it is vital to monitor and continuously improve kiln OEE. The net OEE for the year ended December 2016 was 78% against a target of 96%. 50% of the variance against the target was due to latent defects in specific components of the plant, which were resolved before the plant handover from the construction company, Sinoma, and considered in the final closure agreement. The total production output was well aligned to the demand, and therefore had no impact on the associate's profitability. The mills' net OEE was between 115% and 130% at both Aganang and Delmas plants due to performance exceeding design on all factors.

CEMENT continued to improve the plant maintenance protocols to ensure the early detection of plant performance anomalies. This significantly reduced the probability of unexpected plant downtime, which could impact production output.

The associate increased the storage facilities of semi-finished and finished products to ensure continuous cement supply to customer orders in the unlikely event of unplanned stoppage.

Our focus for 2018[1]

- To improve OEE to targeted levels
- Technical skills transfer to lower employee levels to improve OEE

[1] *CEMENT reporting for financial year 2018 will be for the calendar year ending December 2017.*

Affected strategic objectives

Maximise margins

Increase free cash flow

Improve cost efficiencies

Stakeholders concerned

Investors
Employees
Customers
Suppliers and contractors

Unionisation of labour at Aganang integrated and Delmas milling plants

Context

Labour unions are an important stakeholder of any business as they provide structure for employee engagement in matters that require intensive negotiation, such as remuneration and working conditions.

Our response

CEMENT embraced the unionisation of plant employees and proactively established an engagement framework with AMCU. AMCU was involved in the restructuring process at Aganang to improve plant efficiencies and profitability.

Our focus for 2018[1]

- Promote constructive engagement with the unions to ensure non-disruptive negotiations

[1] *CEMENT reporting for financial year 2018 will be for the calendar year ending December 2017.*

Affected strategic objectives

Maximise margins

Improve cost efficiencies

Stakeholders concerned

Employees
Organised labour

LEADERSHIP REVIEWS

CHAIRMAN AND CHIEF EXECUTIVE OFFICER'S REPORT

Brent Williams
Chairman

Dr Lelau Mohuba
Chief executive officer

Persevering in a highly competitive, complex operating landscape while positioning for future opportunities

Dear stakeholders,

Our review addresses the frequently asked questions from our stakeholders. We trust that our responses will provide clarity on how we dealt with our material matters and created value.

Describe the operational context that prevailed during the financial year

It was another tough year characterised by continued demand/supply imbalances in the building materials sector. Predictions of macroeconomic headwinds, such as interest rate hikes, defined the beginning of the year. The gross domestic product (GDP) growth rate forecast lowered to 0,7% from 1,3%[1].

The South African economy avoided a recession in the 2016 calendar year. The GDP growth of 0,3%[2] was the weakest rate in seven years. The projected GDP growth rate for the 2017 calendar year increased to between 1,1%[3] and 1,2%[4] at the start of the year. This change was due to the expected recovery in the mining and agricultural sectors, a result of the global commodity price increases and the end of the drought.

[1] *International Monetary Fund, World Economic Outlook Update: Subdued demand, diminished prospects, 19 January 2016.*
[2] *Statistics South Africa, Gross Domestic Product, First Quarter 2017, 6 June 2017.*
[3] *World Bank Group, Global Economic Prospects: Weak investment in uncertain times, January 2017.*
[4] *Reserve Bank of South Africa, Monetary Policy Review, April 2017.*

Ratings agencies (Standard & Poor's and Fitch Ratings) downgraded South Africa's sovereign debt in April 2017. The downgrade was expected, and its long-term impact remains unclear.

Mixed concrete sector

The mixed concrete sector experienced increased price competition, especially in Gauteng, resulting in downward pressure on margins. The continued decline in the initiation of large-scale construction projects and new entrants in key markets drove the competition. The most aggressive competitors were the vertically integrated suppliers that provide a captive market for the linked cement and aggregates manufacturers. The KwaZulu-Natal market experienced a decrease in construction activity in the second half of the year, which led to overcapacity in the market.

Cement market

The cement market remained highly fragmented, due to manufacturers using price competition to defend their sales volumes. The prices of bagged cement stabilised at the end of the 2016 calendar year. Contestation continues in the bulk cement market, as there are limited new significant construction projects.

During the 2016 calendar year, price competition characterised the market, reflected in the Econometrix estimate of a 5,6%[5] decline in total cement sales volume demand to 13 million tonnes, excluding imports. Import volumes decreased by 53% to 389 000 tonnes for the calendar year ended December 2016[6].

Econometrix forecast a decline of 1,4% in demand growth for the 2017 calendar year, due to reduced investment in the building environment. Notwithstanding persistent headwinds for the foreseeable future, the potential increase in infrastructure expenditure by government to stimulate the economy could increase the cement price.

[5] *Econometrix Quarterly Cement Outlook, Q2 2017, June 2017.*

[6] *South African Revenue Service, trade statistics, April 2017.*

How did the operations respond to the challenges and opportunities?

Métier and CEMENT demonstrated the ability to withstand the turbulent economic and market environment. Their understanding of the market enabled them to adapt successfully to the dynamic landscape.

Métier

Despite a 3,9% decline in revenue, Métier's net profit increased by 7,3%. Métier's ability to secure profitable concrete supply deals enabled it to maintain its share of the market.

Métier maintained its operating margin, due to the geographical diversification of its plants and manufacturing of specialised concretes. Métier's performance demonstrated management's mettle through the reduction in the cost of sales by 5,2%, and operational expenses by 3,7% to support margins.

In the south of Gauteng, an additional 12th plant commenced production in March 2017. This new plant aligns to the subsidiary's overall strategy, and will increase its footprint. This increase will reduce over-reliance on growth nodes and diversify the customer base.

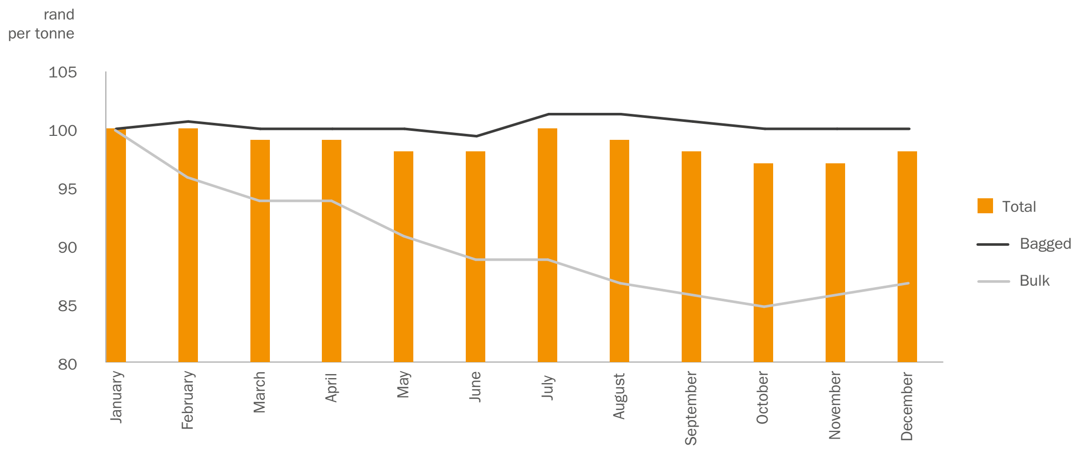
CEMENT

CEMENT's revenue was comparatively flat year-on-year in spite of an increase of 4% in sales volumes. The net profit increased to R68,9 million, of which R24,8 million was equity accounted for by SepHold.

Bulk cement pricing was particularly impacted by price competition, but saw an upward trend in the fourth quarter of 2016. As illustrated in the indexed average pricing graph on page 28, bagged cement pricing was mainly flat in calendar 2016. Bagged cement led the market, at between 70% and 80% of sales volumes, due to limited activity in the bulk use market. CEMENT focused on achieving an optimal product mix in its markets to maintain its sales volumes.

An overview of SepHold continued

Indexed sales prices on a rand per tonne basis



	Jan 16	Feb 16	Mar 16	Apr 16	May 16	Jun 16	Jul 16	Aug 16	Sept 16	Oct 16	Nov 16	Dec 16
Total	**100**	**100**	**99**	**99**	**98**	**98**	**100**	**99**	**98**	**97**	**97**	**98**
Bagged	100	101	100	100	100	99	102	102	101	100	100	100
Bulk	100	96	94	94	91	89	89	87	86	85	86	87

The application of a price differentiation model for provincial markets enabled CEMENT to reduce the downward pressure on margins. Efforts to lower operational costs by improving efficiencies continued through the optimisation programme. Although the continued decrease in prices limited the positive impact on the EBITDA margin, CEMENT achieved 50% of the targeted R115 million cost saving by December 2016. CEMENT aims to complete the programme by the end of December 2017.

What were the material matters and how did they impact the group's performance?

The material matters are detailed on pages 20 to 23, with a summary of the top-three matters below.

Supply/demand imbalance	Supply/demand imbalance in the cement and mixed concrete markets resulted in intense price competition and downward pressure on margins. Identification of high-margin contracts at Métier and the optimal segmentation of the markets by CEMENT enabled the entities to retain their sales volumes and support margins.
Cement price competition	Price competition in the cement industry has been intensifying since CEMENT's entry in 2014, and a new entrant in early 2016. CEMENT's differentiation strategy improved the average pricing. The pricing trend has stabilised since the first quarter of the 2017 calendar year, with price increases sustained since February 2017.
Loan covenant pressure	CEMENT's loan covenants, namely the debt service cover ratio, were increasingly under pressure, as a result of the highly competitive market and downward pressure on pricing. CEMENT is negotiating with lenders to review the capital debt repayment profile without changing the original payment period, to reduce future pressure on the ratio.

What advantages have enabled SepHold to remain competitive?

The competence and expertise of our management teams have enabled the group to navigate the highly competitive landscape. The group increased the cement sales volumes through shrewd marketing and excellent service. Métier's integrated service excellence is a key component of its operating model. The subsidiary secured complex supply orders that require high-quality concretes, timeous deliveries and intensive after-sales service.

We continue to apply our founding principles of entrepreneurship and innovation to carve deals across the strategic areas of our operations. The group is securely entrenched in the retail distribution channel, and has established solid relationships with key customers; partnered with the communities to share mutually beneficial value; and built robust relationships with key suppliers. These deals strengthened the group's future sustainability.

How does governance support and enable value creation?

SepHold's efforts are focused on ensuring that sound leadership, sustainability and good corporate citizenship are entrenched in its structures, policies and practices. The board is committed to good corporate governance practices, and dedicates time to reviewing policies, processes and operational strategies. The focus going forward is to develop detailed key performance indicators that align to the group's strategic objectives, and ensure the success of operations.

Additional board members strengthened the group's skills base. Our new board members will help us achieve the next level of growth, and represent a milestone in achieving our gender diversity target. Ms MJ Janse van Rensburg was appointed as chairperson of the audit and risk committee in September 2016. Her experience and knowledge have already resulted in key improvements in the group's control environment and reporting. Ms B Maluleke was appointed in November 2016. She has a wealth of experience in corporate finance and business law. The directors' full *curricula vitae* can be found on pages 72 to 74.

What additional successes were achieved by the CEMENT enterprise and supplier development programme?

Our EDP fulfils transformation objectives through employment, economic empowerment and training. The programme resulted in the success of 12 small businesses in Aganang and seven in Delmas.

To enhance the sustainability of the EDP transport beneficiaries, CEMENT awarded long-term logistics contracts to 12 beneficiaries on 10 August 2016 to supply raw materials transportation services.

The contracts were divided into seven for Lichtenburg and five for Delmas-based beneficiaries, based on their capacity and potential. The trucking opportunities for local small and medium-sized enterprises (SMEs) have an estimated total annual revenue of between R80 million and R100 million. Refer to page 57 for more information on the participants of the EDP.

What can we expect in the 2018 financial year and beyond?

The economic growth prospects have been subdued since the beginning of the new financial year. Economic and political uncertainty could impact growth prospects, and we are cautiously optimistic about the industry's growth.

CEMENT will pursue a disciplined pricing policy at targeted sales volumes, and optimise product and geographic sales mixes to achieve the best margins.

Métier will strengthen its marketing team to extract further value from the technical experts, who are renowned for innovative products. Management will enhance the strong relationships with suppliers, with the objective of achieving competitive pricing for key inputs. Métier will explore backward integration opportunities to secure essential raw materials.

SepHold will focus on developing the targeted opportunity in the aggregates sector, and continue to evaluate growth opportunities through expansion and downstream opportunities.

An overview of SepHold continued

We anticipate that cement demand will be in line with Econometrix estimates. Demand, excluding imports, is anticipated to contract by 2,1% in calendar 2017; however, positive growth of 0,4% is expected for 2018.

We await the outcome of merger discussions between AfriSam and PPC. The merger could have a positive impact if it results in a more efficient and profitable sector that attracts investors. With no new cement manufacturers on the horizon, we anticipate that pricing will continue to stabilise.

Appreciation

Our gratitude goes to our group employees and management teams, and the board and executive committee for their resourceful and exceptional oversight of SepHold. Our performance in challenging circumstances is evidence of their diligence and commitment to the group.

We thank Mr MG Mahlare, whose nine-year term as an independent non-executive director came to an end on 22 September 2016. His invaluable contribution was instrumental to the success of the group over his tenure he was a member of the board. His effective leadership as the chairperson of the audit and risk committee ensured that the group complied with regulatory requirements and applied best practice.

Finally, we would like to extend thanks to our shareholders, customers, suppliers and contractors, the communities in which we operate, and the government bodies who entrust to us their continued service, support, loyalty and investment. We are committed to delivering on your expectations, and we wish to thank you for your ongoing support.

Brent Williams
Chairman

Dr Lelau Mohuba
Chief executive officer

An overview of SepHold continued

FINANCIAL DIRECTOR'S REPORT

SepHold aims to develop opportunities in the aggregates sector

Neil Crafford-Lazarus
Financial director

GROUP HIGHLIGHTS

Operating profit increased from
R84,2 MILLION TO R84,7 MILLION

Net earnings increased from
R60,4 MILLION TO R68,1 MILLION

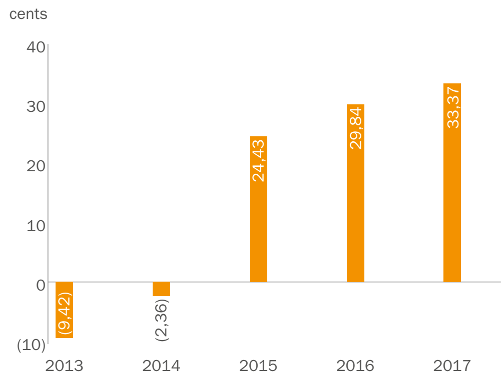
Basic earnings per share increased from
29,84 CENTS TO 33,37 CENTS

Net asset value increased from
451 CENTS TO 485 CENTS

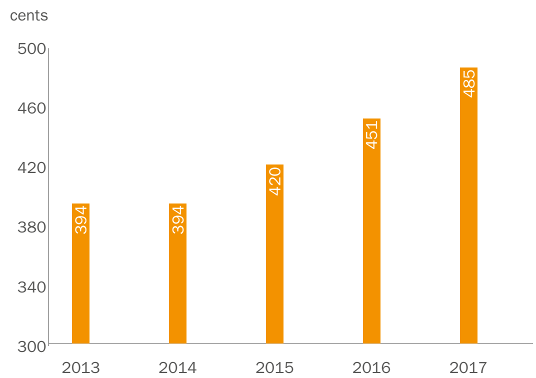
Introduction

The year was defined by intense price competition, which placed significant demand on the group finance functions to closely manage the debt covenant ratios at Métier and CEMENT.

Headline earnings per share

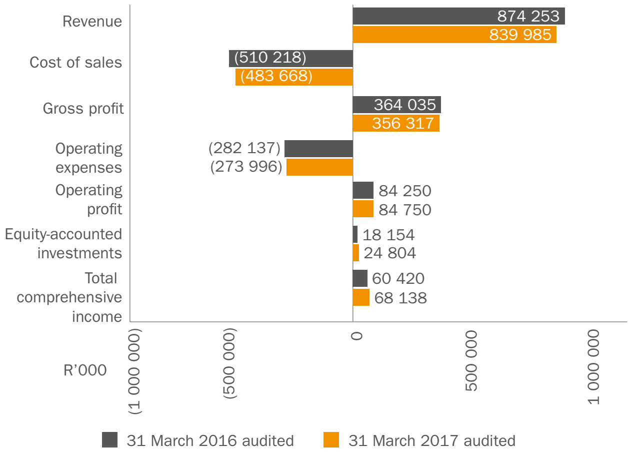


Five-year net asset value per share



Statement of comprehensive income overview

Statement of comprehensive income



The group revenue, primarily from the subsidiary's activities, decreased by 3,9% from R874,3 million to R839,9 million as a result of lower prices and reduced demand in the mixed concrete market. The 5,2% reduction in the cost of sales to R483,7 million was partly due to Métier's efforts to control input costs to support margins. The group operating profit was flat year-on-year at R84,7 million (2016: R84,2 million).

Métier

Métier achieved an operating margin of 12,9% (2016: 12,7%) as a result of its plant footprint and the manufacture of specialised concretes. Métier's net profit increased by 7,3% from R62,8 million to R67,4 million, mainly due to a R4,6 million fair value adjustment on the depreciation expense, implying flat net profit like-for-like.

Following positive results for the last two years, Métier paid a R50 million dividend to SepHold, and reduced its overall bank debt by R87,0 million to R215,9 million.

CEMENT[1]

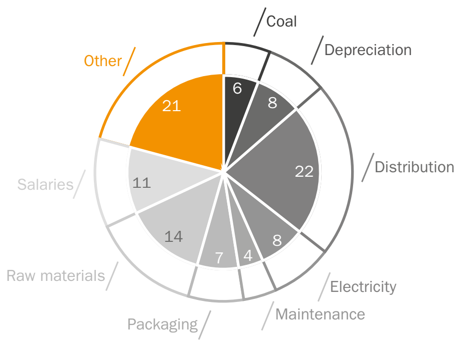
The 2016 financial year was CEMENT's first year of full production. Equity-accounted profit was R24,8 million (2015: R18,2 million) with sales revenue comparatively flat at R2,28 billion (2015: R2,29 billion). The associate's sales volume increased by 4%, but the average price per tonne decreased by 4,6% year-on-year.

The EBITDA margin increased to 23,1% (2015: 21,9%) and net profit increased to R68,9 million (2015: R50,4 million), including once-off income from the closure agreement with Sinoma on the final handover of the plants.

The income covered additional required repairs, resulting in the maintenance cost component at 4% of total cost, higher than the targeted 1,2%. It also accounted for loss of profits during the maintenance period and downtime to replace the cracked kiln shaft roller.

CEMENT cost breakdown

CEMENT's cost analysis (%)



Efforts to lower operational costs by improving efficiencies continued through the optimisation programme. The continued decrease in prices limited the positive impact of the programme on the EBITDA margin. The associate achieved 50% (R57 million) of the targeted R115 million cost saving by the end of December 2016.

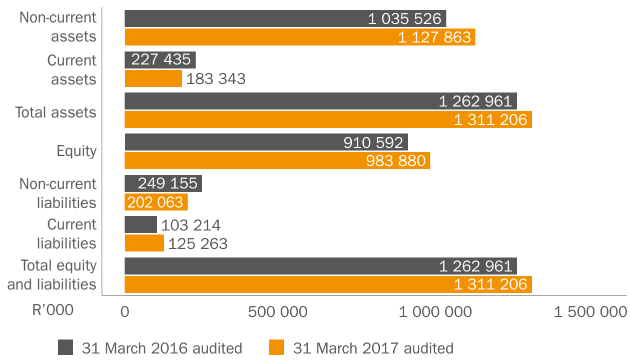
It is envisaged that the bulk of additional savings to achieve the target will be derived from purchasing a fleet for inbound and outbound transportation of raw materials between Aganang and Delmas. The fleet, at an approximate cost of R100 million, could result in substantial savings, and a short payback period. The funding will be finalised after lenders review CEMENT's debt. CEMENT aims to complete the programme by the end of December 2017.

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

An overview of SepHold continued

Statement of financial position and cash flows overview

Statement of financial position



Non-current assets were 8,9% higher, mainly due to the R14,4 million expenditure on the construction of an office, workshop, storeroom and laboratory building for Métier in Gauteng, and a R48,6 million SepHold equity investment in CEMENT to relieve pressure on debt covenants. The R25 million decrease in total liabilities was principally due to the reduction in Métier debt by R35,2 million (2016: R52,1 million).

Managing CEMENT's debt covenants

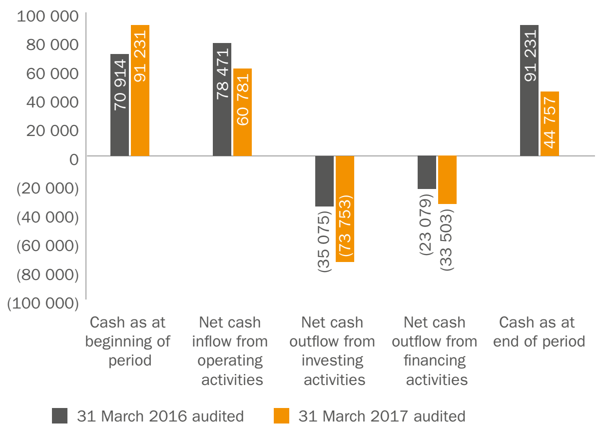
Although CEMENT achieved volume growth, declining prices placed pressure on the debt service cover ratio, requiring a R134,9 million equity injection by SepHold and DCP. The ratio for the year was 1,23 short of the required 1,30. SepHold's contribution was funded by the R50 million dividend pay-out from Métier. The 3,8% increase in SepHold's total assets and the increase in net cash outflow from investing activities was essentially due to the R48,6 million equity investment.

CEMENT repaid the required R342,8 million principal and R246,9 million interest instalments in 2016. By the end of May 2017, the associate had paid R171,4 million and R112,1 million in requisite principal and interest instalments, respectively, and the re-sculpting of the debt was under negotiation with lenders.

At the time of the conclusion of this report, the associate was well advanced in negotiations with the lenders to review the capital repayment profile without changing the original payment period so as to reduce pressure on the ratio going forward.

Cash flow overview

Statement of cash flows



The cash generated from operations of R97 million resulted in net cash inflow from operating activities of R60,8 million after the deduction of finance costs of R24,3 million, interest income of R7,2 million, and taxation of R19 million.

Post-period events

As reported in the DCP results announcement on 28 April 2017 for its first quarter ended 31 March 2017, CEMENT revenue decreased to R501 million (first quarter 2016: R519 million). The sales volumes were 3,6% lower for the first quarter year-on-year, mainly due to high rainfall and competitors. The associate implemented price increases in February 2017 that were sustained in most markets. By the end of May 2017, the prices indexed from January 2017 were 3% higher for bagged cement and 6% higher for bulk cement. These CEMENT quarterly results will be accounted for in the SepHold interim financial results for the six months ending 30 September 2017.

Outlook

SepHold aims to develop the opportunity in the aggregates sector. Post year-end, a joint-venture agreement between SepHold and an existing operator was finalised to develop a new quarry in KwaZulu-Natal to supply aggregates required by the respective operations of both partners. Commencement of the quarry operations is subject to regulatory approval, which is expected by the second quarter of the 2018 calendar year.

Métier will focus on developing strong relationships with its suppliers to achieve competitive pricing for key inputs to improve margins. In a similar vein, CEMENT will pursue a disciplined pricing policy at targeted sales volumes and optimise the sales mix to achieve the best margins.

I would like to thank the Métier and CEMENT management teams for their continued commitment to achieving optimal margins in a highly contested market. They have demonstrated discipline in their approach to marketing and cost management. I would like to extend a special thank you to the finance individuals for their cooperation and dedication to achieve stated goals.

Neil Crafford-Lazarus
Financial director

Summarised consolidated financial results
for the year ended 31 March 2017

STATEMENT OF COMPREHENSIVE INCOME

	GROUP	
	Year ended 31 March 2017 Audited R	Year ended 31 March 2016 Audited R
Revenue	**839 984 931**	874 253 138
Cost of sales	**(483 668 229)**	(510 218 084)
Gross profit	**356 316 702**	364 035 054
Other income	**2 429 156**	2 351 569
Operating expenses	**(273 996 024)**	(282 137 148)
Operating profit	**84 749 834**	84 249 475
Investment income	**7 172 130**	8 127 000
Profit from equity-accounted investment	**24 803 788**	18 154 066
Finance costs	**(26 695 077)**	(28 270 848)
Profit before taxation	**90 030 675**	82 259 693
Taxation	**(21 892 284)**	(21 839 218)
Profit for the year	**68 138 391**	60 420 475
Total comprehensive income for the year	**68 138 391**	60 420 475
Basic earnings per share (cents)	**33,63**	30,00
Diluted earnings per share (cents)	**33,36**	28,97

An overview of SepHold continued

Summarised consolidated financial results
as at 31 March 2017
STATEMENT OF FINANCIAL POSITION

	GROUP	
	2017 Audited R	2016 Audited R
ASSETS		
Non-current assets		
Property, plant and equipment	**142 797 829**	134 180 789
Goodwill	**223 421 981**	223 421 981
Intangible assets	**5 161 591**	7 455 631
Investment in associate	**743 842 941**	670 467 278
Other financial assets	**10 638 527**	–
Long-term loans	**2 000 000**	–
	1 127 862 869	1 035 525 679
Current assets		
Inventories	**16 972 080**	12 244 871
Other financial assets	**–**	12 987 551
Trade and other receivables	**121 613 883**	110 971 487
Cash and cash equivalents	**44 756 833**	91 231 432
	183 342 796	227 435 341
Total assets	**1 311 205 665**	1 262 961 020
EQUITY AND LIABILITIES		
Equity		
Stated capital	**635 403 188**	632 950 155
Reserves	**19 262 087**	18 910 771
Retained income	**329 214 333**	258 730 837
	983 879 608	910 591 763
Liabilities		
Non-current liabilities		
Other financial liabilities	**180 132 807**	231 309 499
Deferred income	**2 233 359**	1 866 813
Deferred taxation	**19 696 446**	15 978 858
	202 062 612	249 155 170
Current liabilities		
Other financial liabilities	**35 803 432**	18 208 333
Current taxation payable	**408 615**	1 283 129
Operating lease liability	**4 101 068**	2 756 653
Trade and other payables	**84 272 472**	80 452 834
Deferred income	**677 858**	513 138
	125 263 445	103 214 087
Total liabilities	**327 326 057**	352 369 257
Total equity and liabilities	**1 311 205 665**	1 262 961 020
Net asset value per share (cents)	**484,74**	450,99
Tangible net asset value per share (cents)	**372,83**	337,68
Ordinary shares in issue	**202 969 487**	201 908 654

Summarised consolidated financial results

for the year ended 31 March 2017

STATEMENT OF CASH FLOWS

	GROUP	
	Year ended 31 March 2017 Audited R	Year ended 31 March 2016 Audited R
Cash flows from operating activities		
Cash generated from operations	**96 978 796**	117 037 155
Interest income	**7 172 130**	8 127 000
Finance costs	**(24 320 458)**	(28 270 848)
Taxation paid	**(19 049 210)**	(18 421 887)
Net cash generated from operating activities	**60 781 258**	78 471 420
Cash flows from investing activities		
Purchase of property, plant and equipment	**(28 535 101)**	(36 589 744)
Disposal of property, plant and equipment	**1 852 035**	999 999
Loans repaid	**349 023**	514 320
Investment increase in associate	**(48 571 875)**	–
Government grant received	**1 153 240**	–
Net cash utilised in investing activities	**(73 752 678)**	(35 075 425)
Cash flows from financing activities		
Proceeds on share issue	**2 453 033**	825 647
Proceeds from other financial liabilities	**–**	28 237 894
Repayment of other financial liabilities	**(35 195 345)**	(52 142 370)
Facility raising fee paid	**(760 867)**	–
Net cash utilised in financing activities	**(33 503 179)**	(23 078 829)
Total cash and cash equivalents movement for the year	**(46 474 599)**	20 317 166
Cash and cash equivalents at the beginning of the year	**91 231 432**	70 914 266
Total cash and cash equivalents at the end of the year	**44 756 833**	91 231 432

BUSINESS REVIEW: MÉTIER MIXED CONCRETE

3

BUSINESS REVIEW: MÉTIER MIXED CONCRETE

Vision

To be a highly trusted brand and industry leader building a lasting concrete legacy in South Africa.

Mission

Partnering with customers to enable success on their concrete projects through innovative solutions.

Values

Based on the *Métier Way* ethos and the customer's experience of the company's products and services:

- **Integrity:** honesty, fairness, ethics, equality and respect
- **Service excellence:** efficiency, speed, dependability, motivation, drive, results-orientated, professional approach and brand pride
- **People:** partnerships, development, passion, engagement, commitment, loyalty, empathy, respect, transparency, humility and collaboration
- **Accountability:** reward, recognition and sustainability

OPERATING ENVIRONMENT

Métier operates in the northern (Gauteng) and eastern (KwaZulu-Natal) regions. Based on a research report by Industry Insight[1] on the construction activity for the 12-month period ended March 2017, for projects worth R650 000 and above, Gauteng recorded the highest value of awarded projects at R25 billion (25%). The second-highest value of awarded projects was for KwaZulu-Natal at R19,1 billion. Due to the high values of the projects awarded, the competition was, and continues to be, fierce. The slowdown in construction projects further exacerbated the competition, leading to manufacturers using pricing to secure tenders. The lower pricing on bulk cement as a result of cement manufacturers' competition resulted in an increase in the number of independent mixed concrete manufacturers.

Métier's technical expertise in specialised concretes, cost management focus and renowned customer service enabled the subsidiary to maintain its market share.

Challenges

- Increasing price competition:
  - Aggressive pricing tactics were applied by major integrated manufacturers with irrational pricing models, driven by the supply/demand imbalance.
  - Profitability continues to diminish, particularly for general purpose concretes.
- Inconsistent performance from raw material suppliers:
  - Suppliers struggled to sufficiently cater to Métier's requirements in terms of quality and quantity in KwaZulu-Natal.
- Customer credit default risk:
  - With the growth in SME construction companies, the risk of credit default increased in the past two years. Smaller companies tend to have an imbalance between their cash conversion cycle and the cash flow necessary to meet their immediate obligations.

[1] *Industry Insight, Construction industry forecast baseline report, March 2017.*

OPERATIONAL PERFORMANCE OVERVIEW

Highlights

Commenced production at the 12th plant in the south of Gauteng.

Paid a R50 million dividend to SepHold.

An additional plant in Denver, south of Gauteng, started production in March 2017. The new plant, which will diversify Métier's customer base in the northern region, is in line with the subsidiary's long-term growth strategy. It will increase the geographical footprint in Gauteng, thereby reducing regional pressure in the areas in which Métier operates.

The geographical diversification of Métier's plants and the manufacture of specialised concretes enabled the subsidiary to maintain operating margin levels of 12,9% (2016: 12,7%). The subsidiary reduced cost of sales by 5,2% to R483,7 million and operational expenses by 3,7% to R250,4 million to support margins. Following positive financial results for the last two years, Métier paid a R50 million dividend to SepHold. It reduced its overall bank debt obligations by R87 million to R215,9 million. The subsidiary was awarded complex supply orders that required high technical skills. As a result of high service levels and technical ability, Métier is often re-awarded orders.

HUMAN CAPITAL OVERVIEW

Service, quality and reliability – RIGHT NOW

The subsidiary continues to reinforce the *Métier Way* ethos in its daily operational activities. The executive committee identified areas to entrench this approach over the next few years. To improve the application of the *Métier Way*, the executive committee led a process of revising the mission, vision and values statements during the year.

The *Métier Way* is a high-performance culture that promotes the components of the subsidiary's brand of service, quality and reliability. This culture is characterised by:

- uncompromising service to all customers;
- a safe working environment for all who interact with Métier;
- innovation;
- employees that are sensitive and responsive to the needs of customers; and
- meeting stakeholder commitments in an ethical and honest manner.

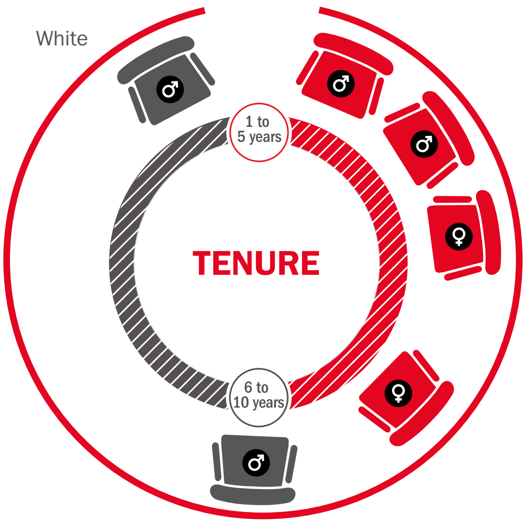
Executive committee

WJ du Toit has been the managing director since March 2016. 2017 marked a year in which, through exceptional leadership, he sharpened the focus of the executive committee on achieving the company's strategic goals. The operating environment required a coherent and responsive leadership team able to swiftly harness any lucrative supply opportunities.

Equipping the executive committee included the team completing the emotional intelligence and Myers Briggs Type Indicator assessments to enable it to use its combined strength to perpetuate Métier's success.

Business review: Métier Mixed Concrete continued

The leadership team's key focus was on strengthening operating procedures to facilitate effective and efficient ways to sustain Métier's market share and positioning. Being cognisant of the fact that any business is as successful as the people who drive it, the executive committee reorganised employees based on several factors, including experience, to ensure that the right people are employed in the right functions.



EXPERIENCE AND SKILLS

- Over 80 years' combined experience in mixed concrete manufacturing
- Concrete technologists
- Quarrying and mining experience

Legend

♀ Women

♂ Men

Jürgens du Toit (43)

Managing director

NDip (Civil Engineering) (Technikon Pretoria)

Jürgens has a wealth of experience in the mining and building materials industries gained over the past 24 years. He has held senior management positions in several aggregates and ready-mix businesses in South Africa, Botswana and Lesotho. He was appointed as managing director on 1 March 2016.

Doug Thring (49)

National maintenance manager

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

Doug has extensive experience in construction and project management gained from over 26 years with Bosch & Associates Consulting Engineers, Murray & Roberts, and his own construction business. Doug joined Métier on 1 November 2015.

Gregg Hollins (46)

Regional manager, eastern region

NDip (Civil Engineering) (Technikon Natal)

Gregg has extensive experience in the ready-mix concrete and aggregates industry. He held various management positions in the technical, production and commercial departments of Lafarge South Africa for 10 years. Gregg is a civil technician and concrete technologist. He joined Métier on 1 June 2007.

Glen Talmage (46)

Regional manager, northern region

NHDip (Civil Engineering) (Technikon Witwatersrand)

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

Stacey Venter (35)

Financial manager

BAcc (Rhodes University), CA(SA)

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

Ceri Rayne (36)

Human resource manager

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

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

Employee review

Métier's workforce increased by 6% mainly due to commissioning the Denver batch plant and staffing the laboratory in the northern region. This resulted in an increase in male employees by 15, while the female complement remained flat across all races.

Employee complement

	31/03/2017			31/03/2016		
	Male	**Female**	**Total**	Male	Female	Total
White	**36**	**11**	**47**	29	11	40
African	**168**	**10**	**178**	157	10	167
Coloured	**3**	**0**	**3**	4	0	4
Indian	**28**	**6**	**34**	30	6	36
Total	**235**	**27**	**262**	220	27	247

Métier prides itself in providing a conducive environment in which employees can up-skill and develop within the company. This is evident by the 16 promotions of two white men, one Indian man and 13 African men processed during the year.

Métier's employee turnover rate improved to 10,12% (2016: 21,36%). The improvement implies that the subsidiary has enhanced its ability to attract and retain good talent in the company. In order to preserve the lower turnover rate, the human capital focus over the next 12 to 18 months will be to develop and apply the employee value proposition as defined in the revised value statement that promotes the ethos that people matter.

Business review: Métier Mixed Concrete continued

Training and development

In line with its high-performance culture, Métier ensured its employees were afforded opportunities for growth and skills development through strategically aligned training and development programmes. This included individual performance development discussions and internal training. The interventions ensured that employees operated at the expected optimal level.

Métier invested R815 398 (2016: R824 488) in training and 145 employees (2016: 153) participated, 80 (2016: 65) of whom are historically disadvantaged individuals. A total of 83 employees attained certification in health and safety, and the balance completed training in leadership, technical and people management skills.

Of particular mention are two employees who were individually trained in ISO 9001 and advanced human resources management.

The subsidiary is completing full accreditation of several courses through the Transport Education Training Authority, and aims to establish in-house training centres that will start operating in early 2018. This training will ensure continued service excellence.

The subsidiary's employee educational assistance policy seeks to motivate employees to further their education in the field of study relevant to their respective positions and/or Métier's strategic direction. Employees most aligned to the policy objectives were awarded financial assistance.

Métier engaged a leadership coaching organisation to train a selected number of employees at management level. The programme commenced in May 2015 and was completed in July 2016. The main objectives of the programme were to:

- train and develop employees for change management in business processes;
- provide an opportunity for management to learn and grow; and
- ensure that the right people are employed in the right roles.

Employee equity

Métier's two-year employment equity (EE) plan, which commenced in September 2016, seeks to identify growth and development opportunities to designated employees, namely historically disadvantaged South Africans (HDSAs), by ensuring equitable human resources policies and procedures. The plan provides achievable targets towards fair demographic representation across the different occupational categories and levels in the organisation.

To date, Métier has achieved its targets in the employment of black women and people with disabilities. Significant progress has been made in improving representation of women at middle and junior management levels. There remain opportunities to address current imbalances in occupational categories in which there are groups which are either under or over-represented.

Going forward, Metier will be improving HDSA representation at senior and middle management levels, and will prioritise promoting from within the company. Metier will focus on employing black men at middle and senior management as well as coloured men and women across all occupational categories. The EE plan will enable the subsidiary to gradually address employment inequalities without adverse impact on the operational viability of the company in the long term.

Skills breakdown

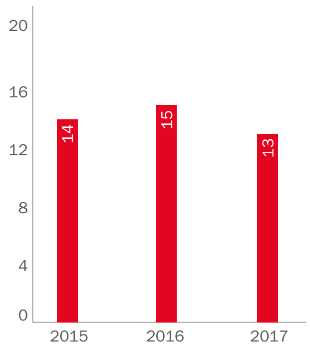
	Male				Female				
Employee category	**Black**	**Indian**	**Coloured**	**White**	**Black**	**Indian**	**Coloured**	**White**	**Total**
Executive management				4				2	6
Senior management		5	1	16					22
Middle management	8	11	1	10	1	1		2	34
Junior management	14	10	1	6	7	5		7	50
Semi-skilled labour	79	2							81
Unskilled labour	67				2				69
Total permanent employees	**168**	**28**	**3**	**36**	**10**	**6**	**0**	**11**	**262**

Health and safety

Métier's commitment to a zero-harm working environment was demonstrated by several awareness and safety training initiatives, which included extensively using toolbox talks. A total of 93 toolbox sessions were held between February and November 2016 for all Métier operations collectively. These regular talks dealt with general safety and compliance matters, with an emphasis on those relating to common incidents. Safety induction is mandatory for new employees, and refresher sessions are regularly held at sites, during which safety procedures are reinforced. The subsidiary has a health and safety policy that focuses on the structure of the safety system, training, incident recording and legislation.

Métier strives to comply with the Occupational Health and Safety Act, 85 of 1993, at all operations and consequently the subsidiary had zero fatalities (2016: 0) and 13 lost time safety incidents (2016: 15) resulting in 842 hours of lost time. The subsidiary recorded a lost time injury rate frequency of 0,05 during the year.

Lost time safety incidents



Transformation

Métier is committed to the transformation charter and complies with the Employment Equity Act, 55 of 1998. The subsidiary has a level 6 Broad-Based Black Economic Empowerment (B-BBEE) certificate awarded on 28 July 2017. Refer to page 43 for employee equity statistics.

Natural capital overview

Métier believes that good stewardship mitigates the negative environmental impact of operations. The subsidiary regularly consults with the relevant authorities on environmental matters, such as plant water run-off, to minimise the impact to the surrounding areas. Métier engages experts to develop the environmental management programme for all plants to ensure that they operate within the legislative framework. The health, safety and environment manager conducted 36 audits to ensure the effectiveness of the environmental programme. Early detection of emerging environmental issues will help the subsidiary to immediately implement corrective action.

Métier closely monitored and controlled dust emissions and wash water sediment, which are the only two material outputs with potential environmental impact. The bulk of the plant run-off water was recycled for use in production, and dust was maintained at levels well below the regulatory limits through mist sprayers, sprinklers and dust curtains.

Due to Métier conscientiously managing plants, the subsidiary complies with the regulatory requirements. The applicable licences are as follows:

- National Environmental Management Act, 107 of 1998
  - National Environmental Management Amendment Act, 62 of 2008
- National Environmental Management: Waste Act, 59 of 2008
- National Environmental Management: Air Quality Act, 39 of 2004

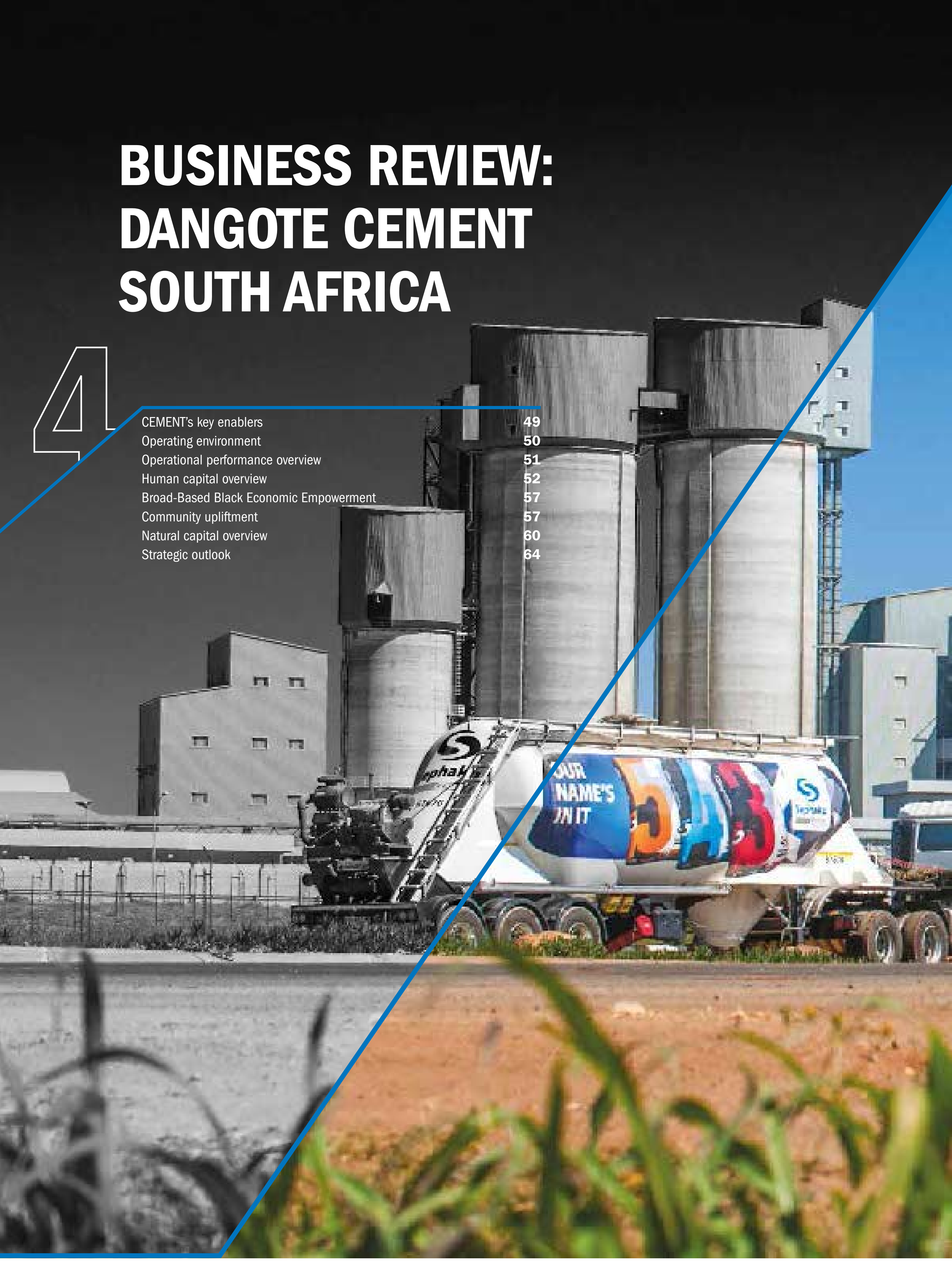
STRATEGIC OUTLOOK

Métier is determined to retain its market position as one of the key leaders in specialised concrete products. This will require adaptiveness and agility in understanding the current and emerging customer segments. The subsidiary will focus on strengthening its marketing function to complement the technical team, which is industry renowned for innovative products.

Métier is developing a supply network model to ensure optimal financial performance. This will require Métier management to hone its negotiation skills to ensure the continued supply of key inputs at competitive pricing. The subsidiary will explore backward integration opportunities to secure essential raw materials. Geographical expansion opportunities will be evaluated on an ongoing basis in line with Métier's strategic intent.

BUSINESS REVIEW: DANGOTE CEMENT SOUTH AFRICA

4



BUSINESS REVIEW: DANGOTE CEMENT SOUTH AFRICA

Vision

Inspired people
Passionate, engaged employees who love what they do.

Changing the face of our industry
Being the best in the industry by offering innovative solutions.

Creating and growing stakeholder fulfilment
Addressing and exceeding the needs and expectations of all stakeholders by creating and continuously developing value that did not exist before.

Values

- **Empowerment:** We empower our people to think and act in ways to get the job done, while adhering to processes that ensure proper governance and being mindful of company needs beyond one's own.
- **Accountability and integrity:** We are focused on delivering, and we do what we say we will do. We hold ourselves accountable for our work, our behaviour, our ethics and our actions. We aim to deliver to all stakeholders.
- **Passion and enthusiasm:** We love what we do. We are passionate about our brand and promote a positive, energising, optimistic and fun environment. Our reputation relies on the advocacy of every employee.
- **Customer care:** We are concerned with our customers' needs and perceptions. We aspire to build lasting relationships, based on trust, towards being the preferred choice in product and service.

CEMENT is a producer with modern manufacturing technologies and skills in critical functions, including production, distribution and sales. The associate's success in the fiercely competitive building materials sector was achieved through the key enablers described on page 49. The enablers contributed to the CEMENT value creation process by ensuring that the company remains competitive and maintains acceptable sales volumes.

CEMENT'S KEY ENABLERS

New quarry, easier mining

Securing a limestone resource and opening a new open-cast single-bench quarry with reserves at shallow depths and low stripping ratios are vital to saving on mining costs, and create a competitive advantage. The quarry at Aganang is approximately 1 km from the plant with shallow, single-bench limestone at depths of seven to 15 metres. At full capacity, the quarry will extract 3 million tonnes of limestone to produce 1,85 million tonnes of clinker.

Efficient plants

CEMENT's plants have the latest production technology and are efficient, with an average of 0,3 man hours per tonne sold. Modern technology enables CEMENT to manufacture a good quality, strong brand of cement that competes well with the brands that historically supplied the markets.

The use of a large modern rotary kiln equipped with a five-stage preheater and a pre-calciner enables CEMENT to reduce the cost of production and minimise carbon emissions inherent in the cement manufacturing process. Aganang has the largest single kiln in South Africa, with a capacity of 6 000 tonnes of clinker produced per day. The energy efficiency of CEMENT's core operations is between 85 and 90 kWh/tonne of cement, depending on product mix.

Efficient grinding, better cement

CEMENT plants are designed with the latest vertical roller milling technology to grind clinker and other additives into cement. This technology enables the associate to produce consistent quality cement in all strength classes. The Aganang integrated plant has three vertical, namely raw, coal and cement mills. The vertical mills are generally 20% to 35% more efficient than the standard ball mills, which are common in some competitors' plants.

Strong focus on quality

CEMENT plants are equipped with the latest quality control systems to ensure a high-quality final product from the quarry to the cement mills. Quality control commences at *in situ* drilling of limestone prior to blasting. The crushed limestone and other raw materials are scanned by gamma ray analysers to ensure a consistent, high-quality mix prior to further homogenising. Product samples are automatically collected at different points of the production line and delivered to the on-site robot-controlled laboratory for analysis.

Good emissions control

CEMENT plants are designed to perform at a higher standard than European requirements to restrict emission levels of dust, noise and other forms of pollution. As environmental legislation tightens in Africa, competitors with old, inefficient and environmentally unfriendly plants will need to invest in improvements or retire poorly performing plants. To date, the Aganang and Delmas plants have recorded emissions of between 3 mg/Nm^3 and 16 mg/Nm^3, which is well below the guaranteed 30 mg/Nm^3.

Careful selection of markets

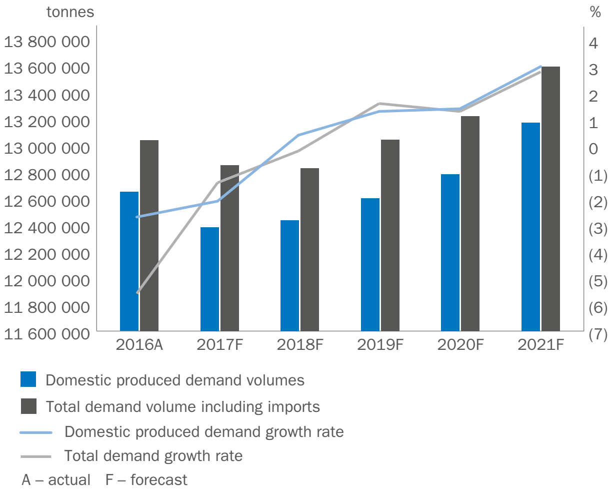
The growth in the bagged cement market was achieved through an innovative approach to segmenting the customer base. The associate has approximately 80% sales volume in bags, which is well aligned to the estimated national demand mix. In 2016, CEMENT was able to further enhance its understanding of the different provincial markets, thereby improving the average pricing.

Business review: Dangote Cement South Africa continued

OPERATING ENVIRONMENT

Industry domestic produced cement sales tonnes decreased by 2,7 % to 12,6 million tonnes for 2016 on a year-on-year basis, as estimated by Econometrix[1]. Total sales volumes decreased by 5,6% to approximately 13 million, including an estimated 390 kt (2015: 820 kt) of imports. Imports volumes from Pakistan decreased by 90% to 77 kt while imports from China increased by 300% to 311 kt due to tariffs imposed by the International Trade Administration Commission (ITAC) in December 2015, which were specific to Pakistan.

Econometrix estimated forecast annual domestic produced cement demand



Year	Domestic produced demand volumes	Total demand volumes including imports	Domestic produced demand growth rate	Total demand growth rate
2016A	12 647 291	13 035 915	(2,7)	**(5,6)**
2017F	12 383 203	12 850 204	(2,1)	**(1,4)**
2018F	12 434 470	12 826 423	0,4	**(0,2)**
2019F	12 600 060	13 038 894	1,3	**1,7**
2020F	12 780 761	13 215 877	1,4	**1,4**
2021F	13 170 454	13 589 071	3	**2,8**

The market comprises mainly bagged cement at between 70% and 80% due to limited activity in the bulk use market. Gauteng is the largest cement demand market, estimated at 4 million tonnes per annum (mtpa), and is therefore highly contested through competitive pricing, resulting in lower margins.

[3] *Econometrix Quarterly Cement Outlook, Q2 2017, June 2017.*

The South African construction industry continues to transform from being dominated by the major construction companies to having numerous second and third-tier businesses. Based on CEMENT's research, this transformation was largely influenced by the macroeconomic downturn conducive for companies with the ability to accept small construction projects. In addition, a proactive government campaign to promote job creation through SMEs, with a particular emphasis on black economic empowerment, resulted in the increase of construction companies, targeting government projects such as provincial schools, hospitals and water storage facilities.

The competitive environment and changes to the customer characteristics propagated dynamic and geographically differentiated pricing, with manufacturers focusing on improving efficiencies and marketing efforts.

Challenges

The operational challenges during the financial year ended December 2016 were as follows:

- Increased price competition, particularly in inland markets:
  - CEMENT developed several differentiated strategies to defend sales volumes while enhancing sales and marketing skills.
- Increased community expectations placed a high demand on resources:
  - Identifying appropriate leaders to engage with was a challenge, but CEMENT created several engagement platforms to address community concerns such as employment opportunities.
  - The EDPs continued to strengthen CEMENT's social licence to operate and relationships with local community leadership and government.
- Increased competition for critical skills:
  - A succession and retention plan was developed and continues to be implemented.
  - Targeted training was provided for critical skills to increase the talent pool.

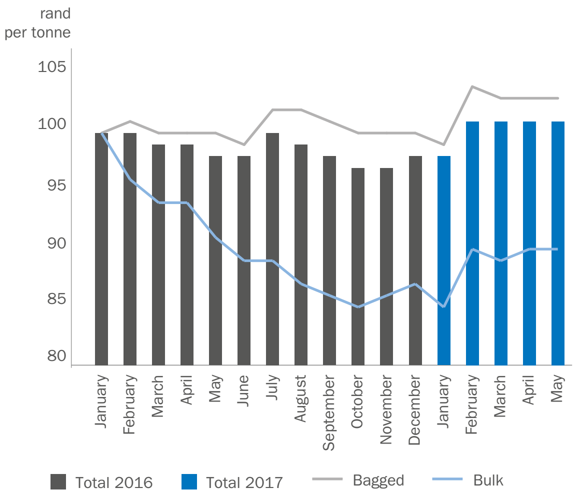
OPERATIONAL PERFORMANCE OVERVIEW

Highlights

- Sales volumes increased by 4%
- EBITDA increased by 4,3%

CEMENT achieved an increase of 4% in sales volumes for the financial year ended December 2016 in a competitive environment. It defended its position as one of the major cement producers in South Africa. The associate's average cement price decreased by 4,6% resulting in flat revenue at R2,28 billion (2015: R2,29 billion). The EBITDA margin increased to 23,1% (2015: 21,9 %) and net profit increased by 37% to R68,9 million (2015: R50,4 million).

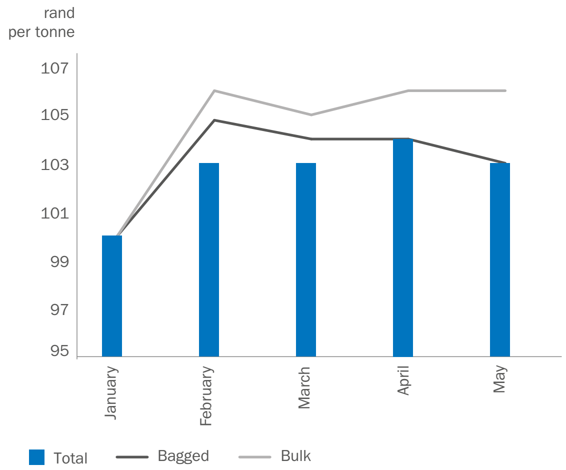
Indexed average pricing from January 2016 to May 2017



	Jan 16	Feb 16	Mar 16	Apr 16	May 16	Jun 16	Jul 16	Aug 16	Sep 16	Oct 16	Nov 16	Dec 16	Jan 17	Feb 17	Mar 17	Apr 17	May 17
Total	**100**	**100**	**99**	**99**	**98**	**98**	**100**	**99**	**98**	**97**	**97**	**98**	**98**	**101**	**101**	**101**	**101**
Bagged	100	101	100	100	100	99	102	102	101	100	100	100	99	104	103	103	103
Bulk	100	96	94	94	91	89	89	87	86	85	86	87	85	90	89	90	90

As illustrated in the graph, the average pricing for bagged cement indexed from January 2016 to the end of December 2016 was mainly flat. The average bulk cement pricing was 13% lower by the end of December 2016; however, it has been on an upward trend since January 2017. When indexed to January 2017 (below), an increase in average pricing of 3% for bagged cement and 6% for bulk cement was recorded by May 2017.

Indexed average pricing from January 2017 to May 2017



	Jan 17	Feb 17	Mar 17	Apr 17	May 17
Total	**100**	**103**	**103**	**104**	**103**
Bagged	100	105	104	104	103
Bulk	100	106	105	106	106

Plant overview

The plants performed well in terms of the overall equipment effectiveness of the mills at both Aganang and Delmas. The plants combined achieved a net OEE of 115% to 130% for the mills as a result of the excellent performance against specification.

Aganang

The integrated plant achieved a kiln net OEE of 78% (target: 96%) which was the same as recorded for the previous year. The 9% of the 18% variance against the budgeted net OEE was due to some latent defects on specific components of the plant, which were resolved with Sinoma during the plant handover. The plant production output was in line with demand and therefore the variance did not impact the associate's profitability.

Optimisation programme

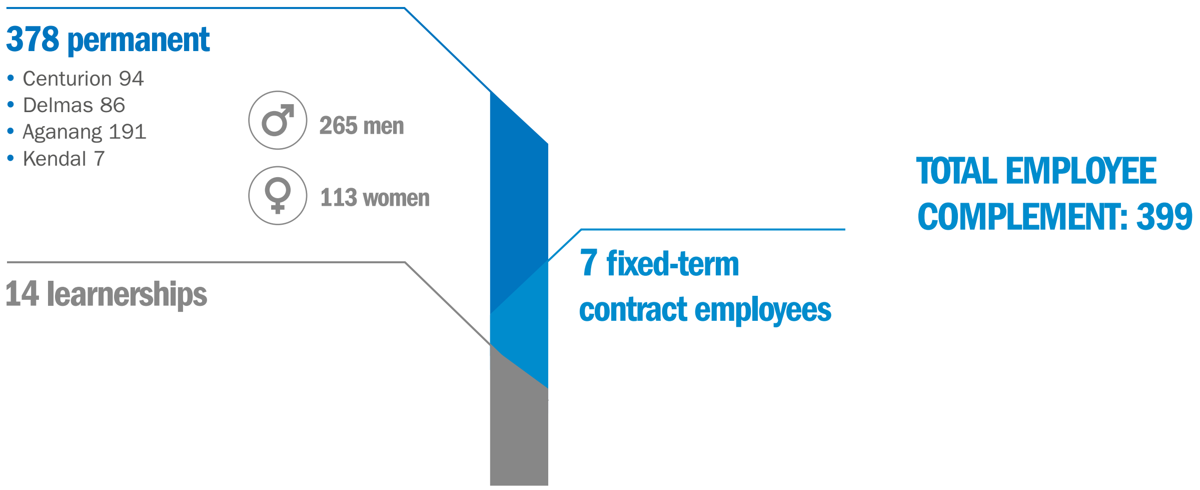
The programme was initiated in November 2015 to target four operational areas, namely logistics, raw materials, production and sales, for enhancing cost efficiencies. Optimising these functions was collectively targeted to improve the EBITDA margin by 5% to 7% in the foreseeable future. Although the continued decrease in prices limited the positive impact on the EBITDA margin, the associate achieved R57 million (50%) of the targeted R115 million cost saving by the end of December 2016. CEMENT aims to complete the programme by the end of December 2017.

HUMAN CAPITAL OVERVIEW

CEMENT made good progress towards achieving its employment equity goals, and in some instances exceeded the targets for the representation of black individuals and people with disabilities.

Employee review

The total employee complement as at 31 December 2016 was 399 including 14 learnerships. The learnerships are in the technical and administrative support functions. Nine of the 14 learners were sponsored by the Mining Qualifications Authority.



The employee turnover rate was consistent with the previous year at 10,9%, mainly because of the departure of employees with less than two years' tenure in the semi-skilled category. A lower turnover rate was recorded for the professional category, which comprises employees who occupy core functions at below 1% (2015: 5%). The reasons for resignation included relocation, entrepreneurial ventures, higher remuneration and career growth prospects.

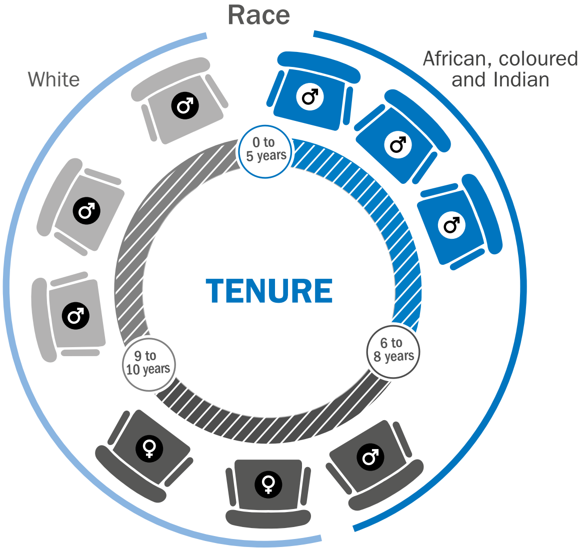
CEMENT remains committed to retaining employees, with particular emphasis on those with critical skills, and to effectively managing talent. To this end, the long-term retention scheme was fully implemented to secure the skills of targeted employees. Learning interventions, including on-the-job training, classroom training and seminars, were done. Management development programmes to build a succession pipeline were implemented for employees identified for critical positions. The associate has a relatively young, experienced workforce with an average age of 35 years.

Executive committee

A 360-degree assessment tool was administered on the executive committee to determine leadership effectiveness and identify any developmental initiatives required. The assessment revealed that CEMENT has competent managers who understand the strategy and are committed to achieving the business objectives. To address the key concerns highlighted by employees during the climate survey implemented in the previous year, the executive committee conducted three roadshows to all operations during the year. The objectives of the roadshows were to:

- improve management engagement and provide a platform for employees to ask questions;
- promote the strategy and key performance targets; and
- improve awareness of the strategic intent and understanding of the business model.

At 30 December 2016



EXPERIENCE AND SKILLS

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

Legend

♀ Women

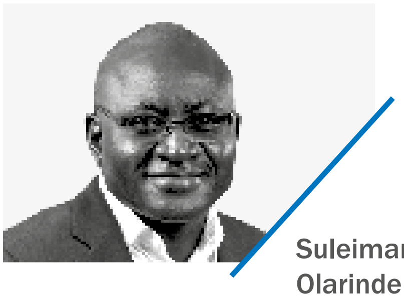
♂ Men

Pieter Frederick Fourie (61)

Chief executive officer

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

Pieter has extensive experience in the cement industry and assumed his position as chief executive officer of CEMENT on 1 May 2007.



Suleiman Oladapo Olarinde (55)

Finance director

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

Suleiman started his career with the then Price Waterhouse. He joined the Dangote group in 1991 as head of internal audit and financial services. Suleiman is employed by Dangote Industries Limited (Nigeria) as executive director (finance). He is on a fixed contract at Dangote Cement South Africa as the finance director since 21 August 2014. Suleiman has over 33 years of experience and has retired as a member of several boards in the Dangote group.

Business review: Dangote Cement South Africa continued

Duan Claassen (49)

Executive manager operations

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

Duan completed his graduate engineer training at De Beers before joining Blue Circle Cement. He was involved with Blue Circle Cement's integration into Lafarge in 1996. He subsequently worked for PPC before joining CEMENT on 1 January 2008.

Heinrich de Beer (50)

Executive manager projects

BEng (Mechanical) (PUCHE), MDP (PUCHE), LDP (GIBS)

Heinrich started his career as a project engineer and maintenance manager at Mittal (Iscor) before joining Lafarge, where he held various positions. Heinrich joined CEMENT on 1 June 2008.

Gay de Witt (48)

Chief financial officer

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

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

Robert Mathye (41)

Executive manager organisation performance

MPhil (RAU), BA (Hons), BAED (University of Venda)

Robert is a social scientist with a career that spans 16 years. He has extensive experience in managing and implementing social transformation. Robert worked for the De Beers group for over five years, where he was part of the team responsible for driving the company's transformation process and its corporate social responsibility programme. Robert joined CEMENT on 1 April 2009, and was appointed to this position on 1 November 2016.

Jennifer Bennette (54)

Company secretary

Jennifer has been employed by various legal practices as a paralegal. She was previously company secretary for the Platmin group. Jennifer joined CEMENT on 1 August 2010.

Invitees to the executive committee

Alfred Radebe (35)

Head of internal audit

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

Alfred completed his SICA articles in 2003 before assuming the internal audit role at Imperial Group and Nampak. He later moved to Ernst & Young (EY), where he was responsible for managing internal audit engagements in various sectors across sub-Saharan Africa. He joined CEMENT on 1 January 2015, and was appointed to this position on 1 August 2017.

Mziwake Matola (35)

Head of risk

BCom (Economics) (University of Pretoria), Postgrad Cert (Risk Management) (University of Johannesburg), Postgrad Dip (Hons) (Risk Management) (Unisa)

Mziwake has 12 years of experience in enterprise risk management (ERM) ranging from establishing ERM programmes to maturing ERM programmes. He has a successful track record in implementing ERM in various southern African countries, including South Africa, Namibia, Zambia and Botswana. Mziwake joined CEMENT on 1 March 2016 after holding various risk management roles in the energy, chemicals, banking and insurance industries.

Skills development and training

CEMENT recognises the long-term benefits of up-skilling employees, and has invested R5 million (2015: R4 million) in employee training, which represents 2,2% of the 2016 financial year's payroll costs. CEMENT's expenditure target for training and development over the next four years continues to be 3% of the annual payroll. The skills development programme included disability learnerships, internships and mentorships.

Job coaching and mentoring are acknowledged as crucial components in the development of all employees, and critical for succession planning. In this regard, the company identified and trained 12 managers in various functions as coaches and mentors during the year.

Supervisors were targeted for management development programmes as they drive strategy, and it is imperative that they are capacitated in leadership skills. All employees, including contractors, were trained on safety, with the aim to minimise workplace incidents and prevent injuries.

Employment equity

The CEMENT five-year employment equity (EE) plan that commenced in September 2013 represents the ongoing and sustained commitment to the elimination of discrimination and to achieve equitable representation. CEMENT strives for a workplace that reflects the national economically active population across all occupational levels.

CEMENT made good progress towards attaining its EE goals, and in some instances exceeded the targets for the representation of black individuals and people with disabilities. However, the progress towards gender representation of women was less satisfying due to lack of skills. The review and analysis of the employment equity confirmed that African women in particular remain under-represented at most occupational levels, particularly at junior management. African men are under-represented at top and senior management, therefore a majority of these men were placed into the long-term incentive scheme to increase the pool for succession.

Business review: Dangote Cement South Africa continued

Employment equity targets as at December 2016

Occupational levels	Black			Coloured			Indian			White			Total			Target EE %	Actual EE %	Actual black %
	M	F	T	M	F	T	M	F	T	M	F	T	M	F	T			
Executive management	1	0	1	0	0	0	0	0	0	3	2	5	4	2	6	42	50	13
Senior management	3	0	3	2	0	2	0	1	1	8	1	9	13	2	15	45	47	20
Middle management	14	6	20	1	0	1	2	2	4	14	5	19	31	13	44	75	66	45
Skilled (junior management)	49	29	78	3	2	5	1	5	6	17	7	24	70	43	113	85	85	69
Semi-skilled	42	24	66	1	1	2	0	0	0	1	1	2	44	26	70	100	99	94
Unskilled	102	27	129	0	0	0	1	0	1	0	0	0	103	27	130	100	100	99
Total permanent	211	86	297	7	3	10	4	8	12	43	16	58	265	113	378			
Fixed-term contractors	3	1	4	0	0	0	0	0	0	2	1	3	5	2	7			
Learnerships	10	3	13	0	0	0	0	0	0	1	0	1	11	3	14			
Total	224	90	314	7	3	10	4	8	12	46	17	63	281	118	399			

M = Male
F = Female
T = Total

Labour relations

CEMENT recognises that employees are entitled to freedom of association and respects their right to collective bargaining. At the end of 2016, AMCU secured a membership of 70% of the employees at Delmas and 51% at Aganang plant. AMCU was given the statutory organisational rights at both operations. CEMENT plans to afford AMCU central bargaining rights to streamline negotiation processes for employees.

Health and safety

There were no fatalities at any of CEMENT's operations (2016: 0). The lost-time injury frequency rates were 0,19 at Aganang (2015: 0,11), zero at Delmas (2015: 0) and zero at Sephaku Ash (2015: 0).

CEMENT remains committed to preventing injuries and ensuring the wellbeing of employees through a health and safety monitoring system. The monitoring system was regularly reviewed during the year to ensure compliance to all safety rules. Furthermore, the protection of plant visitors was given priority. The health and safety objectives were reviewed regularly, particularly as they relate to dealing with potential risks. CEMENT continued to apply the wellness framework, employee assistance programme, promote a healthy lifestyle for employees and to assist those failing to achieve their tasks due to personal and/or work-related challenges. The programme aims to provide the following services to employees and their immediate families:

- Telephonic (24/7/365) and face-to-face counselling
- Trauma support and stress debriefing
- Life management including legal, financial and family support
- Comprehensive online wellbeing services

Managers, supervisors and team leaders receive comprehensive briefing and training from external facilitators to enable them to adequately deal with cases they encounter in their daily operations.

BROAD-BASED BLACK ECONOMIC EMPOWERMENT

CEMENT achieved full points on enterprise and supplier development as well as socio-economic development elements for the B-BBEE certification. The company dropped from a level 5 B-BBEE status due to increased compliance targets related to ownership, skills development and employment equity as stipulated in the revised codes. CEMENT is required to achieve a 40% sub-minimum in all three priority elements, with non-compliance penalised by being discounted one level. The associate did not achieve the required sub-minimum on ownership and was therefore discounted to a level 6.

Torosesha, the broad-based empowerment structure established in 2014, has yet to finalise the election of two community-based directors to participate on its board. The election process was planned for the end of 2016 but was suspended due to illegal protests by the community over various matters, including job creation in the area. The Department of Rural Development and Land Reform committed to intervene on the impasse to enable CEMENT to finalise the structure in the 2017 calendar year. The North West Premier set up a task team to resolve these community leadership issues.

Torosesha owns 15% of the ordinary shares in Sephaku Development Proprietary Limited (SepDev), which is a subsidiary of CEMENT, and generates income from mining activities. This income will be used to implement community development initiatives when the board of directors is constituted and the requisite statutory processes are complete. The directors of Torosesha will be responsible for identifying how the income from SepDev is used in line with its memorandum of incorporation for the benefit of communities of Verdwaal and Springbokpan.

COMMUNITY UPLIFTMENT

CEMENT is committed to active community engagement and to making a sustainable contribution to the communities in which it operates.

Enterprise and supplier development programme (EDP)

The EDP is aimed at developing SMEs in the communities where CEMENT operates.

CEMENT invested R83,6 million (2015: R46,4 million), through procurement opportunities from the EDP participants, for services including transport, plant cleaning and catering. These enterprises employed a total of 203 individuals, of which 23% were female and 56% were below 35 years old.

The beneficiaries of the programme were regularly trained on business management skills, including cash flow management, sales and marketing. They were equipped with knowledge of the regulatory requirements, such as tax compliance, through structured coaching and mentorship. Selected beneficiaries are supported through grants, early payment of invoices within 15 to 20 days, and facilitation of access to funding.

To enhance the sustainability of the EDP transport beneficiaries, CEMENT awarded long-term logistics contracts to supply raw materials transportation services. Seven of the beneficiaries are from Lichtenburg and five from Delmas, selected based on their capacity and potential to carry out the task. These trucking opportunities have an estimated total annual revenue of between R80 million and R100 million, translating to approximately R430 million over a five-year period.

EDP beneficiaries' profiles

Category	Number of jobs created	Details
Logistics and transportation	122	19 beneficiaries identified: • 14 from Lichtenburg and five from Delmas • 12 beneficiaries signed five-year supply agreements with CEMENT for the transportation of raw materials • Seven beneficiaries from Lichtenburg were identified to provide employee transportation
Plant cleaning and cement recoveries	50	Two beneficiaries identified, one for each plant: • The Delmas beneficiary is 100% black-women-owned. • These enterprises permanently employ a minimum complement of 50 employees, with the number doubling during peak periods.
Office support cleaning	14	• One beneficiary from Springbokpan village has been providing services at the Aganang plant since 2014.
Catering	17	Two beneficiaries identified, one for each plant: • Both enterprises are 100% black-women-owned. • The enterprises cater meals for 296 employees at both plants for the day and night shifts.
Total jobs created	**203**	

Social and labour plan

The social and labour plan (SLP) is a regulatory requirement of the Mineral and Petroleum Resources Development Act, 28 of 2002 (MPRDA). It is essentially an implementation document consisting of strategies and targets on how the associate will contribute to employment creation and advancement of the socioeconomic welfare of HDSAs in the local communities in which it operates. The SLP has a five-year tenure to ensure relevance to the prevailing socioeconomic issues at any given time. CEMENT achieved two milestones against its initial SLP as detailed below, and completed the new SLP to cover the period 2017 to 2021, commencing in the fourth quarter of 2017.

Final implementation update on initial SLP projects

Project name	Status	Comments
Pallet handling and repair facility	Completed December 2016	• CEMENT partnered with a local SME to manage the facility • The SME will start training in management and administration when the operations commence in September 2017 • The facility will employ 12 people at full production
Verdwaal bakery and community hall	Completed December 2016	• Infrastructure completed and recruitment of seven people from the local community in September 2016 • Delays in commencement of operations due to incomplete electricity infrastructure

The new SLP for the period 2017 to 2021 will focus on the development of a brick and block manufacturing facility; sports and recreational facility; and agro-processing facilities.

Community skills development

CEMENT continued to offer skills development opportunities in line with the SLP as detailed in the table below.

Initiative	Progress to date
Graduate training programme	• The programme continued during the year with seven local graduates who enrolled in 2015 in the technical and engineering fields. • The training programme is supported through a partnership with MQA which provides financial resources for the trainees while CEMENT provides a practical and structured mentorship programme.
Women development programme	• Two of the three women participating in the programme based at Aganang to accelerate their career into management roles, were promoted during the year. • Another participant was added in 2016.
Apprentice training and learnerships	• The artisan training programme progressed well, with one of six employees from a local community graduating at the end of 2016. • The other five artisans are expected to graduate at the end of 2017.
Bursaries and internships	• Two of the six students graduated in chemical engineering and chemistry. • 20 additional unemployed youth from local communities were awarded bursaries to study engineering and business management at the Taletso FET College in Mahikeng. • The objective is to build a pool for the CEMENT artisan training programme. • The five disabled youths on the learnership programme since 2015, focusing on finance and information technology, will complete the programme at the end of 2017.
Educational support	• CEMENT is currently funding extra mathematics and science education programmes at Tswelelopele High School at Itsoseng. • 600 students from grades eight to 12 participate in the programme annually, and the students are reported to have an enhanced understanding of the subjects.
Leadership skills training	• 32 community leaders from Springbokpan, Verdwaal 1 and Verdwaal 2 were trained in the following learning areas: · Ethics and behaviour of a leader · Effective communication of a leader · Effective conflict resolution · The social transformation system, a practical tool for community development

Key community challenges

Key challenge	Response
Lack of legitimate community leadership structures to enable conclusive decisions on key matters, including: • Election of directors to the empowerment structure Torosesha • SLP engagement • Land utilisation options This community leadership vacuum limited the extent of engagement, which often culminated in community protests due to lack of information.	CEMENT engaged provincial and national government officials to facilitate the reconstitution of community leadership structures by the end of 2017. The Minister of Rural Development and Land Reform committed to support CEMENT by ensuring the community leadership structures are formalised to effectively implement community investment initiatives. The department commenced a process to establish a communal property association within Kopano. CEMENT continues to engage the communities through Kopano Community Authority, the department and the Ditsobotla municipality, until legitimate community structures are re-established. The North West Premier established a task team to accelerate the processes of establishing leadership structures.
Deterioration of the Aganang access road	The access roads to and from the Aganang plant are degraded as a result of the volume of haulage traffic between Aganang and Lichtenburg. The Department of Public Works and Roads committed to mend the road during the previous year as it is a hazard to drivers. Numerous employees use the road to the Aganang plant on a continuous basis. CEMENT plans to take legal action to compel authorities to attend to the road urgently.

NATURAL CAPITAL OVERVIEW

CEMENT's environmental management strategy focuses on water consumption, energy efficiency and mitigating point and non-point source emissions.

Highlights

Aganang plant installed a continuous gas analyser on the preheater stack in September 2016

Delmas plant was granted a variation application atmospheric emission licence in November 2016.

CEMENT is committed to achieving a high standard of environmental performance and to upholding sound principles of sustainable development. The company believes that robust environmental management systems with a proactive approach to addressing the challenges and harnessing opportunities of climate change, are fundamental to overall operational success. The environmental policy commitment includes:

- aligning the environmental goals and objectives with the business strategy;
- developing, implementing and maintaining an environmental management system aligned with the broader business principles and standards;
- developing employees to manage and be accountable for excellence in environmental performance in their areas of responsibility;
- continually improving environmental performance by measuring and reviewing the effectiveness of and compliance to the environmental management system;
- allocating appropriate resources to achieve targets and undertake periodical reporting of performance to regulatory authorities;
- demonstrating an understanding of environmental accountability and leadership at all levels of management; and
- planning, designing and closing operations to enhance sustainable development.

Environmental management strategy and compliance

Cement manufacturing is highly regulated by laws governing the environment. CEMENT strives to improve compliance with the requisite legislation and complies with all environmental licences and permits.

CEMENT's environmental management strategy focuses on water consumption, energy efficiency and mitigating point and non-point source emissions. The Aganang and Delmas plants were designed to have limited environmental impact, with several mitigation measures developed for potential risks, such as dust and noise pollution. Water consumption and waste generation are monitored and measured periodically, in line with legislative requirements.

The potential reputational and financial implications of non-compliance with the evolving environmental regulatory framework are significant, as are the direct and indirect costs of ensuring compliance.

Operating licences

Monitoring programmes were developed to ensure that Aganang and Delmas plants comply with the permits below.

Environmental management programme (EMPR)

The purpose of the EMPR is to ensure that social and environmental impacts, risks and liabilities identified during the environmental impact assessment process are effectively managed during the construction, operational and closure phases of the mine.

Atmospheric Emission Licence (AEL)

An AEL was issued in terms of the National Environmental Management: Air Quality Act, which stipulates emission limits for nitrogen oxide, sulphur dioxide and particulate matter. The Aganang plant was originally issued with a provisional AEL, which was converted into a full licence in July 2016.

> CEMENT recorded remarkable results due to the modern technology that enables the plants to perform well. The air emissions recorded were between 3 mg/Nm^3 and 16 mg/Nm^3 against the permit standard of 30 mg/Nm^3 for dust.

Point source emissions

Continuous emission monitors for the kiln and cooler stack were installed at Aganang and were commissioned in September 2016. They enable the plant to regularly monitor pollutants such as nitrogen dioxide, sulphur dioxide, hydrogen chloride and hydrogen fluoride as required by the AEL.

Business review: Dangote Cement South Africa continued

Fugitive dust emissions

Fugitive dust emission plans were submitted to the authorities for all operations during the licensing process. The objective of these plans is to set up measures for dust control, primarily from process fugitive emission sources that include materials handling and raw milling. These plans are internally managed through routine audits and reports are submitted to authorities.

Integrated Water Use Licence (IWUL)

CEMENT recognises the importance of contributing to the current government water security measures, and adopts a holistic approach to water stewardship. The plants have IWULs from the Department of Water Affairs. CEMENT implemented the requirements of the licence, such as monitoring water balance, storm water management, and conducting internal and external audits. The operations have water balances in place to manage and optimise water use, and run closed circuit water systems to maximise recycling and minimise discharge into the environment.

Process and clean water were separated to enable the operations to recycle the former for further use at plants. Water quality was regularly monitored to assess the potential impact of the process water on the environment in the event of the use of the evaporation dam. The monitoring provides an early-warning system for when mitigation action is required, and to measure compliance with licence conditions. Monitoring was performed through ground water and surface water sampling.

CEMENT regularly monitored the quality of ground and surface water levels. The company performed bio-monitoring of aquatic environments when necessary.

CEMENT's clean water consumption was recorded at 84 litres per tonne of clinker produced (2015: 85 litres per tonne).

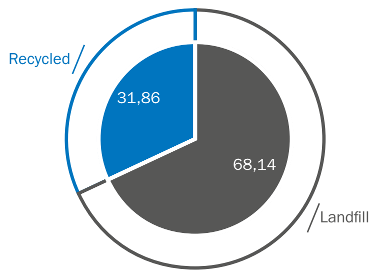
Waste Management Licence (WML)

The Aganang plant was awarded a waste licence in January 2016, which permits CEMENT to use energy-intensive materials, such as by-products from the steel manufacturing, energy and other industries. This can translate to a significant saving in energy consumption and a reduction in carbon footprint. To enhance the integrity of the waste management monitoring system, the CEMENT operations are registered on the South African waste information centre.

Non-process waste management at the plants required effectively monitoring three phases, namely sorting, recycling and disposal. These activities ensure compliance with the relevant waste legislation and minimise the impact on the natural environment and surrounding communities. Waste reports were compiled at all operations that detail the source, volume, type and disposal method of waste.

Domestic waste was disposed in licensed municipal landfill sites, or recycled through various external entities. Hazardous waste, such as used oil, was recycled through specialist service providers, and oil-contaminated material and used filters were delivered to registered waste-disposal facilities. CEMENT was awarded safe disposal certificates.

Total waste (%)



Carbon tax bill

CEMENT supports the government's drive towards becoming a low-carbon economy and continues to engage with industry bodies and policymakers to ensure that the proposed regulatory mechanisms achieve this goal while supporting local industry to be internationally competitive. CEMENT is actively involved in the consultative processes of establishing the appropriate tax regime, and several factors are still to be finalised to determine the reporting structure. As part of the voluntary reporting commitments under the Association for Cement Manufacturing Producers' Sustainability Initiative, CEMENT submitted a carbon budget to the Department of Environmental Affairs that is well aligned to the stipulations of the carbon tax allowance.

There are several subordinate laws and regulations to the bill, highlighted below.

Carbon budget

The carbon budget approach uses quantity-based policy instruments to achieve desired emission reduction outcomes at sector, sub-sector and company levels. To this end, CEMENT voluntarily submitted a carbon budget in 2016 to be reviewed by the relevant authorities, and approval is expected during the 2017 calendar year.

Government has yet to institute applicable legislation for compliance across all industries, including cement manufacturing, and is developing a position paper to align carbon tax, carbon budgets and desired emission reduction outcomes with the objective of refining the national emissions trajectory.

Greenhouse gas (GHG) reporting regulations

The regulations calculate emissions using the Intergovernmental Panel on Climate Change (IPCC) Guidelines for National Greenhouse Gas Inventories. Reporting is on a calendar year basis, with the initial reports due in March 2018.

CEMENT, as part of the industry lobby group, was actively involved in the consultative processes to determine the appropriate reporting framework. Companies are expected to report their GHG emissions for carbon dioxide, methane and nitrous oxide separately. CEMENT subsequently registered with the Department of Environmental Affairs to report on emissions.

Carbon tax Z-factor allowances

The carbon tax bill makes provision for various tax-free allowances to reduce a company's carbon tax liability. One of these allowances is on performance, also known as the z-factor, where entities can reduce their carbon tax liability by up to 5%. This applies if the company is performing better than an approved national sector or sub-sector benchmark to the GHG emissions. CEMENT is investigating projects to improve the carbon dioxide emission reduction plans to benefit from the proposed allowances. CEMENT is considering alternative fuels and energy-efficiency enhancing processes to address combustion-related emissions.

The allowance supports the recognition of prior voluntary effort in response to climate change mitigation. CEMENT, with other industry producers, is actively involved in refining these allowances.

CEMENT proactively measures its carbon footprint in terms of specific CO_2 emissions and recorded between 800 tCO_2 – 900 tCO_2 per tonne of clinker produced during the year.

Business review: Dangote Cement South Africa continued

Key natural capital challenges

Following the challenge of establishing environment community engagement forums last year, CEMENT successfully implemented an improved stakeholder identification and engagement plan in the period under review. Working with the stakeholder engagement team, the environmental management team held stakeholder meetings with the communities at Verdwaal and Springbokpan and surrounding farmers to discuss new environmental initiatives, emissions and water management matters.

Key challenge	Response
IWUL compliance The licence was issued with inconsistencies in the compliance conditions, which were acknowledged by the Department of Water Affairs.	Although the required amendments on the licence do not impact CEMENT's operations, the associate is keen to complete this administrative process. The amendment progressed slowly, but CEMENT believes that it will be completed by December 2017 through continuous and extensive engagement with the Department of Water Affairs and Sanitation authorities.
Establishing environmental management systems It is vital for CEMENT to establish best practice systems to manage environmental matters at all operations.	CEMENT, as a subsidiary of DCP, adopted a three-year road map[1] from 2016 for the development and implementation of robust sustainability methodology and reporting processes. This road map elaborates the steps to be followed by group companies towards a robust sustainability system.

[1] *Dangote Cement Plc annual report 2016*

Mine rehabilitation

The final regulations in terms of the National Environmental Management Act, pertaining to financial provision for rehabilitation and closure for prospecting, exploration, mining or production operations, were published in January 2016.

Implementing the new regulations on financial provision for rehabilitation ensures that CEMENT complies with the National Environmental Management Act through appropriate funding mechanisms to provide adequately for various levels of rehabilitation. The cost of rehabilitation and closure is assessed annually by independent specialists in alignment with the requirements of relevant legislation, EMPR closure commitments, and applicable good practice.

STRATEGIC OUTLOOK

- CEMENT will adopt a more disciplined pricing policy at targeted sales volumes.
- The associate will optimise its product and geographic sales product mix to achieve the best margins.

CORPORATE GOVERNANCE REVIEW

5

CORPORATE GOVERNANCE REVIEW

GOVERNANCE FRAMEWORK

BOARD

SepHold's board of directors provides ethical leadership and is committed to good governance practices that add value to the business. The board is SepHold's highest decision-making body and is responsible for corporate governance.

AUDIT AND RISK COMMITTEE

The committee assists the board by advising and making submissions on financial reporting, and overseeing the risk management process and internal financial controls. The committee advises on the external audit function and statutory and regulatory compliance of SepHold and Métier. It advises on the internal audit functions of the subsidiary and associate.

It is an independent statutory committee appointed by the shareholders.

SOCIAL AND ETHICS COMMITTEE

The role of the social and ethics committee is described in its board-approved charter, which regulates the way business is conducted in line with the principles of sound corporate governance. The charter is aligned to principles recommended by King III, and details the role and responsibilities of the committee.

The committee comprises three members of the SepHold board and one member is a non-executive director.

REMUNERATION AND NOMINATION COMMITTEE

The committee is responsible for decisions relating to total guaranteed remuneration and incentives of all employees. The committee makes recommendations on long-term employee incentives and submits all policy amendments to the board for approval.

The committee discusses matters normally dealt with by the nomination committee, including director appointments, the appropriateness of the composition of the board, and succession.

The chairman and the board play a pivotal role in strategic planning and establishing clear benchmarks to measure SepHold's strategic objectives. The chairman and company secretary ensure that a sound structure and framework are in place to enhance good corporate governance, improve internal controls and company performance.

The board ensures the existence of the necessary committee structures, with clear terms of reference that assist the committees in discharging their responsibilities and upholding the company's ethics. This is cascaded down the group to ensure that management operates effectively.

The board recognises that good corporate governance emanates from effective, responsible leadership, which is characterised by the values of responsibility, accountability, fairness and transparency. The board is responsible for ensuring that management activity cultivates a culture of ethical conduct, and that the highest level of integrity permeates all aspects of the group's business.

Its code of ethics provides guidance to all employees to ensure that they act with uncompromising honesty and integrity. The code is communicated to each employee at the time of engagement, and aims to guide every level of the business on expected behaviour and practices with reference to interaction with all material stakeholders. The group's performance in this area is monitored using the number of instances of unethical behaviour detected by management or reported via the outsourced, anonymous whistle-blowing toll-free hotline.

GOVERNANCE OBJECTIVES

SepHold recognises that the principles of good corporate governance and transparent, comprehensive business practices are essential to protect the interests of stakeholders. The group is committed to upholding good corporate governance in business dealings in respect of all stakeholders. This is critical to sustaining performance and preserving shareholder value. SepHold's governance objectives enhance the benefits of being part of a broader group.

Statement of compliance

The board is responsible for the group's compliance with applicable laws, rules, codes and standards. Compliance is an integral part of the group's culture, and key to ensuring it achieves its strategy. SepHold complies with various codes and regulations, including the Companies Act, the JSE Listings Requirements and King III. Shareholders are referred to the King III compliant register on the company website (www.sephakuholdings.com/our-business/corporate-governance/). The board is satisfied that SepHold complied with all King III recommendations, and is assessing the provisions of King IV.

THE SEPHOLD BOARD

The board reviews and approves the strategic objectives and policies of the group, and provides overall strategic direction within a framework of incentives and controls. It ensures that management maintains an appropriate balance between promoting long-term sustainable growth and delivering short-term performance. The board-approved strategy remains robust and targets areas for growth, while maintaining sound controls and a strong focus on risk management. The board considered future trends and economic assumptions, and identified external trends, opportunities and risks that could impact the group's growth ambitions. Refer to the inside front cover for information on the strategy.

The board delegates authority to the executive directors to manage SepHold's business and affairs. The board regularly monitors and reviews the delegated authorities to align with best practice and takes into consideration the recommendations set out in King III. The audit and risk committee reviews the delegation of authority, and presents its findings to the board annually.

The board charter

The board operates under an approved charter, which regulates the way business is conducted in line with the principles of sound corporate governance. The board charter is aligned to principles recommended by King III detailing the powers of the board, and provides that the board has ultimate accountability and responsibility for the group's performance and affairs. The charter summarises corporate governance practices; defines the separate roles for the chairperson and the chief executive officer; and elaborates on the board's expectations of the committee chairpersons and directors. The board is satisfied that it has fulfilled its responsibilities in accordance with the charter.

Board meetings

Board meetings are held quarterly. The agenda and relevant supporting documents are distributed to directors before each board meeting. During the meeting, the appropriate executive director explains and motivates business items where decisions should be taken by the board.

Board appointments

The board, assisted by the remuneration and nomination committee, appoints directors through a formal, fair and transparent process. The committee consists of a majority of independent directors and is chaired by the board's chairman.

Changes to the board

Mr MG Mahlare retired in accordance with SepHold's memorandum of incorporation on 22 September 2016. Mr Mahlare was replaced by Ms MJ Janse van Rensburg, who was appointed as an independent non-executive director on 22 September 2016. Ms van Rensburg chairs the audit and risk committee and is a member of the remuneration and nomination committee.

Corporate governance review continued

Ms B Maluleke was appointed to the board as an independent non-executive director on 9 November 2016. Ms Maluleke is a member of the audit and risk committee and the social and ethics committee.

Abbreviated *curricula vitae* of each member appear on page 72.

Induction and further training

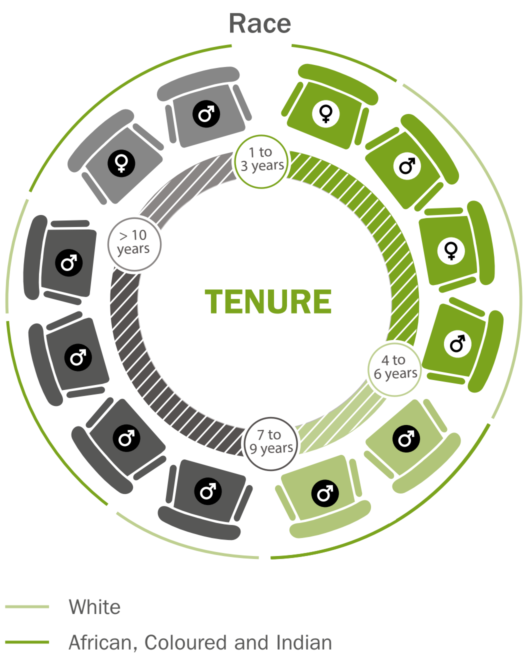
Induction of directors is conducted through formal processes, whereby new appointees meet with the executive committee and the company secretary to gain an understanding of the group's operations, business environment and sustainability matters. The induction includes a briefing on their broad fiduciary and statutory responsibilities, including the JSE Listings Requirements.

Training includes the provision of ongoing support and resources that are included in the respective committees' meeting documentation. This enables the directors to extend their skills, knowledge and understanding of the group. Professional development and training is provided through regular updates on changes and proposed changes to laws and regulations affecting the group.

Board composition and succession planning

The board comprises 10 directors: three executives, two non-executives and five independent non-executives. The board is satisfied that it has the requisite balance of skills, knowledge, experience and diversity to make it effective.

The board, together with the remuneration and nominations committee, considers adversity in terms of race, gender and skills when appointments are made to the board. In this regard, as per the gender diversity policy, SepHold appointed two female members during the reporting period and achieved its 30% female representation target a year in advance.



EXPERIENCE AND SKILLS

- Ready-mix concrete and aggregates
- Concrete and cement manufacture
- Mining
- Mining and corporate finance
- Taxation
- Business development
- Social development and upliftment
- Retail management
- Economics and international politics
- Medicine and healthcare
- Investment management and research
- Internal audit
- Corporate governance
- Risk management
- Management consulting
- Corporate and commercial law
- Mergers and acquisitions
- Asset management

Legend

♀ Women

♂ Men

Board and committee composition

Director	Designation	Board	Audit and risk committee	Remuneration and nomination committee	Social and ethics committee	Rotation schedule
B Williams	Independent non-executive director	Chairperson	–°	Chairperson#	Chairperson	2017
RR Matjiu	Non-executive director	Member	–	–	Member	2018
KJ Capes	Executive director	Member	Invitee	–	Member	
PF Fourie	Non-executive director	Member	Invitee	–	Member	2017
MJ Janse van Rensburg	Independent non-executive director	Member	Chairperson*	Member	–	2019
PM Makwana	Independent non-executive director	Member	Member	Member	–	2018
MM Ngoasheng	Independent non-executive director	Member	–	Chairperson	–	2019
J Pitt	Alternative to Mr MM Ngoasheng	–	–	–	–	–
B Maluleke	Independent non-executive director	Member	Member	–	Member	2020
Dr L Mohuba	Chief executive officer	Member	Member *(ex officio)*	Member *(ex officio)*	Invitee	
NR Crafford-Lazarus	Financial director	Member	Member *(ex officio)*	Member *(ex officio)*	Invitee	
MG Mahlare	Independent non-executive director	Member	Chairperson*	Member	–	

* *MG Mahlare was chairman of the audit and risk committee prior to his resignation as a SepHold director as of 22 September 2016. MJ Janse van Rensburg assumed the chairperson role upon his resignation.*

B Williams chairs the committee meetings for portions that deal with nomination.

° *B Williams stepped down as a member of the audit and risk committee on 9 November 2016.*

Corporate governance review continued

Board and committee meeting attendance

	Board	Audit and risk committee	Remuneration and nomination committee	Social and ethics committee
Number of meetings	**4**	**3**	**3**	**2**
B Williams	3	2		2
RR Matjiu	4			2
KJ Capes	4			2
PF Fourie	2	2		2
MG Mahlare[1]	2	1	1	
PM Makwana	4	3	3	
MM Ngoasheng	2		2	
J Pitt	1			
Dr L Mohuba	4	3	3	2
NR Crafford-Lazarus	4	3	3	2
MJ Janse van Rensburg[2]	2	2	1	
B Maluleke[3]	1	1		

[1] *MG Mahlare resigned as of 22 September 2016.*

[2] *MJ Janse van Rensburg was appointed on 22 September 2016.*

[3] *B Maluleke was appointed on 9 November 2016.*

Individual directors

Brent Williams (53)

Chairman and independent non-executive director

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

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

Modilati Gustav Mahlare (61)

Independent non-executive director

BCom (Accounting) (University of Fort Hare), BCompt (Hons) (University of South Africa)

Gustav was appointed a director of SepHold on 29 January 2009.

Gustav has held a number of positions at companies such as PricewaterhouseCoopers. He is currently a director at SEMA Integrated Risk Solutions, where he specialises in internal audit, corporate governance, risk management and management consulting.

Gustav resigned as a director of SepHold on 22 September 2016 because according to the memorandum of incorporation he was not eligible for re-election.

Paul Mpho Makwana (46)

Independent non-executive director

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

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

Moses Modidima Ngoasheng (59)

Independent non-executive director

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

Moses was appointed a director of SepHold on 1 February 2008. He was instrumental in developing the industrial policy of the African National Congress and was economic advisor to President Thabo Mbeki from 1995 to 2000. He serves on a number of boards, including SA Breweries and Dimension Data.

Justin Pitt (47)

Alternate director to Moses Modidima Ngoasheng

BCom, BAcc (Wits), CA(SA), CFA, Member of South African Institute of Chartered Accountants and Association for Investment Management and Research

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

Dr Lelau Mohuba (60)

Chief executive officer and executive director

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

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

Neil Robus Crafford-Lazarus (57)

Financial director and executive director

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

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

Corporate governance review continued

Rose Raisibe Matjiu (56)

Non-executive director

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

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

Kenneth John Capes (48)

Executive director and business development director

Kenneth was appointed a director of SepHold on 29 July 2013. He was CEO of Métier until 9 November 2016.

Kenneth has extensive experience in the ready-mixed concrete and aggregates industry. Kenneth spent 20 years in a building materials entity, holding various management positions. He was directly involved in the development of the ready-mixed concrete and quarrying business as a general manager. Kenneth's extensive knowledge, expertise and passion for concrete manufacture led him to become a co-founder of Métier in KwaZulu-Natal in 2007.

Pieter Frederick Fourie (61)

Non-executive director, chief executive officer (CEMENT)

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

Pieter was appointed director of SepHold on 20 November 2009. He has extensive experience in the cement industry and assumed the position of chief executive officer of CEMENT in May 2007.

Martie Jacoba Janse van Rensburg (61)

Independent non-executive director

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

Martie was appointed as a director of SepHold on 22 September 2016. Between 1994 and 2008, she was the CFO (five years) and then CEO (10 years) of the Trans Caledon Tunnel Authority. She has served as non-executive director and member or chairman of audit committees for Bond Exchange of SA, Airports Company South Africa, Johannesburg Water SOC and Denel SOC. She is currently a non-executive director of the Development Bank of Southern Africa, the Independent Regulatory board of auditors and a non-executive member of the credit committee overseeing Africa and India at FirstRand Bank and Ashburton.

Basani Maluleke (39)

Independent non-executive director

BCom (Accounting) and LLB degrees (University of Cape Town), MBA (Kellogg School of Management at North-West University), Fellow of the African Leadership Initiative and the Aspen Global Leadership Network

Basani was appointed a director of SepHold on 9 November 2016. She has over 10 years of financial services experience in the areas of corporate finance, private banking and private equity. Basani was a director of Transcend Capital Proprietary Limited, a boutique corporate finance firm specialising in B-BBEE ownership advisory for multinationals. She was admitted as an attorney of the High Court after serving articles at Edward Nathan and Friedland (now Edward Nathan Sonnenbergs).

Board evaluation and independence

SepHold annually evaluates the effectiveness and performance of the board, its committees and individual directors. In May 2016, Acorim Proprietary Limited (Acorim) conducted an assessment of the performance and effectiveness of the board, committees and executives. A self-assessment will be performed during 2018 by way of individual questionnaires.

No major concerns were raised by any director in respect of the functioning of the board or any of its committees. The assessment monitored the board's effectiveness as a team, how well the committees function and discharge their duties as stated in the respective charters or terms of reference, as well as the commitment and performance of individuals.

The results identified that the board performs well, with sufficient evidence of effectiveness. Following from the areas of focus the board further strengthened SepHold's long-term strategic planning, related KPIs and succession planning.

The board specifically considers the independence of directors and their commitments on the date of appointment and annually thereafter. This evaluation is done to determine whether a director has sufficient time to discharge his or her duties effectively and is free from conflicts that cannot be managed satisfactorily.

Specific independence consideration

Mr MM Ngoasheng has been a member of the board for nine years. Mr Ngoasheng's independence has been scrutinised by the board with the assistance of the remuneration and nomination committee. 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 Mr Ngoasheng's extensive knowledge in deal structuring and the building materials sector is valuable to SepHold's strategic intent. The recent appointment of two independent non-executive directors balances his familiarity. 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.

Company secretary

The group company secretary provides the board with guidance in respect of the discharge of directors' duties and responsibilities, and regarding legislation, regulatory and governance procedures and requirements. The board has access to, and is aware of, the responsibilities and duties of the company secretary, and has committed itself to ensure that the group company secretary is afforded the support required to perform its duties. The group company secretary acts as secretary to the board-appointed committees.

The board is satisfied that Acorim, represented by Nikita Brocco, has the required knowledge, skill and discipline to perform the functions and duties of the group company secretary. The board concluded that Acorim maintains an arm's-length relationship with the company and its board.

No Acorim employees are directors of the company, nor do they have any interests or relations that may affect independence. In making this assessment, the board considered the independence of Acorim directors, shareholders, employees, collective qualifications and track record.

Risk management

The group uses several strategies, policies, processes and procedures to identify, measure, monitor, manage and report on all material risks to which the group is exposed. The enterprise risk management framework sets out the key principles that guide the implementation of risk management. The chief executive officer and financial director are the drivers of risk management.

To ensure the sustainability of the business, CEMENT and Métier executive committees implement and monitor their risk management policies and plans monthly, in line with the risk tolerance targets defined by the board. The plans provide a systematic, disciplined approach to evaluate and improve the effectiveness of risk management. They define the related internal controls, compliance and governance processes within the group.

Corporate governance review continued

To assist SepHold in the discharge of its duties and responsibilities in respect of risk management, the board's audit and risk committee reviews the group's risks, progress on their management, and the effectiveness of the management activities to address them. In assessing risk, SepHold reviews performance in terms of profit growth, return on investment and debt levels against targets set during the annual budget process.

SepHold's material matters and risk areas are closely aligned. Refer to page 20 for our material matters.

Risk identification and analysis

The board is satisfied that CEMENT and Métier maintain an effective ongoing risk assessment process, consisting of risk identification, quantification and evaluation. This assessment process identifies risks and measures their potential impact and likelihood. A systematic, documented, formal risk assessment is conducted at least annually, and is continually reviewed, updated and applied. The output of the assessments is presented to the board to provide a realistic perspective of material risks that the group encounters.

Risk appetite and tolerance

The board considers risk management as achieving an appropriate balance between realising opportunities for gains and minimising adverse impacts. The board is satisfied that no member of management has exceeded its authority or acted contrary to the board's stated risk appetite nor, in so doing, exposed the group to unnecessary risk during the financial year and up to the date of this report.

Internal controls

The board is responsible for the group's systems by evaluating the adequacy and effectiveness of the internal controls. The board evaluates the combined assurance processes of the subsidiary and associate at every meeting.

Métier's first line of defence is the internal controls, which are driven by a customised logistics software system. The 12 plants each have a site management team that manages costs continually on a "rand per cubic metre of concrete" basis through the software system.

Its second line of defence is executive management control and internal audit. The SepHold financial director conducted quarterly internal audits.

Its third line of defence is the Métier board and committees in which the SepHold executive committee participates.

CEMENT has a five-line defence system. The first line of defence is the internal controls, whose close monitoring by management is the second line of defence. The third and fourth lines of defence are risk management, and internal and external audit, respectively. In 2016 CEMENT conducted 24 internal audits, two more than planned. The fifth line of defence is the Dangote Cement South Africa board and committee.

The SepHold audit and risk committee ensures the reliability of information and adherence to rules and regulations. An essential part of internal control is risk management and financial reporting. The subsidiary and associate provide internal audit reports to the audit and risk committee for due consideration.

The independent external auditor, Grant Thornton, was recommended by the audit and risk committee and appointed by the shareholders, and is responsible for reporting on whether the annual financial statements are fairly presented in compliance with International Financial Reporting Standards (IFRS) and the Companies Act. The preparation of the annual financial statements remains the responsibility of the board.

Internal audit

CEMENT has a functional internal audit department that reports to its audit committee, on which SepHold is represented. Métier's internal audit function is performed by SepHold's financial director.

Due to the nature and size of head office, the accounting function is structured to accommodate current requirements and, as such, the audit and risk committee does not believe that an internal audit function is viable at this stage. The committee believes that new appointments should strengthen the accounting function and improve control through the division of duties. As such, this is better suited to the company's needs than the performance of an internal audit function.

Insider trading and conflict of interest

In addition to the regulatory requirements to which SepHold's directors are subject, the board charter:

- sets out the approval process relating to dealing in SepHold securities;
- requires notification of share transactions in terms of the JSE Listings Requirements; and
- prohibits dealings in SepHold securities when aware of unpublished price-sensitive information.

The members of the board are required to confirm their trading in SepHold shares and their compliance with the relevant requirements on a continual basis with the chairman or chief executive officer.

Declaration of interests is a standing agenda item at all board meetings. Directors are required to formally update their directorships and other relevant interests at least annually. The board appointment process includes an assessment of candidates' other interests. Where directors have an interest in particular matters discussed at board or board committee meetings, the directors are recused from the meeting and required to leave the meeting room for the duration of the relevant discussion and/or decision.

Executive employees are advised, at least biannually, that trading in SepHold shares is prohibited when in possession of price-sensitive information.

SEPHOLD'S SUBCOMMITTEES

The board delegates certain functions to various committees in which independent non-executive, executive and non-executive directors participate. The board subcommittees fulfil their obligations contained in the Companies Act, and the requirements contained in King III and in SepHold's memorandum of incorporation. They execute further duties delegated to them by the board.

In discharging its duties, the board delegates authority to committees and individuals through clearly defined terms of reference, which it reviews regularly. The board maintains effective control through a well-developed governance framework that provides for the delegation of authority. The chairpersons of these committees, in conjunction with the board, are elected by the members of each committee.

Audit and risk committee

The committee has specific statutory duties to shareholders. The role of the audit and risk committee is described in its charter. The committee chairman holds office for no longer than five consecutive years, unless the remuneration and nomination committee and the board have sound reason to determine otherwise.

> The audit and risk committee was chaired by Mr MG Mahlare, an independent non-executive director, until 22 September 2016 when he resigned. Mr Mahlare attended the annual general meeting (AGM) to respond to shareholder queries and was replaced by Ms MJ Janse van Rensburg at the same AGM on 22 September 2016.

Corporate governance review continued

Responsibilities of the committee

The audit and risk committee is responsible for the following:

- Nominating a registered, independent auditor, determining fees to be paid, and terms of engagement
- Determining and pre-approving any non-audit services that the auditor may provide
- Preparing a report for the annual financial statements that describes how the committee carried out functions and whether it is satisfied with the auditor's independence
- Dealing appropriately with any concerns or complaints relating to SepHold's accounting practices, the content or auditing of annual financial statements, and internal financial controls
- Making submissions to the board on any matters concerning accounting policies, financial control, and reporting
- Performing other functions determined by the board, including the development and implementation of a policy plan for a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes
- Overseeing the subsidiary and associate audit processes
- Overseeing external audit processes

The following additional key matters received particular attention by the committee in the year:

- Assessing internal controls
- Monitoring CEMENT debt covenants management
- Monitoring the group's liquidity and recapitalisation

The audit and risk committee considered and satisfied itself of the appropriateness of the expertise and experience of the financial director, Mr NR Crafford-Lazarus, whose *curriculum vitae* appears on page 73. The audit and risk committee considered and satisfied itself of the appropriateness of the expertise, adequacy of the resources of SepHold's financial function and the experience of the responsible senior members of management.

The directors are of the opinion that the business will remain a going concern in the year ahead. Their statement in this regard is contained in the directors' approval to the financial statements.

Refer to page 7 of the annual financial statements for the committee's report.

Social and ethics committee

The role of the social and ethics committee is described in its board-approved charter, which regulates the way business is conducted in line with the principles of sound corporate governance. The charter is aligned to principles recommended by King III, and details the role and responsibilities of the committee. The committee comprises three members of the SepHold board, and one non-executive director.

The responsibilities of the committee

The social and ethics committee focuses its efforts on the operating companies by monitoring:

- the maintenance of good relations with customers;
- the maintenance of good relations with employees and achieving employment equity;
- the promotion and protection of the environment, health and safety;
- the prevention and combat of bribery and corruption;
- that the group is a good corporate citizen, particularly making efforts to protect and advance human rights, promote equality and prevent unfair discrimination; and
- the extension of reach and impact of the values and ethics through the business partners and supply chain.

The social and ethics committee reports to shareholders at the AGM. The chairperson of the committee will attend the AGM to report back to shareholders.

The following additional key matters received particular attention by the committee in 2017:

- The establishment of community leadership structures in the North West area where CEMENT operates
- The CEMENT land acquisition for community grazing
- Compliance of CEMENT and Métier to regulatory requirements and progress on the implementation of the associate's SLP
- Implementation of the CEMENT enterprise and supplier development programme

Remuneration and nomination committee

The role of the remuneration and nomination committee is described in its charter. The board chairman, Mr B Williams, attends meetings to chair the portion that deals with nomination.

The following additional matters received particular attention by the committee in 2017:

- Succession and retention planning for all group companies
- Board composition in terms of gender and skills diversity
- Enhancement of key performance indicators to align to strategic objectives

REMUNERATION OVERVIEW

SephHold's remuneration practices reflect the dynamics of the market and context in which it operates. Remuneration plays a critical role in attracting and retaining high-performing individuals. It is also used to reinforce, encourage, promote superior performance and achieve the group's goals. The group's remuneration management is market-related, with market surveys and benchmarks applied to ensure competitiveness.

The board is responsible for making decisions regarding the remuneration of directors and the CEO. The CEO is responsible for decisions relating to total guaranteed remuneration and incentives of all employees. The remuneration and nomination committee receives these recommendations and advises the board on remuneration practices, long-term employee incentives, and submits policy amendments to the board for approval.

SepHold adopts a total reward strategy in remunerating all its employees. This is to ensure that all employees are appropriately rewarded and are made aware of the terms and conditions under which they are employed.

The remuneration framework ensures that SepHold:

- appropriately compensates employees for services they provide;
- provides a flexible and competitive remuneration structure that:
  - is referenced to appropriate benchmarks;
  - reflects market and industry practices; and
  - is tailored to the specific circumstances of SepHold, so as to attract, motivate and retain highly skilled employees;
- aligns remuneration practices with the business strategy, objectives, values and long-term interests of the company;
- ensures equitable remuneration to facilitate the deployment of people throughout the business;
- complies with all relevant legal requirements; and
- ensures variable remuneration payment is in line with the company performance, on a divisional and individual level.

Positioning of the total guaranteed package is based on an individual's level of demonstrated competency, qualifications, experience and performance. The total guaranteed package of individuals new to the position will normally be at the low end of the pay range. With increased experience, learning and performance, the total guaranteed package will be adjusted based on the outcome of performance reviews.

The following summarises the performance measurement criteria:

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

Corporate governance review continued

The table below summarises the main components of the reward package for all SepHold employees. CEMENT, as a subsidiary of DCP, applies a different reward framework.

Objective and practice		Award size and performance period
Guaranteed pay	• Remunerate above the market and industry average for key positions • Remunerate market-related salaries for all other positions • Review total guaranteed pay annually and set on 1 March	• The level of skill and experience, scope of responsibility and the total remuneration package are taken into account when rewarding employees • Appropriate market percentiles based on skills, experience and competitiveness
Short-term incentive	• To motivate employees and incentivise delivery of performance over the financial year • The appropriateness of measures and weightings is reviewed annually to ensure ongoing support of the strategy • The annual bonus is paid in cash in July each year for performance over the previous financial year	• 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
Long-term incentive	• To motivate and incentivise delivery over the long term • Award levels and framework for determining vesting to ensure continued support of the company strategy	• Performance over three financial years is measured against targets for the performance period

The board-approved performance indicators, which measure and review executive management's performance, will be measured and reviewed by SepHold going forward. The indicators are categorised into financial (75%) and non-financial measures (25%).

Performance indicator	Weighting (%)	Performance condition detail	Threshold (30%)	Target (50%)	Stretch (70%)
		Financial measures			
Real growth in headline earnings per share (HEPS)	35	HEPS growth over the previous year in excess of inflation	Real HEPS growth of more than 0%	Real HEPS growth of 4% per annum	Real HEPS growth of ≥8%
Earnings before interest, taxation, depreciation and amortisation (EBITDA)	25	The achievement of group EBITDA against budget. The definition as the proportionately consolidated EBITDA of the underlying subsidiaries less corporate costs.	80% of budget achieved	100% of budget achieved	≥120% of budget achieved
Total shareholder return (TSR)	15	TSR will be measured against a comparable set of 10 companies.	Seventh to eighth position	Fourth to sixth position	First to third position

Performance indicator	Weighting (%)	Performance condition detail	Threshold (30%)	Target (50%)	Stretch (70%)
		Non-financial measures			
Safety, environment and transformation	15	The achievement of safety, environmental and transformation targets as determined by SepHold will be measured against a portfolio of evidence.			
Achievement of strategic goals	10	The achievement of strategic goals as determined by SepHold will be measured against a portfolio of evidence.			

Non-executive directors' remuneration

Elements and purpose

We aim to attract and retain suitably skilled and experienced non-executive directors. An appropriate level of competitive remuneration is required to reward them for their time and expertise. Non-executive directors are remunerated by way of an annual fee paid in recognition of membership of the board and its committees.

Non-executive directors, including the group chairperson, are not eligible to receive any other employment benefits, performance-related remuneration, or any form of compensation for loss of office.

The fee structure is reviewed periodically and benchmarked annually to ensure proposed fees are appropriate against the external market and support the attraction and retention of high-quality non-executive directors.

Service contracts

None of the directors has written service contracts with the company. Directors are employed by the board and rotate in terms of the memorandum of incorporation.

Remuneration

Refer to page 82 for the 2017 directors' fees.

Annual fee structure	Proposed 2018 R
Chairman of the board	410 000
Independent non-executive	310 000

Corporate governance review continued

Directors' and prescribed officers' emoluments

Executive	Remuneration R	Performance bonuses R	Travel allowances R	Pension fund R	IFRS 2 Staff cost relating to share-based payments vesting expense (non-cash) R	Total R
2017						
Dr L Mohuba	**3 531 600**	**1 500 000**	**–**	**115 395**	**614 597**	**5 761 592**
NR Crafford-Lazarus	**3 375 043**	**1 500 000**	**156 557**	**115 395**	**746 865**	**5 893 860**
KJ Capes	**2 158 117**	**2 379 947**	**–**	**–**	**–**	**4 538 064**
	9 064 760	**5 379 947**	**156 557**	**230 790**	**1 361 462**	**16 193 516**
2016						
Dr L Mohuba	3 020 000	250 000	–	–	616 867	3 886 867
NR Crafford-Lazarus	2 875 040	250 000	144 960	–	888 909	4 158 909
RR Matjiu*	–	–	–	–	206 965	206 965
KJ Capes	2 728 550	2 391 867	–	–	–	5 120 417
	8 623 590	2 891 867	144 960		1 712 741	13 373 158

Non-executive	Fees for services as director R	Remuneration R	Performance bonuses R	Medical aid R	Allowances R	IFRS 2 Staff cost relating to share-based payments vesting expense (non-cash) R	Total R
2017							
B Williams	**380 000**	**–**	**–**	–	–	–	**380 000**
MG Mahlare#	**125 000**	**–**	**–**	–	–	–	**125 000**
PM Makwana	**250 000**	**–**	**–**	–	–	–	**250 000**
MM Ngoasheng	**250 000**	**–**	**–**	–	–	–	**250 000**
MJ Janse van Rensburg#	**125 000**	**–**	**–**	–	–	–	**125 000**
B Maluleke#	**62 500**	**–**	**–**	–	–	–	**62 500**
RR Matjiu	**–**	**–**	**–**	**–**	**–**	**121 426**	**121 426**
PF Fourie	**–**	**3 223 349**	**1 001 784**	–	–	–	**4 225 133**
	1 192 500	**3 223 349**	**1 001 784**	–	–	**121 426**	**5 539 059**
2016							
B Williams	350 000	–	–	–	–	–	350 000
MG Mahlare	262 500	–	–	–	–	–	262 500
PM Makwana	262 500	–	–	–	–	–	262 500
MM Ngoasheng	262 500	–	–	–	–	–	262 500
PF Fourie±	–	2 734 307	606 267	150 031	189 578	48 282	3 728 465
	1 137 500	2 734 307	606 267	150 031	189 578	48 282	4 865 965

* *Remuneration is paid by SepFluor Limited who is no longer an associate. The disclosure of the director is limited to share options vested during the period.*
\# *MG Mahlare resigned 22 September 2016*
MJ Janse van Rensburg appointed 22 September 2016
B Maluleke appointed 9 November 2016
± *PF Fourie is a non-executive director of SepHold and an executive director of CEMENT. Remuneration paid to him by CEMENT has therefore been disclosed above.*

Directors' interest in share options

	2017							
	Opening balance number of share options	Exercise price R	Options exercised	Date exercised	Market price on exercise date R	Options vested at year-end	Closing balance number of share options	Pre-taxation gain R
Dr L Mohuba								
Granted 15/10/2010	715 000	2,68	–	–	–	715 000	715 000	–
Granted 29/06/2012	750 000	1,90	–	–	–	500 000	750 000	–
Granted 10/12/2014	400 000	6,80	–	–	–	–	400 000	–
Granted 31/03/2016	400 000	4,40	–	–	–	–	400 000	–
NR Crafford-Lazarus								
Granted 15/10/2010	715 000	2,68	–	–	–	715 000	715 000	–
Granted 29/06/2012	750 000	1,90	–	–	–	500 000	750 000	–
Granted 31/08/2012	750 000	1,90	–	–	–	500 000	750 000	–
Granted 10/12/2014	375 000	6,80	–	–	–	–	375 000	–
Granted 31/03/2016	400 000	4,40	–	–	–	–	400 000	–
RR Matjiu								
Granted 15/10/2010	200 000	2,68	–	–	–	200 000	200 000	–
Granted 29/06/2012	300 000	1,90	–	–	–	200 000	300 000	–
Granted 10/12/2014	125 000	6,80	–	–	–	–	125 000	–
Granted 31/03/2016	100 000	4,40	–	–	–	–	100 000	–
PF Fourie								
Granted 15/10/2010	550 527	2,68	–	–	–	550 527	550 527	–
	6 530 527		–	–	–	3 880 527	6 530 527	–

Corporate governance review continued

Directors' interest in share options (continued)

	2016							
	Opening balance number of share options	Exercise price R	Options exercised	Date exercised	Market price on exercise date R	Options vested at year-end	Closing balance number of share options	Pre-taxation gain R
Dr L Mohuba								
Granted 15/10/2010	715 000	2,68	–	–	–	715 000	715 000	–
Granted 29/06/2012	750 000	1,90	–	–	–	250 000	750 000	–
Granted 10/12/2014	400 000	6,80	–	–	–	–	400 000	–
Granted 31/03/2016	400 000	4,40	–	–	–	–	400 000	–
NR Crafford-Lazarus								
Granted 15/10/2010	715 000	2,68	–	–	–	715 000	715 000	–
Granted 29/06/2012	750 000	1,90	–	–	–	250 000	750 000	–
Granted 31/08/2012	750 000	1,90	–	–	–	250 000	750 000	–
Granted 10/12/2014	375 000	6,80	–	–	–	–	375 000	–
Granted 31/03/2016	400 000	4,40	–	–	–	–	400 000	–
RR Matjiu								
Granted 15/10/2010	200 000	2,68	–	–	–	200 000	200 000	–
Granted 29/06/2012	300 000	1,90	–	–	–	100 000	300 000	
Granted 10/12/2014	125 000	6,80	–	–	–	–	125 000	
Granted 31/03/2016	100 000	4,40	–	–	–	–	100 000	
PF Fourie								
Granted 15/10/2010	715 000	2,68					715 000	–
		2,68	(162 983)	18/12/2015	R5,25	–	(162 983)	418 866
		2,68	(613)	18/12/2015	R5,30	–	(613)	1 606
		2,68	(877)	18/12/2015	R5,31	–	(877)	2 307
	715 000	2,68	(164 473)			550 527	550 527	422 779
	6 695 000		(164 473)			3 030 527	6 530 527	422 779

Refer to note 19 of the annual financial statements for more details on share options and the vesting conditions. Beneficial shareholding of directors and associates is disclosed in the directors' report on pages 9 to 13 of the annual financial statements.

CORPORATE INFORMATION

Country of incorporation and domicile	South Africa	
Nature of business and principal activities	Construction materials company	
Directors	B Williams	Chairman independent Non-executive director
	PM Makwana	Independent non-executive director
	MM Ngoasheng	Independent non-executive director
	MJ Janse van Rensburg	Independent non-executive director
	B Maluleke	Independent non-executive director
	Dr L Mohuba	Chief executive officer
	NR Crafford-Lazarus	Financial director
	RR Matjiu	Non-executive director
	KJ Capes	Executive director
	PF Fourie	Non-executive director
	J Pitt	Alternate director

Registered office	Southdowns Office Park First floor, Block A Cnr Karee and John Vorster Streets, Irene X54, 0062
Website	www.sephakuholdings.com
Postal address	PO Box 7651, Centurion, 0046
Bankers	Nedbank
Auditors	Grant Thornton Johannesburg Partnership Chartered Accountants (SA) Registered Auditors
Group company secretary	Acorim Proprietary Limited Telephone: +27 11 325 6363 Email: sephaku@acorim.co.za
Company registration number	2005/003306/06
Transfer secretaries	Computershare Investor Services Proprietary Limited Rosebank Towers, 15 Biermann Avenue, Rosebank, Johannesburg, 2196 PO Box 61051, Marshalltown, 2107, South Africa Telephone: +27 11 370 5000
JSE sponsor	QuestCo Proprietary Limited Telephone: +27 11 011 9200
Investor relations officer	Sakhile Ndlovu Email: info@sepman.co.za Telephone: +27 12 612 0210
Métier Mixed Concrete (wholly owned subsidiary)	Physical address: 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 (Associate)	Physical address: Southdowns Office Park, Block A, Ground Floor Cnr Karee and John Vorster Streets, Irene X54, 0062 Postal address: PO Box 68149, Highveld, 0169 Telephone: +27 12 684 6300 Website: www.sephakucement.co.za

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