Think future.
Think aluminium.

Summarised Provisional Consolidated Financial Results

for the year ended 31 December and

Cash Dividend Declaration

2018

HULAMIN

Think future. Think aluminium.

Summarised provisional consolidated results for the year ended 31 December 2018 and cash dividend declaration

- R90 million free cash flow[1] and R298 million free cash flow (adjusted)[2] in 2018
- Impairment charge of R1.45 billion across both Hulamin Rolled Products and Extrusions
- R120 million to be returned to shareholders
  - R60 million share buyback to be actioned from March 2019
  - Dividend increased 20% to 18 cents per share
- Strong second half financial performance (HEPS of 78 cents *versus* 13 cents in H1)
- Highest ever group sales of 245 000 tons

Richard Jacob, CEO, commented:

"I am proud to report that continued focus on manufacturing excellence has produced record sales volumes in Hulamin Rolled Products. The strong manufacturing performance together with a weaker currency in the second half of the year (average of R14.18), produced HEPS of 78 cents per share for the second half of the year. An assessment of recoverable value resulted in an impairment charge of R1.45 billion to historical asset values."

Enquiries

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Commentary

Hulamin Rolled Products delivered a third consecutive year of improved sales, benefitting from healthy demand for its products. In 2018 we increased volumes by 6% to 228 000 tons.

Hulamin Extrusions experienced a challenging year, with lower sales and recorded a net loss for the year. Local fabrication markets were particularly soft throughout the year, affecting Hulamin Extrusions most severely.

We also recorded our best-ever safety performance across all operations, in line with the safest aluminium semi-fabricators globally. Our Total Recordable Injury Frequency Rate (TRCFR) per 200 000 hours worked was 0.24 in 2018.

Markets in Southern Africa, which appeared to be improving a year ago, deteriorated further during the course of 2018. In parallel, global markets shifted measurably with increased trade uncertainty and polarisation.

Hulamin's export markets remained volatile with US trade policy uncertainty and tentative European reaction to the changes in the USA. US domestic aluminium markets began to soften in line with waning domestic economic confidence. The US aerospace market played a leading role in this decline. Hulamin is experiencing the symptoms of a cyclical slow-down in the US for flat rolled aluminium in particular.

While Hulamin is not a producer of primary aluminium, short term movements in the Rand price of aluminium affect profits through a flow-through known as the metal price lag. Although there was significant volatility in both the Rand/USD exchange rate and the US Dollar aluminium price quoted on The London Metal Exchange (LME), the average Rand aluminium price during the last few months of 2018 was only slightly higher than the corresponding period in 2017, while inventory levels were similar. This resulted in an insignificant metal price lag benefit of R4 million for the full year (2017: R150 million).

Turnover increased to R11.5 billion (2017: R10.3 billion) on increased volume, higher USD rolling margins and a firmer Rand aluminium price. This was marginally countered by a strengthening Rand/US Dollar that averaged 7c stronger for the year (R13.25 in 2018 *versus* R13.32 in 2017).

Unit conversion costs in Rolled Products decreased again in 2018 in real terms. After two years of successive real decreases in excess of 10.0% (2016: 10.7% reduction and 2017: 10.6%), Hulamin Rolled Products' unit costs decreased further by 2.4% in 2018 (2.2% increase in nominal terms) despite significant commodity price impacts, mainly Brent crude. Hulamin's manufacturing cost optimisation programme, which has delivered baseline savings of R200 million since 2017, aims to deliver further measurable cost reductions of R300 million over the next five years. This is in addition to the benefits obtained by improving the percentage of market scrap in its input metal mix.

Hulamin is focused on improving returns to shareholders. We are actively managing this through improving EBITDA performance, tighter control over capital expenditure, paying down debt levels and now additionally through imposing a higher hurdle return rate for improvement projects. Mounting uncertainty in the macro environment and the associated rise of risk indicators, has also supported 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 results in material changes to the valuation of assets and, as a consequence, an impairment charge of R1.376 billion has been applied to Hulamin Rolled Products and R74 million to Hulamin Extrusions.

Earnings before interest and taxation (EBIT) thus declined by 291% to negative R950 million due the recognition of these impairment charges. Net interest charges decreased by 5% to R74 million; net interest paid decreased by 19%.

Attributable earnings were consequently 354% lower at negative R773 million for the year. Headline earnings per share (HEPS) of 91 cents compared to 95 cents in 2017. Free cash flow(1) amounted to R90 million (2017: R296 million) and free cash flow (adjusted)(2) amounted to R298 million (2017: R296 million), after R242 million capital expenditure. A cumulative R800 million of free cash flow(1) has been generated since 2016 and a cumulative R1 billion of free cash flow (adjusted) (2) (R298 million free cash flow (adjusted)(2) in 2018, R296 million free cash flow (1) in 2017 and R415 million free cash flow(1) in 2016) has been generated since 2016.

The performance of Hulamin Extrusions remained unacceptable in extremely challenging trading conditions. The group has commenced a strategic review of its investment portfolio, in particular its interest in Hulamin Extrusions.

Restatement of prior year accounts

The financial performance of Hulamin Rolled Products is exposed to the impact of metal price lag[3] and accordingly Hulamin implements a hedging programme to balance the cash flow and profit effects of this lag.

In order to apply hedge accounting as envisaged in IAS 39, the group has historically designated the sale, and not the purchase of the inventory, as the hedged item. This designation causes a mismatch between changes in fair value of the hedged item (which includes rolling margins, geographic premiums and transport costs) and the hedge instrument (which only relates to the commodity portion of the sale).

We have reviewed the application of hedge accounting in terms of the IAS 39 standard and believe that the expectation of prospective hedge effectiveness as envisaged in the accounting standard is not appropriately satisfied and could therefore create volatility which would be expected to breach the effectiveness guidelines provided in IAS 39. The comparative results have consequently been restated.

As at 31 December 2018 here is no cumulative impact on earnings and also no impact on cash resulting from this restatement. Hulamin's commodity risk management programme is highly effective. Hulamin plans to adopt the hedge accounting provisions of the new financial instruments standard IFRS 9 in 2019, which will overcome the limitations of IAS 39.

Dividend

The board of directors of Hulamin ("the Board") has declared a final dividend of 18 cents per share for 2018 (before withholding tax) (2017: 15 cents per share) payable to registered shareholders of Hulamin on the Record Date, Friday, 12 April 2019.

Last day to trade	Tuesday, 9 April 2019
Shares trade *ex* dividend	Wednesday, 10 April 2019
Record date	Friday, 12 April 2019
Payment date	Monday, 15 April 2019

Share certificates may not be dematerialised or rematerialised between Wednesday, 10 April 2019 and Friday, 12 April 2019, both days inclusive.

Shareholders are advised of the following information:

- the dividend has been declared out of the 2018 profits;
- the local dividend tax rate is 20%;
- the gross local dividend is 18 cents per share;
- the net dividend amount for local shareholders is 14.40 cents per share:
  - exempt from payment of dividend tax is 18 cents per share;
  - liable to pay dividend tax is 14.40 cents per share;
- the issued share capital of the company is 319 596 836 ordinary shares and 4 721 600 A1 ordinary shares;
- the company's tax number is 9522526715.

Share Buy-Back

In addition to the increased dividend, the Board has approved a share buy-back programme of R60 million. This will commence in March 2019 and is planned to run on an even monthly basis for approximately 12 months.

At the 2018 Annual General Meeting (AGM), shareholders approved share repurchases up to a level of 5%. The validity of this resolution expires in April 2019. Consequently, shareholders will be asked to approve the continuation of this programme at the 2019 AGM.

Prospects

Hulamin remains focused on continuing the improved operational, sales and manufacturing performance in 2019, while focusing on executing its responsible growth plans. The direction that the Rand takes in 2019 will continue to impact financial performance as a result of Hulamin's large foreign currency sales exposure.

The local and international long-term outlook for aluminium beverage packaging demand has improved significantly since 2017. This follows the steps being taken by more than 16 major countries and cities to ban single-use plastics in packaging, including the UK, France, Germany and Canada. As a result, a number of Hulamin customers are seeking larger volumes and longer term can stock contracts on firmer prices.

In 2019, Hulamin will commence operating an agency and technical service trading business, reselling a major aluminium rolling mill's can stock products to Hulamin customers. This will complement Hulamin's Pietermaritzburg product offering and increase sales revenues. This new operation is expected to have a positive impact on profitability and cash flows.

Trade relations between the USA and China remain uncertain. There are also signs of a cyclical slow-down in US (aluminium) manufacturing, driven partially by the slowing of aerospace build rates. Hulamin has consequently increased its efforts in its other markets (such as Europe, Australasia, Africa and South America) to minimise these effects.

TP Leeuw	**RG Jacob**
Chairman	*Chief Executive Officer*

Pietermaritzburg
18 March 2019

Supplementary information: Free cash flow (adjusted)[2]

Basis of preparation

The cash flow generated from operations and cash flow from investing activities which equates to cash flows before financing activities of Hulamin ("free cash flow[1]") adjusted for the impact of the inclusion of a significant customer payment ("free cash flow (adjusted)[2]") included in the report of free cash flow (adjusted) for the year ended 31 December 2018 has been prepared for illustrative purposes only and because of its nature may not fairly present Hulamin's cash flows.

The free cash flow (adjusted)[2] is based on cash flows before financing activities for the year ended 31 December 2018.

The free cash flow (adjusted)[2] has been prepared to illustrate the free cash flow[1] adjusted for the impact of a significant customer payment that was due to the group and was fully authorised by the customer and scheduled to be paid on that same date. However, the customer's intra-day bank limit caused the entire payment batch to be blocked and therefore this payment only concluded in early January 2019. The directors of Hulamin feel that this anomaly mis-represents the group's cash flows for the 2018 financial year.

The free cash flow (adjusted)[2] is presented in accordance with the JSE Listings Requirements. The free cash flow (adjusted)[2] has not been prepared using theaccounting policies of Hulamin and does not comply with IFRS.

The directors of Hulamin are responsible for the free cash flow (adjusted)(2) included in the report of free cash flow (adjusted)[2] for the year ended 31 December 2018.

Ernst & Young Inc.'s independent reporting accountants' report on the report of free cash flow (adjusted)[2] for the year ended 31 December 2018 is available for inspection at Hulamin's registered office.

	2018 R million	2017 R million
Cash flows before financing activities (a)	**90 296**	
In transit cash (b)	**208**	–
Free cash flows (adjusted)[2] (c)	**298**	296

(a) Row (a) presents the cash flows before financing activities extracted from the audited financial statements for the year ended 31 December 2018.

(b) Row (b) represents the financial impact of the late payment from the customer on the cash flows before financing activities.

(c) Row (c) represents the free cash flow (adjusted)[2] as at 31 December 2018.

Summarised provisional consolidated statement of profit and loss

	Notes	2018 R'000	Restated* 2017 R'000
Revenue from contracts with customers		**11 533 818**	10 303 531
Cost of sales of goods		**(10 583 507)**	(9 115 128)
Cost of providing services*		**(82 422)**	(56 432)
Gross profit		**867 889**	1 131 971
Selling, marketing and distribution expenses		**(448 237)**	(396 442)
Administrative and other expenses		**(194 806)**	(148 152)
Net impairment losses on financial assets**		**(671)**	(501)
Impairment of property, plant and equipment and intangible assets	11	**(1 450 814)**	–
Gains and losses on financial instruments related to trading activities	3	**276 963**	(111 131)
Other gains and losses		**(231)**	22 681
Operating (loss)/profit		**(949 907)**	498 426
Interest income		**3 887**	3 079
Interest expense		**(77 588)**	(80 704)
(Loss)/profit before tax		**(1 023 604)**	420 801
Taxation	4	**250 197**	(117 038)
Net (loss)/profit for the year attributable to equity holders of the company		**(773 411)**	303 763
Earnings per share attributable to ordinary equity holders of the company (cents)	6		
Basic		**(242)**	95
Diluted		**(236)**	92
Headline earnings per share attributable to ordinary equity holders of the company (cents)	6		
Basic		**91**	95
Diluted		**89**	92
Normalised earnings per share attributable to ordinary equity holders of the company (cents)	6		
Basic		**77**	64
Diluted		**75**	62
Dividends declared (cents per share)	7		
Final		**18**	15
Currency conversion			
Rand / US dollar average		**13.25**	13.32
Rand / US dollar closing		**14.43**	12.38

* *See note 12 for details about the restatement resulting from the correction of prior period errors, and note 13 for details about restatements resulting from the adoption of new accounting standards.*

** *New disclosure requirements by International Accounting Standard 1 Presentation of Financial Statements require separate disclosure on the face of the statement of profit or loss the impairment losses on financial assets, including reversals of previously recognised impairment losses.*

Summarised provisional consolidated statement of other comprehensive income

	2018 R'000	Restated* 2017 R'000
Net (loss)/profit for the year attributable to equity holders of the company	**(773 411)**	303 763
Other comprehensive (loss)/income for the year	**(22 825)**	32 104
Items that may be reclassified subsequently to profit or loss:	**(46 279)**	24 493
Cash flow hedges transferred to statement of profit or loss	**85 776**	23 965
Cash flow hedges created	**(150 053)**	10 053
Income tax effect of the above	**17 998**	(9 525)
Items that will not be reclassified to profit or loss:	**23 454**	7 611
Remeasurement of retirement benefit obligation	**33 395**	8 782
Remeasurement of retirement benefit asset	**(2 448)**	1 753
Income tax effect of the above	**(7 493)**	(2 924)
Total comprehensive (loss)/income for the year attributable to ordinary shareholders of the company	**(796 236)**	335 867

** See note 12 for details about the restatement resulting from the correction of prior period errors, and note 13 for details about restatements resulting from the adoption of new accounting standards.*

Summarised provisional consolidated statement of financial position

		2018 R'000	Restated* 2017 R'000	Restated* 1 January 2017 R'000
ASSETS				
Non-current assets				
Property, plant and equipment		**1 901 794**	3 324 593	3 263 500
Intangible assets		**43 136**	64 144	69 086
Retirement benefit asset		**133 860**	127 054	117 397
Deferred tax asset		**17 060**	21 152	25 463
		2 095 850	3 536 943	3 475 446
Current assets				
Inventories		**2 262 547**	2 150 061	1 825 221
Trade and other receivables		**1 530 279**	1 237 096	1 505 632
Derivative financial assets		**71 281**	143 767	64 445
Cash and cash equivalents		**525 981**	111 472	75 627
Income tax asset		**18 992**	39 331	2 603
		4 409 080	3 681 727	3 473 528
Non-current assets held for sale		**6 529**	6 529	–
Total assets		**6 511 459**	7 225 199	6 948 974
EQUITY				
Stated capital and consolidation shares		**1 817 580**	1 817 580	1 817 580
BEE reserve		**51 776**	51 776	51 776
Employee share-based payment reserve		**57 914**	71 201	55 852
Hedging reserve		**(6 280)**	39 999	15 506
Retained earnings		**1 881 631**	2 668 121	2 405 974
Total equity		**3 802 621**	4 648 677	4 346 688
LIABILITIES				
Non-current liabilities				
Non-current borrowings		**54 000**	108 000	162 000
Deferred tax liability		**221 060**	578 568	516 533
Retirement benefit obligations		**251 738**	266 767	258 879
		526 798	953 335	937 412
Current liabilities				
Trade and other payables		**1 380 209**	1 258 100	1 133 547
Current borrowings		**765 783**	320 699	490 444
Derivative financial liabilities		**34 011**	43 267	15 168
Income tax liability		**2 037**	1 121	25 715
		2 182 040	1 623 187	1 664 874
Total liabilities		**2 708 838**	2 576 522	2 602 286
Total equity and liabilities		**6 511 459**	7 225 199	6 948 974
Net debt to equity	(%)	**7.73**	6.82	13.27

** See note 12 for details about the restatement resulting from the correction of prior period errors, and note 13 for details about restatements resulting from the adoption of new accounting standards.*

Summarised provisional consolidated statement of changes in equity

	Notes	Stated capital and consolidation shares R'000 A	Hedging reserve R'000 B	Employee share-based payment reserve R'000 C	BEE reserve R'000 D	Retained earnings R'000 E	Total equity R'000
Balance at 1 January 2017		**1 817 580**	**15 506**	**55 852**	**51 776**	**2 405 974**	**4 346 688**
Net profit for the year**		–	–	–	–	303 763	303 763
Other comprehensive income - net of tax**		–	24 493	–	–	7 611	32 104
Equity-settled share based payment scheme		–	–	15 349	–	(720)	14 629
Dividends paid*		–	–	–	–	(48 507)	(48 507)
Restated balance at 31 December 2017		**1 817 580**	**39 999**	**71 201**	**51 776**	**2 668 121**	**4 648 677**
Implementation of new accounting standard**	13	–	–	–	–	147	147
Balance at 1 January 2018		**1 817 580**	**39 999**	**71 201**	**51 776**	**2 668 268**	**4 648 824**
Net profit for the year		–	–	–	–	(773 411)	(773 411)
Other comprehensive income - net of tax		–	(46 279)	–	–	23 454	(22 825)
Equity-settled share based payment scheme		–	–	(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**

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: Hedging reserve
The hedging reserve represents the cash flow hedge 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.

C: 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.

D: 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.

E: Retained earnings
The retained earnings represents 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.*

** *See note 12 for details about the restatement resulting from the correction of prior period errors, and note 13 for details about restatements resulting from the adoption of new accounting standards.*

Summarised provisional consolidated cash flow statement

	Notes	2018 R'000	Restated* 2017 R'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	A	**485 791**	783 947
Net interest paid		**(80 491)**	(99 113)
Income tax payment		**(73 682)**	(127 668)
		331 618	557 166
Cash flows from investing activities			
Additions to property, plant and equipment		**(210 538)**	(256 427)
Additions to intangible assets		**(31 206)**	(4 607)
		(241 744)	(261 034)
Cash flows before financing activities		**89 874**	296 132
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of current portion of non-current borrowings		**(54 000)**	(54 000)
Net proceeds from/(repayment of) current borrowings**		**445 084**	(169 745)
Settlement of share options		**(9 230)**	(15 153)
Dividends paid		**(48 502)**	(48 507)
		333 352	(287 405)
Net increase in cash and cash equivalents		**423 226**	8 727
Cash and cash equivalents at beginning of period		**111 472**	75 627
Effects of exchange rate changes on cash and cash equivalents		**(8 717)**	27 118
Cash and cash equivalents at end of period		**525 981**	111 472
A: CASH GENERATED FROM OPERATIONS			
Profit before tax		**(1 023 608)**	420 801
Net interest cost		**73 701**	77 625
Operating profit		**(949 907)**	498 426
Adjust for non-cash flow items and items disclosed elsewhere:			
Depreciation		**222 271**	200 598
Amortisation of intangible assets		**19 003**	15 776
Loss on disposal of property, plant and equipment		**231**	10 188
Impairment of property, plant and equipment and intangibles		**1 450 814**	–
Net movement in retirement benefit asset and obligations		**9 112**	8 798
Value of employee services received under share schemes		**10 008**	32 991
Fair value changes on derivatives		**(1 048)**	(17 204)
Foreign exchange gains on cash and cash equivalents		**8 717**	(27 118)
Gain on impairment reversal of investment in associate		**–**	(6 529)
Currency exchange translation on foreign debtors and creditors		**(95 990)**	29 293
Other non-cash items		**149**	(229)
Cash generated before working capital changes		**673 360**	744 990
Changes in working capital	B	**(187 569)**	38 957
Cash generated from operations		**485 791**	783 947
B: CHANGES IN WORKING CAPITAL			
Increase in inventories		**(112 486)**	(324 840)
(Increase)/decrease in trade and other receivables		**(189 137)**	229 980
Increase in trade and other payables		**114 054**	133 817
		(187 569)	38 957

* *See note 12 for details about the restatement resulting from the correction of prior period errors, and note 13 for details about restatements resulting from the adoption of new accounting standards.*

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

Audit opinion

The auditors, Ernst & Young, have issued their opinion on the group's financial statements for the year ended 31 December 2018. The audit was conducted in accordance with International Standards on Auditing. They have issued an unmodified audit opinion. 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. 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 summarised provisional consolidated financial statements are correctly extracted from the underlying audited financial statements.

Notes to the summarised provisional consolidated financial statements

1. Basis of preparation

The summarised provisional consolidated fiancial statements of the group for the year ended 31 December 2018 have been prepared in accordance with the framework concepts and the recognition and measurement criteria of International Financial Reporting Standards, 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 AP Krull CA(SA). The summarised provisional consolidated financial statements are prepared in thousands of South African Rands (R'000) on the historical cost basis, except for derivative financial instruments, which are at fair value.

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 amended standards adopted by the group

A number of new or amended standards became applicable for the current reporting period and the group had to change its accounting policies and make retrospective adjustments as a result of adopting the following standards:

- IFRS 9 *Financial Instruments,* and
- IFRS 15 *Revenue from Contracts with Customers.*

The impact of the adoption of these standards and the new accounting policies are disclosed in note 13 below. The other standards did not have any impact on the group´s accounting policies and did not require retrospective adjustments.

(b) Impact of standards issued but not yet effective

(i) IFRS 16 Leases

IFRS 16, "Leases" now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for all lease contracts.

Assessment: The group has reviewed existing lease contracts and service arrangements to determine right-of-use assets. On transition, the group will apply the modified retrospective approach and will not account for leases and service arrangements which come to an end within 12-months from the effective date in accordance with IFRS 16, "Leases". In determining the impact of existing leases and service arrangements, not including those contracts to be renegotiated during 2019, the group expects property, plant and equipment to increase by an estimated 1% and the inclusion of the lease liability to increase non-current borrowings by 10% and current borrowings by an estimated 6%. Earnings before interest, tax, depreciation and amortisation are expected to increase by an estimated 1% as the previously recognised lease expense is replaced by depreciation on the recognised right-of-use asset and interest cost on the lease liability. Depreciation and interest costs are expected to both increase by an estimated 6%. Profit before tax is expected to decrease by an estimated 2%.

2. Operating segment analysis

The group's reportable segments, which 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 is predominantly based on business segments which are 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. The Hulamin Extrusions segment manufactures and supplies extruded aluminium products. Isizinda Aluminium (Pty) Ltd supplies slab to Hulamin Rolled Products. The activities of Isizinda Aluminium are integrated into the Hulamin Rolled Products segment. Reportable segments are based and managed in South Africa.

2. Operating segment analysis continued

	2018 R'000	Restated* 2017 R'000
Revenue from contracts with customers: External		
Hulamin Rolled Products	**10 640 844**	9 428 678
Hulamin Extrusions	**892 974**	874 853
Group total revenue from contracts with customers	**11 533 818**	10 303 531
Timing of revenue recognition:		
– At a point in time	**11 451 396**	10 247 099
– Over time	**82 422**	56 432
Operating (loss)/profit		
Hulamin Rolled Products	**(846 450)**	483 004
Hulamin Extrusions	**(103 457)**	15 422
Group total	**(949 907)**	498 426
Interest income	**3 887**	3 079
Interest expense	**(77 588)**	(80 704)
(Loss)/profit before tax	**(1 023 608)**	420 801
Taxation	**250 197**	(117 038)
Net (loss)/profit for the year	**(773 441)**	303 763
Hulamin Rolled Products	**(667 762)**	290 332
Hulamin Extrusions	**(105 679)**	13 431
Impairment charge included in each segment:		
Hulamin Rolled Products	**(1 376 319)**	–
Hulamin Extrusions	**(74 495)**	–
Total assets		
Hulamin Rolled Products	**6 194 109**	6 865 488
Hulamin Extrusions	**317 350**	359 711
Group total	**6 511 459**	7 225 199
Total liabilities		
Hulamin Rolled Products	**2 605 848**	2 533 528
Hulamin Extrusions	**102 990**	42 994
Group total	**2 708 838**	2 576 522
Disaggeration of revenue		
Analysis of revenue by product market		
Automotive and transport	**1 400 396**	1 438 397
Building and construction	**263 180**	228 594
General engineering	**4 907 080**	3 881 768
Packaging	**4 963 162**	4 754 772
	11 533 818	10 303 531

	2018 R'000	Restated* 2017 R'000
Geographical analysis of revenue		
South Africa	**4 691 267**	4 824 763
North America	**3 308 552**	2 037 752
Europe	**2 407 609**	2 239 023
Asia	**462 290**	417 343
Middle East	**239 362**	362 746
Australasia	**77 779**	175 986
South America	**320 948**	229 995
Rest of Africa	**26 011**	15 923
	11 533 818	10 303 531

Sales between segments are eliminated on consolidation. The amounts provided to the Hulamin Executive Committee with respect to segment revenue and segment assets are measured in a manner consistent with that of the financial statements.

** See note 12 for details about the restatement resulting from the correction of prior period errors, and note 13 for details about restatements resulting from the adoption of new accounting standards.*

3. 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 in 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 (ineffective portion of cash flow hedge gains and losses), non-derivative financial instruments and forward point gains.

	2018 R'000	Restated* 2017 R'000
Valuation adjustments on non-derivative items	**87 274**	(2 175)
Valuation adjustments on derivative items**	**189 689**	(108 956)
	276 963	(111 131)
**Included in the above are fair value adjustments arising from commodity futures used to hedge the metal price lag	**134 649**	(178 291)

Whilst Hulamin's commodity risk management strategy is effective in mitigating the impact of metal price lag, this is considered ineffective for the purposes of hedge accounting (refer note 12). Accordingly, these fair value movements over the period arising from commodity futures have not been included in the hedge reserve (where the sale has not yet occurred) or in revenue (where the sale has occurred) to match against the gross metal price lag included in gross profit.

** See note 12 for details about the restatement resulting from the correction of prior period errors.*

4. Taxation

	2018 R'000	2017 R'000
The tax charge included within these preliminary reviewed consolidated financial statements is:		
Normal	**94 869**	66 350
Deferred	**(345 066)**	50 688
	(250 197)	117 038
Normal rate of taxation	**28.0%**	28.0%
Adjusted for:		
Exempt income, non-allowable and other items	**(0.6%)**	0.7%
Prior year under/(over) provision	**(0.2%)**	(0.9%)
Net deferred tax asset not recognised	**(2.8%)**	0.0%
Effective rate of taxation	**24.4%**	27.8%

5. 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:

	2018 R'000	2017 R'000
Loan from pension fund	**79 635**	72 736
Interest cost incurred on pension fund loan	**6 899**	7 111

6. Earnings per share

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:

	Number of shares 2018	Number of shares 2017
Weighted average number of shares used for basic EPS	**319 596 836**	319 596 836
Share options	**7 807 318**	11 471 925
Weighted average number of shares used for diluted EPS	**327 404 154**	331 068 761

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 4/2018 issued by the South African Institute of Chartered Accountants (SAICA).

Normalised earnings per share is one of the measurement bases which the Hulamin Executive Committee uses in assessing performance and in deciding how to allocate resources. The definition of normalised earnings has been expanded in the current financial year to not only exclude non-recurring items and once-off adjustments, but also gains and losses on metal price lags and to adjust for the impact of a highly effective commodity risk management programme not qualifying for hedge accounting. On adoption of the hedging component of IFRS 9 the latter adjustment will be removed from the definition as the hedging programme is expected to qualify for hedge accounting. The presentation of normalised earnings is not an IFRS requirement and may not be directly comparable with the same or similar measures disclosed by other companies.

Notes continued

6. Earnings per share continued

	2018 R'000	Restated* 2017 R'000
(a) Reconciliation of net (loss)/profit (used in calculating earnings per share) for the year to headline earnings		
Net (loss)/profit for the year	**(773 411)**	303 763
Adjustments	**1 065 611**	807
– Reversal of impairment on associate	**–**	(6 529)
– Loss on disposal of property, plant and equipment	**231**	10 188
Impairment of property, plant and equipment and intangibles	**1 450 814**	–
– Tax effect	**(385 434)**	(2 852)
Headline earnings	**292 200**	304 570

	2018 R'000	Restated* 2017 R'000
(b) Reconciliation of headline earnings for the year to normalised earnings		
Headline earnings	**292 200**	304 570
Limitations of IAS39, "Financial Instruments" resulting in a highly effective commodity risk management programme not qualifying for hedge accounting	**(43 863)**	25 982
Timing mismatch: Insurance claim	**–**	(18 000)
Metal price lag	**(2 525)**	(107 677)
Normalised earnings	**245 812**	204 875

** See note 12 for details about the restatement resulting from the correction of prior period errors, and note 13 for details about restatements resulting from the adoption of new accounting standards. Normalised earnings include disclosure based on the revised definition of normalised earnings per share.*

7. Dividends per share

	2018 R'000	2017 R'000
Dividends per share declared:		
Final dividend: 18 cents on 319 596 836 ordinary shares (2017: 15 cents on 319 596 836)	**57 527**	47 940
Final dividend: 18 cents on 4 721 600 A1 ordinary shares (2017: 15 cents on 4 721 600 A1 ordinary shares)	**850**	708
Total	**58 377**	48 648

The final dividend was declared subsequent to year end and therefore has not been provided for in the summarised provisional consolidated group financial statements.

8. Commitments and contingent liabilities

	2018 R'000	2017 R'000
Capital expenditure contracted for but not yet incurred	**174 882**	42 527
Operating lease commitments	**57 096**	53 573

9. Events after the reporting period

No material events have occurred subsequent to the end of the reporting period to the date of approval of the summarised provisional consolidated results which may have an impact on the group's reported financial position at that date.

10. Financial assets and liabilities

Financial assets and liabilities are initially measured at fair value adjusted for transaction costs. However, transaction costs in respect of financial assets and liabilities classified as fair value through profit or loss are expensed.

Financial assets and liabilities classified as fair value through profit or loss are measured at fair value with gains or losses being recognised in profit or loss. Fair value, for this purpose, is market value if listed or a value arrived at by using appropriate valuation models if unlisted.

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.

The group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

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 and interest-bearing borrowings.

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);
- 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 are recurring in nature and all derivative financial assets and liabilities are level 2 in the valuation hierarchy (consistent with December 2017). Key inputs used in the determination of the fair value relate to London Metal Exchange aluminium prices and currency exchange rates.

11. Impairment of non-financial assets

At each reporting date, the carrying amounts of the tangible and intangible assets are assessed to determine whether there is any indication that those assets may have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is estimated. The recoverable amount is the higher of an asset’s fair value less cost of disposal and value in use. Value in use is estimated based on discounted future cash flows expected to be derived from an asset or cash-generating unit (CGU).

If the recoverable amount of an asset (or cash-generating unit) is estimated to be lower than its carrying amount, its carrying amount is reduced to the higher of its recoverable amount and zero. Impairment losses are recognised in the statement of profit or loss. Subsequent to the recognition of an impairment loss, the depreciation or amortisation charge for the asset is adjusted to allocate its remaining carrying value, less any residual value, over its remaining useful life.

If an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount but limited to the carrying amount that would have been determined had no impairment loss been recognised in prior years. A reversal of an impairment loss is recognised in the statement of profit or loss.

(a) 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 the value in use. The assessment compared the estimated value in use based on forecast future cash flows to the carrying amount.

	2018 R'000	2017 R'000
The impairment charges recognised in the income statement are as follows:		
Rolled Products cash generating unit (note b)	**1 376 319**	–
Extrusions cash generating unit (note c)	**74 495**	–
Total impairment charge	**1 450 814**	–
Taxation	**(385 369)**	–
Net impairment charge	**1 065 445**	–

(b) Rolled products cash generating unit

The carrying value of property, plant and equipment and intangible asset balances relating to the Rolled Products CGU exceeded the recoverable amount by R1 376 million and a gross impairment charge was recognised which, after a reduction of R385 million in the related deferred tax liability, decreased shareholder's equity by R991 million.

The key 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 continues to forecast improving free cash flows in future periods and have not seen material decrease in free cash flow forecasts from previous years. Key assumptions include:

- Sales volumes are forecast to grow to 236 000 tons over the period of the business plan.
- Rolling margins forecasts take into account anticipated changes in both market conditions and the product mix.

Currency exchange rates are based on the median of forecasts by major financial and other institutions to 2021 and with reference to inflation differentials thereafter, with the ZAR: USD rate rising from an average of R14.27 in 2019 to R15.06 in 2023.

A pre-tax discount rate of 20.6% (post-tax 15.6%) was used in the calculation and this rate is materially higher from the pre-tax 15.0% (post-tax 12,1%) used in 2017. The increase in the discount rate is due to:

a) Increases in the component elements of the discount rate, including the increase in the bond rate used to determine the risk free rate, an increase in borrowing rates in line with bond rates, and lower debt to equity ratios in the industry.

b) The adoption of a 3% specific risk premium, which is a significant increase compared to the 1% premium used in 2017. This heightened risk premium has been adopted as the CGU's future cash flows are impacted by increased uncertainty. This heightened level of uncertainty in world markets in general, and in the global aluminium industry in particular, reflects the increasing fragmentation of globalised trading patterns and increased geo-political uncertainty, as evidenced by increasing trade tensions and a slow down in globalisation.

Sensitivity analysis

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

- 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 433 million*.
- Discount rate: A 1% increase in the pre-tax discount rate may result in an additional impairment charge, before tax, of up to R282 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 R1 364 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.*

(c) Extrusions cash generating unit

The Extrusions cash generating unit has experienced a difficult trading period in 2018 and while performance and cash flows are forecast to improve in the future, the required turn around in performance has increased the uncertainty related to these cash flows. The risk premium in respect of the valuation of these cash flows has accordingly been increased from 2% to 5%. The carrying value of the assets was therefore found to exceed the recoverable amount by R121 million. The impairment charge was limited to R74 million which represents the recoverable amount of individual assets. The value in use was estimated using a post tax discount rate of 17,1% (pre tax 21,1%) and the fair value less cost of disposal was estimated using obsolescence factors between 85% and 1% depending on the estimated remaining useful life of the asset.

Sensitivity analysis

The determination of the value in use for Hulamin Extrusions, and any resulting difference between the recoverable amount and the carrying amount, 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 R15 million*.
- Earnings before tax: A 5% decrease in earnings before tax may result in an additional impairment charge, before tax, of up to 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.*

12. Restatement of financial statements

During the current financial year management revisited the methodology applied in calculating the hedge effectiveness of derivative instruments designated as hedging items. The reassessment of the methodology used to determine prospective hedge effectiveness has resulted in management identifying 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.

Hulamin's commodity risk management strategy is effective in mitigating the impact of metal price lag. 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 the accounting standard does not allow the components of the hedged item to be hedged individually the group is 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). On reassessment of the methodology applied to determine prospective effectiveness 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.

(a) Impact on the financial statements

The error has been corrected by restating each of the affected financial statement line items for the prior period, as follows:

	31 Dec 2017 as originally presented R'000	Increase/ (decrease) R'000	31 Dec 2017 restated before new standards R'000
Statement of financial position (extract)			
Hedge reserve	11 530	28 469	39 999
Retained earnings	2 696 590	(28 469)	2 668 120
Statement of profit or loss (extract)			
Revenue	10 159 698	141 236	10 300 934
Other gains and losses	92 326	(180 776)	(88 450)
Income tax expense	(128 109)	11 071	(117 038)
Net profit for the year attributable to equity holders of the company	**332 232**	**(28 469)**	**303 763**
Statement of comprehensive income (extract)			
Items that may be reclassified subsequently to profit or loss:	**(3 976)**	**28 469**	**24 493**
Cash flow hedges transferred to income statement	(21 536)	45 501	23 965
Cash flow hedges created	16 014	(5 961)	10 053
Income tax effect	1 546	(11 071)	(9 525)

Basic and diluted earnings per share for the prior year have also been restated, resulting in a decrease of 9 cents and 8 cents respectively.

The amounts disclosed above for the 2017 reporting period, and for the statement of financial position as at 31 December 2017, are before restatements for the change in accounting policy disclosed in note 13.

Notes continued

13. Change in accounting policy

This note explains the impact of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on the group's financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

(a) Impact on the financial statements

As a result of the changes in the entity's accounting policies, prior year financial statements had to be restated. As explained in note (b) below, IFRS 9 was generally adopted without restating comparative information in accordance with the transitional provisions. A retrospective adjustment is made in opening retained earnings on 1 January 2018. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the restated statement of financial position as at 31 December 2017, but are recognised in the opening statement of financial position on 1 January 2018.

The following tables show the adjustments recognised for each individual line item. The line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

Statement of financial position (extract)	31 Dec 2017 after correction of error R'000	IFRS 15 adjustment R'000	31 Dec 2017 Restated R'000	IFRS 9 adjustment R'000	1 January 2018 R'000
ASSETS					
Non-current assets		–			
Deferred tax asset	21 152	–	21 152	57	21 209
Total non-current assets	3 536 943	–	3 536 943	57	3 537 000
Current assets					
Trade and other receivables	1 241 963	(4 867)	1 237 096	147	1 237 243
Total current assets	3 686 594	(4 867)	3 681 727	147	3 681 874
Total assets	7 230 066	(4 867)	7 225 199	147	7 225 346
EQUITY					
Retained earnings	2 668 121	–	2 668 121	147	2 668 268
Total equity	4 648 677	–	4 648 677	147	4 648 824
Liabilities					
Current liabilities					
Trade and other payables	1 262 967	(4 867)	1 258 100	–	1 258 100
Total current liabilities	1 628 054	(4 867)	1 623 187	–	1 623 187
Total liabilities	2 581 389	(4 867)	2 576 522	–	2 576 522
Total equity and liabilities	7 230 066	(4 867)	7 225 199	147	7 225 346

Statement of profit or loss and other comprehensive income (extract) 12 months to 31 December 2017	Audited results as previously presented after correction of error R'000	IFRS 15 adjustments R'000	Restated December 2017 R'000
Revenue from contracts with customers	10 300 934	2 597	10 303 531
Cost of sales of goods	(9 115 128)	–	(9 115 128)
Cost of providing services	–	(56 432)	(56 432)
Gross profit	1 185 806	(53 835)	1 131 971
Selling, marketing and distribution expenses	(450 277)	53 835	(396 442)
Operating profit	303 763	–	303 763

(b) IFRS 9 *Financial Instruments* – Impact of adoption

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in note (c) below. In accordance with the transitional provisions in IFRS 9 (7.2.15) comparative figures have not been restated.

Management has elected to defer the implementation of the hedging component of IFRS 9 Financial Instruments and will continue to account for hedges utilising IAS 39's hedging guidance until management has finalised its revised hedging strategy and related documentation.

The total impact on the group's retained earnings as at 1 January 2018 is as follows:

		R'000
Retained earnings 31 December 2017 – IAS 39		2 668 121
Decrease in provision for trade receivables and contract assets – net of tax	(i)	147
Opening retained earnings 1 January – IFRS 9 (before restatement for IFRS 15)		2 668 268

(i) Impairment of financial assets

The group has trade receivables for sales of inventory and from the provision of transport services that is subject to IFRS 9's new expected credit loss model. The group was required to revise its impairment methodology under IFRS 9. The impact of the change in impairment methodology on the group's retained earnings is disclosed in the table in note (b) above.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

The group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance method for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The group also covers all trade receivables through the Credit Guarantee Insurance Company (CGIC) and cover subject to an excess and first loss aggregate. The CGIC cover is taken out at the inception of the sale and is integral to the enactment of the sale. Therefore the CGIC cover is included in the calculation of the loss allowance.

	Current R'000	30 Days R'000	60 Days R'000	90 Days R'000	120 Days R'000	More than 120 Days R'000	Total R'000
Export debtors: 1 January 2018							
Expected loss rate (%)	0%	0%	0%	0%	0%	0%	0%
Gross carrying amount	**462 368**	**147 441**	**61 613**	**39 283**	**12 716**	**7 533**	**730 954**
Loss allowance	–	–	–	–	–	–	–
Local debtors: 1 January 2018							
Expected loss rate (%)	**0.0%**	**0.4%**	**4.0%**	**7.0%**	**2.9%**	**21.7%**	**0.3%**
Gross carrying amount	**351 006**	**62 017**	**12 448**	**2 235**	**5 736**	**858**	**434 300**
Loss allowance	**24**	**273**	**500**	**156**	**164**	**186**	**1 303**

Notes continued

13. Change in accounting policy continued

The loss allowances for trade receivables as at 31 December 2017 reconcile to the opening loss allowances on 1 January 2018 as follows:

	Allowance on trade receivables R'000
At 31 December 2017 – calculated under IAS 39	1 507
Amounts restated through opening retained earnings	(204)
Opening loss allowance as at 1 January 2018 – calculated under IFRS 9	1 303

The loss allowance increased by a further R4.0 million to R5.2 million during the 12-months to 31 December 2018. The increase would have been R3.7 million lower had the incurred loss model of IAS 39 been applied.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, among others, the failure of a debtor to engage in a repayment plan with the group, and failure to make contractual payments for a period of greater than 120 days past due.

(ii) Classification of financial instruments

On the date of initial application, 1 Janaury 2018, the financial instruments of the group were as follows, with any reclassificaitons noted.

	Measurement category		Carrying amount		
	Original (IAS 39)	New (IFRS 9)	Original (Adjusted for IFRS 15) R'000	New R'000	Difference* R'000
Current financial assets					
Trade receivables	Amortised cost	Amortised cost	1 053 432	1 053 579	147
Other receivables	Amortised cost	Amortised cost	26 036	26 036	–
Cash and cash equivalents	Amortised cost	Amortised cost	111 472	111 472	–
Derivatives	Held for trading	FVPL	143 767	143 767	–
Non-current liabilities					
Borrowings	Amortised cost	Amortised cost	108 000	108 000	–
Current financial liabilities					
Trade payables	Amortised cost	Amortised cost	921 663	921 663	–
Other payables	Amortised cost	Amortised cost	207 394	207 394	–
Borrowings	Amortised cost	Amortised cost	320 699	320 699	–
Derivatives	Held for trading	FVPL	43 267	43 267	–

** The difference noted in this column is the result of applying the expected credit loss model introduced by the accounting standard, IFRS 9, 'Financial instruments'.*

(c) IFRS 9 *Financial Instruments* – Accounting policies applied from 1 January 2018

(i) Classification

From 1 January 2018, the group classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value (derivative instruments not designated in a hedging relationship);
- Those to be measured at amortised cost (trade and other receivables, cash and cash equivalents, trade and other payables and borrowings); and
- Those instruments used for the purposes of hedging (derivative instruments designated in a hedging relationship).

The classification depends on the entity´s business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will be recorded in profit or loss. The group reclassifies debt investments when and only when its business model for managing assets changes.

(ii) Measurement

With the exception of trade receivables that do not contain a significant financing component for which the group has applied the practical expedient, the group initially measures a financial asset as its fair value, plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Subsequent measurement of debt instruments depends on the group´s business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the group classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as a separate line in the statement of profit or loss.
- **Fair value through profit or loss (FVPL)**: Assets that do not meet the criteria for amortised cost are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

(iii) Impairment

From 1 January 2018, the group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

(d) IFRS 15 *Revenue from contracts with customers* – Impact of adoption

The group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in IFRS 15, the group has adopted the new rules retrospectively and has restated comparatives for the 2017 financial year. The adoption of IFRS 15 Revenue from contracts with customers requires the group to identify individual performance obligations. The group has determined that for certain export sales terms the group has two performance obligations, the sale of goods and the provision of transportation services. The group does not charge a margin on transportation services and therefore no impact on previously reported earnings before interest and tax is noted. In summary, the following adjustments were made to the amounts recognised in the statement of financial position at the date of initial application (1 January 2018):

	IAS 18 reported value after correction of error R'000	Reclassification adjustment R'000	Recognition of service revenue previously included at 31 December 2016 R'000	Cut-off adjustment for transport still in progress at 31 December 2017 R'000	IFRS 15 carrying amount as at 31 December 2017 R'000
Statement of profit or loss and other comprehensive income (extract) 12 months to 31 December 2017					
Revenue from contracts with customers	10 300 934	–	7 464	(4 867)	10 303 531
Cost of sales of goods	(9 115 128)	–	–	–	(9 115 128)
Cost of providing services	–	(53 835)	(7 464)	4 867	(56 432)
Gross profit	1 185 806	(53 835)	–	–	1 131 971
Selling, marketing and distribution expenses	(450 277)	53 835	–	–	(396 442)
Net profit	303 763	–	–	–	303 763

Notes continued

13. **Change in accounting policy** continued

(e) IFRS 15 *Revenue from contracts with customers* – Accounting policies

(i) Sale of goods

Revenue from contracts with customers of the group comprises revenue from the sale of fabricated and semi-fabricated aluminium products.

Sales are recognised when control of the products has transferred to the buyer. The delivery of products and the transfer of risks are determined by the terms of sale, and specifically by the International Chamber of Commerce Terms of Trade, where applicable.

Products are often sold with retrospective volume discounts, rebates and early-settlement terms. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated volume discounts, rebates and early settlement discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognised to the extent that it is probable that a significant reversal will not occur. A refund liability (included in trade and other payables) is recognised for expected volume discounts payable to customers in relation to sales made until the end of the reporting period. No element of financing is deemed present as the sales are not made on extended credit terms.

A receivable is recognised when control passes as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(ii) Transportation services

Certain International Chamber of Commerce Terms of Trade used include multiple deliverables such as the sale of goods and the provision of transportation services. For some of these specific terms control of the goods sold passes before the transportation service has been provided. The revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total service to be provided, because the customer receives and uses the benefit simultaneously. This is determined based on the actual shipping days incurred relative to the standard time to ship to the specified destination. Where revenue is earned on multiple performance obligations the transaction price is allocated to each performance obligation based on the stand-alone selling prices.

(iii) Time value of money

The group does not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the group has applied the practical expedient provided in IFRS 15.63 and does not adjust any of the transaction prices for the time value of money.

Notes

(1) Free cash flow is made up of cash flow generated from operations and cash flow from investing activities which equates to cash flows before financing activities.

(2) Free cash flow (adjusted) is made up of cash flows before financing activities adjusted for the impact of the inclusion of a significant customer payment. For further information refer to Supplementary Information: Free cash flow (adjusted) below.

(3) 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.

Corporate information

HULAMIN LIMITED
("Hulamin", "the company" or "the group")
Registration number: 1940/013924/06
Share code: HLM
ISIN: ZAE000096210

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Securities exchange listing
South Africa (Primary), JSE Limited

Transfer Secretaries
Computershare Investor Services (Pty) Ltd,
Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196

Sponsor
Questco Corporate Advisory Proprietary Limited
1st Floor, Yellowwood House, Ballywoods Office Park, 33 Ballyclare Drive, Bryanston, 2191

Directorate
Non-executive directors:
TP Leeuw* (Chairman), CA Boles*, VN Khumalo, RL Larson*, N Maharajh*, NNA Matyumza*, Dr B Mehlomakulu*, SP Ngwenya, PH Staude*, GHM Watson*, GC Zondi#
**Independent non-executive director*
 # Alternate non-executive director
Executive directors:
RG Jacob (Chief Executive Officer)
AP Krull (Chief Financial Officer)
MZ Mkhize (Managing director: Hulamin Rolled Products)

Company Secretary
W Fitchat

Release date: 25 March 2019