HULAMIN

Think future. Think aluminium.

SUMMARISED PROVISIONAL CONSOLIDATED FINANCIAL RESULTS

FOR THE YEAR ENDED 31 DECEMBER

2019

HIGHLIGHTS

Group sales volumes decreased by 11% to 219 000 tons

11%

Impairment charge of R1.3 billion across both Hulamin Rolled Products and Extrusions

R1.3 bn

Headline earnings down 182% to a loss of R240 million impacted by restructuring costs, a negative metal price lag[3] and Isizinda restructuring

182%

EBITDA(1) before impairment down 98% to R18 million and normalised EBITDA[1] down 54% to R313 million

98%

R222 million free cash flow[2]

R222m

Balance sheet remains robust, with net debt to equity of 11%

11%

Turnaround actions completed

Richard Jacob, Hulamin's Chief Executive Officer, commented:

"Hulamin experienced particularly difficult conditions during 2019. Export sales to the United States were disrupted by blockages in our distribution channel, the global economy slowed measurably through the year (prompted by a well recorded slowing in China), while local regional demand came under severe pressure throughout the year. Following the absorption of working capital in the first half of 2019, we paid specific attention to managing borrowings, to end the year 23% lower than 2018 at R226 million. This represents a positive cash flow during 2019 of R68 million.

Hulamin Extrusions suffered a first-half loss, which includes a provision for restructuring costs that were actioned largely in the second half. Sales volumes were measurably lower following a manufacturing disruption. We have concluded rightsizing programmes (in both Hulamin Extrusions and Hulamin Rolled Products). This action has resulted in the closure of the Hulamin Extrusions operation in Olifantsfontein and the consolidation of operations in Pietermaritzburg.

The outbreak of the COVID-19 pandemic in late 2019 and early 2020 has had a serious impact on all Hulamin's markets. It is likely to significantly reduce sales volumes and counteract the benefits of cost saving actioned in 2019 as well as the weaker Rand/Dollar exchange rate."

ENQUIRIES

Hulamin	033 395 6911
Richard Jacob, CEO	082 806 4068
Anton Krull, CFO	071 361 0622
Ayanda Mngadi, Group Executive Corporate Affairs	061 284 1289

COMMENTARY

Hulamin experienced difficult trading conditions during 2019. Sales of rolled and extruded products experienced weaker demand in both local and international markets. Overall, volumes were 11% down, with Hulamin Rolled Products 10% lower and Hulamin Extrusions 16% lower. Although reasons for the volume decreases differ, the measurably negative impacts required business reviews of both operations. We began to implement turnaround actions from August 2019 that resulted in the shedding of around 250 jobs and the closure of the Olifantsfontein site and marketing it for sale in 2020, focused actions to restore volumes to both Hulamin Rolled products and Hulamin Extrusions, strict working capital management, as well as other cost reduction initiatives. Together, these initiatives have resulted in annual savings of around R250 million in Hulamin Rolled Products, and a further R150 million in Hulamin Extrusions, which will largely be recognised in the 2020 financial year.

In mid-2019, over-stocking of the Hulamin Rolled Products' master distribution channel into the USA became apparent. This resulted in our distribution partner destocking, being driven by the requisite conversion of inventory into cash. As a result, the smooth flow of production from Hulamin's Pietermaritzburg site into the USA customer base was disrupted.

Factors contributing to these channel blockages include a sharp cyclical slowdown in the USA, overstocking and slowing automotive demand, as well as customer specific inventory reduction. It appears that the difficulties experienced by both parties (Hulamin and our master distribution partner) is likely to result in Hulamin having to secure alternative channels to the USA aluminium rolled products market. However, underlying customer demand for Hulamin's products remains healthy with US customers remaining eager to procure Hulamin's flat rolled aluminium products. Consequently, we have continued to sell into the USA market, albeit with less buffer and flexibility.

The historic master distribution partnership offered commercial and sales volume terms that complemented the manufacturing optimisation of the Pietermaritzburg rolling operation. Hulamin has maintained a sales force in the USA market since around 2005. We have maintained close contact and trading relationships with the customer base and are actively finalising an alternative master distribution partnership enabling Hulamin to trade directly with our customers with similar benefits. Although we are continuing to supply material to customers in North America, it will take time to optimise this alternative, restore full volume and to meet cash cycle objectives.

Group revenue totalled R10.7 billion, which is 7% lower than in 2018. The currency, which affects both profits and cash flows, weakened during the year from the R13.25 average in 2018 to 14.45 in 2019.

Hulamin passes the cost of metal to its customers and derives profits from the difference between the conversion prices/fees it charges and its costs. Gross margins net of metal declined by 10% in 2019, largely as a result of the reduction in volumes.

Manufacturing costs reduced by 5%, while administration and selling costs decreased by 10%. Once-off restructuring costs of R114 million were incurred. These largely relate to employee severance costs.

Heightened uncertainty relating to increasing protectionism in the US and the vulnerability of the domestic economy, has reinforced increasing the Company's weighted average cost of capital (WACC) to more accurately value the Company's internal forecasts of future cash flows. This WACC increase, together with a softer outlook on market conditions in both local and in Hulamin's traditional markets, results in material changes to the valuation of assets and as a consequence, an impairment charge of R1.25 billion has been applied to the cash-generating units of Hulamin Rolled Products and R30 million to Hulamin Extrusions. Additional impairments, totaling R19 million relate to the valuation of the Isizinda property and Olifantsfontein assets held for sale.

The London Metals Exchange price of Aluminium, which largely affects working capital and metal price lag[(3)], weakened from USD1 870 per ton at the end of 2018 to USD1800 per ton. The annual average, a closer indicator of metal price lag[(3)], declined from USD2 110 per ton in 2018 to USD1792 in 2019. A metal price lag[(3)] charge of R68 million was recorded in 2019 (2018: profit: R4 million).

In the first quarter, Hulamin Extrusions' largest asset, its 3 800 ton press experienced a significant mechanical event. In late January, a crack was detected in a major steel component (cross-head) of this press. it was therefore x-rayed and regularly monitored. Following deterioration in the cracks, a decision was taken to shut the press and repair the damaged cross-head to prevent catastrophic failure. Such an event would likely have resulted in a 9 – 12 month shutdown of the press. The press was consequently out of service for eight weeks for the repair. The repaired cross-head has operated successfully since and a spare cross-head procured. This resulted in severe disruption to the business, prompting a high-level review and decision to consolidate the business onto a single site at considerably lower cost.

The group's operating loss increased by 50% to R1.4 billion, severely impacted by the R136 million loss in Hulamin Extrusions and the decline in Rolled Products' sales, the impairment charges, the metal price lag[(3)] loss and once-off costs. Normalised EBIT[(1)] was 59% lower than the previous corresponding period at R177 million.

Net interest charges decreased by 34% to R48 million, as a result of lower average borrowings. A net loss of R1.2 billion was recorded for the year under review.

Net cash flow amounted to an inflow of R68 million, following the release of working capital in the second half.

Net borrowings decreased to R226 million, with net debt at R272 million. Hulamin has unutilised committed revolving funding facilities of R1 billion at period end. Despite the reduction in net borrowings, net debt-to-equity increased to 11%, resulting from the impairment impact on equity and the adoption of IFRS 16, the new financial reporting standard on leases, which has resulted in the recognition of lease liabilities of R46 million at year-end.

No final dividend was declared.

COMMENTARY CONTINUED

Changes in Directorate

During 2019, the board of directors announced the retirement of Mr. P H Staude. No new appointments were made.

Turnaround actions

Hulamin has completed a turnaround plan which it commenced in the second quarter of 2019 with the following outcomes:

- Cost reduction in Rolled Products – R250 million annual savings.
- Improving distribution channels into the USA We resumed sales of heat-treated plate, common alloy standard and treaded products in the second half following the breakdown in trading relations with our USA master distributor.
- Releasing cash from working capital (inventory reduction). Debt was reduced by R324 million between July and December 2019.

Isizinda

Hulamin and Bingelela Capital Proprietary Limited ("Bingelela") jointly-owned the slab cast house adjacent to the Hillside aluminium smelter in Richards Bay. This cast house has held assets for rim alloy, extrusion billet and aluminium rod production. Hulamin and Bingelela have reached an agreement, *inter alia*, for Hulamin to procure the rolling slab assets from Isizinda and to pursue the sale of the remaining assets of Isizinda. This agreement was signed during 2019 and the purchase of the rolling slab operation was effective 1 January 2020. Hulamin has always included the assets and liabilities of Isizinda in its consolidated financials, due to its effective control of the slab operation, and Bingelela's interest in Isizinda has been treated as a share-based payment. The impact of this composite transaction on Hulamin's consolidated financials has been the recording of a settlement of the equity interest which Bingelela has in Isizinda, resulting in a charge of R65 million in the current year. This is more fully set out in note 13(i) to the summarised provisional consolidated financial statements. The 2019 half-year results will be restated to record this charge.

Prospects

The turnaround actions reported at half-year were concluded in the second half. Although these actions are yielding cost and sales benefits, subsequent events have now surpassed these foundations for improvement in 2020. Order books for Rolled Products that had started filling during the second half of 2019, have subsequently declined measurably. In addition, the sharp weakening in the domestic currency combined with low sales volume levels in the second quarter of 2020, have resulted in losses related to Hulamin's hedging programme.

There are a number of uncertainties that are likely to characterise the 2020 and 2021 years. These include the impact of the Covid-19 pandemic on the economy, the sustainability of the Hillside aluminium smelter as well as the application for anti-dumping and countervailing duties in the USA against common alloy imports from 18 countries, including South Africa.

These matters are covered more comprehensively in note 13 to the summarised provisional consolidated financial statements.

Should these weaker currency levels persist into the second half of 2020 and sales volumes improve, we would expect a gradual recovery in performance.

TP Leeuw
Chairman

RG Jacob
Chief Executive Officer

Pietermaritzburg
24 June 2020

Supplementary information:

(1) The presentation of normalised EBIT, EBITDA, normalised EBITDA and normalised headline earnings is not an IFRS requirement and these may not be directly comparable with the same or similar measures disclosed by other companies. The determination of normalised EBIT, EBITDA, normalised EBITDA and normalised headline earnings is set out in notes 2 and 8 to the summarised provisional consolidated financial statements.

(2) Cash flow generated from operations and cash flow from investing activities, which equates to cash flows before financing activities of Hulamin is considered "free cash flow". 2019 free cash flow includes a customer payment of R208 million that was due to the group and was fully authorised by the customer and scheduled to be paid on 31 December 2018 but was only concluded in early January 2019. In the prior year, an "adjusted free cash flow" measure was presented, incorporating this receipt. This event has not reoccurred in 2019.

(3) Metal price lag

The price of aluminium purchased by the group and sold to its customers is typically based on the monthly average US Dollar LME price in the month prior to the month of delivery. It usually takes about three months to produce and invoice the semi-fabricated products sold to customers and during this period the quoted LME price may increase or decrease. Similarly, the Rand fluctuates against the US Dollar during this period, resulting in the purchase price of aluminium in Rand differing from the price realised upon sale. On an unhedged basis, this can result in a high level of profit and loss volatility as metal pricing in cost of sales, based on an inventory FIFO valuation, is misaligned with metal pricing in sales. However, there is a low level of cash flow volatility as monthly sales and purchases typically align in both pricing and volume. The group uses derivative instruments, forwards and swaps, to reduce these profit and loss exposures. The group applies a policy of hedging 50% of its US Dollar aluminium price lag risk exposure and 50% of its currency risk exposure on the metal lag. Eliminating 100% of the price risk with derivatives would create a cash flow risk if the spot prices were to rise strongly since new inventory would have to be purchased at a higher price than the proceeds received net of derivative settlements. The unhedged fluctuation in the US Dollar aluminium price from the date of purchase of aluminium to the date of sale results in a metal price lag impact on profits.

SUMMARISED PROVISIONAL CONSOLIDATED STATEMENT OF FINANCIAL POSITION

for the year ended 31 December 2019

	Notes	2019 R'000	2018 R'000
ASSETS			
Non-current assets			
Property, plant and equipment		**813 570**	1 901 794
Right-of-use assets	15	**17 108**	–
Intangible assets		**13 157**	43 136
Retirement benefit asset		**95 560**	133 860
Deferred tax asset	7	**93 130**	17 060
		1 032 525	2 095 850
Current assets			
Inventories		**2 176 408**	2 262 547
Trade and other receivables		**804 415**	1 530 279
Derivative financial assets		**88 661**	71 281
Cash and cash equivalents		**126 207**	525 981
Income tax asset		**17 562**	18 992
		3 213 253	4 409 080
Non-current assets classified as held for sale	10	**14 250**	6 529
TOTAL ASSETS		**4 260 028**	6 511 459
EQUITY			
Stated capital and consolidated shares		**1 817 580**	1 817 580
Treasury shares		**(22 000)**	–
BEE reserve		**24 576**	51 776
Employee share-based payment reserve		**63 305**	57 914
Hedging reserve		**12 505**	(6 280)
Retained earnings		**674 342**	1 881 631
Total equity		**2 570 308**	3 802 621
LIABILITIES			
Non-current liabilities			
Non-current borrowings		**–**	54 000
Lease liabilities	15	**34 405**	–
Deferred tax liability		**16 990**	221 060
Retirement benefit obligations		**225 007**	251 738
		276 402	526 798
Current liabilities			
Trade and other payables		**1 005 121**	1 380 209
Current borrowings		**352 083**	765 783
Lease liabilities	15	**12 088**	–
Derivative financial liabilities		**44 026**	34 011
Income tax liability		**–**	2 037
		1 413 318	2 182 040
Total liabilities		**1 689 720**	2 708 838
TOTAL EQUITY AND LIABILITIES		**4 260 028**	6 511 459
Net debt to equity (%)		**11**	8

SUMMARISED PROVISIONAL CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2019

	Notes	2019 R'000	2018 R'000
Revenue from contracts with customers	2	**10 708 581**	11 533 818
Cost of sales of goods		**(9 929 196)**	(10 583 507)
Cost of providing services		**(76 066)**	(82 422)
Gross profit		**703 319**	867 889
Selling, marketing and distribution expenses		**(520 020)**	(448 237)
Administrative and other expenses *		**(290 670)**	(194 806)
Net impairment losses on financial assets		**(1 906)**	(671)
Impairment of property, plant and equipment and intangible assets	4	**(1 302 898)**	(1 450 814)
Gains and losses on financial instruments related to trading activities	5	**79 571**	276 963
Other gains and losses	6	**(88 800)**	(231)
Operating loss		**(1 421 404)**	(949 907)
Interest income		**8 021**	3 887
Interest expense		**(56 513)**	(77 588)
Loss before tax		**(1 469 896)**	(1 023 608)
Taxation	7	**265 355**	250 197
Net loss for the year attributable to equity holders of the company		**(1 204 541)**	(773 411)
Loss per share attributable to the ordinary equity holders of the company (cents)	8		
Basic loss per share		**(380)**	(242)
Diluted loss per share **		**(380)**	(242)

* *Including termination benefits (refer note 3)*

** *Prior year diluted loss per share has been restated as potential ordinary shares were antidilutive*

SUMMARISED PROVISIONAL CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2019

	2019 R'000	2018 R'000
Net loss for the year attributable to equity holders of the company	**(1 204 541)**	(773 411)
Other comprehensive income/(loss) for the year	**46 807**	(22 825)
Items that may be reclassified subsequently to profit or loss:	**18 785**	(46 279)
Cash flow hedges transferred to the statement of profit or loss	**(54 750)**	85 776
Cash flow hedges created/(reversed)	**57 039**	(150 053)
Cost of hedging	**23 801**	0
Income tax relating to these items	**(7 305)**	17 998
Items that will not be reclassified to profit or loss:	**28 022**	23 454
Remeasurement of retirement benefit obligation	**35 478**	33 395
Remeasurement of retirement benefit asset	**955**	(2 448)
Income tax relating to these items	**(8 411)**	(7 493)
Total comprehensive loss for the year attributable to equity holders of the company	**(1 157 734)**	(796 236)

SUMMARISED PROVISIONAL CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2019

	Notes	2019 R'000	2018 R'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	A	**625 512**	485 791
Interest paid		**(62 754)**	(84 378)
Interest received		**8 021**	3 887
Income tax paid		**(37 492)**	(73 682)
Net cash inflow from operating activities		**533 287**	331 618
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment		**(305 095)**	(210 538)
Additions to intangible assets		**(6 222)**	(31 206)
Net cash outflow from investing activities		**(311 317)**	(241 744)
Cash flows before financing activities ("free cash flow")		**221 970**	89 874
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of current portion of non-current borrowings		**(54 000)**	(54 000)
Net (repayment of)/proceeds from current borrowings*		**(413 700)**	445 084
Settlement of employee share incentives schemes		**(305)**	(9 230)
Payment of principal portion of lease liabilities		**(14 675)**	–
Dividends paid		**(58 202)**	(48 502)
Acquisition of treasury shares		**(22 000)**	–
Settlement payments in respect of share-based payment – Isizinda		**(50 000)**	–
Net cash (outflow)/inflow from financing activities		**(612 882)**	333 352
Net (decrease)/increase in cash and cash equivalents		**(390 912)**	423 226
Cash and cash equivalents at beginning of year		**525 981**	111 472
Effects of exchange rate changes on cash and cash equivalents		**(8 862)**	(8 717)
Cash and cash equivalents at end of year		**126 207**	525 981
A: CASH GENERATED FROM OPERATIONS			
Loss before tax		**(1 469 896)**	(1 023 608)
Net interest cost		**48 492**	73 701
Operating loss		**(1 421 404)**	(949 907)
Adjusted for non-cash flow items:			
Depreciation		**107 625**	222 271
Depreciation of right-of-use assets		**16 483**	–
Amortisation of intangible assets		**12 116**	19 003
Impairment of property, plant and equipment and intangible assets		**1 302 898**	1 450 814
Loss on disposal of property, plant and equipment		**26 455**	231
Net movement in retirement benefit asset and obligations		**48 002**	9 112
Value of employee services received under share schemes		**6 968**	10 008
Fair value changes on derivatives		**18 726**	(1 048)
Foreign exchange losses/(gains) on cash and cash equivalents		**8 862**	8 717
Gain on sale of investment		**(2 655)**	–
Currency exchange translation on foreign debtors and creditors		**9 200**	(95 990)
Settlement of share-based payment – Isizinda		**65 000**	–
Other non-cash items		**(479)**	149
Cash generated before working capital changes		**197 797**	673 360
Changes in working capital	B	**427 715**	(187 569)
Cash generated from operations		**625 512**	485 791
B: CHANGES IN WORKING CAPITAL			
Decrease/(increase) in inventories		**86 139**	(112 486)
Decrease/(increase) in trade and other receivables		**702 704**	(189 137)
(Decrease)/increase in trade and other payables		**(361 128)**	114 054
		427 715	(187 569)

* *Movement in the current borrowings represents the net movement on the Nedbank facility which is drawn down or settled on a daily basis.*

SUMMARISED PROVISIONAL CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2019

	Notes	Stated Capital and Consolidation shares R'000 A	Treasury shares R'000 B	Hedging reserve R'000 C	Employee share-based payment reserve R'000 D	BEE reserve R'000 E	Retained earnings R'000 F	Total equity R'000
Balance at 31 December 2017		**1 817 580**	**–**	**39 999**	**71 201**	**51 776**	**2 668 268**	**4 648 824**
Net loss for the year		–	–	–	–	–	(773 411)	(773 411)
Other comprehensive (loss)/income net of tax		–	–	(46 279)	–	–	23 454	(22 825)
Equity settled share-based payment schemes		–	–	–	(13 287)	–	11 822	(1 465)
Dividends paid*		–	–	–	–	–	(48 502)	(48 502)
Balance at 31 December 2018		**1 817 580**	**–**	**(6 280)**	**57 914**	**51 776**	**1 881 631**	**3 802 621**
Net loss for the year		–	–	–	–	–	(1 204 541)	(1 204 541)
Other comprehensive (loss)/income net of tax		–	–	18 785	–	–	28 022	46 807
Equity settled share-based payment scheme		–	–	–	5 391	–	232	5 623
Settlement of equity-settled share-based payment		–	–	–	–	(27 200)	27 200	–
Acquisition of treasury shares		–	(22 000)	–	–	–	–	(22 000)
Dividends paid*	9	–		–	–	–	(58 202)	(58 202)
Balance at 31 December 2019		**1 817 580**	**(22 000)**	**12 505**	**63 305**	**24 576**	**674 342**	**2 570 308**

NOTES

A: Stated capital and consolidation shares

Stated capital represents the group's issued share capital held by outside shareholders. Consolidation shares represent shares held under various BEE transactions.

B: Treasury shares

Shares in the Company held by wholly-owned Group companies are classified as treasury shares. These shares are treated as a deduction from the issued and weighted average number of shares and the cost of the shares is deducted from Group equity. Dividends received on treasury shares are eliminated on consolidation. No gains and losses are recognised in the Group statement of profit or loss or the statement of comprehensive income on the purchase, sale, issue or cancellation of treasury shares.

During the year a wholly-owned group company purchased 8 183 539 shares on-market in order to hold treasury shares to settle share scheme obligations. The buy-back was approved by shareholders at the annual general meeting held on 15 May 2019. The shares were acquired at an average price of 267 cents per share, with prices ranging from 470 to 192 cents per share. The total cost of R22 000 000 including after-tax transaction costs, was deducted from shareholder equity. The total reduction in paid-up capital was R22 000 000.

C: Hedging reserve

The hedging reserve includes the cash flow hedge reserve and the costs of hedging reserve. The cash flow hedge reserve is used to recognise the effective portion of gains or losses on derivatives that are designated and qualify as cash flow hedges. Amounts are subsequently transferred to revenue as part of the hedging relationship or reclassified to profit or loss as appropriate. The group defers the changes in the forward element of forward contracts and the time value of option contracts in the costs of hedging reserve. These deferred costs of hedging are included in revenue when it is recognised.

D: Employee share-based payments reserve

The share-based payments reserve is used to recognise the grant date fair value of options issued to employees. On settlement the value of the reserve is transferred to retained earnings. A deferred tax asset on outstanding grants is recognised where the grants are in-the-money, with the deferred tax on the portion above the fair value of the option being recognised directly in retained earnings.

E: BEE Reserve

The BEE reserve is used to recognise the grant date fair value of options issued to identified BEE participants and Isizinda BEE participants.

F: Retained earnings

The retained earnings represents the cumulative historic profit and loss reinvested in the group. No restrictions exist on the use of the retained income.

* *Dividends paid include dividends paid by Hulamin Limited to external shareholders and dividends paid and declared by the 2015 Hulamin Employee Share Ownership Scheme.*

NOTES TO THE SUMMARISED PROVISIONAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

1. Basis of preparation of summarised provisional consolidated financial statements

The summarised provisional consolidated financial statements of the group for the year ended 31 December 2019 have been prepared in accordance with the framework concepts and measurement and recognition requirements of International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the Listings Requirements of the JSE Limited and the Companies Act No. 71 of 2008, under the supervision of the Chief Financial Officer, Mr A P Krull CA(SA). The summarised provisional consolidated financial statements are prepared in thousands of South African Rand (R'000) on the historical cost basis, except for the measurement of financial instruments, the valuation of share-based payments, non-current assets held for sale and retirement benefit assets and obligations.

The group’s independent auditor, Ernst & Young Inc. (EY), has issued an audit opinion on the group’s consolidated and separate financial statements for the year ended 31 December 2019. The audit was conducted in accordance with International Standards on Auditing. They have issued an unmodified audit opinion. These summarised provisional consolidated financial statements, although not audited, have been derived from the group’s audited financial statements and are consistent, in all material respects, with the group’s audited financial statements. The directors take full responsibility for the preparation of this announcement, including ensuring that the summarized provisional consolidated financial statements are correctly extracted from the underlying audited financial statements. The auditor’s report does not necessarily report on all the information contained in this announcement. Shareholders are therefore advised that, in order to obtain a full understanding of the nature of the auditor’s engagement, they should obtain a copy of the auditor’s report together with the accompanying financial information from the company’s registered office. This is also available on the company’s website, www.hulamin.com.

The accounting policies adopted are in terms of International Financial Reporting Standards and are consistent with those of the previous financial year, except for the adoption of new and amended standards as set out below.

(a) New and revised standards and interpretations in issue and effective which are applicable to the group

A number of new standards, amendments and interpretations became applicable for the current year. IFRS 16, “Leases” and the hedge accounting provisions of IFRS 9, “Financial Instruments” were the most significant new standards adopted in the current year, and the impact of their adoption is set out in note 15. Several other amendments and interpretations apply for the first time in 2019, but do not have a material impact on the consolidated financial results of the group.

(b) New and revised standards in issue but not yet effective which are applicable to the group

The following amendments were issued but are not yet effective and have not been early adopted. These amendments are not expected to have a material impact on the group:

- Amendments to IFRS 3, “Definition of a Business”
- Amendments to IAS 1 and IAS 8, “Definition of Material”
- Amendments to References to the Conceptual Framework in IFRS Standards
- The issuing of IFRS 17, “Insurance Contracts”

2. Reportable segment analysis and revenue from contracts with customers

The group's reportable segments have been determined in accordance with how the Hulamin Executive Committee, which is the group's most senior operating decision-making body, allocates resources and evaluates performance and are predominantly based on business segment hierarchy which is representative of the internal reporting used for management purposes. The group is organised into two major operating divisions, namely Hulamin Rolled Products and Hulamin Extrusions. The Hulamin Rolled Products segment, which comprises the Hulamin Rolled Products and Hulamin Containers businesses, manufactures and supplies fabricated and rolled semi-finished aluminium products as well as aluminium foil containers and related products. The Hulamin Extrusions segment manufactures and supplies extruded aluminium products. Isizinda Aluminium (Pty) Ltd (“Isizinda”) supplies slab to Hulamin Rolled Products. The activities of Isizinda are integrated into the Hulamin Rolled Products segment. Reportable segments are based and managed in South Africa.

All segment revenue and expenses are directly attributable to the segments. Segment assets include all operating assets used by a segment, as well as current assets. Segment liabilities include all operating liabilities. These assets and liabilities are all directly attributable to the segments. Transactions between segments are carried out at arm's-length and are eliminated on consolidation. Transactions which represent the sale of a particular segment's finished goods to another segment do not occur and as such no inter-segment revenue is earned.

Finance costs, finance income, other income, and fair value gains and losses on financial assets are not allocated to individual segments as the underlying instruments are managed on a group basis.

Current taxes, deferred taxes and certain financial assets and liabilities are not allocated to those segments as they are also managed on a group basis.

Capital expenditure consists of additions of property, plant and equipment and intangible assets.

(a) Segmental revenue, earnings and other disclosures

	2019			2018		
	Hulamin Rolled Products R'000	Hulamin Extrusions R'000	Group R'000	Hulamin Rolled Products R'000	Hulamin Extrusions R'000	Group R'000
Revenue from contracts with customers: External	**9 957 173**	**751 408**	**10 708 581**	10 640 844	892 974	11 533 818
Timing of revenue recognition:						
– At a point in time	**9 881 107**	**751 408**	**10 632 515**	10 558 422	892 974	11 451 396
– Over time	**76 066**	**–**	**76 066**	82 422	–	82 422
Earnings						
EBITDA**	**104 766**	**(87 048)**	**17 718**	745 198	(3 017)	742 181
Impairment of property, plant and equipment and intangibles (refer note 4)	**(1 266 979)**	**(35 919)**	**(1 302 898)**	(1 376 319)	(74 495)	(1 450 814)
Depreciation and amortisation	**(123 142)**	**(13 082)**	**(136 224)**	(215 329)	(25 945)	(241 274)
Operating loss	**(1 285 355)**	**(136 049)**	**(1 421 404)**	(846 450)	(103 457)	(949 907)
Interest received	**8 002**	**19**	**8 021**	3 847	40	3 887
Interest paid	**(47 460)**	**(9 053)**	**(56 513)**	(77 582)	(6)	(77 588)
Loss before tax	**(1 324 813)**	**(145 083)**	**(1 469 896)**	(920 185)	(103 423)	(1 023 608)
Taxation	**265 820**	**(465)**	**265 355**	252 423	(2 226)	250 197
Net loss for the year	**(1 058 993)**	**(145 548)**	**(1 204 541)**	(667 762)	(105 649)	(773 411)
Reconciliation of net loss (used in calculating earnings per share) to headline earnings						
Net loss for the year	**(1 058 993)**	**(145 548)**	**(1 204 541)**	(667 762)	(105 649)	(773 411)
Loss on disposal of property, plant and equipment	**26 455**	**–**	**26 455**	231	–	231
Impairment of property, plant and equipment and intangibles (refer note 4)	**1 266 979**	**35 919**	**1 302 898**	1 376 319	74 495	1 450 814
Profit on disposal of investment in Almin Metal Industries Limited	**–**	**(2 655)**	**(2 655)**	–	–	–
Tax effect	**(362 161)**	**–**	**(362 161)**	(385 434)	–	(385 434)
Headline (loss)/earnings for the year	**(127 720)**	**(112 284)**	**(240 004)**	323 354	(31 154)	292 200
Reconciliation of headline earnings to normalised EBITDA (refer note 8(i))**						
Headline (loss)/earnings for the year	**(127 720)**	**(112 284)**	**(240 004)**	323 354	(31 154)	292 200
Limitation of IAS 39, "Financial Instruments" resulting in highly effective commodity risk management programme not qualifying for hedge accounting (refer note 5)	**24 835**	**–**	**24 835**	(60 921)	–	(60 921)
Restructuring costs (refer note 3)	**75 757**	**38 639**	**114 396**	–	–	–
Metal price lag (refer supplementary information to commentary note (3))	**67 577**	**–**	**67 577**	(3 507)	–	(3 507)
Settlement of share-based payment – Isizinda (refer note 13(i))	**65 000**	**–**	**65 000**	–	–	–
Tax effect	**(47 087)**	**(10 819)**	**(57 906)**	18 040	–	18 040
Normalised headline earnings (refer note 8(i))	**58 362**	**(84 464)**	**(26 102)**	276 966	(31 154)	245 812
Interest paid	**47 460**	**9 053**	**56 513**	77 582	6	77 588
Interest income	**(8 002)**	**(19)**	**(8 021)**	(3 847)	(40)	(3 887)
Taxation	**143 429**	**11 284**	**154 713**	114 971	2 226	117 197
Normalised EBIT* (refer note 8(i))	**241 249**	**(64 146)**	**177 103**	465 672	(28 962)	436 710
Depreciation and amortisation	**123 142**	**13 082**	**136 224**	215 329	25 945	241 274
Normalised EBITDA (refer note 8(i))**	**364 391**	**(51 064)**	**313 327**	681 001	(3 017)	677 984
Total assets	**4 032 486**	**227 542**	**4 260 028**	6 194 109	317 350	6 511 459
Total liabilities	**1 539 212**	**150 508**	**1 689 720**	2 605 848	102 990	2 708 838
Other disclosures						
Additions to property, plant and equipment and intangible assets	**280 242**	**31 075**	**311 317**	215 248	26 496	241 744
Currency conversion						
Rand/US dollar average			**14.45**			13.25
Rand/US dollar closing			**14.01**			14.43

All non-current assets of the group are located in, or are attributable to, operations in South Africa.

Sales to the largest 5 customers of the Hulamin Rolled Products segment accounts for 47% of total group revenue.

* *Earnings before interest and taxation*

** *Earnings before interest, taxation, depreciation and amortisation and impairment of property, plant and equipment and intangible assets.*

(b) Disaggregation of revenue from contracts with customers

Revenue has been disaggregated into categories that depict how the nature, timing and uncertainty of revenue and cash flows are affected by economic factors. The group presented disaggregated revenue based on the type of goods or services provided to customers and the geographical region.

	2019 R'000	2018 R'000
Analysis of revenue by product market:		
Automotive and transport	**1 194 723**	1 400 396
Building and construction	**259 207**	263 180
General engineering	**3 702 585**	4 907 080
Packaging	**5 552 066**	4 963 162
	10 708 581	11 533 818
Geographical analysis of revenue:		
South Africa	**4 659 035**	4 691 267
North America	**2 207 098**	3 308 552
Europe	**2 435 942**	2 407 609
Asia	**376 207**	462 290
Middle East	**86 285**	239 362
Australasia	**75 611**	77 779
South America	**430 022**	320 948
Rest of Africa	**438 381**	26 011
	10 708 581	11 533 818

3. Termination benefits

	2019 R'000	2018 R'000
Included in administrative and other expenses are the following:		
Termination benefits can be attributable as follows:		
Hulamin Rolled Products (note (i))	**75 757**	–
Hulamin Extrusions (note (ii))	**38 639**	–
	114 396	–

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits at the earlier of the following dates: (a) when the group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is in the scope of IAS 37 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

(i) Hulamin Rolled Products

Hulamin Rolled Products experienced challenging trading conditions during 2019. Export sales to the United States were disrupted by blockages in our distribution channel, customer overstocking, and a softening underlying market. Management implemented a turnaround plan for Hulamin Rolled Products. One of the objectives of the plan was a reduction in the cost base. This led to a consultation process being entered into with employees in July 2019. An agreement with employees and union representatives was reached in October 2019, resulting in the retrenchment of a number of employees.

(ii) Hulamin Extrusions

The Hulamin Extrusions business has been negatively impacted in recent years by increasing competition from Chinese extrusion imports, rising operating costs and overheads and the failure of key operating assets, leading to the business incurring significant losses in both the current and the prior financial year. As a consequence, the business commenced a consultation process with employees in May 2019 relating to the proposed closure of its Olifantsfontein operation and the restructuring of its Pietermaritzburg operation. An agreement with employees and union representatives was reached in October 2019 which resulted in the retrenchment of a number of employees.

4. Impairment of property, plant and equipment and intangible assets

	2019 R'000	2018 R'000
The impairment charges recognised in the income statement are as follows:		
Isizinda Aluminium property, plant and equipment – note (a)(i)	**13 032**	–
Extrusions Olifantsfontein property, plant and equipment – note (a)(ii)	**5 789**	–
Rolled Products cash-generating unit – note (b)(i)	**1 253 947**	1 376 319
Extrusions cash-generating unit – note (b)(ii)	**30 130**	74 495
Total impairment charge	**1 302 898**	1 450 814
Taxation	**(354 754)**	(385 369)
Net impairment charge	**948 144**	1 065 445

(a) Impairment assessment – Individual assets

(i) Isizinda Aluminium property, plant and equipment

The decision to restructure the business (refer note 13(i)) served as an indicator for impairment. An impairment test was conducted and it was determined that the carrying amount of land and buildings exceeds the recoverable value of the property. The property was thus impaired to reflect its recoverable amount, which in this case represents the fair value less costs to sell. The recoverable amount was determined to be R68.7 million. The fair value of the property is level 3 in the valuation hierarchy. The fair value of the property was determined with reference to market related rental prices per square metre, accepted vacancy rates and maintenance costs per square metre. An independent valuator was used to determine the fair value less costs to sell.

(b) Cash-generating unit impairment assessment

The group's shares continued to trade on the Johannesburg Stock Exchange at a discount to underlying net asset value during the period under review. In the circumstances, and as required by IAS 36, management have assessed the recoverable amounts of the assets (or cash-generating units to which they belong) net of liabilities at the period end. The recoverable amount was determined to be value-in-use. The assessment compared the estimated value-in-use based on forecast future cash flows to the carrying amount.

(i) Rolled Products cash-generating unit

The key economic and business assumptions used in the value-in-use calculation are consistent with those used in the budget and the five-year business plan approved by the board of directors. Adjustments were made to the plan forecasts to ensure compliance with the value-in-use methodology required by IAS 36. The group forecasts that free cash flows will improve in future periods. Key assumptions include:

		2019	2018
Comparison of key assumptions			
Weighted average cost of capital – before tax		**22.4%**	20.6%
Weighted average cost of capital – after tax		**16.9%**	15.6%
Key assumptions – in year five			
Annual average	(ZAR/USD)	**16.04**	15.06
Sales volume	(tons)	**235 000**	236 000
Rolling margin indexed against 2018	(USD/ton)	**98**	100
Total manufacturing cost indexed against 2018	(USD)	**93**	100
Working capital investment indexed against 2018	(USD)	**120**	100
Compound Annual Growth Rate			
Annual average	(ZAR/USD)	**2.0%**	2.6%
Sales volume	(tons)	**2.9%**	0.7%
Rolling margin indexed against 2018	(USD/ton)	**1.8%**	2.0%
Total manufacturing cost indexed against 2018	(USD)	**1.1%**	2.5%
Working capital investment indexed against 2018	(USD)	**5.0%**	(2.7%)

A pre-tax discount rate of 22.4% (post-tax 16.9%) was used in the calculation and this rate has increased from the pre-tax 20.6% (post-tax 15.6%) used in 2018.

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The key assumptions in deriving the value in use amount have changed significantly since the reporting of the half year results in accordance with IAS 34, Interim Financial Reporting. When compared with the value-in-use calculation at 30 June 2019, the total forecast sales volume has not changed in the fifth year of the projection. However sales in year one are forecast to be lower than what was assumed at June. The clearing of the above-mentioned over-stocked distribution channels and the re-balancing of demand and supply was expected to be complete during the second half of 2019, but in December 2019 it was clear that 2020 would continue to be affected by these factors. Consequently, the December forecasts of sales volumes and prices are lower than those of June.

The decision to not impair the non-financial assets at 30 June 2019 was based on a pre-tax discount rate that was similar to the December 2018 in both amount and composition. At 30 June 2019, the annual average ZAR:USD exchange rate forecast for year five was R15.45. By December the weaker forecast exchange rates were offset by lower conversion prices, suppressed 2020 sales volume and lower cost savings. The cost savings assumed at June were based on the board-approved turnaround plan to be implemented in the second half of 2019. After negotiation with labour, the actual manpower cost savings were lower than what was planned, partly due to rates of pay and headcount.

The turnaround plan included a decision to increase the holding of finished goods tons. This was a result of a combination of efforts to mitigate the over-stocked distribution channels and the strategy to service the US market on shorter lead times. Cash outflows to build up this higher working capital position have also contributed to a lower value in use amount at December 2019 when compared with that at June.

These combined factors have led to an increased impairment amount recognised at year end.

Sensitivity analysis

The determination of value-in-use for Hulamin Rolled Products, and any resulting impairment, is particularly sensitive to:

Discount rate: A 1% increase in the pre-tax discount rate may result in an additional impairment charge, before tax, of up to R224 million.*

Rolling margins: A reduction in average rolling margins of 5,0% for each year in the forecast period may result in an additional impairment charge, before tax, of up to R1 259 million.*

Rate of exchange: A R1,00 strengthening in the ZAR/USD rate for each year in the forecast period may result in an additional impairment charge, *before tax, of up to R1 212million.**

** The recognition of additional impairment charges are subject to the limitation that individual assets in the CGU cannot be reduced to below each asset's recoverable amount. The cumulative recoverable amount is R646 million.*

(ii) Extrusions cash-generating unit

The Extrusions cash-generating unit continued to experience difficult trading conditions in 2019. Following the completion of the turnaround plan, performance and cash flows are forecast to improve in the future, but the market uncertainty impacting the achievement of these cash flows remains high and this is reflected in the discount rate. The carrying value of the assets therefore exceeds the recoverable amount by R39 million. The impairment charge was limited to R30 million based on the fair value less costs of disposal of individual assets.

The recoverable amount is the higher of value-in-use and fair value less costs of disposal. Value-in-use was estimated using a pre tax discount rate of 23.6% (2018: 21.1%), post tax 17.4% (2018: 17.1%). The fair value less costs of disposal was determined by an independent valuator, utilising the market approach whereby comparable asset pricing was obtained in the second-hand market, adjusted as required for location, age and specification, less costs of disposal. The fair value level of the non-current assets represents level 2 in the valuation hierarchy.

Sensitivity analysis

The determination of the value-in-use for Hulamin Extrusions, and any resulting impairment, is particularly sensitive to:

Discount rate: A 1% increase in the pre-tax discount rate may result in an additional impairment charge, before tax, of up to R12 million (2018: R15 million)*.

Earnings before tax: A 5% decrease in earnings before tax may result in an additional impairment charge, before tax, of up to R10 million (2018: R11 million)*.

** The recognition of additional impairment charges are subject to the limitation that individual assets in the CGU cannot be reduced to below each asset's recoverable amount. The cumulative recoverable amount is R18 million.*

5. Gains and losses on financial instruments related to trading activities

The group is exposed to fluctuations in aluminium prices and exchange rates, and hedges these risks with derivative financial instruments. The group applies hedge accounting to gains and losses arising from certain derivative financial instruments. Hedges of forecast sales transactions are accounted for as cash flow hedges.

The effective portion of cash flow hedge gains and losses are recorded initially in the hedge reserve, and released to revenue from contracts with customers when the sale occurs.

Other gains and losses includes, *inter alia,* the fair value adjustments arising from fair value hedges, non-hedge accounted derivative financial instruments (including the ineffective portion of cash flow hedge gains and losses), non-derivative financial instruments and forward point gains.

	2019 R'000	2018 R'000
Foreign exchange gains on debtors and creditors balances	**(9 200)**	95 991
Foreign currency denominated cash balances	**(8 862)**	(8 717)
Valuation adjustments on non-derivative items	**(18 062)**	87 274
Foreign exchange contracts: firm commitments, debtors and creditors balances	**76 527**	35 356
Commodity futures	**21 106**	154 333
Valuation adjustments on derivative items*	**97 633**	189 689
Gains and losses on financial instruments related to trading activities	**79 571**	276 963

** Included in the above for 2018 are the following fair value adjustments and re-allocations arising from commodity futures used to hedge the metal price lag:*

During the previous financial year, management identified that the expectation of prospective effectiveness of commodity hedges did not exist and therefore the requirements to hedge account commodity derivative instruments were not satisfied. Economically, Hulamin's commodity risk management strategy is effective in mitigating the impact of metal price lag as it converts the metal purchase price to the price received on sale of the metal. In order to apply hedge accounting to this programme as envisaged in IAS 39, 'Financial Instruments', the group has historically designated the sale, and not the purchase of the inventory, as the hedged item. As IAS 39 does not allow the components of the hedged item to be hedged individually the group was required to consider the movement in the full invoice price from the time of the forecast sale (at the point the metal is purchased) to the completion of the sale and compare this to the underlying hedging instrument (which only relates to the commodity portion of the sale). Management considered the historic movements in the other components of the invoice price (rolling margins, geographic premiums and transport costs) and found that historically volatility in these other components caused ineffectiveness in individual hedges.

In 2019, Hulamin adopted the hedge accounting provisions of the new financial instruments standard, IFRS 9, which overcomes these limitations in IAS 39. This has resulted in the commodity hedges being effective for hedge accounting purposes, thereby allowing profit and losses to be recognised in the same year as the underlying revenue).

6. Other gains and losses

Other gains and losses comprise the following:

	2019 R'000	2018 R'000
Loss on disposal of property, plant and equipment	**(26 455)**	(231)
Gain on disposal of investment in Almin Metal Industries Limited	**2 655**	–
Settlement of share-based payment – Isizinda	**(65 000)**	–
	(88 800)	(231)

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7. Taxation

The charge for current taxation is based on the results for the year as adjusted for income that is exempt and expenses that are not deductible using tax rates that are applicable to taxable income. Deferred taxation is recognised in profit or loss except when it relates to items credited or charged directly to equity, in which case it is also recognised in equity. The major components of income tax expense in the interim condensed consolidated statement of profit or loss are:

	2019 R'000	2018 R'000
Current income tax expense	**28 155**	94 869
Deferred income tax expense	**(293 975)**	(345 066)
Foreign capital gains tax	**465**	–
	(265 355)	(250 197)
Effective tax rate	**18.1%**	24.4%

A deferred tax asset is recognised for all deductible temporary difference to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Similarly, a deferred tax asset is recognised for the carry forward of unused tax losses and unused tax credits, to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. For the year ended 31 December 2019, the Group has not recognised a deferred tax asset of R117 million (2018: R34.8 million) consisting of both assessed losses and deductible temporary differences as there was significant uncertainty that there would be sufficient taxable temporary differences and sufficient taxable profits in future to absorb the tax asset.

8. Earnings per share ("EPS")

Basic EPS is calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is calculated by dividing the profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares. Potential ordinary shares shall be treated as dilutive only when their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations.

Weighted average number of shares

The weighted average number of shares used in the calculation of basic and diluted earnings per share, headline earnings per share and normalised earnings per share is as follows:

	December 2019 Number of shares	December 2018 Number of shares
Weighted average number of shares used for basic and diluted EPS*	**317 287 805**	319 596 836
Share options	**4 543 138**	7 807 318

** The weighted average number of shares takes into account the weighted average effect of changes in treasury shares during the year. Potential ordinary shares were antidilutive.*

8. Earnings per share ("EPS") continued

(a) Reconciliation of net loss (used in calculating earnings per share) for the year to headline earnings

	2019 Gross R'000	2019 Net R'000	2018 Gross R'000	2018 Net R'000
Net loss for the year		**(1 204 541)**		(773 411)
Adjustments	**1 326 698**	**964 537**	1 451 045	1 065 611
– Impairment loss on property, plant and equipment and intangible assets (refer note 4)	**1 302 898**	**948 144**	1 450 814	1 065 445
– Gain on disposal of investment in Almin Metal Industries Limited	**(2 655)**	**(2 655)**	–	–
– Loss on disposal of property, plant and equipment	**26 455**	**19 048**	231	166
Headline earnings		**(240 004)**		292 200
(b) Reconciliation of headline earnings for the year to normalised earnings				
Headline earnings		**(240 004)**		292 200
Adjustments				
– Limitation of IAS 39, "Financial Instruments" resulting in highly effective commodity risk management programme not qualifying for hedge accounting (refer note 5)		**24 835**		(60 921)
– Restructuring costs (refer note 3)		**114 396**		–
– Metal price lag (refer supplementary information to commentary note (3))		**67 577**		(3 507)
– Settlement of share–based payment – Isizinda (refer note 13(i))		**65 000**		–
– Tax effect		**(57 906)**		18 040
Normalised headline earnings (refer note 8(i))		**(26 102)**		245 812
Headline earnings per share (cents)				
Basic		**(76)**		91
Diluted **		**(76)**		91
Normalised headline earnings per share (cents)				
Basic		**(8)**		77
Diluted **		**(8)**		77

** *Prior year diluted loss per share has been restated as potential ordinary shares were antidilutive. Accordingly prior year diluted headline earnings per share and diluted normalised headline earnings per share have been restated.*

(i) Headline earnings per share, normalised EBIT, normalised EBITDA and normalised headline earnings per share

Headline earnings per share is calculated using the weighted average number of ordinary shares in issue during the year and is based on the earnings attributable to ordinary shareholders, after excluding those items as required by Circular 1/2019 issued by the South African Institute of Chartered Accountants (SAICA).

Normalised EBIT, EBITDA, normalised EBITDA and normalised headline earnings per share are measures which the Hulamin Executive Committee uses in assessing financial performance. These are calculated in a consistent manner as per the 2018 annual financial statements. Normalised headline earnings per share is calculated by dividing normalised headline earnings by the weighted average number of ordinary shares in issue during the year. Normalised headline earnings is defined as headline earnings excluding (i) metal price lag and (ii) material non-trading expense or income items which, due to their irregular occurrence, are adjusted for in order to better present earnings attributable to the ongoing activities of the group. Normalised EBIT and EBITDA are similarly derived. The presentation of normalised EBIT, EBITDA, normalised EBITDA, headline earnings per share and normalised headline earnings per share is not an IFRS requirement and these may not be directly comparable

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with the same or similar measures disclosed by other companies.

9. Dividends per share

Dividends to equity holders are only recognised as a liability when approved by the board of directors and are included in the statement of changes in equity.

	2019 R'000	2018 R'000
Dividends per share declared:		
Final dividend: Nil cents on 319 596 836 ordinary shares (2018: 18 cents on 319 596 836 ordinary shares)	–	57 527
Final dividend: Nil cents on 4 721 600 A1 ordinary shares (2018: 18 cents on 4 721 600 A1 ordinary shares)	–	850
Total	–	58 377

No dividend was declared in respect of the 2019 financial year.

10. Non-current assets held for sale

		2019 R'000	2018 R'000
Details of the non-current assets held-for-sale are as follows:			
Investment in associate – Almin	A	–	6 529
Property, plant and equipment – Extrusions Olifantsfontein	B	**14 250**	–
		14 250	6 529

A – During the 2018 financial year, the group received an offer from a third party to acquire the 49% interest which it holds in Almin. The sale was approved by the Board and was expected to be completed within 12 months from year-end. All conditions of sale have since been satisfied and the associate has been disposed of in the current financial year. The difference between the carrying amount of the associate and the proceeds from disposal has been recognised in profit or loss as a gain on disposal.

B – In May 2019, Hulamin Extrusions announced the proposed restructuring of its business operations which included the intended disposal of the property, plant and equipment of its Olifantsfontein operation (refer to note 3 for further detail).

It was further determined that the assets relating to the Olifantsfontein plant were going to be recovered principally through sale rather than through use. The sale of these assets is highly probable. The Board of Directors has engaged in an active programme to locate a buyer and have committed on a plan to sell the assets. The sale of these assets is expected to realise within one year from 30 June 2019 (classification date). At classification date, the carrying amount was lower than its fair value less costs to sell, thus no impairment loss was recognised. Subsequently the fair value less costs to sell was determined with reference to a binding sale agreement, which indicated that the carrying amount exceeded the fair value less costs to sell by R6 million and consequently an impairment charge of that amount was booked in profit or loss.

11. Related party transactions and balances

Balances and transactions between the company and its subsidiaries, which are related parties of the company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the group and the company's pension fund are disclosed below:

	2019 R'000	2018 R'000
Loan from pension fund	–	79 634
Interest paid to pension fund	**388**	6 899

12. Commitments and contingent liabilities

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

	2019 R'000	2018 R'000
Property, plant and equipment	**84 824**	174 882

Capital expenditure will be funded by a combination of external borrowings and cash flows from operations.

The group has no contingent liabilities as at 31 December 2019 (2018: Rnil).

13. Events after the reporting period and going concern assessment

Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Management has considered the events during this period and concluded that they are non-adjusting events as determined in accordance with IAS 10, 'Events after the reporting period'. Details of material non-adjusting events are provided below.

(i) Transaction relating to Isizinda Aluminium Proprietary Limited

In terms of an agreement entered into between the shareholders of Isizinda Aluminium Proprietary Limited ("Isizinda"), Bingelela Capital Proprietary Limited ("Bingelela") and Hulamin Operations Proprietary Limited ("Hulamin Operations"):

(i) Hulamin Operations acquired the rolling slab casting business and assets from Isizinda, effective 1 January 2020, and entered into a lease agreement with Isizinda to continue operating this casting facility. All funds derived by Isizinda from the proceeds of the rolling slab casting business and assets shall be applied in the reduction of Isizinda's indebtedness to Hulamin Operations.

Upon the effective date of sale, the "relevant activities" of Isizinda, in terms of IFRS 10, have changed materially.

(ii) The shareholders of Isizinda have agreed to pursue the sale of the property, subject to Isizinda's continued right of occupation in respect of the property. The subdivision of this property from a larger site owned by South32 was concluded on 10 January 2020. The shareholders of Isizinda have also agreed to pursue the sale of the remaining plant and equipment.

These decisions served as an indicator for impairment. An impairment test was conducted and it was determined that the carrying amount of land and buildings exceeds the recoverable value of the property. Accordingly, an impairment charge of R13 million has been recognised.

Although these assets will be recovered principally through sale rather than through continuing use, based on the circumstances at the balance sheet date, the sale of these assets is not considered highly probable in terms of the requirements of IFRS 5, and are therefore not classified as held for sale.

(iii) Hulamin has lent and advanced the sum of R50 million to Isizinda. Isizinda has used these funds to declare and pay a dividend of R35 million to Bingelela. The balance of R15 million has been paid into an escrow account and will be declared as a dividend and paid to Bingelela upon conclusion of a new metal agreement between Hulamin and the Hillside operation of South32. This is considered probable. A further dividend of R15 million is to be paid to Bingelela once the property owned by Isizinda, referred to above, is sold. The declaration and payment of this dividend is also subject to the conclusion of a new metal agreement between Hulamin and the Hillside operation of South32.

This arrangement constitutes a settlement of the equity-settled share-based payment. The fair value of Bingelela's interest in Isizinda was determined to be Rnil immediately before settlement. Details of the settlement of the share-based payment are set out below:

	2019 R'000	2018 R'000
Original fair value of equity-settled share-based payment at grant date	**27 200**	27 200
Fair value of equity-settled share-based payment at settlement date	**–**	–
Total settlement value	**(65 000)**	–
Repurchase of equity option recognised through profit and loss	**(65 000)**	–
Funds advanced to Isizinda – dividends paid to Bingelela	**(35 000)**	–
Funds advanced to Isizinda – amount in escrow, but high probability of condition being met	**(15 000)**	–
Total settlement in cash	**(50 000)**	–
Outstanding settlement value, subject to sale of the Isizinda property	**(15 000)**	–
Total settlement value	**(65 000)**	–

(ii) Economic impact of COVID-19

Impact on sales and operations

Following President Ramaphosa's announcement of a 21-day nationwide lockdown on Monday, 23 March 2020, Hulamin closed operations on Thursday, 26 March 2020. At the point of closing, quantities of customer finished goods were retained on- and off-site in order to ensure customer supply continuity of food and beverage related packaging products. Hulamin supplies approximately 45% of its products into packaging applications.

On 1 April 2020, Hulamin received a certificate from the Companies and Intellectual Properties Commission (CIPC), designating its packaging product operations as "essential services". A phased restart of packaging operations commenced in early April. Strict COVID-19 work protocols were implemented to protect the health of employees, including extensive COVID-19 testing of employees and contractors. On 9 April, President Ramaphosa announced a 14-day extension to the national lockdown in South Africa. Hulamin's operations were disrupted in late April due to two positive COVID-19 cases. Operations were shut for deep cleaning and all employees were re-tested prior to coming back to work. Operations recommenced early May. On 1 May 2020, the country was moved to alert level 4 which permitted Hulamin to operate at 50% employment. On 1 June 2020, the country has moved to alert level 3 which significantly eases restrictions for Hulamin and its local customers.

NOTES TO THE SUMMARISED PROVISIONAL CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2019

The group has historically generated approximately 55%-60% of its sales in international markets. North America and Europe represent the most material export markets and have, in a similar manner to the local South African market, been significantly negatively impacted by the COVID-19 pandemic. These markets have had various degrees of lockdowns implemented which constrained consumer demand. Resulting largely from the COVID-19 pandemic the group has seen the reductions in volumes of around 33% in the 4 months to April 2020, versus the prior comparative period. The local market was the most significantly impacted, with reductions in volumes of around 45%. Automotive (-38%), local canstock (-57%) and distributor products (-51%) have been the most heavily impacted product categories. Export canstock and heat-treated plate volumes were marginally ahead of the prior comparative period.

Impact on derivatives and hedge accounting

The COVID-19 pandemic has had an adverse impact, not only on operations and sales volumes, but also on commodity prices and currencies.

The significant weakening of the rand and LME over a short period of time and the sharp decline in sales volumes due to the national lockdown and global events, resulted in excess hedges relative to the 50% metal price lag ("MPL") hedge objective but not in excess of the full exposure on the inventory currently held.

The USD/ZAR exchange rate weakened 36% from ZAR14.12/USD at the end of December 2019 to a high of ZAR19.22/USD during April 2020. This resulted in substantial cash outflows on MPL currency hedges that matured in March, April and May. In addition, currency hedges that were put in place in the beginning of 2020, to hedge the conversion margin of export sales also resulted in negative cash flows. Although most of the negative outflows from maturing currency hedges were offset by higher revenue, there is a timing difference as hedges generally mature in the month of sale while receipts from customers are generally received 30 to 60 days later.

During the same period the aluminium price, as quoted on the London Metals Exchange, weakened 21% from $1 800 to a low of $1 422. This resulted in a positive cash flow from the MPL commodity hedges, which was far less than the outflow from the currency hedges.

The MPL hedging programme was suspended at the end of March 2020 in order to reduce potential cash flow volatility from the commodity and currency hedges. This will be re-evaluated once the outlook becomes more stable.

A large portion of the hedges maturing in March 2020, April 2020 and May 2020 were deemed to be ineffective in terms of IFRS 9 for the following reasons:

- Lower overall sales in local and export markets due to the impact of COVID-19 (prior to the spread of COVID-19, management were forecasting strong demand in these months);
- The value of USD denominated sales decreased due to lower sales into the USA; and
- The total Dollar value of sales decreased due to a lower underlying aluminium price.

Liquidity and cash preservation

Hulamin closed 2019 with a strong balance sheet, with net debt of R272 million and a net debt to equity ratio of 10.6% and considerable headroom in its debt facilities of, in excess of R1 billion. In terms of the covenant definition with Hulamin's bankers, the net debt (including letters of credit) to equity (adjusted for intangibles and deferred tax asset) ratio was 16.3% at 31 December 2019, against a covenant level of 50%.

Due to the severe impact of COVID-19 on the group's operations, sales and derivative hedging programme, net debt increased to R654 million at 30 April 2020, with a net debt to equity ratio of 41.7% (in terms of the banking covenant definition). Headroom in facilities reduced to R512 million, impacted both by the increase in debt and the reduction in the level of eligible inventory and receivables security, following the sharp decrease in activity levels.

Hulamin has implemented the following measures to improve its liquidity position while it ramps up performance following the return to alert level 3 in South Africa:

- Management of the cash cycle by way of increased sales to customers offering supply chain financing programmes and metal procurement on short commitment cycles;
- Deferral of non-urgent operational and capital expenditure; and
- A product sale agreement with a US-based company to support Hulamin's direct route to market in the USA, which will improve liquidity by around R75 million from July 2020.

Presently, the group is able to operate up to full production capacity, whilst practicing the required protective measures to limit the spread of the virus on site, and is therefore able to capitalise on opportunities available, although demand side risk continues to exist.

Forecasts and assessment

Management considered various scenarios through to the end of 2021, which included operational and demand limitations in South Africa as well as in international markets, combined with different outcomes relating to the US anti-dumping duty investigation (refer iii below) and the local application for duties on imports of rolled products.

While management acknowledges that there are uncertainties in modelling the different scenarios attributable to the COVID-19 pandemic, management remain confident that the group's liquidity needs can be satisfied under any of the probable scenarios and that Hulamin will continue to meet its debt covenant requirements and remain liquid and solvent for at least a 12-month period after the date of approving these financial statements.

However, a more adverse impact of the various uncertainties than included in the above scenarios, or a different combination thereof, could further deteriorate the group's forecasted liquidity position and may require the group to further increase operational flexibility and reduce costs. The Group may also, if necessary under such circumstances, be required to consider raising additional loan facilities or equity capital.

(iii) US Anti-dumping petition against imports of Common Alloy Sheet

On 9 March 2020, a petition was filed in the United States ("US") by domestic US producers against imports of aluminium common alloy sheet from 18 countries, including South Africa. The petition claims material harm to the US aluminium industry and seeks tariff relief in the form of anti-dumping countervailing duties. The total US common alloy sheet market is approximately 2 million tons per annum of which domestic US producers have historically supplied less than 65% of the market. Hulamin's share of this market is less than 2%.

Hulamin sells a range of products into the US, including common alloy sheet. On average, over the past three years, Hulamin's sales of common alloy sheet into the US amounted to approximately 12% of the total sales of Hulamin Rolled Products. Hulamin's share of the US common alloy sheet market is less than 2%.

Preliminary investigations by the International Trade Commission ("ITC"), a department within the US Government, have been completed. The final portion of the ITC's investigation will be initiated should the Department of Commerce issue an affirmative decision in its preliminary investigation, which is expected on or about 16 August 2020. Any final investigation is expected to be completed by December 2020.

Hulamin strongly contends that it has not dumped its product into the US nor caused material harm to the domestic industry and has appointed legal counsel in the US to support this contention. Hulamin will, however, cooperate fully with any investigations.

If duties are ultimately imposed on product supplied by the 18 countries, it is likely that the rates applied could vary between the different countries. Hulamin is accordingly unable to determine at this stage what the impact of any duties imposed might be.

(iv) Metal supply

The primary metal supply agreement with South32 was due for renewal in December 2019. Hulamin and South32 concluded an agreement for the supply of molten and solid primary aluminium for the next five years (January 2020 to December 2024) on 30 January 2020.

The initial term of the agreement terminates on 31 August 2020 but will be extended to 31 December 2024 if Eskom and South32 obtain the necessary approvals in relation to their agreement on electricity supply by this date.

The boards of Eskom and South32 have approved conditional pricing and terms and submitted an application to the National Energy Regulator of South Africa ("NERSA") to review the new pricing for Hillside in August 2019. The final processing of the application is subject to the approval of the Long-Term Negotiated Pricing Agreement Policy by the Department of Mineral Resources and Energy, where after NERSA will be able to finalise the application.

Due to the current extraordinary period, it is likely that delays in progressing the NERSA approval process can be expected.

Whilst, management consider it unlikely that either a lack of approval of the Long-Term Negotiated Pricing Agreement Policy by the Department of Mineral Resources and Energy or an adverse adjudication by NERSA of the electricity supply agreement entered into between South32 and Eskom will prevent the continuation of the metal supply agreement entered into between Hulamin and South32 beyond August 2020, the impact of such an event would be substantial for Hulamin, with annual negative cash flows of between R300 million and R400 million.

14. Financial assets and liabilities

The classification of financial instruments has not changed since the last reporting date.

Loans and receivables, which include trade receivables, are measured at amortised cost less impairment losses, which are recognised in the statement of profit or loss.

Financial liabilities (excluding liabilities designated in a hedging relationship) that are not designated on initial recognition as financial liabilities at fair value through profit or loss are measured at amortised cost. These consist of trade and other payables, interest-bearing borrowings and lease liabilities.

The fair values of derivative assets and liabilities are calculated as the difference between the contracted value and the value to maturity at the statement of financial position date. The value to maturity of forward foreign exchange contracts is determined using quoted forward exchange rates at the statement of financial position date. The value to maturity of commodity futures is determined by reference to quoted prices at the statement of financial position date.

IFRS 13 requires disclosure of fair value measurements by level using the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

All fair values disclosed in these financial statements, excluding non-current assets held for sale, are recurring in nature and all derivative financial assets and liabilities are level 2 in the valuation hierarchy (consistent with December 2018). For assets and liabilities that are recognised at fair value on a recurring basis, the group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. Key inputs used in the determination of the fair value relate to London Metal Exchange aluminium prices and currency exchange rates (consistent with December 2018).

There were no transfers between Level 1 and Level 2 fair value measurements during the period, and no transfers into or out of Level 3 fair value measurements during the year.

The carrying amount of each financial asset and liability approximates its fair value.

15. Adoption of new and amended accounting standards

(a) IFRS 16 Leases

(i) Impact of adoption – 1 January 2019

The group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard (modified retrospective approach). The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

The group leases various buildings, forklifts and IT-equipment. Rental contracts typically extend for fixed periods of one to five years but may have further extension options. Extension and termination options are included in a number of property leases across the group and are included in the calculation to determine the value of lease liabilities. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the group and not by the respective lessor. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowings.

Historically leases of property, plant and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at commencement date. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

a) fixed payments (including in-substance fixed payments); and,

b) variable lease payment that are based on an index or a rate.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the incremental borrowing rate, which is the rate that Hulamin would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

To determine the incremental borrowing rate, the group has used the interest rate applicable to this revolving facility and where applicable, makes adjustments specific to the lease, e.g. term and security.

The group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Contracts may contain both lease and non-lease components. The group has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment.

On adoption of IFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as “operating leases” under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 8.8%.

Practical expedients applied

In applying IFRS 16 for the first time, the group has used the following practical expedients permitted by the standard:

i) the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;

ii) reliance on previous assessments on whether leases are onerous;

iii) the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;

iiii) the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and

iv) the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying IAS 17 and IFRIC 4, "Determining whether an Arrangement contains a Lease".

Measurement of lease liabilities

	R'000
Operating lease commitments disclosed as at 31 December 2018	57 096
Discounted using the lessee's incremental borrowing rate of 8.8% at the date of initial application	47 806
(Less): short-term leases recognised on a straight-line basis as expense	(2 570)
(Less): low-value leases recognised on a straight-line basis as expense	(242)
Add: adjustments as a result of a different treatment of extension and termination options	2 305
Lease liability recognised as at 1 January 2019	**47 299**
Of which are:	
– Current lease liabilities	12 378
– Non-current lease liabilities	34 921
	47 299

Measurement of right-of-use assets

The associated right-of-use assets for property leases were measured at the amount equal to the lease liability.

Adjustments recognised in the balance sheet on 1 January 2019:

Statement of financial position (extract) R'000	31 December 2018	IFRS 16 adjustment	1 January 2019
ASSETS			
Non-current assets			
Right-of-use assets	–	47 299	**47 299**
Total non-current assets	2 095 850	47 299	**2 143 149**
TOTAL ASSETS	6 511 459	47 299	**6 558 758**
LIABILITIES			
Non-current liabilities			
Lease liabilities	–	34 921	**34 921**
Total non-current liabilities	526 798	34 921	**561 719**
Current liabilities			
Lease liabilities	–	12 378	**12 378**
Total current liabilities	2 182 040	12 378	**2 194 418**
Total liabilities	2 708 838	47 299	**2 756 137**
TOTAL EQUITY AND LIABILITIES	6 511 459	47 299	**6 558 758**

NOTES TO THE SUMMARISED PROVISIONAL CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2019

(ii) Impact of adoption – 31 December 2019

Amounts recognised in the balance sheet:

Right-of-use asset

	31 December 2019 R'000	1 January 2019 R'000
Land and buildings	**2 245**	7 617
Vehicles, equipment and other	**14 863**	39 682
Total right-of-use assets	**17 108**	47 299
Lease liabilities		
Non-current	**34 405**	34 921
Current	**12 088**	12 378
Total lease liabilities	**46 493**	47 299

The additions to right-of-use assets for the period amounted to R13.9 million.

Amounts recognised in the statement of profit or loss:

The statement of profit or loss shows the following amounts relating to leases:

	31 December 2019 R'000
Depreciation charge of right-of-use assets	
Land and buildings	**1 345**
Vehicles, equipment and other	**15 138**
	16 483
Impairment charge of right-of-use assets	
Land and buildings	**4 027**
Vehicles, equipment and other	**23 550**
	27 577
Interest expense	**4 947**
Expense relating to short-term leases (included in cost of goods sold and administrative expenses)	**1 963**
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in cost of goods sold and administrative expenses)	**356**

The total cash outflow for leases in 2019 was R19.6 million

There is no material impact on other comprehensive income or the basic and diluted earnings per share.

(b) IFRS 9, "Financial Instruments": Hedge Accounting – Impact of adoption

IFRS 9, "Financial Instruments": Hedge Accounting was generally adopted without restating comparative information in accordance with the transitional provisions.

(i) Derivatives and hedging

IFRS 9, "Financial Instruments": Hedge Accounting permits separately identifiable and reliably measurable risk components to be eligible as hedge items which was not permitted under IAS 39. Therefore the adoption of IFRS 9 has enabled Hulamin to elect the metal price component of an invoice as the hedge item which has overcome the short comings in measuring hedge effectiveness under IAS 39, referred to in note 5. From 1 January 2019 Hulamin has elected to resume hedge accounting for commodity derivatives.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity. The change in fair value relating to the ineffective portion is recognised immediately in profit or loss, within gains and losses on financial instruments.

When derivative contracts are used to hedge forecast transactions, the group generally designates only the change in fair value of the derivative contract relating to the spot component as the hedging instrument. Changes in the fair value relating to the effective portion of the change in the spot component of the derivative contracts are recognised in the cash flow hedge reserve within equity. The change in the forward element of the contract that relates to the hedged item will either be recognised within other comprehensive income as costs of hedging or through profit and loss.

Gains or losses relating to the change in intrinsic value of options are recognised in the cash flow hedge reserve within equity. The changes in the time value of the options that relate to the hedged item are recognised within other comprehensive income as costs of hedging.

The Group uses derivative financial instruments, such as forward currency contracts and forward commodity contracts, to hedge its foreign currency risks and commodity price risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm committment
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm committment

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is “an economic relationship” between the hedged item and the hedging instrument.
- The effect of credit risk does not “dominate the value changes” that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

Fair value hedges

The change in the fair value of a hedging instrument is recognised in the statement of profit or loss as other expense. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the statement of profit or loss as other expense.

If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

The Group uses forward currency contracts as hedges of its exposure to foreign currency risk in forecast transactions and firm commitments, as well as forward commodity contracts for its exposure to volatility in the commodity prices. The ineffective portion relating to foreign currency contracts is recognised as other expense and the ineffective portion relating to commodity contracts is recognised in other operating income or expenses.

The amounts accumulated in OCI are accounted for, depending on the nature of the underlying hedged transaction. If the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the separate component of equity and included in the initial cost or other carrying amount of the hedged asset or liability. This is not a reclassification adjustment and will not be recognised in OCI for the period. This also applies where the hedged forecast transaction of a nonfinancial asset or non-financial liability subsequently becomes a firm commitment for which fair value hedge accounting is applied.

For any other cash flow hedges, the amount accumulated in OCI is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

CORPORATE INFORMATION

Hulamin Limited

(Incorporated in the Republic of South Africa)
Registration number: 1940/013924/06
Share code: HLM
ISIN: ZAE000096210
Founded: 1940
Listed: 2007
Sector: Industrial Metals and Mining

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Directorate

Non-executive directors:
TP Leeuw * (Chairman), CA Boles*, VN Khumalo, RL Larson *, N Maharajh*, NNA Matyumza*, Dr. B Mehlomakulu*, SP Ngwenya, GHM Watson*, GC Zondi#

** Independent non-executive director*
 # Alternate non-executive director

PH Staude retired with effect 30 June 2019.

Executive directors:

RG Jacob (Chief Executive Officer)
AP Krull (Chief Financial Officer)
MZ Mkhize (resigned with effect 28 February 2020)

Company Secretary:

W Fitchat

Date of SENS release: 26 June 2020