HULAMIN

Think future. Think aluminium.

CONDENSED CONSOLIDATED UNAUDITED INTERIM RESULTS

FOR THE SIX MONTHS ENDED 30 JUNE

2020

HIGHLIGHTS

Group sales volume down by 35% to 71 000 tons

Revenue decreased by 30% to R3.7 billion

Loss per share increased by 26 cents to 75 cents per share

Negative free cash flow of R302 million

Balance sheet resilient, with net debt to equity of 27%

Turnaround actions delivering cost reductions, working capital controls; volume actions contained due to COVID-19

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

"Significant cost reduction efforts coupled with stringent controls over working capital helped reduce the impact of COVID-19 on Hulamin during the first six months of 2020. As experienced by most companies globally, the emergence of the coronavirus pandemic resulted in major disruptions to demand as well as our manufacturing operations. Consequently, the first half of 2020 was a particular challenging trading period.

Hulamin Extrusions' turnaround continued. Although volumes were negatively impacted by the COVID-19 lockdown, green shoots of a successful turnaround are becoming evident. The business suffered a first-half loss, which includes costs related to the closure of the Oliefantsfontein plant that have carried over into 2020. With the rightsizing of the business to one with a lower unit cost base, consolidated in Pietermaritzburg, largely complete, we are looking forward to a return to profitability in the second half of 2020."

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

Cost reductions, strict controls over working capital and a weaker exchange rate partially offset the impacts of the coronavirus pandemic during Q1 2020, which resulted in major disruptions to manufacturing operations and severe demand shocks in most markets. Hulamin is emerging from these difficulties with a reasonably good order book, a stable manufacturing operation and sufficient liquidity to meet its forecast requirements. Turnaround actions implemented in 2019 yielded substantial structural cost reductions, lower inventory levels and reduced debt leading into 2020. These actions have positioned the business well to weather the storm of destabilising forces caused by the COVID-19 pandemic.

The COVID-19 lockdown regulations in South Africa along with the wave of infections and economic depression from April through June resulted in:

- disruptions to all manufacturing operations; and
- demand shocks, most severely in the South African market, where the ban on alcohol sales had a significant negative impact on the local beverage can market.

As a result, group sales reduced substantially by 35% to 71 000 tons (2019: 109 000 tons) for this period. Sales in Hulamin Rolled Products reduced by 34% to an annualised 134 000 tons (2019: 206 000tons). Revenue declined by 30% to R3.7 billion (2019: R5.2 billion).

Hulamin was required to cease operations in late March following President Ramaphosa's announcement of a country-wide (level 5) lockdown under the Disaster Management Act; however, was able to restart manufacturing of certain Essential Goods product lines during April. These Essential Goods product lines (which excluded material for alcoholic beverages) represented less than 50% of Hulamin's product portfolio. As a result, sales volumes in Q2 were the lowest in recent history.

During this time, Hulamin's focus shifted to protecting the liquidity of the business and reducing costs whilst also taking extraordinary measures to protect the health of employees. Procurement of primary aluminium was curtailed, and we also reduced inventory levels by approximately 5 000 tons from recent highs. These measures, together with a focus on converting existing inventory to cash contributed meaningfully to liquidity management. Manufacturing centres without sufficient work were shut down. Benefits from cost reductions in 2019 provided additional assistance.

Hulamin is exposed to currency and commodity price risk through both our metal inventory and dollar-based conversion fees. The decline in our sales volume created an excess in certain hedged positions. The weaker Rand/US Dollar converted this excess hedging into an unprecedented hedging loss of R114 million. By contrast, the metal price lag benefitted from the weaker Rand/US Dollar but was partly offset by the LME aluminium price averaging $1 595 per ton compared to $1 754 in the prior period. These effects combined to yield a net metal price lag gain of R27 million (2019: loss of R53 million).

Global demand for beverage can stock material has remained strong, driven by the global substitution of single use plastics with aluminium beverage cans. This stronger demand, albeit largely for export, allowed Hulamin to ramp production to full capacity on can stock products as soon as the lockdown regulations allowed. Demand for non-packaging product categories was severely impacted by COVID-19, both in South Africa and abroad, and is likely to take several months at least to recover to pre-Covid levels. Automotive demand (that represents approximately 10% of Hulamin sales historically) forecasts indicate a lead time for the returns to prior levels of 18 months or longer.

In March, the United States Department of Commerce (DoC) launched an investigation into anti-dumping duties on "common alloy" products from 18 countries, including South Africa. As this investigation remains ongoing, Hulamin has been limited in its ability to sell common alloy products (historically less than 15% of Hulamin Rolled Products' total sales) into the USA market, which has traditionally been our largest export market for these products. The preliminary findings of the DoC are expected to be announced on 7 October 2020. Hulamin is actively seeking alternative product and market opportunities as mitigation for any possible closure of the USA rolled products market to Hulamin products.

The reduction in manpower and other costs by in excess of R220 million in comparison to the prior period was offset by the lower volumes and consequent fall in conversion fees earned the metal price lag gain of R27 million and the hedging losses of R114 million. This resulted in an EBIT loss of R119 million (2019: loss of R167 million).

Hulamin Extrusions

Following the restructuring of the Extrusions business in the second half of 2019 and subsequent consolidation of the business at the Pietermaritzburg operation, the focus for 2020 has been to complete the restructuring actions whilst rebuilding confidence in the extrusions market.

This recovery gained good momentum during Q1, yet was disrupted in March when the country went into national lockdown. The impact of hard lockdown in Q2 meant volumes through this period were severely impacted.

One of the key actions in the restructuring of Hulamin Extrusions was the consolidation of the Olifantsfontein operation into the Pietermaritzburg site. A sale agreement for this site was concluded early in the year; the transfer is expected to be completed during Q4.

COMMENTARY CONTINUED

Prospects

Hulamin expects the turnaround actions taken in 2019, particularly the reduction in costs, to support a return to profitability in the second half of 2020. Sales forecasts indicate a stronger volume performance in all operations, although lower than in recent years. Together with the weaker Rand we consequently expect an improved second half. Order books for all operations are filling up for the balance of the year and we are expecting a preliminary outcome from the USA DoC on the anti-dumping case during October 2020. Should global and local economic conditions continue to improve, and particularly demand for Hulamin products, we expect this to support an improvement in profitability and consequently cash flow. However, as activity levels improve, we will closely manage working capital to protect the balance sheet.

TP Leeuw
Chairman

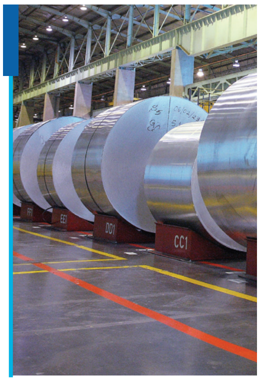
RG Jacob
Chief Executive Officer

Pietermaritzburg
21 September 2020

GROUP OVERVIEW

Hulamin Rolled Products, Hulamin Containers and Richards Bay Cast House together form the Rolled Products operating division which is responsible for semi-fabrication and fabrication of rolled aluminium products and forms the Rolled Products reportable segment. Hulamin Extrusions comprises the Extrusions operating division which is responsible for the semi-fabrication of extruded aluminium products and forms the Extrusions reportable segment.

Hulamin Rolled Products



Principal activity

Hulamin Rolled Products produces a range of technologically sophisticated sheet, coil and plate products focusing on high-quality, tight tolerance and complex products.

Production facilities include re-melting and recycling facilities, direct-chill ingot casting, continuous casters, hot, cold and foil rolling mills and further finishing processing lines, all based in Pietermaritzburg, KwaZulu-Natal.

Key markets

The majority of products are exported to customers in North America, Western Europe and the Far and Middle East for use in the packaging, automotive and transportation, engineering, and building and construction markets.

Key Strategic Focus Areas

- Operational performance and cost competitiveness.
- Rolling slab and melting ingot supply.
- Secondary melting processing.
- Local market growth and opportunities.
- High value products.

Hulamin Extrusions

Principal activity

Based in Pietermaritzburg, KwaZulu-Natal, Hulamin Extrusions is a leading local supplier of standard and custom aluminium extrusions.

Key markets

Hulamin Extrusions supplies the local engineering and architectural markets.

Key Strategic Focus Areas

- Security of billet and secondary metal supply
- Cost competitiveness
- Market growth and opportunities

Hulamin Containers

Principal activity

Hulamin Containers, a downstream business, is a leading producer of standard and customised rigid aluminium foil containers for the catering industry and for household use.

Hulamin Containers is based in Pietermaritzburg, KwaZulu-Natal, with sales and distribution offices in Johannesburg and Cape Town.

Key markets

Hulamin Containers supplies the local packaging and container market.

Key Strategic Focus Areas

- Operational performance and cost competitiveness
- Local and international market growth and opportunities

Richards Bay Cast House

Principal activity

Through its aluminium casting facility in Richards Bay, the cast house supplied Hulamin Rolled Products with aluminium rolling slab.

Key Strategic Focus Areas

- Cost competitiveness
- Security of liquid metal supply
- Developing the aluminium hub in Richards Bay

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

for the six months ended 30 June 2020

	Notes	Unaudited Half-year 30 June 2020 R'000	Unaudited Restated* Half-year 30 June 2019 R'000	Audited Year ended 31 December 2019 R'000
ASSETS				
Non-current assets				
Property, plant and equipment		**796 121**	1 958 982	813 570
Right-of-use assets		**12 921**	53 492	17 108
Intangible assets		**10 588**	38 063	13 157
Retirement benefit asset		**80 503**	117 779	95 560
Deferred tax asset		**16 180**	63 219	93 130
Investments accounted for using the equity method	9	**882**	–	–
Loans granted to investment accounted for using the equity method	9	**22 089**	–	–
		939 284	2 231 536	1 032 525
Current assets				
Inventories		**2 317 155**	2 615 321	2 176 408
Trade and other receivables		**775 058**	1 085 111	804 415
Derivative financial assets		**7 509**	101 083	88 661
Cash and cash equivalents		**5 871**	84 115	126 207
Income tax asset		**16 288**	12 478	17 562
Current portion of loans granted to investment accounted for using the equity method	9	**49 599**	–	–
		3 171 480	3 898 109	3 213 253
Non-current assets classified as held for sale		**14 250**	23 165	14 250
TOTAL ASSETS		**4 125 014**	6 152 809	4 260 028
EQUITY				
Stated capital and consolidated shares		**1 817 580**	1 817 580	1 817 580
Treasury shares		**(36 500)**	(7 261)	(22 000)
BEE reserve		**24 576**	24 576	24 576
Employee share-based payment reserve		**71 249**	55 186	63 305
Hedging reserve		**(58 698)**	47 575	12 505
Retained earnings		**442 758**	1 693 456	674 342
Total equity		**2 260 965**	3 631 112	2 570 308
LIABILITIES				
Non-current liabilities				
Non-current borrowings		**–**	27 000	–
Lease liabilities		**28 975**	39 768	34 405
Deferred tax liability		**–**	242 466	16 990
Retirement benefit obligations		**229 156**	261 036	225 007
		258 131	570 270	276 402
Current liabilities				
Trade and other payables		**970 548**	1 309 416	1 005 121
Current borrowings		**576 044**	598 601	352 083
Lease liabilities		**10 180**	14 807	12 088
Derivative financial liabilities		**49 145**	28 603	44 026
		1 605 917	1 951 427	1 413 318
Total liabilities		**1 864 047**	2 521 697	1 689 720
TOTAL EQUITY AND LIABILITIES		**4 125 014**	6 152 809	4 260 028
Net debt to equity (%)		**27**	16	11

* *See note 13 for the details about the restatement resulting from the correction of prior period errors*

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2020

	Notes	Unaudited Half-year 30 June 2020 R'000	Unaudited Restated* Half-year 30 June 2019 R'000	Audited Year ended 31 December 2019 R'000
Revenue from contracts with customers	3(c)	**3 673 509**	5 247 087	10 708 581
Cost of sales of goods		**(3 385 972)**	(4 925 739)	(9 929 196)
Cost of providing services		**(9 310)**	(24 137)	(76 066)
Gross profit		**278 227**	297 211	703 319
Selling, marketing and distribution expenses		**(216 103)**	(247 639)	(520 020)
Administrative and other expenses**		**(77 477)**	(141 748)	(290 670)
Impairment of property, plant and equipment and intangible assets	4	**(8 432)**	(13 032)	(1 302 898)
Net impairment losses of financial assets		**(16 401)**	(176)	(1 906)
(Losses)/gains on financial instruments related to trading activities	5	**(67 940)**	3 619	79 571
Other losses	6	**(11 320)**	(65 410)	(88 800)
Operating loss		**(119 446)**	(167 176)	(1 421 404)
Interest income		**7 292**	665	8 021
Interest expense		**(27 999)**	(26 640)	(56 513)
Share of net profits of joint ventures accounted for using the equity method	9	**882**	–	–
Loss before tax		**(139 271)**	(193 151)	(1 469 896)
Taxation	7	**(91 340)**	37 118	265 355
Net loss for the period attributable to ordinary equity holders of the company		**(230 611)**	(156 033)	(1 204 541)
Loss per share attributable to ordinary equity holders of the company (cents)	3			
Basic		**(75)**	(49)	(380)
Diluted***		**(75)**	(49)	(80)

* *See note 13 for the details about the restatement resulting from the correction of prior period errors*

** *Including termination benefits*

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2020

	Unaudited Half-year 30 June 2020 R'000	Unaudited Restated* Half-year 30 June 2019 R'000	Audited Year ended 31 December 2019 R'000
Net loss for the period attributable to ordinary equity holders of the company:	**(230 611)**	(156 033)	(1 204 541)
Other comprehensive (loss)/income for the period	**(73 408)**	53 913	46 807
Items that may be reclassified subsequently to profit or loss:	**(71 203)**	53 855	18 785
Cash flow hedges transferred to the statement of profit or loss	**193 093**	(8 224)	(54 750)
Cash flow hedges (reversed)/created	**(253 857)**	58 545	57 039
Cost of hedging	**(10 439)**	24 478	23 801
Income tax effect of the above	**–**	(20 944)	(7 305)
Items that will not be reclassified to profit or loss:	**(2 205)**	58	28 022
Remeasurement of retirement benefit obligation	**–**	–	35 478
Remeasurement of retirement benefit asset	**(3 063)**	80	955
Income tax effect of the above	**858**	(22)	(8 411)
Total comprehensive loss for the period attributable to ordinary equity holders of the company	**(304 019)**	(102 120)	(1 157 734)

* *See note 13 for the details about the restatement resulting from the correction of prior period errors*

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2020

	Notes	Unaudited Half-year 30 June 2020 R'000	Unaudited Restated* Half-year 30 June 2019 R'000	Audited Year ended 31 December 2019 R'000
Cash flows from operating activities				
Cash (utilised in)/generated from operations	A	**(186 166)**	1 184	625 512
Interest paid		**(27 999)**	(26 911)	(62 754)
Interest received		**7 292**	665	8 021
Income tax paid		**(15 764)**	(4 882)	(37 492)
		(222 637)	(29 944)	533 287
Cash flows from investing activities				
Additions to property, plant and equipment		**(91 787)**	(136 341)	(305 095)
Additions to intangible assets		**–**	(1 367)	(6 222)
Net proceeds from repayment of loan granted to investment accounted for using the equity method		**12 685**	–	–
		(79 102)	(137 708)	(311 317)
Cash flows before financing activities ("free cash flow")		**(301 739)**	(167 652)	221 970
Cash flows from financing activities				
Repayment of current portion of non-current borrowings		**–**	(27 000)	(54 000)
Net proceeds/(repayment of) from current borrowings**		**222 405**	(167 182)	(413 700)
Settlement of share options		**–**	(305)	(305)
Payment of principal portion of lease liabilities		**(7 338)**	(9 045)	(14 675)
Dividends paid		**–**	(58 202)	(58 202)
Acquisition of treasury shares		**(14 500)**	(7 261)	(22 000)
Settlement payments in respect of share-based payment – Isizinda		**–**	–	(50 000)
		200 567	(268 995)	(612 882)
Net decrease in cash and cash equivalents		**(101 172)**	(436 647)	(390 912)
Cash and cash equivalents at beginning of period		**126 207**	525 981	525 981
Effects of exchange rate changes on cash and cash equivalents		**(11 818)**	(5 219)	(8 862)
Cash movement as a result of loss of control of Isizinda		**(7 346)**	–	–
Cash and cash equivalents at end of period		**5 871**	84 115	126 207
A: Cash (utilised in)/generated from operations				
Loss before tax		**(139 271)**	(193 151)	(1 469 896)
Net interest cost		**20 707**	25 975	48 492
Share of net profits of joint ventures accounted for using the equity method		**(882)**	–	–
Operating loss		**(119 446)**	(167 176)	(1 421 404)
Adjust for non-cash flow items:				
Depreciation of property, plant and equipment and right-of-use assets		**28 275**	58 629	124 108
Amortisation of intangible assets		**1 488**	6 068	12 116
Loss on disposal of property, plant and equipment		**–**	410	26 455
Impairment of property, plant and equipment and intangible assets	4	**8 432**	13 032	1 302 898
Net movement in retirement benefit asset and obligations		**16 143**	25 298	48 002
Value of employee services received under share schemes		**9 274**	(2 575)	6 968
Fair value changes on derivatives		**15 067**	39 590	18 726
Foreign exchange gains on cash and cash equivalents		**11 818**	5 219	8 862
Currency exchange translation on foreign debtors and creditors		**12 554**	(14 885)	9 200
Loss on loss of control on Isizinda		**11 207**	–	–
Gain on unrealised profit in inventory		**(1 575)**	–	–
Gain on sale of investment		**–**	–	(2 655)
Settlement of share-based payment – Isizinda	13	**–**	65 000	65 000
Other non-cash items		**(1 058)**	(594)	(479)
Cash (utilsied in)/generated before working capital changes		**(7 821)**	28 016	197 797
Changes in working capital	B	**(178 345)**	(26 832)	427 715
Cash (utilised in)/generated from operations		**(186 166)**	1 184	625 512
B: CHANGES IN WORKING CAPITAL				
(Increase)/decrease in inventories		**(139 172)**	(348 852)	86 139
Decrease in trade and other receivables		**21 774**	462 841	702 704
Decrease in trade and other payables		**(60 947)**	(140 821)	(361 128)
		(178 345)	(26 832)	427 715

** See note 13 for the details about the restatement resulting from the correction of prior period errors*

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2020

	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 2018 – Audited		**1 817 580**	**–**	**(6 280)**	**57 914**	**51 776**	**1 881 631**	**3 802 621**
Net loss for the period		–	–	–	–	–	(73 185)	(73 185)
Correction of prior period error	13						(82 849)	(82 849)
Other comprehensive income net of tax		–	–	53 855	–	–	58	53 913
Equity-settled share-based payment scheme		–	–	–	(2 728)	–	(1 197)	3 925
Settlement of equity-settled share-based payment						(27 200)	27 200	–
Acquisition of treasury shares		–	(7 261)	–	–	–	–	(7 261)
Dividends paid		–		–	–	–	(58 202)	(58 202)
Balance at 30 June 2019 – Unaudited Restated*		**1 817 580**	**(7 261)**	**47 575**	**55 186**	**24 576**	**1 693 456**	**3 631 112**
Net loss for the period		–	–	–	–	–	(1 048 508)	(1 048 508)
Other comprehensive income net of tax		–	–	(35 070)	–	–	27 964	(7 106)
Equity-settled share-based payment scheme		–	–	–	8 119	–	1 429	9 548
Acquisition of treasury shares			(14 739)					(14 739)
Balance at 31 December 2019 – Audited		**1 817 580**	**(22 000)**	**12 505**	**63 305**	**24 576**	**674 342**	**2 570 308**
Net loss for the period		**–**	**–**	**–**	**–**	**–**	**(230 611)**	**(230 611)**
Other comprehensive income net of tax		**–**	**–**	**(71 203)**	**–**	**–**	**(2 205)**	**(73 408)**
Equity-settled share-based payment scheme		**–**	**–**	**–**	**7 944**	**–**	**1 232**	**9 176**
Acquisition of treasury shares		**–**	**(14 500)**	**–**	**–**	**–**	**–**	**(14 500)**
Balance at 30 June 2020 – Unaudited		**1 817 580**	**(36 500)**	**(58 698)**	**71 249**	**24 576**	**442 758**	**2 260 965**

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 period a wholly-owned group company purchased 7 638 806 shares on-market in order to hold treasury shares to settle share scheme obligations. The shares were acquired at an average price of 190 cents per share, with prices ranging from 87 to 220 cents per share. The total cost of R14 500 000 including after-tax transaction costs, was deducted from shareholder equity. The total reduction in paid-up capital was R14 500 000.

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 accumulative historic profit and loss reinvested in the group. No restrictions exist on the use of retained earnings.

* *See note 13 for the details about the restatement resulting from the correction of prior period errors*

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2020

1. Basis of preparation of interim condensed consolidated financial statements

The condensed consolidated interim financial information of the group for the six months ended 30 June 2020 has been prepared in accordance with IAS 34, 'Interim Financial Reporting', the Companies Act 71 of 2008, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and the Financial Pronouncements as issued by the Financial Reporting Standards Council, under the supervision of the Chief Financial Officer, Mr. A P Krull CA(SA). The condensed 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 condensed consolidated interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the group's 2019 annual financial statements, which have been prepared in accordance with International Financial Reporting Standards, and any public announcements made by the group during the interim reporting period.

The accounting policies adopted are in terms of International Financial Reporting Standards and are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards as set out below.
The directors are responsible for preparing and ensuring the Alternative Performance Measures comply with Practice Note 4/2019 (Performance Measures) of the JSE Listings Requirements.

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

A number of new or amended standards became applicable for the current reporting period. The group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

(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 IAS 16 effective 1 Jan 2022 – Property, Plant and Equipment: Proceeds before Intended Use
- Amendments to IAS 37 effective 1 Jan 2022 – Onerous Contracts – Cost of Fulfilling a Contract
- Amendment to IAS 1 Effective 1 Jan 2022 – Classification of Liabilities as Current or Non-Current
- Amendment to IFRS 16 effective 1 June 2020 – COVID-19 – Related Rent Concessions'

2. Significant changes in the current reporting period

The significant events and transactions that have impacted the interim results for the half-year ended 30 June 2020 are detailed in the commentary included with these condensed financial statements.

3. 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. These reportable segments are based on business segments which are reflected in 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 Proprietary Limited ("Isizinda") supplies slab to Hulamin Rolled Products. The activities of Isizinda are integrated into the Hulamin Rolled Products segment in the comparative periods (refer to note 9 for more details on the Isizinda transaction). 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. The amounts provided to the Hulamin Executive Committee with respect to segment revenue and assets are measured in a consistent manner with that of the financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the half year ended 30 June 2020

3. Reportable segment analysis and revenue from contracts with customers continued

3(a) Segmental revenue, earnings and other disclosures

	Unaudited Half-year 30 June 2020			Unaudited Restated* Half-year 30 June 2019			Audited Year ended 31 December 2019		
	Hulamin Rolled Products R'000	Hulamin Extrusions R'000	Group R'000	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	**3 459 444**	**214 065**	**3 673 509**	4 867 726	379 361	5 247 087	9 957 173	751 408	10 708 581
Timing of revenue recognition:									
– At a point in time	**3 450 134**	**214 065**	**3 664 199**	4 843 589	379 361	5 222 950	9 881 107	751 408	10 632 515
– Over time	**9 310**	**–**	**9 310**	24 137	–	24 137	76 066	–	76 066
Earnings									
EBITDA***	**(57 024)**	**(24 227)**	**(81 251)**	(21 374)	(68 072)	(89 446)	104 766	(87 048)	17 718
Impairment of property, plant and equipment and intangibles	**–**	**(8 432)**	**(8 432)**	(13 032)	–	(13 032)	(1 266 979)	(35 919)	(1 302 898)
Depreciation and amortisation	**(28 236)**	**(1 527)**	**(29 763)**	(58 405)	(6 292)	(64 697)	(123 142)	(13 082)	(136 224)
Operating loss	**(85 260)**	**(34 186)**	**(119 446)**	(92 811)	(74 364)	(167 176)	(1 285 355)	(136 049)	(1 421 404)
Interest received	**4 042**	**3 250**	**7 292**	665	–	665	8 002	19	8 021
Interest paid	**(22 524)**	**(5 475)**	**(27 999)**	(22 814)	(3 826)	(26 640)	(47 460)	(9 053)	(56 513)
Share of net profits of joint ventures accounted for using the equity method	**882**	**–**	**882**						
Loss before tax	**(102 860)**	**(36 411)**	**(139 271)**	(114 960)	(78 190)	(193 151)	(1 324 813)	(145 083)	(1 469 896)
Taxation	**(91 340)**	**–**	**(91 340)**	11 646	25 471	37 118	265 820	(465)	265 355
Net loss for the year	**(194 200)**	**(36 411)**	**(230 611)**	(103 314)	(52 719)	(156 033)	(1 058 993)	(145 548)	(1 204 541)
Reconciliation of net loss (used in calculating earnings per share) to headline loss									
Net loss for the year	**(194 200)**	**(36 411)**	**(230 611)**	(103 314)	(52 719)	(156 033)	(1 058 993)	(145 548)	(1 204 541)
Loss on disposal of property, plant and equipment	**–**	**–**	**–**	410	–	410	26 455	–	26 455
Impairment of property, plant and equipment and intangible assets	**–**	**8 432**	**8 432**	13 032	–	13 032	1 266 979	35 919	1 302 898
Profit on disposal of investment in Almin Metal Industries Limited	**–**	**–**	**–**	–	–	–	–	(2 655)	(2 655)
Loss of control of Isizinda	**11 207**	**–**	**11 207**	–	–	–	–	–	–
Tax effect	**(3 138)**	**–**	**(3 138)**	(3 034)	–	(3 034)	(362 161)	–	(362 161)
Headline loss for the year	**(186 131)**	**(27 979)**	**(214 110)**	(92 906)	(52 719)	(145 625)	(127 720)	(112 284)	(240 004)
Reconciliation of headline loss to normalised EBITDA* **									
Headline loss for the year	**(186 131)**	**(27 979)**	**(214 110)**	(92 906)	(52 719)	(145 625)	(127 720)	(112 284)	(240 004)
Limitation of IAS 39, "Financial Instruments" resulting in highly effective commodity risk management programme not qualifying for hedge accounting	**–**	**–**	**–**	24 835	–	24 835	24 835	–	24 835
Restructuring costs	**–**	**–**	**–**	–	37 632	37 632	75 757	38 639	114 396
Metal price lag	**(26 912)**	**–**	**(26 912)**	53 498	–	53 498	67 577	–	67 577
Settlement of share-based payment – Isizinda	**–**	**–**	**–**	65 000	–	65 000	65 000	–	65 000
Tax effect	**7 535**	**–**	**7 535**	(21 933)	–	(21 933)	(47 087)	(10 819)	(57 906)
Normalised headline loss (note A)	**(205 508)**	**(27 979)**	**(233 487)**	28 494	(15 087)	13 407	58 362	(84 464)	(26 102)
Interest paid	**22 525**	**5 475**	**27 999**	22 814	3 826	26 640	47 460	9 053	56 513
Interest income	**(4 042)**	**(3 250)**	**(7 292)**	(665)	–	(665)	(8 002)	(19)	(8 021)
Taxation	**86 943**	**–**	**86 943**	13 321	(25 471)	(12 151)	143 429	11 284	154 713
Normalised EBIT (note A)**	**(100 083)**	**(25 754)**	**(125 837)**	63 964	(36 733)	27 231	241 249	(64 146)	177 103
Depreciation and amortisation	**28 236**	**1 527**	**29 763**	58 405	6 292	64 697	123 142	13 082	136 224
Normalised EBITDA* (note A)**	**(71 847)**	**(24 227)**	**(96 076)**	122 369	(30 441)	91 928	364 391	(51 064)	313 327
Total assets	**3 864 189**	**260 824**	**4 125 084**	5 798 254	354 555	6 152 809	4 032 486	227 542	4 260 028
Total liabilities	**1 642 182**	**221 865**	**1 864 047**	2 329 010	192 686	2 521 697	1 539 212	150 508	1 689 720
Other disclosures									
Additions to property, plant and equipment and intangible assets	**85 346**	**6 441**	**91 787**	127 943	9 765	137 708	280 242	31 075	311 317
Currency conversion									
Rand/US dollar average			**16.66**			14.20			14,45
Rand/US dollar closing			**17.30**			14.17			14,01

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

Sales to the largest five customers of the Hulamin Rolled Products segment in the six months ended June 2020 accounted for 63% of total group revenue.

* *See note 13 for the details about the restatement resulting from the correction of prior period errors*
** *Earnings before interest and taxation*
*** *Earnings before interest, taxation, depreciation and amortisation and impairment of property, plant and intangible assets. The presentation of EBITDA is not an IFRS requirement and may not be directly comparable with the same or similar measures disclosed by other companies*

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the half year ended 30 June 2020

3. Reportable segment analysis and revenue from contracts with customers continued

3(b) Loss per share, headline loss per share and normalised loss per share

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

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.

	Number of shares June 2020	Number of shares June 2019	Number of shares December 2019
Weighted average number of shares used for basic and diluted EPS**	**305 638 647**	319 157 146	317 287 805

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

	June 2020		June 2019 Restated*		December 2019	
	Gross R'000	Net R'000	Gross R'000	Net R'000	Gross R'000	Net R'000
Net loss for the period		**(230 611)**		(156 033)		(1 204 541)
Adjustments	**19 639**	**16 501**	13 442	10 408	1 326 698	964 537
– Impairment loss on property, plant and equipment and intangible assets	**8 432**	**8 432**	13 032	10 113	1 302 898	948 144
– Gain on disposal of investment in Almin Metals Industries	**–**	**–**	–	–	(2 655)	(2 655)
– Loss on disposal of property, plant and equipment	**–**	**–**	410	295	26 455	19 048
– Loss on loss of control of Isizinda	**11 207**	**8 069**	–	–	–	–
Headline earnings		**(214 110)**		(145 625)		(240 004)

		Notes	Unaudited Half-year 30 June 2020	Unaudited Restated* Half-year 30 June 2019	Audited Year ended 31 December 2019
Headline loss per share attributable to the ordinary equity holders of the company (cents)		A			
Basic	(cents)		**(70)**	(46)	(76)
Diluted**	(cents)		**(70)**	(46)	(76)
Reconciliation of headline loss for the year to normalised headline earnings is included in note 3(a)		A			
Normalised headline (loss)/earnings per share attributable to the ordinary equity holders of the company (cents)		A			
Basic	(cents)		**(76)**	4	(8)
Diluted**	(cents)		**(76)**	4	(8)

* *See note 13 for the details about the restatement resulting from the correction of prior period errors*

** *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*

A: Normalised EBIT, normalised EBITDA, headline losss and normalised headline loss

Headline loss 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, normalised EBITDA and normalised headline (loss)/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 2019 annual financial statements. Normalised headline earnings per share is calculated by dividing normalised earnings by the weighted average number of ordinary shares in issue during the year. Normalised earnings is defined as headline (loss)/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, normalised EBITDA, headline earnings per share and normalised headline earnings per share is not an IFRS requirement and these may not be directly comparable with the same or similar measures disclosed by other companies.

** See note 13 for the details about the restatement resulting from the correction of prior period errors*

3(c) 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.

	Unaudited Half-year 30 June 2020 R'000	Unaudited Half-year 30 June 2019 R'000	Audited Year ended 31 December 2019 R'000
Analysis of revenue by product market:			
Automotive and transport	**537 339**	1 269 702	1 194 723
Building and construction	**66 472**	141 427	259 207
General engineering	**964 463**	1 188 447	3 702 585
Packaging	**2 105 235**	2 647 511	5 552 066
	3 673 509	5 247 087	10 708 581
Geographical analysis of revenue:			
South Africa	**1 295 783**	2 423 336	4 659 035
North America	**511 506**	1 144 844	2 207 098
Europe	**1 238 731**	1 185 506	2 435 942
Asia	**195 618**	204 570	376 207
Middle East	**129 440**	23 691	86 285
Australasia	**41 939**	35 237	75 611
South America	**47 029**	107 832	430 022
Rest of Africa	**213 463**	122 071	438 381
	3 673 509	5 247 087	10 708 581

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

	Unaudited Half-year 30 June 2020 R'000	Unaudited Half-year 30 June 2019 R'000	Audited Year ended 31 December 2019 R'000
The impairment charges recognised in the income statement are as follows:			
Isizinda Aluminium property, plant and equipment	**–**	13 032	13 032
Extrusions Olifantsfontein property, plant and equipment	**8 432**	–	5 789
Rolled Products cash-generating unit – note (a)(i)	**–**	–	1 253 947
Extrusions cash-generating unit – note (a)(ii)	**–**	–	30 130
Total impairment charge	**8 432**	13 032	1 302 898

(a) 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:

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

		Unaudited Half-year 30 June 2020	Audited Year ended 31 December 2019
Comparison of key assumptions			
Weighted average cost of capital – before tax	(%)	**21**	22
Weighted average cost of capital – after tax	(%)	**17**	17
Key assumptions – in year five			
Annual average ZAR/USD		**16,97**	16,04
Sales volume	(tons)	**230 000**	235 000,00
Rolling margin indexed against 2019/8	(USD/ton)	**93**	98
Total manufacturing cost indexed against 2019/8	(USD)	**95**	93
Working capital investment indexed against 2019/8	(USD)	**94**	120
Compound Annual Growth Rate			
Annual average ZAR/USD	(%)	**3.3**	2.0
Sales volume (tons)	(%)	**2.4**	2.9
Rolling margin indexed against 2019/8 (USD/ton)	(%)	**0.3**	1.8
Total manufacturing cost indexed against 2019/8 (USD)	(%)	**(1.4)**	1.1
Working capital investment indexed against 2019/8 (USD)	(%)	**3.1**	5.0

(ii) Extrusions cash-generating unit

The profit performance of Hulamin Extrusions in the first six months of 2020 was disappointing as the benefits anticipated from the restructure of the plants was negatively offset by the impact of COVID-19 and the resultant market impact on our customers due to the extended lockdown. The ongoing uncertainty related to local market performance and Chinese imports has led to a more conservative pre-tax discount rate being applied to this business as an increased market risk premium of 5% was applied. An impairment charge of R81 million (December 2019: R39 million) was calculated based on the value in use model of the continuing business. However, as the fair value less costs of disposal of the assets was calculated to be R17.1 million against a net book value of R25.6 million, the impairment was limited to R8.5 million.

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% (2019: 23.6%), post-tax 17.2% (2019: 17.4%). 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.

5. (Losses)/gains 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 changes in fair value of 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 (including the ineffective portion of cash flow hedge gains and losses), non-derivative financial instruments and forward point gains.

	Unaudited Half-year 30 June 2020 R'000	Unaudited Half-year 30 June 2019 R'000	Audited Year ended 31 December 2019 R'000
Valuation adjustments on non-derivative items	**76 182**	(19 996)	(18 062)
Valuation adjustments on derivative items	**(144 122)**	23 615	97 633
	(67 940)	3 619	79 571

6. Other losses

	Unaudited Half-year 30 June 2020 R'000	Unaudited Restated* Half-year 30 June 2019 R'000	Audited Year ended 31 December 2019 R'000
Loss on disposal of property, plant and equipment	**–**	(410)	(26 455)
Gain on disposal of investment in Almin Metal Industries	**–**	–	2 655
Settlement of share-based payment – Isizinda	**–**	(65 000)	(65 000)
Loss on loss of control of Isizinda	**(11 207)**	–	–
Other	**(113)**	–	–
	(11 320)	(65 410)	(88 800)

7. Taxation

The group calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expense in the interim condensed consolidated statement of profit or loss are:

		Unaudited Half-year 30 June 2020 R'000	Unaudited Restated* Half-year 30 June 2019 R'000	Audited Year ended 31 December 2019 R'000
Current income tax expense		**14 390**	15 538	28 155
Deferred income tax expense		**76 950**	(52 656)	(293 975)
Foreign capital gains tax				465
		91 340	(37 118)	(265 355)
Effective tax rate	(%)	**(65.6)**	19.2	18.1

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 carryforward 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 had both assessed losses and deductible temporary differences for which a deferred tax asset was not recognised as there was significant uncertainty that there would be sufficient taxable temporary differences and sufficient taxable profits in future to absorb the tax asset.

Income tax expense is recognised based on management's estimate of the weighted average effective annual income tax rate expected for the full financial year. During the six-month reporting period, based on an assessment of future cash flows and taxable profits, management is of the view that there remains insufficient future taxable profits and taxable temporary differences to utilise the deferred tax asset, as a result, the group has not recognised any deferred tax assets and has subsequently reversed all previously recognised deferred tax asset in respect of Hulamin Operations amounting to R76 million.

The group's unrecognised deferred tax asset as at 30 June 2020 is R311 million.

* *See note 13 for the details about the restatement resulting from the correction of prior period errors*

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the half year ended 30 June 2020

8. 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:

	Unaudited Half-year 30 June 2020 R'000	Unaudited Half-year 30 June 2019 R'000	Audited Year ended 31 December 2019 R'000
Interest cost incurred on loan from pension fund	**–**	388	6 899
Loan to Isizinda	**71 688**	–	–
Interest earned on loan to Isizinda	**4 120**	–	–

9. Interests in joint ventures

9.1 Loss of control

The shareholders of Isizinda, Bingelela Capital Proprietary Limited (" Bingelela") and Hulamin Operations Proprietary Limited ("Hulamin Operations"), agreed on a restructure of Isizinda during the 2019 financial year, whereby, *inter alia:*

(i) Hulamin 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.

Upon the effective date of sale, the "relevant activities" of Isizinda, in terms of IFRS 10, have changed materially. Accordingly, as of 1 January 2020, management has assessed that Hulamin will no longer control Isizinda in terms of the requirements of IFRS 10.

(ii) Hulamin, in the prior year, has advanced the sum of R50 million to Isizinda. Isizinda had used these funds to declare and pay a dividend of R35 million to Bingelela. The balance of R15 million was 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.

The sale of the slab assets from Isizinda to Hulamin results in a change in the relevant activities of Isizinda. The change in the relevant activities results in the reassessment of whether Hulamin has control over Isizinda. The sale of the slab assets changes the relevant activities of Isizinda to that of a property management company for which unanimous consent is required to make any decisions with regards to the relevant activities. Consequently, Hulamin no longer controls Isizinda and the results of Isizinda are, from 1 January 2020, no longer consolidated.

The loss on loss of control represents the difference between the net assets deconsolidated and the fair value of the investment in joint venture.

	R'000
Total disposal consideration (see note 9.2 below)	**84 373**
Carrying amount of net assets deconsolidated	**(95 580)**
Loss arising from loss of control before and after income tax	**(11 207)**

9.2 Fair value of remaining investment

The fair value of the identifiable assets and liabilities of Isizinda held by the group as at the date of derecognition were:

	R'000
Property, plant and equipment	**77 798**
Trade debtors	**228 787**
Cash and cash equivalents	**7 346**
Income tax asset	**2 757**
Total assets	**316 688**
Deferred tax liabilities	**15 280**
Trade creditors	**207 384**
Current borrowings	**94 024**
Total liabilities	**316 688**
Total identifiable net assets at fair value	**–**

Calculation of fair value

(i) Land and buildings: The recoverable value was determined with reference to market related rental prices per square meter, accepted vacancy rates and maintenance cost per square meter to determine a value in use of unoccupied land and buildings. Inputs were obtained from third party property market reports. Inputs are ranked as level 3 on the fair value hierarchy. The fair value measurement is non-recurring.

The following significant unobservable inputs have the greatest impact in determining the fair value:

Rental price per square meter	R20.18
Maintenance cost per square meter	R5.65
Vacancy rates	4.00%
Capitalisation rate	12.50%

(ii) Plant and machinery: The fair value of idle plant and machinery was determined with reference to the selling price of similar items of plant and machinery adjusted for the cost to dispose. Inputs are ranked as level 3 on the fair value hierarchy. The fair value measurement is non-recurring.

(iii) The fair value of the remaining investment in joint venture and the loan granted to Isizinda recognised on 1 January 2020 was:

	Fair value at derecognition R'000
Fair value of Hulamin Operation's share of the equity component (38.7%)	–
Fair value Hulamin Operation's loan to Isizinda, classified as follows:	**84 373**
Current	**45 643**
Non-current	**38 730**
	84 373

The fair value of the loan to Isizinda was determined with reference to a value in use model of the business and the future cash flows have been estimated using a discount rate of 15.73%. Inputs are ranked as level 3 on the fair value hierarchy. The fair value measurement is non-recurring.

The fair value is sensitive to changes to these unobservable inputs. Changes to these inputs might result in a significantly higher or lower fair value measurement.

9.3 Joint arrangements

(i) **Initial recognition and subsequent measurement**

The group applies IFRS 11, "Joint Arrangements" to all joint arrangements. Investments in joint arrangements are classified as either joint operations or joint ventures, depending on the contractual rights and obligations of each investor. The group has assessed the nature of its joint arrangement and determined it to be a joint venture. Joint ventures are accounted for applying the equity method.

Under the equity method of accounting, interest in joint ventures are initially recognised at cost and adjusted thereafter to recognise the group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the group's share of losses in a joint venture equals or exceeds its interest in the joint venture (which includes any long-term interest that, in substance, forms part of the group's net investment in joint venture), the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of joint ventures.

Unrealised gains/losses on transactions between the group and its joint ventures are eliminated to the extent of the group's interest in the joint venture. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred.

(ii) **Investment in Isizinda Aluminium Proprietary Limited ("Isizinda")**

During the current year the group obtained a 38.7% investment in joint venture, Isizinda through the loss of control over Isizinda as detailed in note 9.1. Isizinda is a separate structured vehicle incorporated and operating in South Africa. The primary activity of Isizinda is the management of properties, including the maintenance thereof, disposal of properties and other assets, sourcing, vetting and ongoing maintenance of tenants, and determining the terms for lease agreements.

In determining whether an entity has control or joint control over an investee, one needs to determine what the investee's relevant activities are and who can direct those activities. The relevant activities are those that significantly impact the economic performance or returns over the investee entity. The memorandum of incorporation and shareholders agreement, requires that the management and decision-making over Isizinda's operations requires unanimous consent of all shareholders. Hulamin Operations holds a protective right to prevent dividend payments before settlement of its loan by Isizinda. This protective right does not prevent the counterparty from exercising its rights regarding the management of Isizinda's operations and decision-making thereon.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the half year ended 30 June 2020

9. Interests in joint ventures continued

9.3 Joint arrangements continued

(ii) **Investment in Isizinda Aluminium Proprietary Limited** continued

IFRS 11.8 provides guidance that all parties control an arrangement when they must act together to direct the activities that significantly affect the returns of the arrangement. As the decision-making over Isizinda's relevant activities requires unanimous consent of both Hulamin Operations and Bingelela, neither party can make decisions on Isizinda's operations independently of the other party. Therefore, Isizinda is jointly controlled by Hulamin Operations and Bingelela.

The contractual arrangement provides the group with only the right to the net assets of the joint arrangement, with the voting rights to the assets and obligation for liability of the joint arrangement resting primarily with Hulamin Operations Proprietary Limited. Under IFRS 11 this joint arrangement is classified as a joint venture and has been included in the consolidated financial statements using the equity method.

Summarised financial information in relation to the joint venture is presented below:

		R'000
Summarised statement of financial position		
Current		
Cash and cash equivalents		860
Other current assets		24 042
Total current asset		**24 902**
Financial liabilities (excluding trade payables)		71 627
Total current liabilities		**71 627**
Non-current		
Property, plant and equipment		90 695
Total non-current asset		**90 695**
Net assets		**43 970**
Summarised statement of comprehensive income		
Revenue from contracts with customers		8 408
Depreciation and amortisation		(2 256)
Finance costs		(4 120)
Finance income		248
Profit before tax		**2 280**
Income tax expense		–
Profit after tax		**2 280**
Total comprehensive income		**2 280**
Reconciliation of summarised financial information presented to the carrying amount of the joint venture		
Opening net assets		–
Adjusted total comprehensive income for the period		2 280
Closing net assets		2 280
Interest in joint venture	(%)	38.7
Carrying value		**882**

10. Commitments and contingent liabilities

	Unaudited Half-year 30 June 2020 R'000	Unaudited Half-year 30 June 2019 R'000	Audited Year ended 31 December 2019 R'000
Capital expenditure contracted for but not yet incurred	**59 367**	127 663	174 882

There are no contingent liabilities to note at 30 June 2020.

11. 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 interim results which may have an impact on the group's reported financial position at that date.

12. 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 financial position.

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 are recurring in nature and all derivative financial assets and liabilities are level 2 in the valuation hierarchy (consistent with June 2019 and December 2019). 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 June 2019 and December 2019).

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 six months ended 30 June 2020.

The carrying amount of each current financial asset and liability approximates its fair value due to the short-term nature of the financial instrument. The non-current financial liability relates to leases, these contracts are held with third parties and the incremental borrowing rates are used to discount the future lease payments and interest to the present value, thus the lease carry amounts approximate fair value.

13. Restatement of financial statements – Correction of prior period errors

(a) Transaction relating to Isizinda Aluminium Proprietary Limited

In terms of an agreement entered into between the shareholders of Isizinda, Bingelela and Hulamin Operations in May 2019, Hulamin would advance the sum of R50 million to Isizinda. Isizinda would use these funds to declare and pay a dividend of R35 million to Bingelela. The balance of R15 million was to be 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 was considered probable. A further dividend of R15 million is to be paid to Bingelela once the property owned by Isizinda 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 constituted 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:

	R'000
Original fair value of equity-settled share-based payment at grant date	**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)**

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the six months ended 30 June 2020

13. Restatement of financial statements – Correction of prior period errors continued

(a) Transaction relating to Isizinda Aluminium Proprietary Limited continued

Due to the fact that this transaction was considered highly probably and the agreement stipulating the terms of the settlement was signed by both parties prior to the reporting date of the interim results, it was determined that a liability of R65 million due to Bingelela would need to be recognised as a liability. To the extent that the payment exceeds the fair value of the option, the difference is recognised as an expense in profit or loss. Hulamin did not account for the unconditional portion of the settlement as at 30 June 2019 in its interim consolidated financial statements. This constitutes a prior period error in terms of IAS 8.5.

(b) Hulamin Containers

Certain errors were identified and corrected in finalising the financial results for Hulamin Containers, a standalone downstream division of the group which forms part of the Hulamin Rolled Products segment, for the year ending 31 December 2019.

The identification of these errors necessitated management to revisit the Hulamin Containers results for the six months ended 30 June 2019 and reconstruct the financial results for this period. This reconstruction has resulted in the restatement of previously presented results.

The impact of the above mentioned restatements is noted below:

	30 June 2019 as originally presented R'000	(a) Transaction relating to Isizinda Aluminium Proprietary Limited R'000	(b) Hulacon Containers R'000	30 June 2019 restated R'000
Statement of financial position (extract)				
Non-current assets				
Property, plant and equipment	1 960 668		(1 685)	1 958 983
Current assets				
Inventories	2 635 849		(20 528)	2 615 321
Equity				
BEE Reserve	51 776	(27 200)		24 576
Retained earnings	1 749 105	(37 800)	(17 848)	1 693 456
Current liabilities				
Trade and other payables	1 242 178	65 000	2 238	1 309 416
Statement of profit or loss (extract)				
Cost of sales of goods	(4 902 994)		(22 745)	(4 925 739)
Administrative and other expenses	(140 044)		(1 705)	(141 749)
Other gains and losses	(410)	(65 000)		(65 410)
Taxation	30 516		6 602	37 118
Net loss for the year attributable to equity holders of the company	**(73 185)**	**(65 000)**	**(17 848)**	**(156 033)**

Basic and diluted earnings per share for the prior year have also been restated, resulting in an decrease of 26 cents (Refer to *** on the face of the consolidated statement of profit or loss)

CORPORATE INFORMATION

HULAMIN LIMITED

(Incorporated in the Republic of South Africa)
Registration number: 1940/013924/06
Share code: HLM
ISIN: ZAE000096210
("Hulamin" or "the Company")

Business and postal address:

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Pietermaritzburg
3201

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Pietermaritzburg
3200

Contact details:

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Facsimile: +27 33 394 6335
Website: www.hulamin.co.za
Email: hulamin@hulamin.co.za

Securities exchange listing:

South Africa (Primary)
JSE Limited

Transfer Secretaries:

Computershare Investor Services Proprietary Limited
Rosebank Towers
15 Biermann Avenue
Rosebank
2196

Private Bag X9000
Saxonwold
2132

Sponsor:

Questco Corporate Advisory Proprietary Limited
First Floor Yellowwood House
Ballywoods Office Park
33 Ballyclare Drive
Bryanston
Johannesburg
2191

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

NNA Matyumza retired with effect 31 July 2020

Executive directors:

RG Jacob (Chief Executive Officer)
AP Krull (Chief Financial Officer) resigned with effect 31 October 2020
MZ Mkhize retired with effect 29 February 2020

Company Secretary :

W Fitchat

Date of SENS release

21 September 2020

HULAMIN

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