Hulamin Chairman's Statement at its Annual General Meeting – 23 April 2015

Looking back at the year under review, we recognise that the challenges facing South Africa's manufacturing sector, have continued. These have included increased competition from imports, weak mining and construction activity, a decline in the demand for capital equipment, energy supply uncertainty, social upheaval and labour-related productivity stoppages impacting the effectiveness of supply chains.

The weak Rand has assisted Hulamin by bringing our cost base more in line with that of our international competitors. Producing technically demanding products to global quality standards is something we are very proud of.

This together with our focus on our core competencies and key product streams have provided some protection in this environment and contributed to our improved profitability in 2014.

The long-term security of local supply of both rolling slab and extrusion billet had been a concern since 2009. It was therefore pleasing when BHP Billiton announced on 24 November 2014 that Isizinda Aluminium, a consortium comprising Hulamin and Bingelela Capital, had been chosen as the successful bidders for the Bayside Casthouse.

We expect that this will be the catalyst for the development of an aluminium hub in the Richards Bay IDZ that will facilitate local industry to further benefit from the Hillside smelter and stimulate entrepreneurial activity in the aluminium industry. The transaction is awaiting the approval of the Competition authorities to become effective.

High-tech industries such as aluminium manufacturing provide a cradle for the birth of a skilled work force and encourage investment in modern manufacturing equipment to create a competitive edge. Hulamin has invested more than R5.4 billion over the years in this regard. We must avoid any further decline in key industrial capacity, encourage investment and seek a competitive regulatory environment, or we may lose these skills forever and the resultant capacity to compete effectively as a nation.

An example of a competitive regulatory environment is the levelling of playing fields with the imposition of appropriate import tariffs that favour local beneficiation over the export of raw materials and, at the very least, does not place South African manufacturers at a disadvantage when compared to competition from comparable nations, as is the case with aluminium.

Hulamin continues to face severe electricity load curtailment, which is a mutually agreed reduction in demand ranging between 10 and 20%. In the last thirty days, the downtime frequency rate has increased significantly.

Manufacturing output in the year to date has been severely impacted by electricity supply shortages as well as other manufacturing disruptions. Hulamin runs a continuous, serial manufacturing process and, as a result, production lost cannot be caught up and is not limited to the periods of load curtailment either.

As an example, product temperatures must be carefully maintained within certain parameters throughout the manufacturing process and requires time after electricity disruption to correct.

This inconsistent flow of work-in-process inventory and the transient bottlenecks and shortages require responsive production scheduling to mitigate the impact to the extent possible.

In anticipation of continuing power disruption in the medium term Hulamin will commence the commissioning of a set of six diesel power generators that is planned to mitigate load curtailment up to around 10%.

We are scheduled to undertake important maintenance and upgrades to plant and equipment during our planned nine-day shutdown in May to maintain the required level of plant performance and efficiency.

These disruptions and required mitigation strategies add to the costs of manufacturing and unfortunately erode part of the cost improvements that have been achieved in recent years.

It is not possible at this stage to forecast what the exact impact of the escalating electricity shortages will be on future production and the consequent financial performance. It is likely however that earnings for the first six months to 30 June 2015 will be more than 20% lower than that of the previous corresponding reporting period. Responsive actions taken will mitigate the future impact of electricity disruption on earnings to the extent possible.

A trading update has been issued on SENS advising of the lower anticipated earnings and a further announcement to shareholders will follow as soon as the anticipated earnings range for the six months to 30 June 2015 can be determined with the required certainty.

In conclusion, the board and I are confident in the strategic direction of the business and look forward to an improved manufacturing performance as we meet these challenges to the resulting benefit of all stakeholders.

Pietermaritzburg

23 April 2015