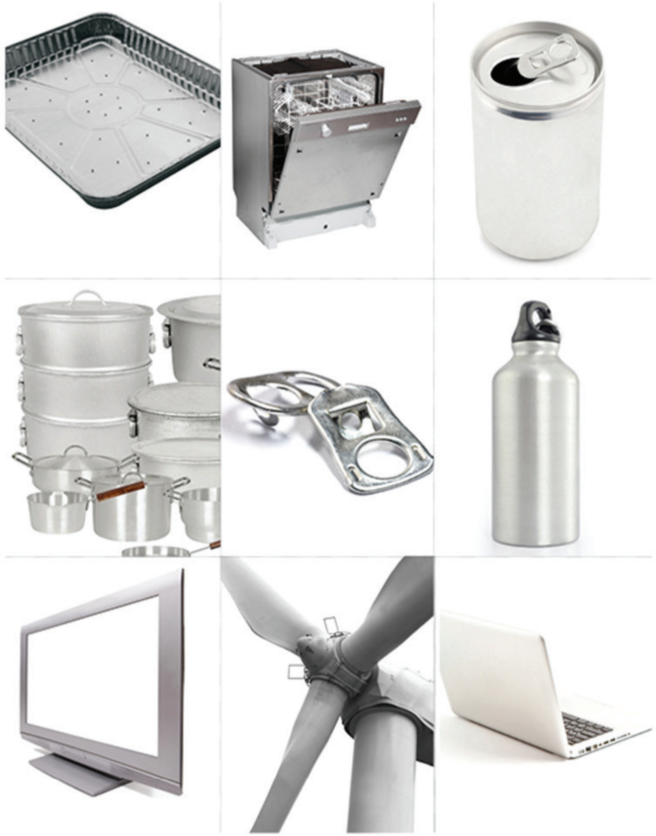
UNAUDITED RESULTS FOR THE HALF–YEAR

ENDED 30 JUNE 2013

Think Future. Think Aluminium. Think Hulamin.

# Agenda



# INTRODUCTION

# Key Points Half–Year 2013

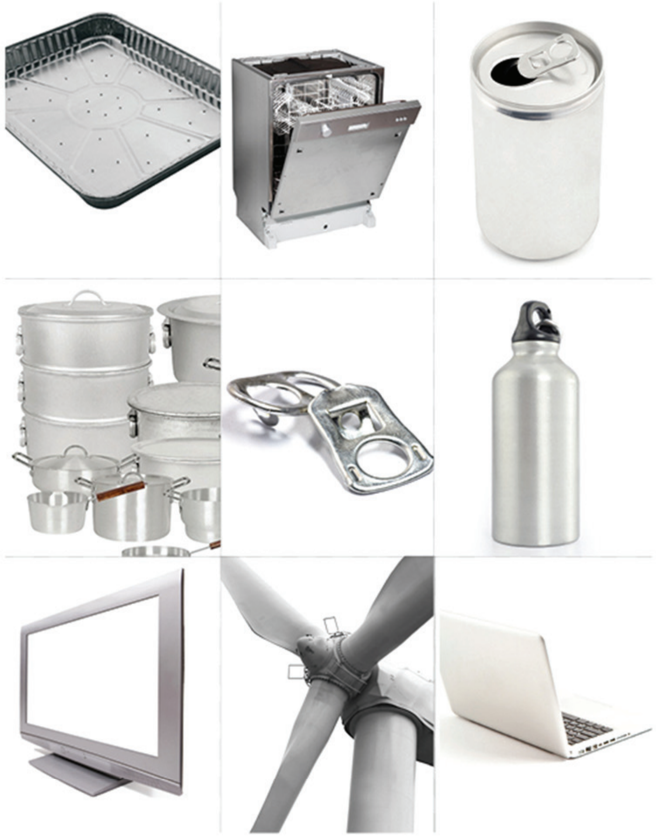
## Improved underlying profit performance

- Best operating profit before metal price lag and abnormal items since June 2006
- Abnormal items
  - R10 million insurance settlement positive variance
  - R34 million provision for employee severance costs
- Reduced sales volume in Q2 on planned maintenance and employee consultation
- Restatement of prior year due to changes in IAS 19

## Restructured funding package concluded

## Rolling slab supply extension to March 2014

## Positive turnaround in Hulamin Extrusions



# FINANCIAL REVIEW

# Restatement of 2012 Results

## IAS 19R Employee Benefits

- Effective 1 January 2013
- Treatment of actuarial gains and losses
  - No more deferral
  - Recognition in Other Comprehensive Income (OCI)
- Impacts only defined benefit funds – Pension, Post retirement Medical Aid and Gratuities
- Requires restatement of prior period H1 2012 and Full Year 2012

## Impact on June 2013

- Pension fund now defined contribution – no impact
- Post retirement Medical Aid and gratuities increase EBIT by R4million and net income by R3million

## Impact on 2012

- Converted from Defined Benefits to Defined Contribution in 2012
- Gain of R95million (R69million after-tax) in June 2012 and R164million (R118million after-tax) at Dec 2012
- As a result of IAS 19:
  - June 2012 – EBIT <u>increases</u> by R57million, Earnings by R41million
  - December 2012 – EBIT <u>decreases</u> by R143million, Earnings by R103million – gains taken to OCI
- Accounting treatment confirmed with external experts

# Key Indicators (2012 Restated)

| | | 2013 H1 Rm | 2012 H1 Rm | % change | 2012 FY Rm |
|---|---|---|---|---|---|
| Rand/US Dollar (average) | ZAR/USD | **9.23** | 7.94 | ↑ 16 | 8.22 |
| Revenue | R billion | **3.6** | 3.1 | ↑ 13 | 6.5 |
| Total sales volume | k tons | **107** | 104 | ↑ 3 | 215 |
| Operating profit before metal price lag | R million | **152** | 169 | ↓ (10) | 103 |
| Metal price lag | R million | **(29)** | 15 | | (2) |
| Operating profit | R million | **123** | 184 | ↓ (33) | 101 |
| Earnings | R million | **66** | 114 | ↓ (42) | 29 |
| Headline earnings | R million | **66** | 98 | ↓ (32) | 79 |
| Normalised earnings | R million | **91** | (11) | ↑ | 57 |
| HEPS (as restated) | cents/share | **21** | 31 | ↓ (32) | 25 |
| HEPS (as previously reported) | cents/share | **21** | 18 | ↑ 17 | 57 |
| Normalised EPS | cents/share | **29** | (4) | ↑ | 18 |
| Working capital increase | R million | **280** | 26 | ↓ | 182 |
| Capital expenditure | R million | **66** | 48 | ↓ | 98 |
| Cash flow before financing activities | R million | **(57)** | 9 | ↓ | 72 |
| Borrowings (net) | R million | **799** | 800 | — | 742 |

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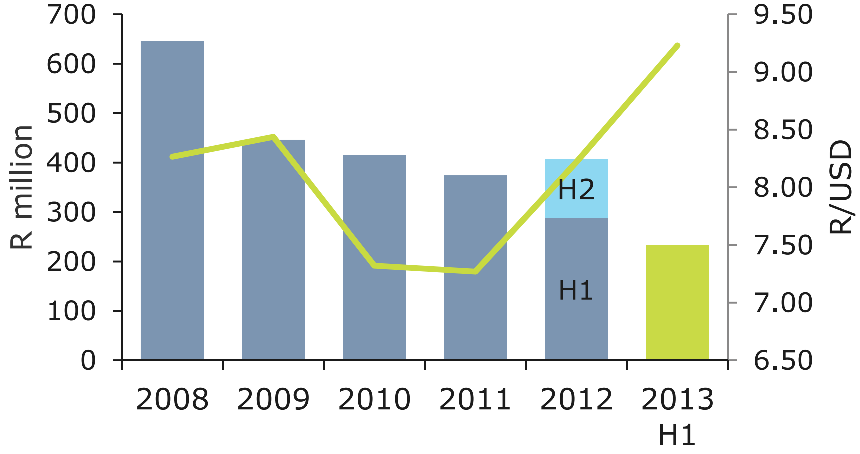
# Normalised Earnings

| | 2013 H1 Rm | 2012 H1 Rm | 2012 FY Rm |
|---|---|---|---|
| **Earnings** | **66** | 114 | 29 |
| (Profit)/loss on disposal and impairment of assets | **-** | (16) | 50 |
| **Headline earnings** | **66** | **98** | **79** |
| **Abnormal items included in headline earnings** | | | |
| Revaluation of assets to be disposed | **-** | 4 | - |
| Effect of pension fund conversion | **-** | (113) | (22) |
| Severance costs | **25** | - | - |
| **Normalised earnings** | **91** | **(11)** | **57** |
| **Net cost of hot mill failure:** | **(7)** | **57** | **44** |
| Loss of profit and material damage | **17** | 57 | 111 |
| Insurance claim accrued | **(24)** | - | (67) |
| **Normalised earnings adjusted for timing mismatches** | **84** | **46** | **101** |

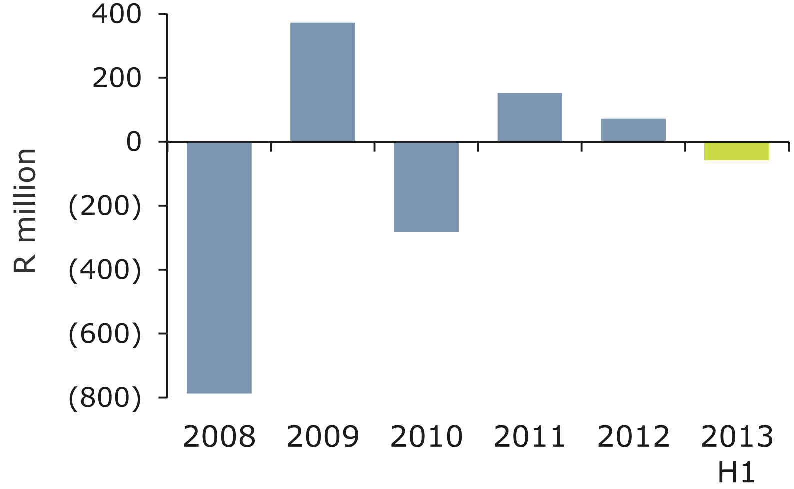
# Key Financial Indicators – June 2013

EBITDA* vs Rand/USD

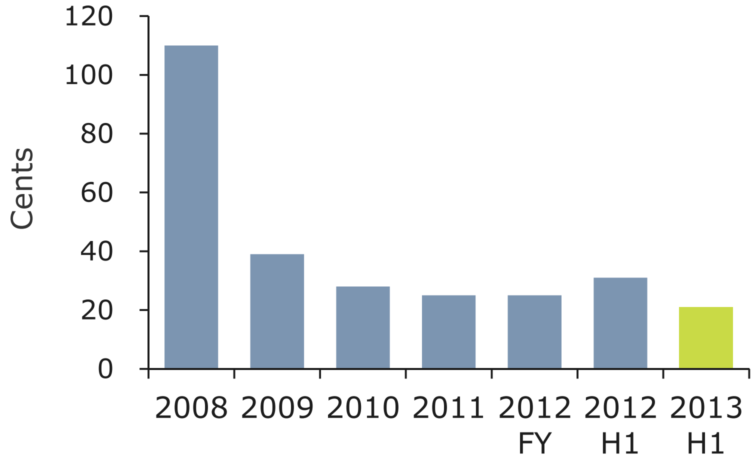



* *Including impairment of property, plant and equipment*

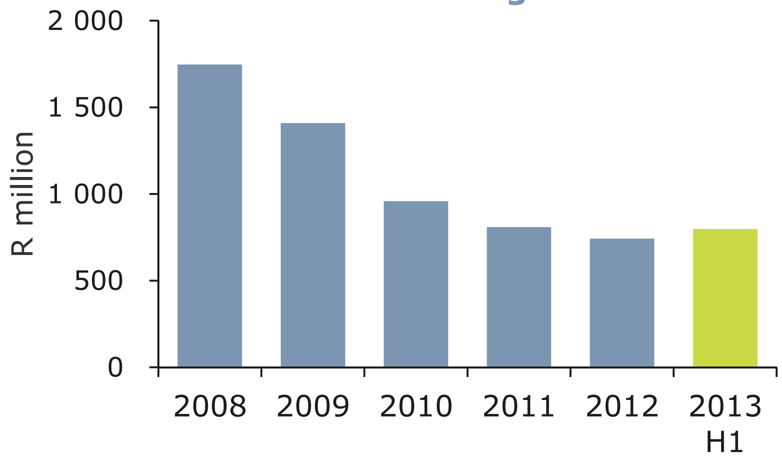
Cash flow before financing activities



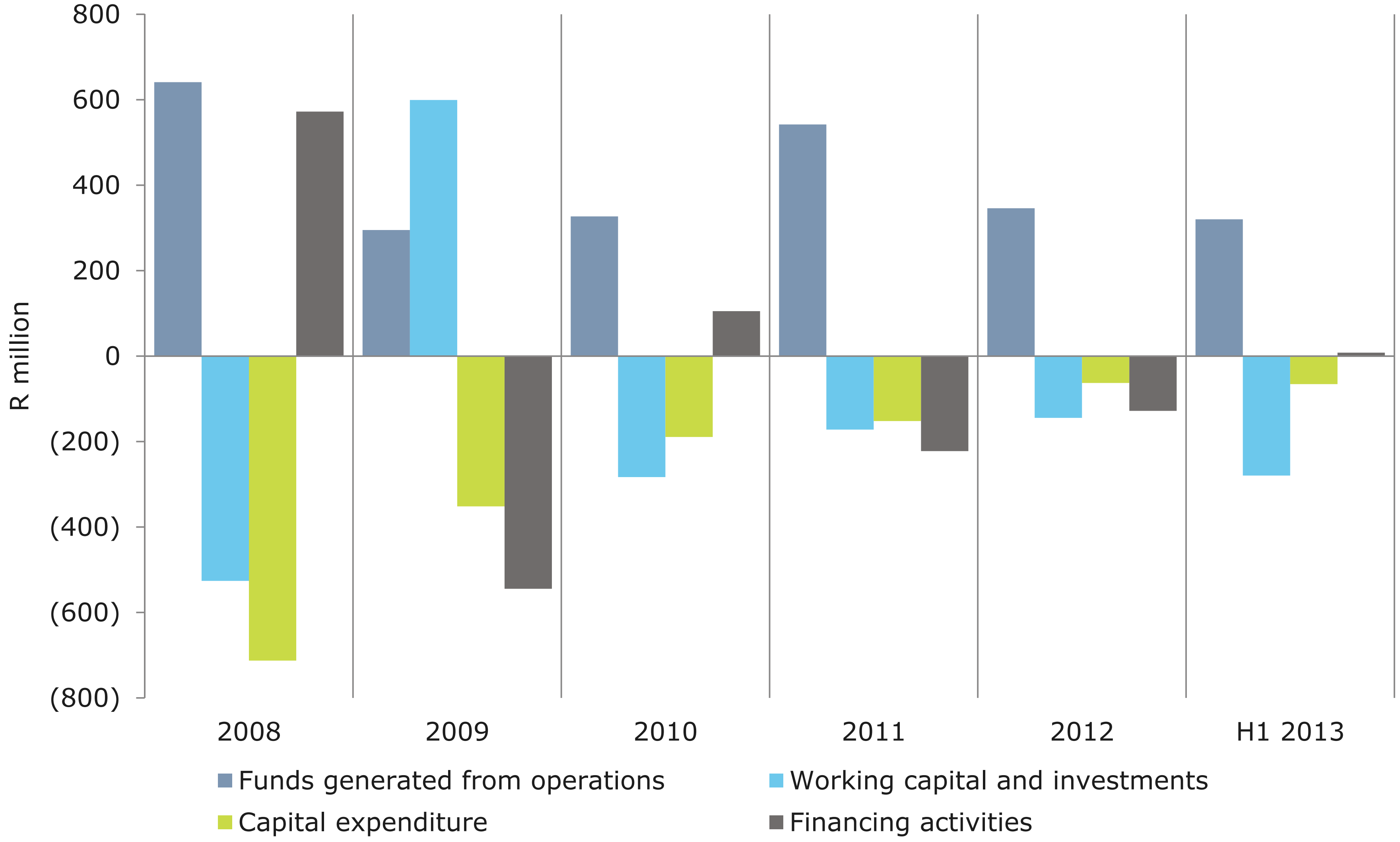

HEPS



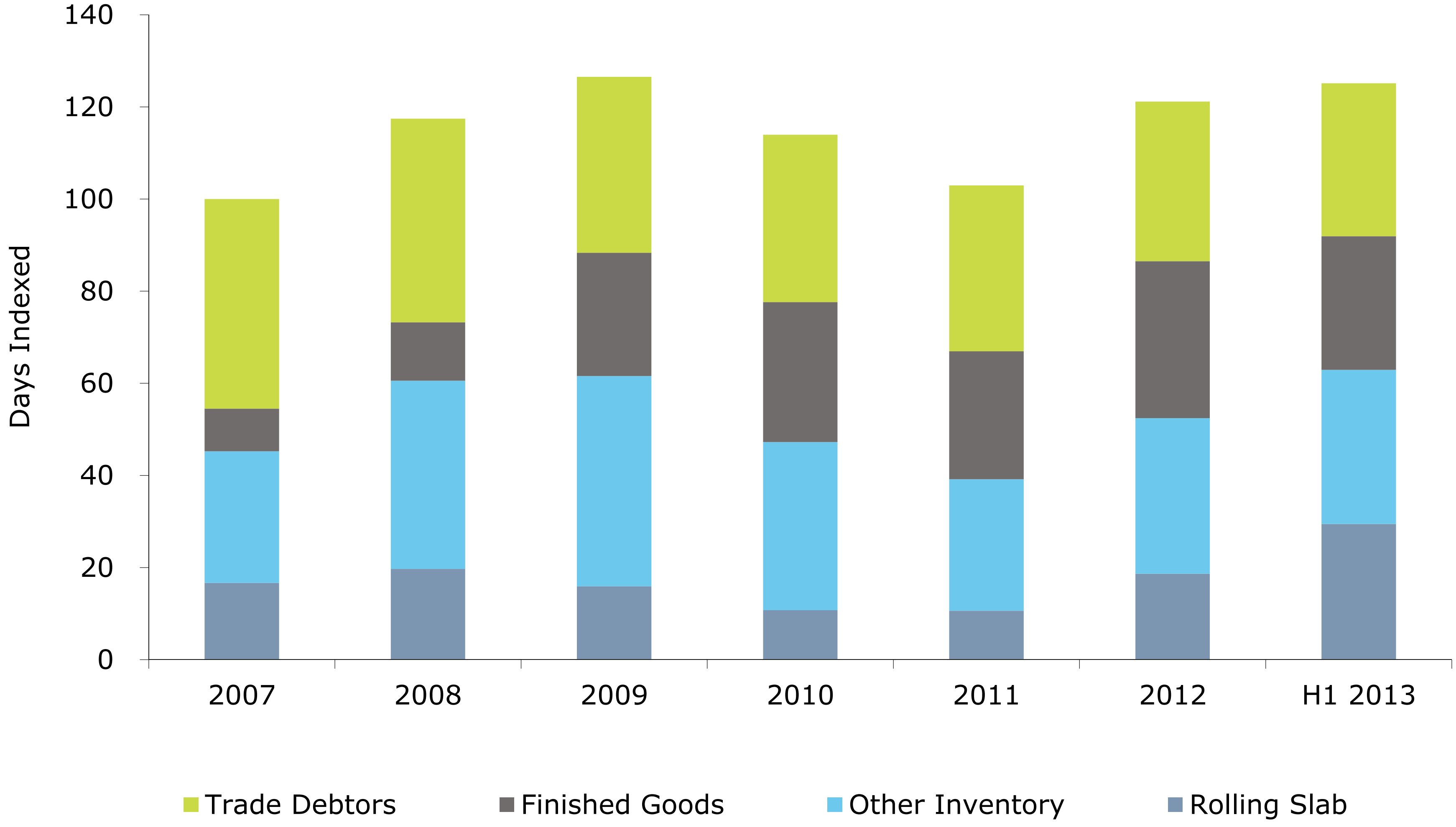

Borrowings



# Cash Flow


800
600
400
200
0
(200)
(400)
(600)
(800)
R million
2008
2009
2010
2011
2012
H1 2013
Funds generated from operations
Working capital and investments
Capital expenditure
Financing activities

# Cash Cycle

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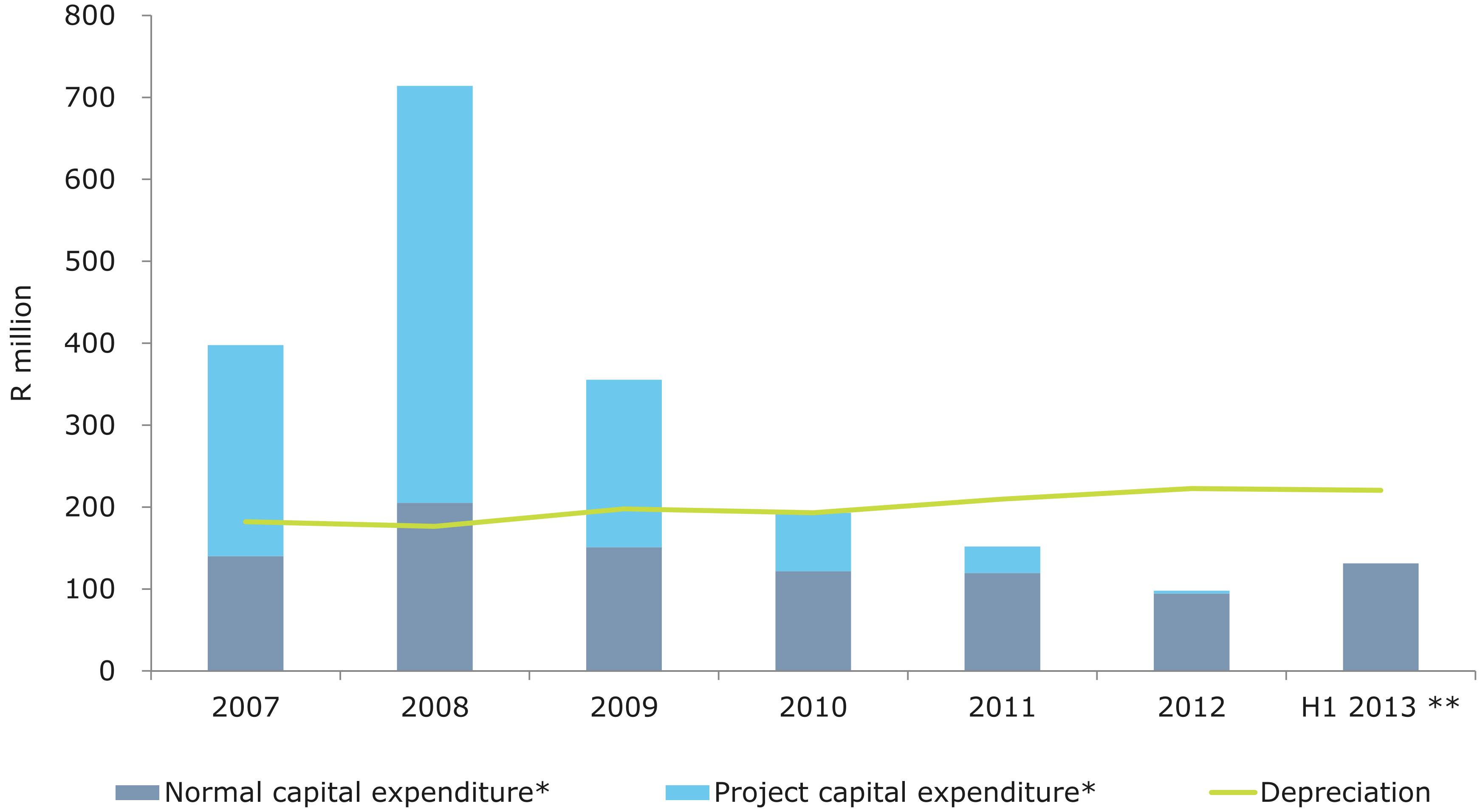
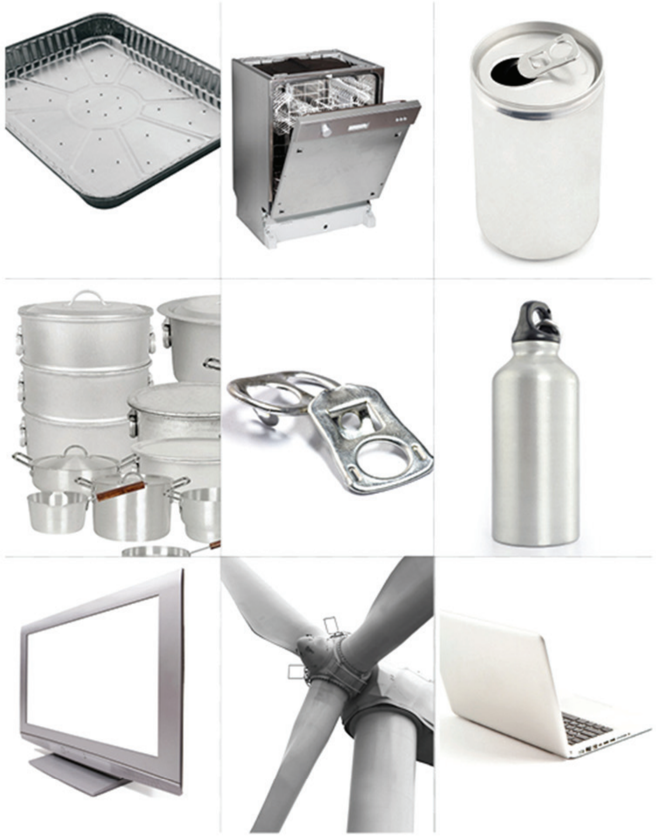
# Capital Expenditure




* Excludes capitalised borrowing costs ** Annualised



# OPERATIONAL REVIEW

# Market Conditions 2013

## Competitors

- Alcoa Rolled Products Q2 ATOI flat Y-on-Y and Q-on-Q
- Hydro Rolled Products Q2 underlying EBIT down 11% Y-on-Y and up 19% Q-on-Q
- Novelis annual Net Income up 156% to $203million
- Aleris Q1 Adjusted EBITDA down 19%

## Market conditions

- Chinese rolling margins under pressure due to LME/SHFE differential
- USA mill orders flat (2.2% down Y-on-Y) April
- European demand up 1-2% Y-on-Y

## Economic indicators

- LME fallen sharply since December 2012 to $1 700 - $1 800, driving metal price lag
- Geographic premiums inching higher
- Rand/$ fallen by 13.6% since January 2013

# Operational Key Points

## Rolled Products second quarter performance slow

- Improving order mix through Q2, full and balanced for H2
- Nine–day planned maintenance shutdown in May 2013
  - 5 000 tons impact
  - Insured event, R23 million pre-tax included
- Consultation with employees commenced over rightsizing

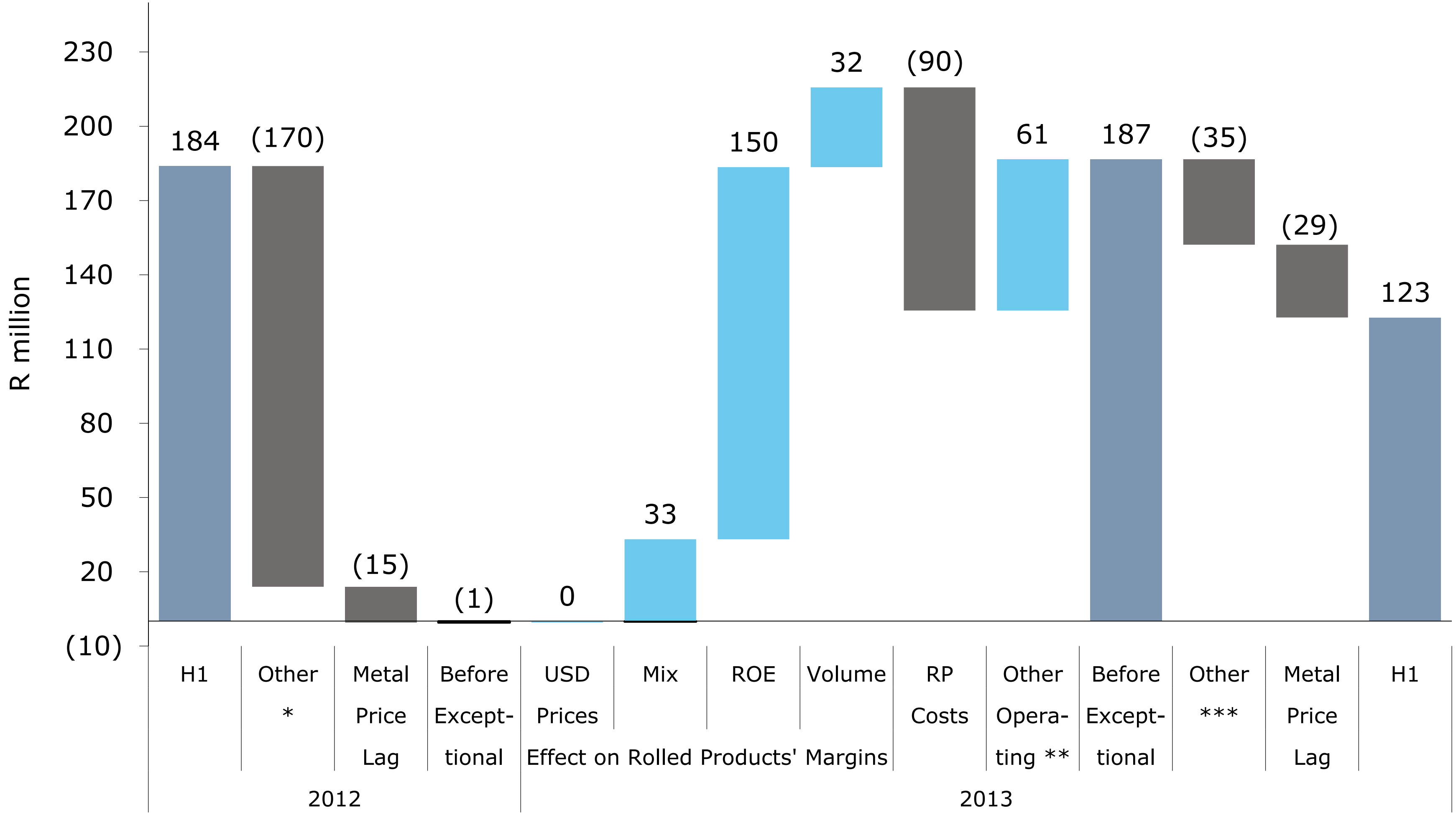
## Equipment risk review completed

- New rotor ordered after repair to original in May 2012
- Enhanced planned and preventative maintenance (includes rotor replacement)
- Strategic spares ordered to stock critical components

## Organisation rightsizing commenced March 2013

- Impact at all salary levels
- Conclusion July 2013

# Year–on–Year Operating Profit Comparison

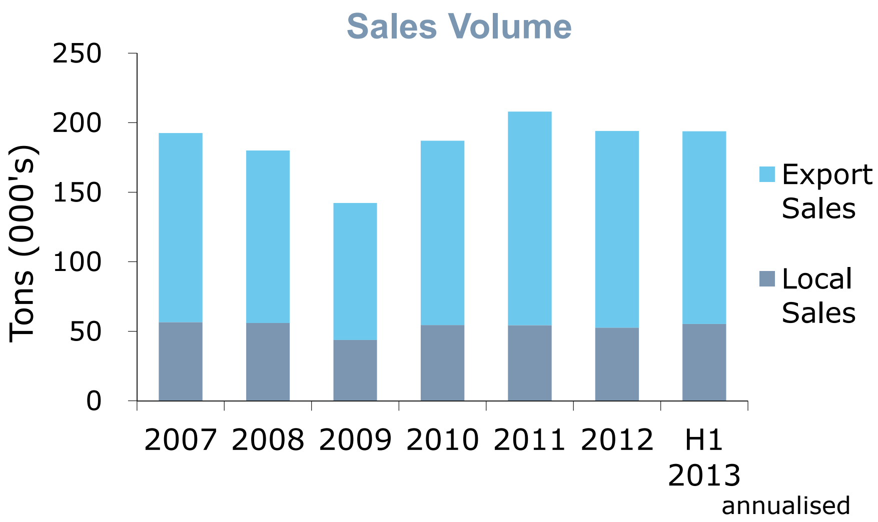


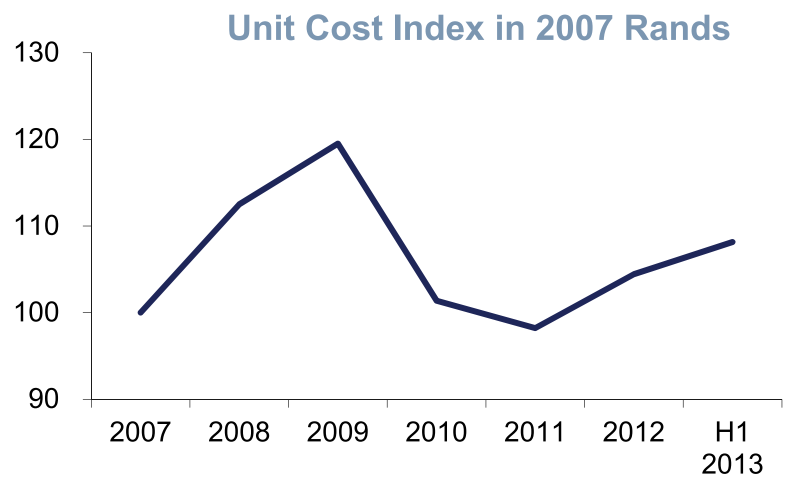

* 2012 Other includes pre-tax effects of the restated pension fund benefit

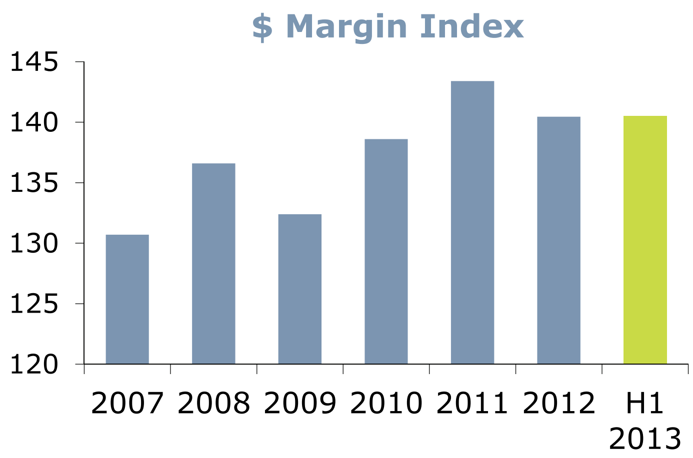
** 2013 Other Operating includes pre-tax effects of the insurance claim

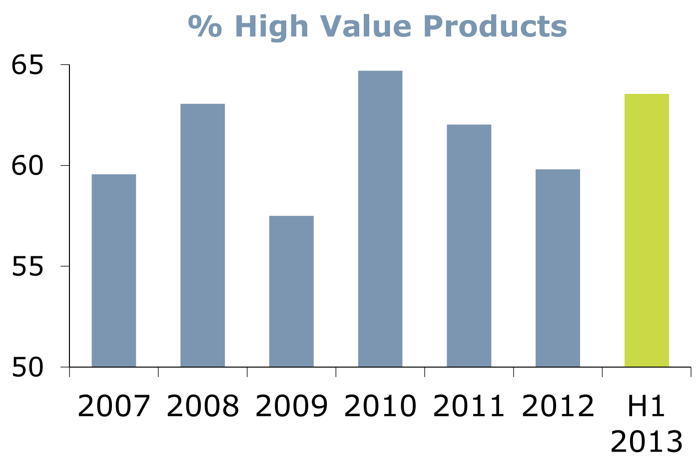
*** 2013 Other includes pre-tax effects of 2012 insurance claim and severance costs

# Rolled Products - Operational Highlights

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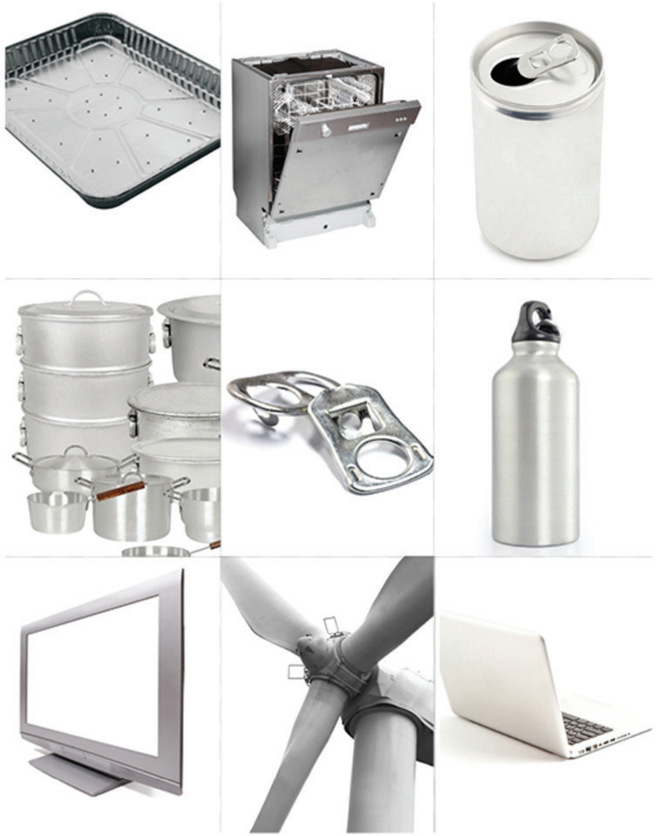
# Hulamin Extrusions

## Key indicators for 2013

- Revenue up 10%
- Sales volume up 4%
- Unit costs down 3%
- Operating profit up by R15 million

## Strategic themes in 2013

- Replacing volumes lost to competitor imports with new business
  - Infrastructure projects, new customers
- New automotive contract secured to 2015
- Continued cost rationalisation and selective capital investment to improve efficiency
- Ongoing challenge of securing consistent supply of reasonably priced imported billet



# PROGRESS ON
# KEY STRATEGIC OBJECTIVES

# 1. Meet Rolled Products Operational Performance Targets

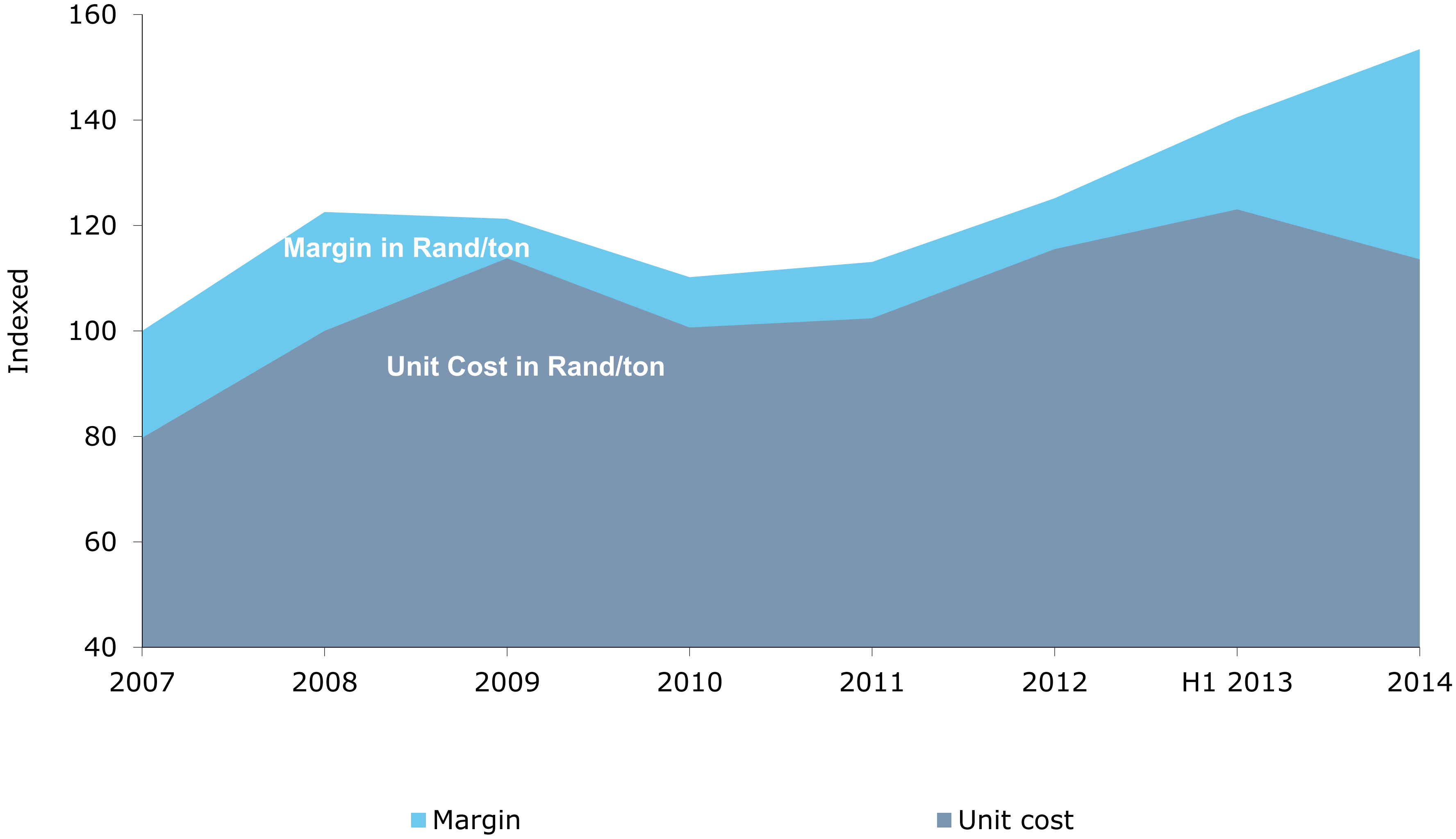
## Existing targets remain

| | |
|---|---|
| Sales volume | 250 000 tons annualised |
| Yield | >68% |
| Unit cost | <$1 150 per ton |
| Rolling margin | >$1 475 per ton |
| Working capital cash cycle | <120 days |

## Manufacturing excellence programme roll-out continues

- R19 million cost improvement projects completed in H1 2013
- Comprehensive asset risk study completed, strategic spares ordered
- Transition to visual performance management system continues
- Skills upliftment and budget control systems under design

# Rolled Products Operating Margin in Rand

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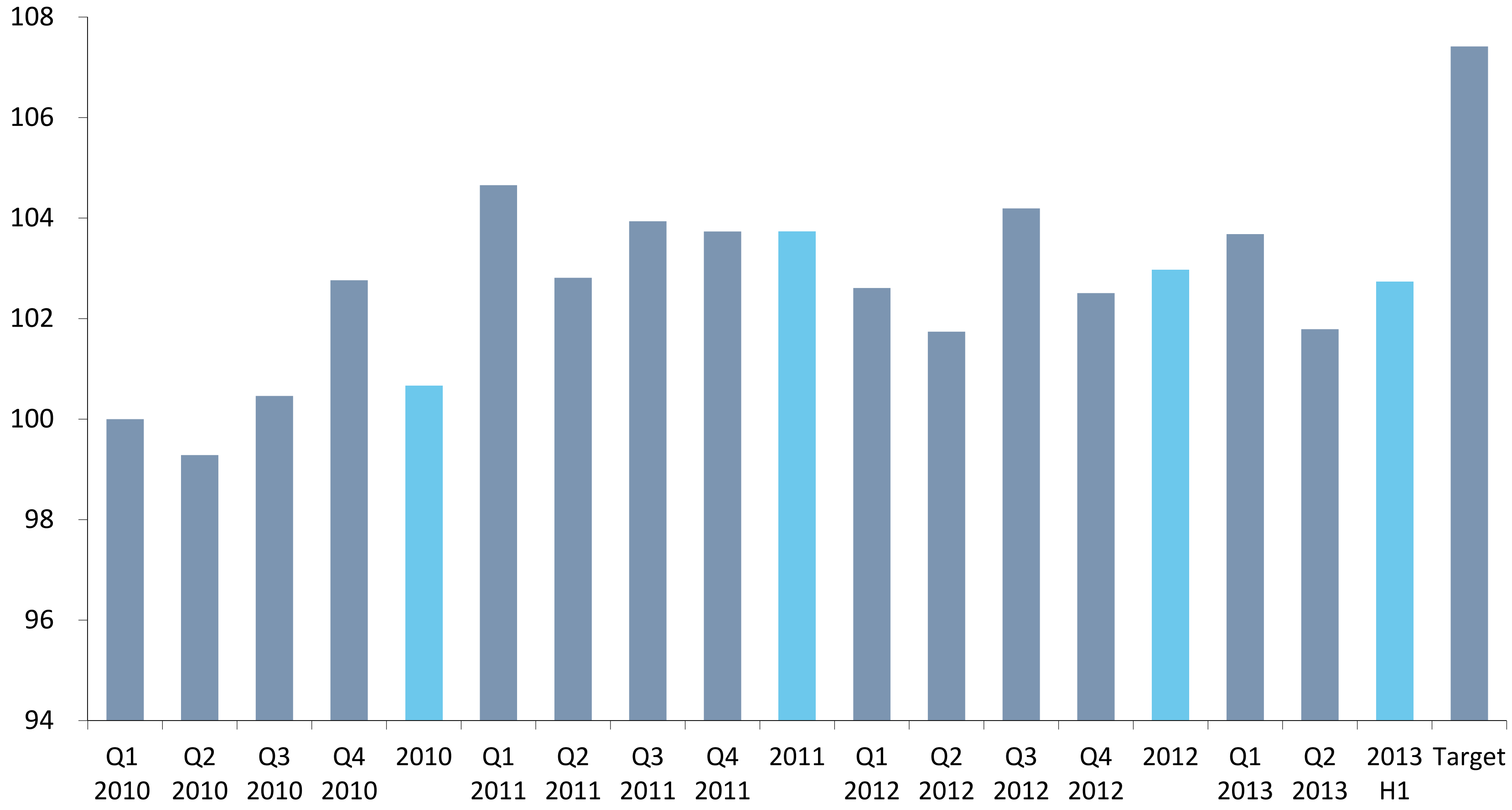
# Rolled Products Yield Improvement

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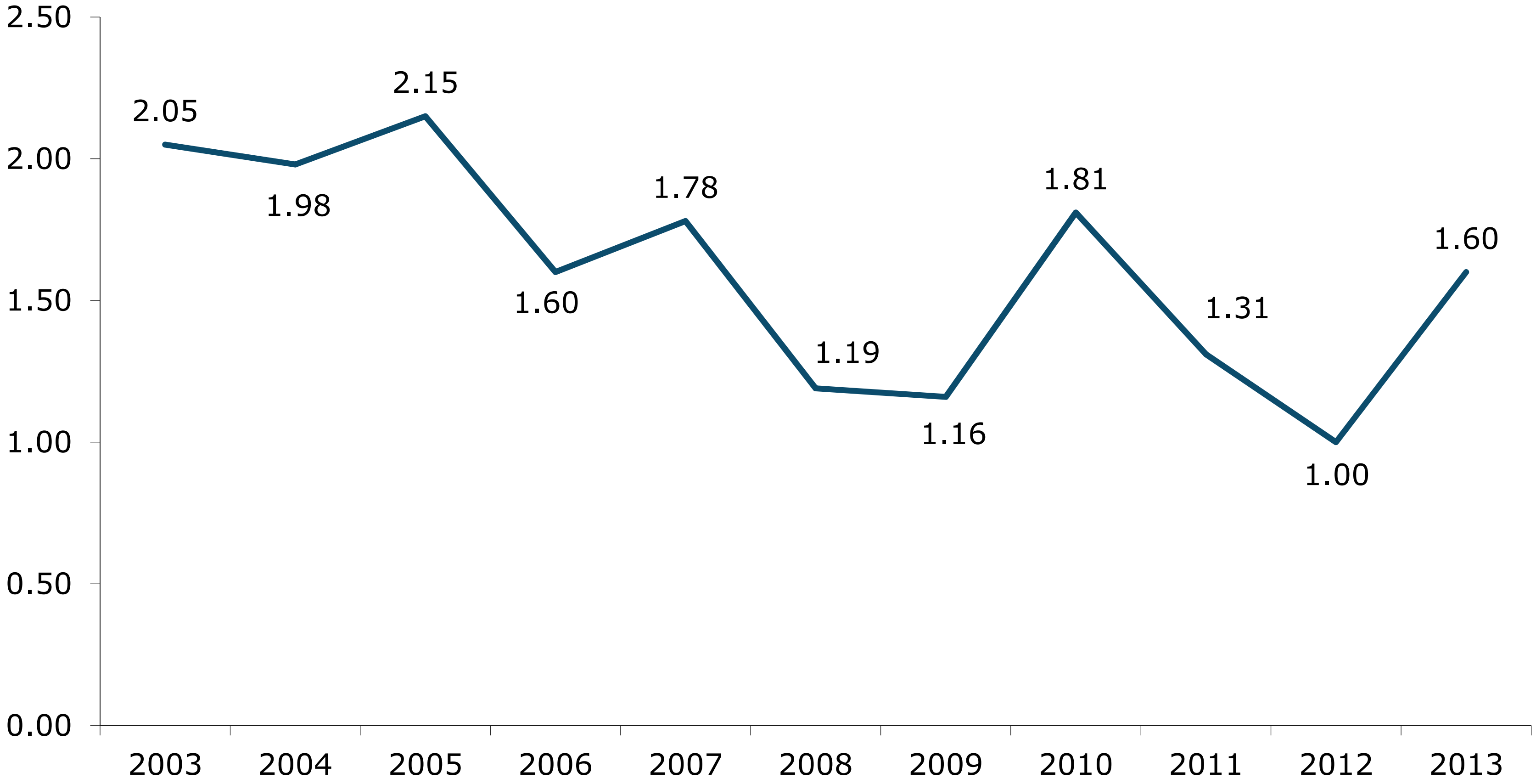
# Safety – Total Recordable Case Frequency Rate




* The Total Recordable Case Frequency Rate is the number of recordable injuries divided by the number of hours worked multiplied by 200 000

# 2. Competitive Manpower and Energy Costs

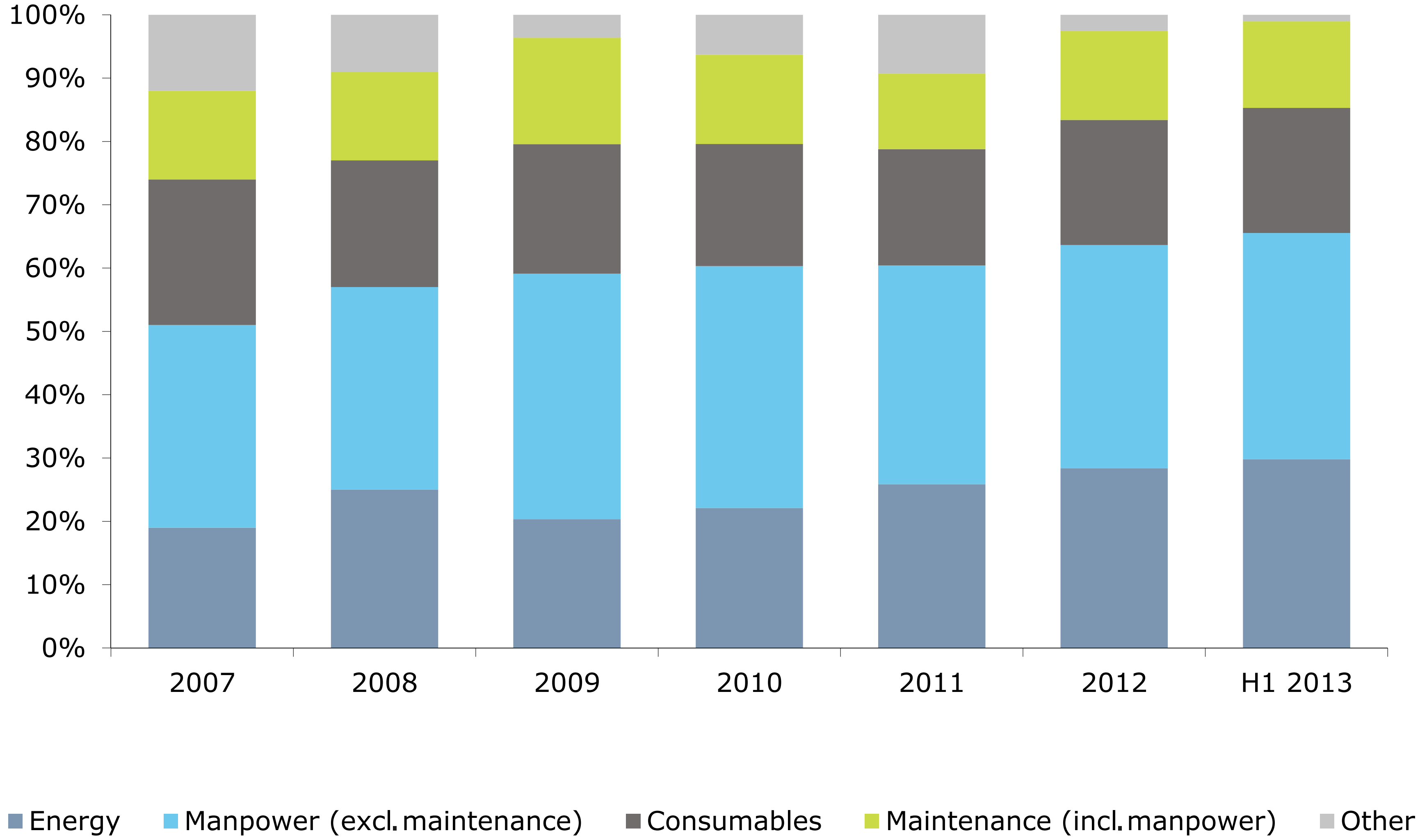
## Manpower

- Benchmarks indicated opportunity to rightsize
- Comprehensive rightsizing to be completed Q3, protecting skills
  - Numbers reduced by ~140 people
  - Once-off cost of <R35 million
  - Annual savings ~R50 million

## Energy

- Gas is majority of Hulamin energy mix
- Comparative analysis indicates pricing of gas in SA is higher than benchmarks
- Supply is dependent on ageing LPG infrastructure and imports
- Piped Natural/Methane Rich Gas is significantly more cost competitive
  - Seeking access to existing infrastructure

# Manufacturing Cost Analysis

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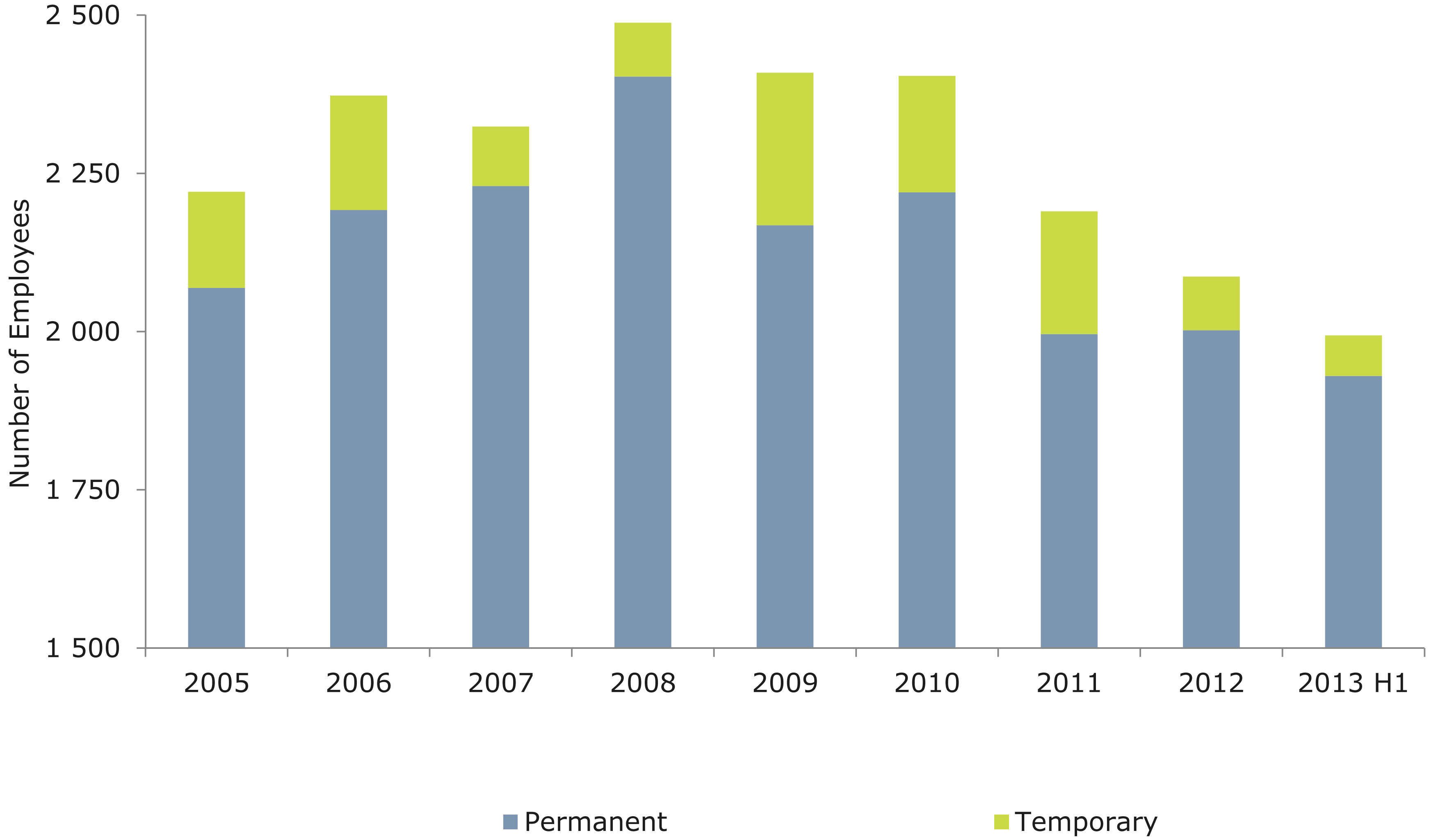
# Cost Pressure on Employment



## 3. Long–term Metal Supply

Slab supply from Bayside extended to March 2014

Melting ingot supply contract from Hillside to be renegotiated in 2015

Extrusion billet imported from Middle East

Hulamin positioning

- Long–term Aluminium supply security (slab, billet, melting ingot)
- Be the driver for growth of aluminium consumption in SA
- Strategic value of Aluminium industry in SA
  - Downstream value creation from electricity
  - Driver of economic growth
  - Enabler of technological advancement
- Growing role for recycling as a source of metal

Alignment discussions progress

# 4. Restructure Funding in line with Business Needs

## Commenced in 2010 with R750 million rights offer

- Proceeds of rights offer were used to lower borrowing levels

## Borrowing facilities at December 2012 comprised

- R630 million term loan repayable in instalments by June 2015
- R550 million 360-day notice facility (overdraft)
- Tight covenants, in particular a DSR cash flow ratio
- Funding structure appropriate for capital assets
- Working capital that varies directly with changes in R/$ and LME Aluminium price

## New 3-year committed R1 450million working capital facilities with Nedbank

- Metal Inventory and Receivables Facility overall limit of R1.2 billion but inner limits dependent on underlying assets – i.e. flex
- R250 million 360–day notice facility (OD)
- Appropriate covenants – Current Ratio and Debt/Equity Ratio
- Specific security with competitive pricing
- Short–term bridge facility to fund the transition

# 5. Grow Local/Regional Sales

## Capitalise on local opportunities, while maintaining export competitiveness

- Automotive - 70 000 tons
- Packaging – 100 000 tons (can stock, closures, foil)

## Key actions to unlock growth

- Unlock existing automotive opportunities (e.g. auto body-sheet)
- Identify viable opportunities for downstream manufacturing
- Long–term metal supply security is important to customers
- Import replacement opportunities
- Preferred supplier to regional beverage can industry
- Cooperation with Government, inward investment agencies
- Develop and invest in Hulamin capability

## High–level appointment made, effective January 2014

# 6. Source more than 25% of Metal Units from Recycling

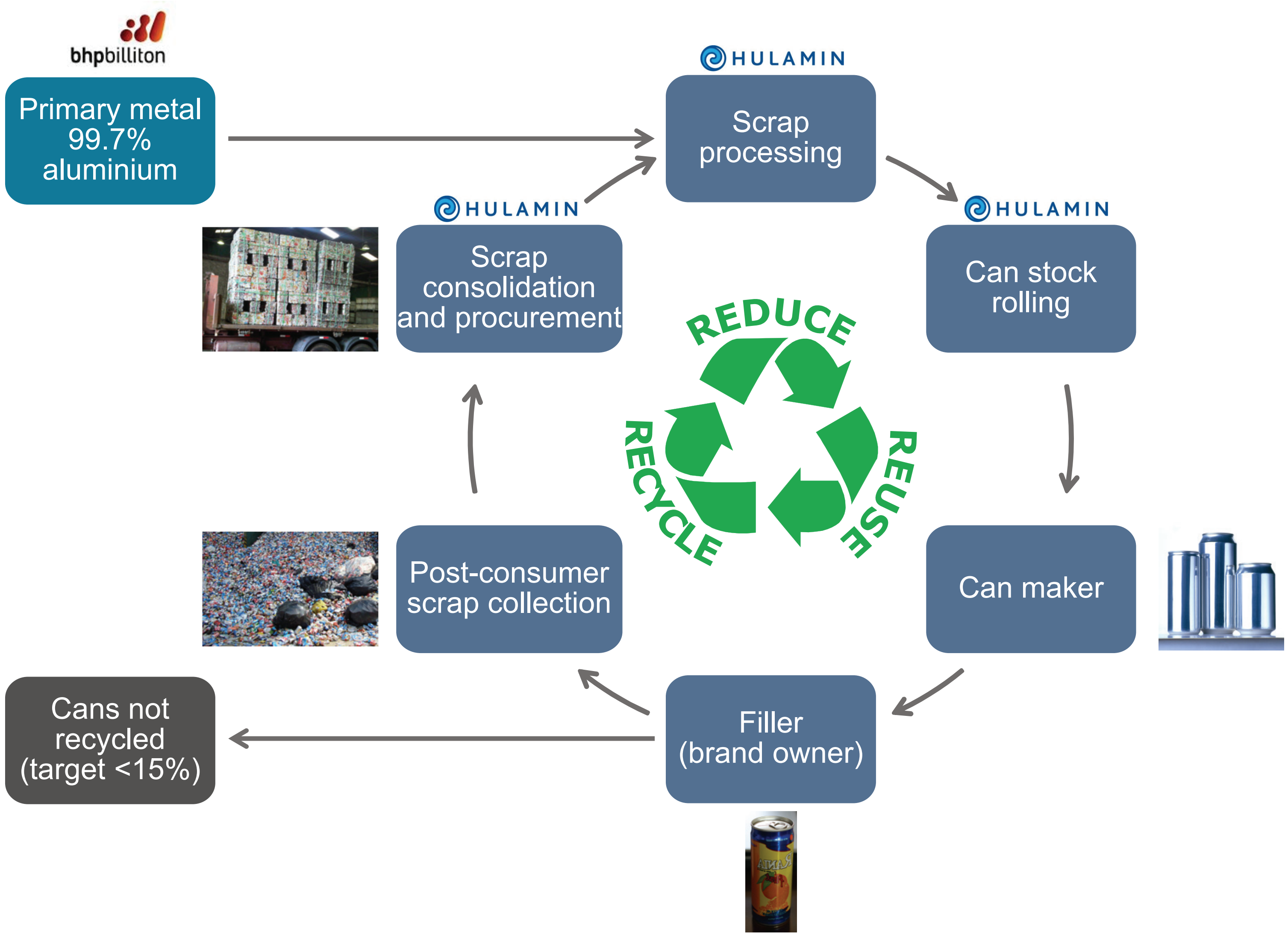
## Introduction of Aluminium beverage can provides sourcing opportunity

- 20 - 30 000 tons of Used Beverage Cans (UBCs) per annum
- 10 – 15 000 tons of Class scrap (can maker skeletons and other plant scrap)
- Market size approx. R800 million (aluminium content)

## To extract value, Hulamin requires

- Scrap/UBC procurement organisation/infrastructure
- “Preferred customer” status for scrap dealers
- High recycling rate for UBCs in SA (target 70% by 2017)
- Cost competitive scrap processing equipment (capability)
  - Requires investment ~R200 million over two years
  - Creates opportunities to source other scrap forms
  - New furnace is more efficient than existing equipment, which is limited by capacity

# Closed Loop Recycling



# 7. Government Support

## Goal alignment with Government

- Major growth in local beneficiation of Aluminium/Electricity
- Local/regional sales growth (fabrication) drives
  - Employment growth (target 22 000 jobs by 2028)
  - Inward investment (multinationals)
- Growth in recycling of aluminium (green economy)
- Investments

## Important regulatory outcomes

- Continued demand side support (local content, infrastructure projects)
- Gas pipeline infrastructure and internationally competitive pricing
- Scrap export controls
- Level playing fields/comparable international regulatory trade frameworks
- Non-punitive/stimulatory carbon tax/pricing
- (Inward) investment incentives to attract multinational customers
- Continued competitiveness investment support (e.g. MCEP)

# OUTLOOK

# Outlook

## Aluminium beverage can qualification/commercial local supply

## Slab supply - Ongoing discussions

- Supply extended to March 2014

## Expanded capital expenditure

- Growth in normal capital expenditure
- Project capex for recycling

## Improved operational performance in H2

- Sales volume > 220 000 tons annualised by year end
- Revert to 2011 and 2012 H2 trends in yield, cost, safety