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Business review: Dangote Cement South Africa

COMPANY OVERVIEW

Dangote Cement South Africa (Pty) Limited (CEMENT or associate)¹ is a cement producer with modern manufacturing technologies and skills in the critical functions including production and sales. CEMENT's main business activity is the manufacturing, marketing and distribution of quality cementitious products to a broad spectrum of users and consumers.

CEMENT is a subsidiary of DCP and the latter's value creation process has contributed to the associate's successful entry into the competitive and constrained South African building materials sector. The sector is linked to the cyclical construction industry, which has been negatively impacted by the weak economic performance and low growth forecasts.

The translation of strategy into action plans that are measurable is a continuous process. The CEMENT communication meeting forums continue to be used as a tool to communicate and drive performance for departments. These communication structures are used to ensure synergies across different functional areas for the purpose of meeting stakeholder's expectations. An innovative feedback process of continuous performance improvement through transparent communication is in place to enhance employee participation.

CEMENT'S KEY ENABLERS²

Careful selection of markets

A factor in the selection of a market to construct a plant is the age and size of the incumbents' plants. DCP's strategy is to deploy larger and/or more efficient modern plant(s) in markets with small or older plants. For example, the Aganang integrated plant with modern technologies introduced high efficiencies in a market with average plant age of 36 years.

New quarry, easier mining

Competitive advantage begins with securing a limestone resource and opening a new quarry that gives access to shallower depths, thereby saving on mining costs. The quarry at Aganang is approximately 1 km from the plant with shallow, single bench limestone at depths of seven to nine metres. The quarry extracts 2,5 million tonnes of limestone to produce 1,46 million tonnes of clinker.

Efficient plants

The plants are essentially standardised in design to reduce the cost of construction. Plants have the latest production technology and are highly efficient on a per tonne basis. Modern technology has enabled CEMENT to manufacture a good quality and strong brand of cement at a lower cost than competitors.

Efficient kilns

The use of large modern rotary kilns equipped with pre-heaters and a pre-calcliner that use the exhaust gases from the kiln presents a recycling system that enables CEMENT to reduce the cost of production and minimise carbon emissions inherent in the cement manufacturing process. The Aganang kiln is paired with a four-stage preheater, and is the single-largest kiln in South Africa with a capacity of 6 000 tonnes of clinker produced per day. The energy efficiency of CEMENT's core operations are at 97,5 kWh/tonne of cement.

Efficient grinding, better cement

Plants are designed with the latest vertical rolling mill technology to grind clinker and other additives into cement. This technology enables CEMENT to produce strong and rapid-setting cement that is experiencing increasing demand across South Africa and need for expediency increases. The Aganang integrated plant has three vertical mills namely the raw, coal and cement mills. The vertical mills are generally 20% to 30% more efficient than the standard ball mills that are prevalent in the competitors' plants.

Good emissions control

DCP plants are designed to perform at a higher standard than the stated European requirements to restrict emission levels in terms of dust, noise and other forms of pollution.

As environmental legislation tightens in Africa, competitors with old, inefficient and environmentally unfriendly plants will probably invest significantly in improvements or retire the worst performing plants. To date the Aganang and Delmas plants have recorded emissions well below the guaranteed 30 mg/Nm³.

Strong focus on quality

DCP plants are equipped with the latest quality control systems that ensure the excellence of the final product from the quarry to the cement grinders. Quality control commences after the limestone has been crushed. The crushed limestone and other raw materials are scanned by gamma ray analysers to ensure a consistent, high quality mix that is homogenised. Product samples are automatically collected at different points of the production line and delivered to the on-site robot-controlled laboratory for analysis.

¹ CEMENT has a December year-end as a subsidiary of Dangote. It has been renamed from Sephaku Cement (Pty) Limited.

² Based on company research, publicly available information and the DCP Integrated Report 2015.

OPERATING ENVIRONMENT

Industry cement sales tonnes for South African producers increased by 7,7% to 12,9 million for the calendar year 2015 on a year-on-year basis, as reported by Levitt Kirson, Business Services DFK Limited¹. There was an overall increase of 3,3% in sales volumes to approximately 13,8 million including 820 thousand tonnes (2014: 1,3 mt) of imports. Imports from Pakistan decreased by 37% for the calendar year, mainly due to the tariffs imposed by the International Trade Administration Commission (ITAC), provisionally in May 2015, and conclusively in December 2015.

The market is progressively skewed towards bagged cement compared to bulk cement as demand increases in the retail market and activity is limited in the infrastructure sector. Gauteng province is the most robust bulk market and remains contested through competitive pricing, resulting in low margins. Gauteng represents the largest cement demand market estimated at 4 mtpa. Pricing has generally become dynamic and is differentiated geographically with producers focusing on improving efficiencies and marketing efforts.

A new entrant entered the market in December 2015, and has secured a supply contract with one of the four major retailers. The entrant has an integrated plant with one million tonnes capacity.

Furthermore, the South African construction industry is transforming from being dominated by the major construction companies to having numerous second and third tier businesses. Based on CEMENT's research, this transformation has been largely influenced by the macroeconomic downturn that is conducive for companies that have the ability to accept small construction projects. In addition, a deliberate government campaign to promote the small enterprises with a particular emphasis on black economic empowerment has resulted in the proliferation of construction companies, particularly for government upgrade projects such as provincial schools.

Challenges

The operational challenges are as follows:

- Increased price competition particularly in the significant inland markets such as Gauteng:
 - CEMENT has developed several strategies to defend market share while enhancing sales and marketing skills.
- Increased community expectations placing a high demand on the available resources:
 - Identification of the appropriate leaders to engage with has been challenging. However, CEMENT has managed to create various engagement platforms to address the community concerns such as the availability of grazing land.
 - The social enterprise programmes have strengthened CEMENT's social licence to operate and relationships with the local traditional leadership.
- Increased competition for critical skills:
 - A succession and retention plan has been developed and is being implemented.



¹ Nexia Levitt Kirson is a member of DFK International and is commissioned by the industry to report on the cementitious sales statistics for South Africa based on data submitted by local producers.

Business review: Dangote Cement South Africa **continued**

PERFORMANCE OVERVIEW

Highlights



Sales volume growth
in a highly competitive market.



Presence in the major inland
markets distributed by the major retailers.



Good track record
in retaining critical skills and management.

CEMENT performed satisfactorily in a competitive environment and ramped up production to annualised steady state production by May 2015. Our integrated plant in Aganang and grinding plant in Delmas were at 70% and 90% capacity use, respectively, by December 2015.

CEMENT sales volumes increased by 162%, with approximately 80% attributable to core inland markets and up to 80% supplied into the bag market. We continued to advance our share of the market with a strong focus on the rural markets that constituted 65% of the sales volume for the year ended December 2015. The Gauteng market remains contested, with high volume demand but lower margins. The import tariffs finalised in December 2015 have increased supply opportunities for CEMENT in the coastal market of KwaZulu-Natal. Unfortunately, we experienced an overall sales price decline of 2,5%, mainly caused by lower prices in the bulk market and flat average bag prices that remained at 2014 levels.

CEMENT is firmly anchored as one of the major cement producers in South Africa, with revenue increasing by 150% to R2.3 billion (2014: R919 million) and the EBITDA margin

increasing to 22% (2014: 14%) for the year ended December 2015. The net profit of R50,4 million equates to an equity accounted profit of R18,2million contribution to SepHold for the financial year ended 31 March 2016.

CEMENT FY 2016 first quarter revenue decreased by 0,5% to R519 million (2014: R521 million). These quarterly results will be accounted for in the SepHold interim financial results for the six months ending 30 September 2016.

PLANT OVERVIEW

Delmas

The operation continues to supply the main inland markets that include Gauteng, Mpumalanga and KwaZulu-Natal. The plant is positioned to service these major markets at the lowest cost due to the well-crafted logistics advantage of sourcing the raw materials at highly competitive prices and proximity to these markets.

Aganang

The operation supplies the North West, Limpopo and Free State. Aganang has been producing for over 18 months, and the focus now is the optimisation programme. The refinements that are being implemented will ensure the long-term sustainability of the production processes and the procurement of raw materials.

OPTIMISATION PROGRAMME

CEMENT was largely focused on achieving the steady state volumes and attaining market share goal. To enhance competitiveness, the associate commenced an optimisation programme during the final six months of 2015, which is expected to start yielding the targeted cost efficiencies in the second half of 2016.

The programme will ensure that the four operational areas, namely distribution, raw materials, production and sales, are optimised. The optimisation of these functions will collectively improve the EBITDA margin by five to seven percent in the foreseeable future and enable CEMENT to remain a formidable competitor in all its markets.

HUMAN CAPITAL

CEMENT remains committed to creating an environment that **inspires** and enables employees to **perform optimally** in their operational functions.

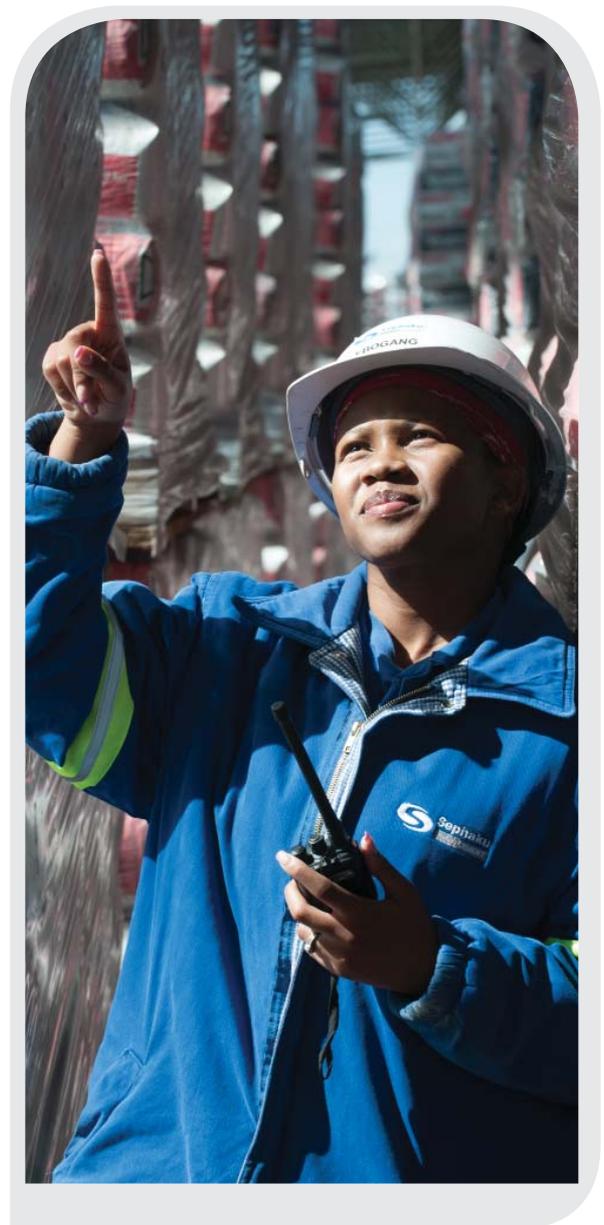
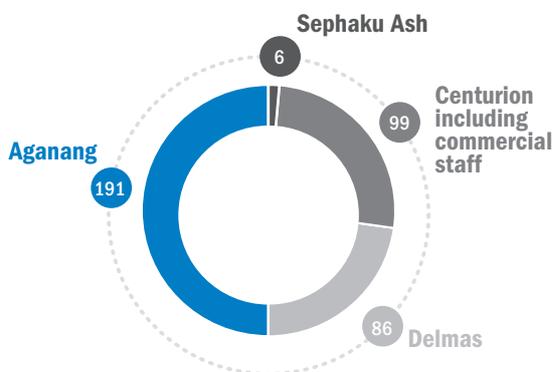
EMPLOYEE OVERVIEW

The CEMENT employee complement as at December 2015 was 382 (2014: 345).

CEMENT experienced employee turnover of 10% mainly of individuals who had been in the associate for a period of less than two years in the skilled and semi-skilled category. The turnover was below 5% for the category who have been with the company for four to six years as well as professional and middle management level. Reasons for employment termination were relocation, flexible working hours, more lucrative remuneration and career growth prospects.

Several initiatives to minimise employee turnover were developed and implemented. CEMENT initiated the long-term retention scheme with the purpose to attract and retain employees. A climate survey was administered across the organisation with the aim of obtaining detailed information on employee satisfaction. The participation rate was satisfactory and the associate has started to address the matters that require attention.

Staff distribution



Business review: Dangote Cement South Africa **continued**

EXECUTIVE COMMITTEE

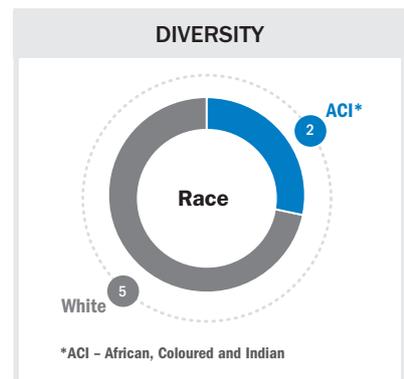
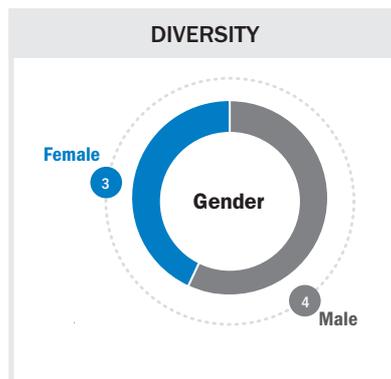
A 360° assessment tool was also administered on management to establish leadership effectiveness and to identify any developmental initiatives required. The assessment revealed that CEMENT has competent managers who understand the organisation strategy and who are committed to achieving the business objectives.



TENURE	
0 to 6 years	1
6 to 9 years	6



- EXPERIENCE AND SKILLS**
- Key management with approximately 250 years' combined experience in cement manufacturing and technology
 - Sales, marketing and channel management skills



1. Pieter Frederick Fourie

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 in May 2007.

2. Gay de Witt

Chief financial officer

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

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

3. Duan Claassen

Executive manager operations

BEng (Metallurgical Engineering) (University of Pretoria), Young Managers Programme (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 in 2008.

4. Heinrich de Beer

Executive manager projects

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

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

5. Jennifer Bennette

Company secretary

Jennifer has been employed by various legal practices as a paralegal. She was previously company secretary for the Platmin group. Jennifer joined SepHold in 2008 and CEMENT in 2010 as company secretary.

6. Puseletso Makhubo

Executive manager organisational performance

BAdmin (Hons) (Industrial Psychology), MDP (University of KwaZulu-Natal, formerly University of Durban-Westville), Master in Business Leadership (University of South Africa)

Puseletso has experience in human resource management in the financial and manufacturing sectors. She previously held positions in Nedcor Electronic Banking, Development Bank and Lafarge Gypsum before joining CEMENT in 2008.

7. Suleiman Oladapo Olarinde*

Finance director

BSc (Hons) Econ (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 currently on a fixed contract at Dangote Cement South Africa as the finance director. Suleiman has over 32 years' experience and has retired as a member of several boards in the Dangote group.

* Seconded to CEMENT by Dangote Industries Limited on a fixed contract.

Business review: Dangote Cement South Africa **continued**

SKILLS DEVELOPMENT AND TRAINING

CEMENT recognises the long-term benefits of up-skilling employees and to this effect invested approximately R4 million on employee training, which represents 2,1 % of the 2015 financial year's payroll costs. CEMENT's expenditure targets for training and development over the next four years continues to be 3% of the annual payroll. The skills development programme includes disability learnerships, internships and mentorships. Portable skills training for workplace qualifications such as mobile operators were implemented. The training and development programmes were complemented by bursary schemes to support talented individuals with their tertiary level studies.

EMPLOYMENT EQUITY

CEMENT is dedicated to creating a non-discriminatory working environment in which employees are treated with dignity and respect regardless of background, race, gender or disability. The associate supports the principle of employment, development and advancement of historically disadvantaged South Africans and acknowledges that a lack of skills remains a barrier in the industry. It is CEMENT's goal to achieve equitable representation of designated groups at all employment levels.

CEMENT has a five-year equity employment plan that is informed by the Department of Trade and Investment's B-BBEE Codes of Good Practice, Mining Charter and the Employment Equity Act. CEMENT's employment equity committee is trained to ensure that its members have the competence to ensure the business complies with relevant labour legislations. This committee meets on a quarterly basis to review progress on plans and objectives set.

The table below is a detailed plan on employment equity targets:

Occupational levels	African			Coloured			Indian			White			Total			Target %	Actual EE %	Actual Black %
	M	F	T	M	F	T	M	F	T	M	F	T	M	F	T			
Executive management	-	1	1	-	-	-	-	-	-	3	2	5	3	3	6	40	50	16
Senior management	3	-	3	2	-	2	-	1	1	9	1	10	14	2	16	60	43	38
Middle management	14	5	19	1	-	1	3	2	5	13	6	19	31	13	44	75	70	57
Skilled (junior management)	54	28	82	4	1	5	1	5	6	19	8	27	78	42	120	80	84	77
Semi-skilled	38	28	66	1	1	2	-	-	-	1	-	1	40	29	69	100	98	97
Unskilled	101	25	126	-	-	-	1	-	1	-	-	-	102	25	127	100	100	100
Total	210	87	297	8	2	10	5	8	13	45	17	62	268	114	382		88	84
Fixed-term contractors	4	3	7	-	-	-	-	-	-	3	2	5	7	5	12			
Learnerships	10	4	14	-	-	-	-	-	-	-	-	-	10	4	14			
Total	224	94	318	8	2	10	5	8	13	48	19	67	285	123	408			

HEALTH AND SAFETY

There were no fatalities and the lost-time injury frequency rates for CEMENT's operations for the year ended 31 December 2015 remained static at 0,109 (2014: 0,109) at Aganang, zero (2014: zero) at Delmas and zero (2014: zero) at Sephaku Ash.

CEMENT is committed to the prevention of injuries and to ensuring that the well-being of employees is monitored through a health and safety monitoring system. There is regular auditing and monitoring of the system to ensure that there is compliance to all requisite safety rules. Protection of employees and persons who are not employees is a priority for operational management. There is a clear allocation of responsibility, accountability and management of processes that present potential hazards. The health and safety objectives are reviewed regularly, particularly on how to deal with identified potential risks and impacts.

CEMENT continues to apply the wellness framework, Employee Assistance Programme (EAP), to 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-related services have been extended to families, as CEMENT believes that an effective and healthy employee is supported by an equally healthy family.

BROAD-BASED BLACK ECONOMIC EMPOWERMENT (B-BBEE)

CEMENT was awarded a level 4 B-BBEE contributor certificate in April 2015. However, due to the increase in the compliance targets on ownership, skills development, employment equity and procurement, this level will be challenging to sustain going forward. In terms of the revised codes, the company is required to achieve a minimum level of 40% on these targets, otherwise the B-BBEE rating is automatically demoted by one level. Although CEMENT does not anticipate that it will achieve these targets in the short to medium term particularly on the ownership parameter, the associate remains committed to improving its B-BBEE rating. CEMENT will explore various ways to enhance the ownership parameter.

Torosesha, the broad-based empowerment structure that was established in 2014, still has to finalise the election of two community directors to participate on its board. The election process was suspended due to illegal protests by the community over various matters including employment creation in the area. CEMENT engaged the Department of Rural Development and Land Reform who have committed to intervene on the impasse to enable CEMENT to finalise the structure by the end of 2016.

Torosesha currently holds 15% ordinary shares in Sephaku Development Proprietary Limited (SepDev), which is a subsidiary of CEMENT, and is expected to generate income from mining activities. This income will be used to implement community development initiatives. The directors of Torosesha will be responsible for identifying how the income inflow from SepDev is utilised in line with its memorandum of incorporation for the benefit of communities of Verdwaal and Springbokpan.

Business review: Dangote Cement South Africa **continued**

NATURAL CAPITAL

CEMENT is committed to the highest standard of environmental performance and the principles of sustainable development. The environmental policy commitment includes:

- Aligning the environmental goals and objectives with the business strategy.
- Development, implementation and maintenance of an environmental management system that is aligned with the broader business principles and standards.
- Development of employees to completely 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.
- Allocation of appropriate resources to achieve targets and undertake periodical reporting of performance to regulatory authorities.
- Demonstrated understanding of environmental accountability and leadership at all levels of management.
- Planning, design and closure of operations in a manner that enhances sustainable development.

Highlights



Integrated Water Use Licence was issued by Department of Water and Sanitation for the Delmas grinding plant following robust engagement with the authorities.



Delmas operation is a listed activity and was **issued with an atmospheric emission licence**.



The waste directorate in the Department of Environmental Affairs (DEA) **authorised a waste management licence** variation for the **Aganang integrated plant**.



Both plants developed and **implemented monitoring programmes** in accordance with the requirements of their water use licences and other environmental authorisations.



There were no **significant environmental incidents**.

CEMENT subscribes to best practice in environmental stewardship and **believes in minimising and or mitigating the negative environmental impacts** at every stage of the cement manufacture value chain that begins during the mining of limestone.

ENVIRONMENTAL MANAGEMENT STRATEGY AND COMPLIANCE

CEMENT's environmental management strategy takes into account water consumption, energy efficiency and the mitigation of carbon emissions. The Aganang and Delmas plants were designed to have limited environmental impact. Several mitigation measures were developed for identified potential risks such as dust and noise pollution. Water consumption and waste generation are monitored and measured periodically, in line with legislative requirements. To ensure the achievement of these strategic objectives, CEMENT has appointed an environmental performance manager.

We operate in an industry where many of our activities are highly regulated by laws governing the environment. Compliance with environmental norms and standards is integral to CEMENT operational management. The company strives to comply with requisite regulation and improving compliance to environmental legislation remains an area of focus. Our operations conform to environmental standards and other requirements, such as site permits, to operate. Monitoring programmes have been developed to ensure that Aganang and Delmas plants comply with the following permits:

- Environmental Management Programme (EMPR);
- Atmospheric Emission Licence (AEL);
- Integrated Water Use Licence (IWUL); and
- Waste Management Licence (WWL).

In the instances where new regulations are being considered, CEMENT ensures that it actively participates in the processes to craft the legislation.

CHALLENGES

The planned community forums on environmental matters had limited success due to a lack of buy-in from the community leaders. Therefore, CEMENT has begun enhancing stakeholder identification and engagement planning process. The associate is working with the community to ensure the implementation of the engagement plan.

Key challenge	Response
<p>Compliance with regulatory requirements</p> <p>Environmental management plans for specific areas such as carbon emissions and energy efficiency have not yet been fully developed.</p>	<p>CEMENT is conducting a detailed study to identify projects that will minimise greenhouse gas emissions (GHG). The main goal is to reduce contribution to adverse climate change. This approach will enable CEMENT to appropriately respond to the climate change policy approaches being rolled out by the Department of Environmental Affairs in collaboration with National Treasury.</p>
<p>Water use licence compliance</p> <p>The licence was issued with inconsistencies in the compliance conditions which were acknowledged by the Department of Water Affairs.</p>	<p>CEMENT is actively engaging with the Department of Water and Sanitation and has requested that the department amend the current generic and/or incomplete conditions of the licence.</p>
<p>Establishment of environmental management systems</p> <p>Following the ramp-up period, it is pertinent to establish systems that will enable the management of the environmental matters as the plants operate at steady state.</p>	<p>CEMENT conducted a gap analysis to identify the strengths and weaknesses in the operational properties that would limit the application of environmental management best practices. The company has begun the development of systems to enable the implementation of the ISO 14001 standard in the long term.</p>

Business review: Dangote Cement South Africa **continued**

Carbon tax

CEMENT has calculated potential annual emissions for both plants for cement production and fuel combustion from non-metallic minerals for the years 2014 – 2020. The company has also calculated the total GHG emissions for the company in CO₂ equivalents using the global warming potentials from the UN Intergovernmental Panel on Climate Change's (IPCC's) Third Assessment Report. The submissions made by the company to date are being reviewed by the relevant authorities.

CEMENT has been actively involved in the consultative processes of establishing the appropriate tax regime. There are several factors that are still to be finalised to determine the reporting structure to be utilised. Our efforts are driven by CEMENT's voluntary reporting commitments under the Association for Cement Manufacturing Producers' 'Cement Sustainability Initiative'.

OPERATING LICENCES

Air emissions

CEMENT has recorded remarkable results due to technology that enables the plants to perform well. For instance, the air emissions recorded to date have been less than 30 mg/Nm³ for dust. Aganang plant was originally issued with the Provisional Atmospheric Emission Licence, which was converted into full AEL in July 2016.

Continuous emission monitors for the kiln and cooler stack have been installed at Aganang. The commissioning of these monitors is scheduled for the end of August 2016. The installation of these monitors allows the plant to regularly monitor and track various pollutants as required by emission minimum standards.

Water stewardship

CEMENT recognises the importance of contributing to the current water security measures and has adopted a holistic approach to water stewardship. A closed loop process has been employed at the plants, coupled with a strong focus on water efficiency and pollution prevention measures. The plants have been issued with Integrated Water Use Licences by the Department of Water Affairs.

Waste Management

There has been good progress in obtaining a waste licence for the Aganang plant. This will allow CEMENT to focus on utilising less energy-intensive materials such as by-products from the steel, energy and other industries. This can translate to a significant saving in energy consumption and a reduction in the carbon footprint.

Non-process waste management at the plants entails the effective monitoring of three phases namely sorting, recycling and disposal. The sorting of waste has been a challenge and to this end, CEMENT continues to identify opportunities to improve the process at both plants.

COMMUNITIES

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

SOCIAL AND LABOUR PLAN

The Mineral and Petroleum Resources Development Act (MPRDA) places a regulatory requirement on every mining operation to develop a five-year social and labour plan (SLP) that is approved by the Department of Mineral Resources (DMR) prior to the granting of a mining right. The SLP is a strategic, planning and implementation document consisting of a variety of targets and strategies to promote socio-economic growth and development. It also promotes employment and the advancement of the social and economic welfare of historically disadvantaged South Africans within the workforce and the local community.

SepDev's mining right was granted in 2008, paving the way for the implementation of its initial five-year SLP (2008 – 2013). The SLP's initial, approved amendments were on local economic development projects following further community engagement in 2014. CEMENT is in the process of completing the new SLP to cover the period 2017 – 2021.

COMMUNITY UPLIFTMENT

Enterprise and supplier development

CEMENT is committed to providing meaningful contributions to qualifying small, medium and micro sized entities (SMMEs), with the aim of creating sustainable business models run by competent individuals. The Enterprise and Supplier Development Programme (EDP) is aimed at developing emerging enterprises; in particular those located in local communities where the associate operates. CEMENT continues to subscribe to the ethos that job creation and supporting the development of SMMEs are major factors in the sustainability of local economies and communities.

To this end, there have been 162 total direct jobs created by the EDP beneficiaries through their partnership with CEMENT at both Aganang and Delmas.

In support of this, expenditure of R36 million was made towards the Enterprise Development beneficiaries representing 3% of CEMENT's total procurement spent. CEMENT supported several of these SMMEs through payments of grants (management fees), payment of invoices within 15 days, facilitation of access to funding, training, coaching and mentorship to ensure their sustainability. Refer to the case studies on pages 56 and 57.

To enhance the sustainability of the EDP transport beneficiaries, CEMENT awarded long-term contracts on 10 August 2016. Furthermore, the associate will continue to target first-time black business owners to participate in the supply chain.

Community skills development

CEMENT offered skills development opportunities in line with the social and labour plan.

Item	Progress to date
Graduate Training Programme	<ul style="list-style-type: none"> Seven unemployed local graduates in technical and engineering fields enrolled in a graduate training programme supported by a partnership with Mining Quantifications Authority (MQA). MQA provides financial resources for the trainees and CEMENT provides a practical and structured mentorship programme.
Woman Development Programme	<ul style="list-style-type: none"> Three women at Aganang are participating on CEMENT's Woman Development Programme to accelerate their career into management roles. This initiative is being implemented in partnership with Dyna Training Centre.
Apprentice training and learnerships	<ul style="list-style-type: none"> Section 18.1 Artisan Training Programme is progressing well, with the two selected employees from local communities expected to graduate by the end of 2016.
Bursaries and internships	<ul style="list-style-type: none"> Six students (2014: four students) were awarded full-time bursaries for engineering studies at different universities in South Africa for 2015. CEMENT employed five disabled youth on a learnership programme with the intention of affording them permanent employment when suitable positions are available.
Educational support	<ul style="list-style-type: none"> CEMENT is currently funding extra mathematics and science education programmes at Tswelolepele High School at Itsoseng.
Other business training	<ul style="list-style-type: none"> The training of 15 people for the bakery and pallet projects at Aganang was postponed to 2016, to align with the completion of the bakery project. Both the bakery and pallet making projects are expected to be operational by November 2016.

Business review: Dangote Cement South Africa **continued**

Key challenges

Key challenge	Response
Acquisition of alternative grazing land for the Aganang mining operations	<p>The mining area, which has already been cordoned off, has resulted in approximately 2 000 ha of grazing land being inaccessible to livestock farmers from Springbokpan and Verdwaal communities. CEMENT has been in discussions with the affected communities since 2012, to determine a mutually beneficial solution to the inevitable loss of grazing land due to the mining operations. Although the associate has presented several alternatives, the preferred solution is for CEMENT to provide pasture with similar or improved grazing capacity.</p> <p>In June 2015, the CEMENT board approved a proposal for the purchase of land for use by the communities as substitution for the land cordoned off for mining operations. Discussions are currently under way with various land owners to acquire alternative grazing land. In the interim, CEMENT continues to provide the affected livestock farmers temporary access to specific portions of two farms with a combined size of 739 ha for grazing purposes.</p>
Community protests	<p>Aganang community protests</p> <p>A group of 37 youth from Springbokpan and Verdwaal communities trespassed onto the restricted mining area in March 2015, gaining unauthorised access to portions of the Aganang plant. They were arrested and charged with trespassing and intimidation. The youth were protesting on the following matters that have been or are being addressed:</p> <ul style="list-style-type: none"> • Limited employment and training opportunities at the mine and cement plant for individuals without Grade 12. • Allocation of additional SMME development opportunities. • Illegitimacy of community leadership structures engaging with CEMENT. • Perceived limited participation of the community in the empowerment structures. • Payment for surface use to be directed to the community and not government's special trust account (D-Account) as prescribed in terms of the National Traditional Leadership and Governance Framework Act, 41 of 2003. <p>The leadership of the Springbokpan and Verdwaal communities through Department of Culture, Arts and Traditional Affairs (DCATA) requested CEMENT to withdraw charges to enable further engagement on the issues raised by the protesters. CEMENT has continued with informal engagement and is working with DCATA to set up a community meeting during 2016.</p> <p>Delmas community protests</p> <p>A week-long community protest, also in March 2015, impacted businesses in the Delmas area as workers were prevented from going to work.</p> <p>Representatives of the South African National Civic Organisation (SANCO) further mobilised members of the community to protest at the gates of the Delmas plant in June 2015. They demanded additional employment and supply opportunities for local SMMEs. The Executive Mayor of Victor Khanye Local Municipality, Councillor EN Makhabane, intervened and the matter was successfully resolved.</p>
Deterioration of the access road	<p>The access roads to and from the Aganang plant are currently heavily degraded. This has been exacerbated by the high density of haulage traffic between the Aganang area and Litchenburg town from the cement producers in the area. The degraded road surfaces present a risk to community road users, especially during evenings when visibility is significantly reduced. Discussions and a tender process are currently under way with the Department of Public Works and Roads regarding the upgrade of the access road.</p> <p>The department has advised that a contractor will be appointed in October 2016, following a thorough tender process.</p>

STRATEGIC OUTLOOK

The strategic medium-term priorities continue to be focused on the optimisation programme as follows:

1. **Raw materials:** Continuous improvement in the sourcing and use of raw materials.
2. **Sales drive:** Refining customer segmentation and providing cost-effective customised service.
3. **Logistics optimisation:** Rationalisation of sales volumes and the renegotiation of rates.
4. **Production efficiency:** Mastering the production process and improving plant reliability.



Case studies

NEW ERA COMMERCE PROPRIETARY LIMITED (NEW ERA)

The foundation

New Era was founded by Thokozane Mangana, an entrepreneur with a passion for logistics from a young age, who grew up in Mpumalanga. Thokozane registered for a Bachelor of Science degree in Computer Science and was offered a bursary by the Investec Study Trust. Unfortunately, due to illness, he was unable to continue with his studies for a year and Investec had to rescind his bursary.

Thokozane re-registered for a Bachelor of Commerce in Logistics in 2005, and during this time he formally established New Era Commerce while still a student. He again received a bursary, from Sasol, to study for an honours degree while working within the logistics department. Thokozane continued to work in logistics roles in various organisations.

Speaking about the experience of starting and managing a business, Thokozane said, "Starting a new business was not easy. We had a fairly steep learning curve at the beginning in terms of compliance and other administrative requirements. This did not hinder me and my business partner from applying for selected tenders that were most aligned to our skills set and service offering."

Enters CEMENT

Business at New Era experienced transformation when Thokozane was selected to participate in the EDP with CEMENT. The company experienced accelerated growth in revenue and profit.

New Era is categorised as an established SMME that is not necessarily mentored but offered supply opportunities. "We are looking at advancing through large contracts that create sustainability," reiterated Thokozane. "The EDP has enabled us to negotiate with the bank to add capacity – to me, that's by far the best." New Era has benefited from the EDP through growth in productive assets such as the new trucks secured since the inception of the partnership.



New Era truck arriving at Delmas grinding plant with raw materials.

Thokozane emphasised: "Stable volumes are imperative for the growth of a small business such as ours, so we are extremely pleased about the potential of more raw materials volumes from CEMENT and a longer-term contract, obviously depending on our performance." Having predictable loads enables growth and gives the business financial credibility. New Era currently has 15 tipper trucks and six flatbeds with a revenue of approximately R25 million per annum. The management team is motivated, skilled and subscribes to governance best practises. "I am grateful for the skills in the current executive team which range from engineering and logistics to financial management. We believe in transparency and prudent management of our business which has contributed to our resounding success," said Thokozane. New Era has started considering expansion opportunities into materials handling, waste management and plant hire which are natural extensions of the logistics focus.

An opportunity to give back

Thokozane has been inspired by CEMENT's entrepreneurial flair and growth trajectory. He believes that his sincere appreciation of the opportunity awarded to New Era by CEMENT should be propagated by also engaging in business mentorship activities. As such, Thokozane has invested his personal resources in mentoring a car wash business called TBOS.

Where to from here?

Thokozane believes in identifying purpose and then pursuing it. He is determined to grow the business's capacity in providing world-class logistics services. "I don't want the company to be a sinking ship," retorted Mangana. As a parting shot, Thokozane said, "If you look at CEMENT, their growth inspires us. If CEMENT has done it, we can too. Their growth is my growth."



Thokozane Mangana

CIVILKOX TRADING ENTERPRISE PROPRIETARY LIMITED (CIVILKOX)

From the street corner to the commercial kitchen

In 2007, Tshepo Tefo had to find a way of making money as the sole breadwinner in his family. He decided that selling fried chicken portions such as giblets, and mixed vegetables, would provide sustainable income to cater for their daily requirements.

What started off as a means of survival soon became a passion when he realised that he had gained a consistent customer base. From the streets of Itsoseng, Tshepo developed a clear understanding of the market and became the preferred supplier of cooked and raw chicken portions in his community. Having insight into the target market enabled Tshepo to offer smaller affordable portions and a flavour that appealed to the local palate.

“It was easier to choose chicken as the meat of choice because it has a narrow grade range and doesn’t consume too much fire,” explained Tshepo when questioned on his choice of menu. He soon caught the attention of other local traders who attempted to emulate his model but failed to take away his market share because they did not understand the nuances of the customer base.

When CEMENT started the stakeholder engagement process, Tshepo decided to formalise the business and registered Civilkox in 2013.

Encountering competition

Civilkox was initially contracted on a temporary basis to supply meals to the night shift employees. Praise of his culinary skills soon filtered to the day shift employees, who then requested that Civilkox supply them with meals and replace a seasoned, well-resourced competitor. Tshepo was eventually awarded the full catering services for the Aganang integrated plant.

He immediately secured the services of two chefs, a driver and several assistants to serve the employees. Tshepo’s transition from being a one-man entity to an employer was not without its challenges, ranging from sourcing of inputs to employment

contracts, negotiation with the banks and strategic planning. Tshepo decided to volunteer as part of the operations team for a hotel in Mahikeng to understand how to manage a restaurant and in particular, how to manage the stock, administration and operations.

“It was a difficult balance, volunteering and running the business, because I was called daily to deal with crises such as providing fuel to the driver. I realised that I had to find a way to not always take the office with me wherever I went,” explained Tshepo.

Establishment of a catering chain

Tshepo has opened two traditional food outlets in the Northern Cape and Itsoseng in the North West province, serving strictly locally recognised meals. He has benefited from inclusion in the EDP through bookkeeping and marketing training.

“The CEMENT relationship has added a lot of value into my life and brought stability that is not always available through the over-the-counter businesses I also run. My net worth has grown a lot and I have managed to complete the construction of my own house. I have even started farming and I am pleased that I can provide a future for my two daughters. I have built a legacy for my children,” said Tshepo.

Impacting the next generation of entrepreneurs

Tshepo has started a Facebook page called Entrepreneur Street that he uses to mentor small enterprises. He is also normally invited by the local National Youth Development Agency (NYDA) to mentor fledgling entrepreneurs.

Tshepo is a sterling example of how an entrepreneur can overcome his challenging circumstances. He is aspiring to start a franchise in hospitality and has established his first guest house within a mining community. Tshepo has also begun the planning of a butchery partnership chain and he intends to supply the livestock to be sold in all outlets.



Tshepo Tefo (centre) with his employees.