



Cement Fact Sheet September 2010

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LOCATION

The Aganang integrated cement project is located between Lichtenburg and Mafikeng in the North West Province and is adjacent to AfriSam and Lafarge SA and in close proximity to PPC, while a separate 1.2 million ton per annum milling project is located in Delmas, Mpumalanga.

Limited limestone deposits in South Africa of the required quality and size exist to justify a new manufacturing facility, therefore this deposit creates significant value for Sephaku.



AGANANG CONSTRUCTION CAMP SITE



DELMAS CAMP AND CONSTRUCTION SITE CLEARING

INFRASTRUCTURE

The plants, which will be supplied and built by Sinoma International Engineering Co Ltd, on a fixed price full turnkey basis, will be constructed to EU and South African standards. Sinoma recently completed Lafarge's Lichtenburg Expansion Project, as well as the new kiln line in Chilanga, Zambia.

Eskom have committed to supply the requisite power and have commenced with the process for constructing the new line. All costs relating to the new electrical infrastructure have already been paid in full by Sephaku.

By virtue of the Sephaku 45 MVA power line Eskom are able to provide additional electrical power to nearby communities who currently do not have access to electricity.

All the temporary infrastructure required for the projects has been completed, as well as the accommodation camps for the construction workers at Aganang. Site leveling and bulk earthworks have commenced at Delmas, while the main construction on both plants will commence on 1 October 2010.



EXPLORATION

The resources, previously held and explored by Anglo American (Anglo), are concentrated in three distinct areas over 5,133 hectares comprising of Verdwaal, Stiglingspan and Klein Westerford farms. Anglo drilled 1 030 boreholes totaling 10,767 metres, while Sephaku Cement later drilled 737 reverse circulation holes, totaling 5,873 metres. The resource, which could be increased by further drilling, was ceded by Anglo to Sephaku Holdings in 2006.

FUNDING

In August 2010 Sephaku Holdings entered into an agreement with Dangote Industries Limited (Dangote) of Nigeria, whereby Dangote will increase their shareholding in Sephaku Cement from 19.8% to 64% in exchange for R779 million in cash. This additional equity injection by Dangote fulfills the equity requirement for the project. At the same time the debt will be guaranteed by Dangote, meaning therefore that the project is effectively fully funded.

PROJECT STRENGTHS

Sephaku Cement will be the first new entrant into the South African cement market since 1934 and have secured one of last economical limestone deposits in South Africa with proven raw materials supporting a minimum 30 year life of mine.

The plants will have significant benefits in terms of energy efficiencies and environmental management with best in class power, coal and water consumption. The plant will be the newest in South Africa, where the average age of cement plants of the existing incumbents is 33 years, despite two recently completed brownfields expansions. Both plants are well positioned to service the largest cement market in South Africa, with significant added logistical benefit accruing from the proximity of the Delmas plant to Fly Ash from Kendal Power Station.

Sephaku Cement is developing a ZAR 3,265 million cement project and enters the market at a time when the shortage of cement is expected to continue in the medium to long term. Notwithstanding the recent global economic crisis, cement sales are forecasted to once again exceed available capacity from late 2014 onwards. Sephaku Cement therefore has excellent future prospects particularly with government's focus on infrastructure development key to maintaining economic growth, as well as the substantial ongoing housing backlog.

Sephaku Cement has succeeded in putting together a team of cement experts with significant expertise in all facets of the business. No less than 20 of the team have worked at other cement companies in South Africa, and collectively have well in excess of 200 years cement experience.

BARRIERS TO ENTRY

The barriers to entry for a cement plant which are significant and not easily overcome, include

- A market near to or in an undersupply situation
- Large capital investment required for an economic plant;
- Requirement and security of tenure for a quality raw material resource which can last for the expected life of the plant
- Long project lead time (normally in excess of 4 years)

South Africa's cement market main market location, high inland transport costs and a volatile exchange rate make cement imports extremely expensive and hence unsustainable in the long term.

SALIENT FINANCIAL INDICATORS

SELLING PRICE OF CEMENT

- Good growth in cement selling prices expected to continue from 2010 to 2015, supported by import protection as well as the fact that the current incumbents are operating at near full capacity in the medium term, to an outsold position in two to three years.
- Base case financial model forecast conservatively assumes annual growth in cement selling prices of 5 % from 2011 onwards.

PROFIT MARGINS

- Gross profit margins and net earnings margins in excess of 50% and 25% respectively.

SOLVENCY AND LIQUIDITY

- Solvency ratio almost triples from 2.06 at the end of 2013 to 5.48 in 2017;
- Current ratio between 4.6 and 5 from 2013 onwards

CASH CONVERSION

- Cash flow to sales ratios in excess of 30%.

DEBT REPAYMENT

- Debt service cover ratio at 2.17 in 2013, increasing thereafter; and
- 60:40 debt equity ratio provides for robust debt service cover at all times above 1.6x.

PROSPECTS

Overall the outlook for the South African economy is positive. South Africa is in a growth phase unlike anything seen in the last 25 years. This growth is driven by, inter-alia the imperative for investment in almost all public infrastructure. A structural demographic shift driven primarily by, a strong emerging black middle class, immigration from surrounding countries, ongoing urbanisation and high levels of business confidence.

In the 2010 budget speech, government announced an investment programme in excess of R850bn in order to address infrastructure needs as well as the drive to maintain GDP growth levels at no less than 5% pa.

Beyond 2010, government envisages that gross fixed capital formation will rise from the current level of 20% of GDP to 25% by 2014. The demand for cement is driven primarily by construction activity (including housing) and/or fixed capital formation. From 2002 to 2007, cement demand grew by 60%, which equates to approximately 7.5 % compound growth per annum.

Good growth is expected in cement selling prices from 2011 to 2015 due to the pricing power of producers in a reasonably tight cement market. The recent global economic crisis has had a negative effect on cement demand, with domestic volumes reducing in 2008 & 2009. Given, however, the economic fundamentals, government's fixed capital formation ambitions as well as the major backlog in housing and infrastructure it is highly likely that cement demand will continue to grow strongly well into the next decade.

MINERAL RESOURCES AND RESERVES STATEMENT

An independent Mineral Resource and Mineral Reserve Statement for the limestone deposits of the Itsoseng Project has been compiled by Venmyn (Pty) Ltd and is available to view on the website www.sephakuholdings.co.za

SEPHAKU ASH

In 2008 Sephaku Cement entered into a 9 year agreement with Eskom, for the supply of fly ash from Kendal Power Station. It is a significant strategic advantage for a cement producer to source its own cement extenders, fly ash being a particularly good extender. The primary reason for this is that it allows a manufacturer to produce a greater volume of cement for a given volume of clinker. Secondly and no less important, it allows for a reduced environmental impact from carbon emissions emanating through the production of clinker.

Following this strategic milestone, Sephaku Cement (through its Sephaku Ash subsidiary) has constructed and commissioned a state of the art 1,2 million ton per annum classification plant.

Since the plant commissioning in September 2009 Sephaku Ash have successfully entered the retail sector of the fly ash market, and have made significant market penetration and are now a notable competitor to the market leader who has enjoyed a monopoly over the market for 20 years. Once the Delmas cement mill is commissioned, the Sephaku Ash volumes are expected to triple.



MILESTONES

