



HULAMIN

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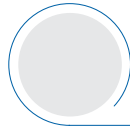
ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

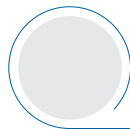




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DIRECTORS' STATEMENT OF RESPONSIBILITY AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The Directors are required by the Companies Act, 2008 of South Africa, to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements of Hulamín Limited and its subsidiaries and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the Company and the Group as at the end of the financial year and the results of its operations and cash flows for the year then ended in conformity with International Financial Reporting Standards, the Companies Act, No 71 of 2008, as amended, and the JSE Listing Requirements. The external auditors are engaged to express an independent opinion on the annual financial statements.

In preparing the annual financial statements, the Company and the Group have used appropriate accounting policies, supported by reasonable and prudent judgement and estimates, and have been prepared in accordance with International Financial Reporting Standards. The directors are of the opinion that the annual financial statements fairly present the financial position of the Company and the Group at 31 December 2019, and the results of its operations and cash flows for the year then ended. The directors have considered the group's past results, expected future performance and reasonable changes thereto, and access to its funding, material and other resources, and in light of this review and the Group's current financial position, are satisfied that the Company and Group have access to adequate resources to continue in operational existence for the foreseeable future as a going concern.

The directors are responsible for the systems of internal control. These are designed to provide reasonable, but not absolute, assurance as to the reliability of the annual financial statements, to adequately safeguard, verify and maintain accountability of assets, and to prevent and detect material misstatement and loss.

Based on the results of a formal documented review of Hulamín's system of internal controls and risk management by the internal audit function during the year, the information and explanations given by management and the comment by the independent auditors on the results of their statutory audit, nothing other than internal control deficiencies at Hulamín Containers has come to the attention of the directors which indicates that, in all material aspects, Hulamín's system of internal controls and risk management is not effective and that the internal financial controls do not form a sound basis for the preparation of reliable annual financial statements. The opinion of the directors is supported by the Group's Audit Committee.

The financial statements have been audited by the independent auditing firm, Ernst & Young Inc., which was given unrestricted access to all financial records and related data, including minutes of all meetings of the shareholders, the Board of Directors and committees of the Board. The directors believe that all representations made to the independent auditors during the audit were valid and appropriate. Their unqualified report appears on pages 11 to 14.

The annual financial statements of the Group and Company set out on pages 15 to 103, which have been prepared on the going-concern basis, were approved by the Board of Directors on 24 June 2020 and were signed on its behalf by:



Thabo Patrick Leeuw
Chairman

Pietermaritzburg, KwaZulu-Natal
24 June 2020



Richard Gordon Jacob
Chief Executive Officer

CERTIFICATE BY COMPANY SECRETARY

I certify that, to the best of my knowledge and belief that the requirements as stated in terms of section 88(2) of the Companies Act, No 71 of 2008, as amended, have been met and that all returns, as required of a public company in terms of the aforementioned Act, have been submitted to the Companies and Intellectual Property Commission and that such returns are true, correct and up to date.



Willem Fitchat
Company Secretary

Pietermaritzburg, KwaZulu-Natal
24 June 2020

DIRECTORS' STATUTORY REPORT

Dear shareholder

The directors have pleasure in presenting their report for the year ended 31 December 2019.

Nature of business

Hulamin Limited ("Hulamin") is the holding company of two main operating segments, Hulamin Rolled Products and Hulamin Extrusions. Their activities are dealt with separately in note 2.1 of the group financial statements.

The activities of Isizinda Aluminium Proprietary Limited ("Isizinda"), which supplies slab to Hulamin Rolled Products, are integrated into the Hulamin Rolled Products segment. Hulamin, through its wholly-owned subsidiary, Hulamin Operations Proprietary Limited ("Hulamin Operations") has ownership of 38.74% in Isizinda, with the remaining shares being held 58.74% by Bingelela Capital Proprietary Limited ('Bingelela') and 2.53% by the Isizinda Employee Share Trust ('the Isizinda Trust').

On 22 May 2019, Hulamin Operations agreed a term sheet with Isizinda, Bingelela, the Isizinda Trust, Bingelela Alloys Proprietary Limited and Bingelela Extrusion Billets Proprietary Limited. The agreement gives effect, *inter alia*, to the purchase by Hulamin Operations from Isizinda the slab business ('the Sale of Business Agreement'), the provision of funding by Hulamin to Isizinda ('the funding agreement') and an evergreen lease agreement between Hulamin and Isizinda for the lease of a portion of the property on which the slab business is located ('lease agreement'). This transaction is more fully described below in the section entitled 'Isizinda transaction'.

Financial results

The net loss attributable to shareholders of the group for the year ended 31 December 2019 amounted to R1 204.5 million (2018: R773.4 million). This translates into a loss per share of 380 cents (2018: loss per share of 242 cents).

The group's results were impacted by impairment charges totalling R1 302.9 million (2018: R1 450.8 million), largely relating to the reduction in the carrying amounts of the net assets of the Hulamin Rolled Products and Hulamin Extrusions cash-generating units to their estimated value in use. These impairments reflect both a reduction in the five-year forecast cash flows of these cash-generating units due to the softer outlook in market conditions, as well as an increase in Hulamin's weighted average cost of capital which takes account of increased uncertainty in the macro environment and the associated rise of risk indicators.

The group recorded a headline loss per share of 76 cents (2018: headline earnings per share of 91 cents) based on the weighted average number of shares in issue during the year.

Factors impacting the decline in headline earnings per share for the current period are:

Hulamin Rolled Products operating performance

Hulamin Rolled Products experienced challenging conditions in 2019, with weak market conditions both locally and internationally. This resulted in Hulamin Rolled Products sales volumes declining 10% to 204 000 tons. Due to the high fixed manufacturing cost base of the business, the impact on operating profit of this sharp reduction in volume has been severe.

As a result of the above Hulamin implemented a cost reduction programme to reduce operating costs by R250 million per annum. This plan has been completed with approximately 250 employees having left the group and contractor reductions, as well as other non-manpower savings, having been recorded.

Hulamin Extrusions operating performance

A major 11-week disruption to the largest press in Hulamin Extrusions in the first quarter had a considerable impact on sales volumes, working capital, customer service and profits. The press has since been restored to full operating capacity. A restructuring of Hulamin Extrusions during 2019 resulted in the closure of its Olifantsfontein plant and the consolidation of production at its Pietermaritzburg operation.

In addition to the items noted above, the financial results were impacted by:

- A negative metal price lag of R68 million (2018: gain of R4 million), resulting from the decline in the aluminium price during 2019;
- Restructuring costs of R114 million (2018: Rnil), resulting from the restructuring programmes referred to above;
- A negative R25 million (2018: positive R61 million) timing mismatch related to aluminium futures not qualifying for hedge accounting in 2018; and
- A charge of R65 million (2018: Rnil) arising from the Isizinda transaction, detailed in the section below.

Solvency and liquidity

The group's net borrowings were R225.9 million and net debt was R272.4 million at 31 December 2019. This represents a net debt to equity ratio of 10.6%.

The annual financial statements presented on pages 15 to 103 set out fully the financial position, results of operations and cash flows for the year.

Isizinda transaction

Hulamin produces the majority of its rolling slab requirements at its Pietermaritzburg plant and sources the balance from Isizinda. The operation of slab casting facilities is therefore one of Hulamin's core business competencies and a strategic element of the business. Bingelela wished to exit the slab casting business to pursue the production of rim alloys and extrusion billet on the property. Accordingly, it was agreed on 22 May 2019 that, *inter alia*, Hulamin Operations would purchase the slab business from Isizinda, effective 1 January 2020, and that Isizinda would use the proceeds from the disposal of the business assets to reduce its loan from Hulamin.

The expansion of the range of products produced at the Bayside casthouse is fundamental to the long-term growth of the local aluminium industry. Hulamin therefore agreed to a funding agreement between Hulamin and Isizinda in terms of which Hulamin advanced R50 million to Isizinda, which has been used by Isizinda to declare a dividend of R35 million to Bingelela, with a further dividend of R15 million to be declared and paid upon Hulamin completing a long-term metal supply agreement with Hillside Aluminium Proprietary Limited.

At the conclusion of the transaction, Hulamin has gained full ownership and control of the production of rolling slab at Bayside, at a cost that is well below replacement value, and will have realised significant productivity gains from the integration of the Pietermaritzburg and Bayside casthouses.

Hulamin has accounted for its investment in Isizinda as a subsidiary and Bingelela's interest in Isizinda as a grant of an equity option. The transaction has resulted in the effective settlement of the equity option held by Bingelela in Isizinda, resulting in a R65 million charge to profit and loss.

Full details of the accounting implications of the Isizinda Transaction has been disclosed in note 6.1(d) of the group financial statements.

Impact of new accounting standards

The group adopted IFRS 16, 'Leases' from 1 January 2020. The modified retrospective approach was adopted without comparatives being restated due to the practicality of having systems and processes implemented at 1 January 2019 to cater for auditable comparative information. The impact of the implementation of IFRS 16, 'Leases' on the statement of financial position on 1 January 2019 was an increase in both right-of-use assets and lease liabilities by R47 million.

Full details of the impact of the implementation of IFRS 16, 'Leases' has been disclosed in note 10(a) of the group financial statements.

Dividends

No dividends were declared for the year ended 31 December 2019 (2018: 18 cents per share).

Share capital

There were no changes in the authorised and issued share capital during the year under review.

During the year, Hulamin Operations purchased 8 183 539 shares on-market to hold treasury shares to settle share scheme obligations in terms of a share repurchase programme approved by shareholders at the annual general meeting held on 15 May 2019.

Details of the authorised, issued and unissued ordinary shares, the share repurchase and the group's share incentive schemes are set out in notes 3.5 and 8.1 of the group financial statements.

Subsidiaries

Details of Hulamin Limited's interest in its subsidiaries are set out in note 6.1 of the group financial statements.

Directorate

Brief curricula vitae of the directors are listed on the company's website. Details of directors' remuneration are reflected in note 8.3.1 of the group financial statements.

Mr P H Staude resigned from the board of directors with effect from 17 June 2019.

Directors' and prescribed officer's shareholdings

At 31 December 2019, the present directors and prescribed officer of the company beneficially held a total of 1 192 359 ordinary no par value shares, equivalent to 0.37 percent, in the company (2018: 1 167 359 ordinary no par value shares, equivalent to 0.37 percent, were held by directors).

Their associates held no ordinary par value shares in the company. Details of the directors' and prescribed officer's shareholdings and interests in the share incentive schemes are set out in notes 8.3.2 and 8.3.3 of the group financial statements.

There has been no change in the directors' and prescribed officer's shareholdings between 31 December 2019 and 24 June 2020.

Holding company

Hulamin Limited is the ultimate holding company at 31 December 2019.

DIRECTORS' STATUTORY REPORT CONTINUED

Auditors

Ernst & Young Inc. continued as auditors of Hulamín Limited and its subsidiaries during the current financial year. At the annual general meeting of 30 July 2020, shareholders will be requested to appoint Ernst & Young Inc. as auditors of Hulamín Limited for the 2020 financial year and it will be noted that Mr S Sithebe will be the individual registered auditor that will undertake the audit.

Secretary

The Company Secretary of Hulamín Limited is Mr W Fitchat. His business and postal address appears in the corporate information section.

Events after the reporting period

Events between the end of the financial year and the date of this report have been detailed in note 1.9 of the group financial statements.

The most noteworthy events are:

- a) The acquisition by Hulamín Operations of the rolling slab casting business and assets of Isizinda in terms of the Isizinda transaction described above;
- b) The economic impact of COVID-19 on Hulamín and its markets;
- c) The US anti-dumping petition against imports of common alloy sheet; and
- d) The arrangement of a long-term metal supply agreement with Hillside Aluminium Proprietary Limited.

The matters b, c and d above have been considered in the directors' assessment of going concern.

Going concern

The consolidated financial statements have been prepared using appropriate accounting policies, supported by reasonable judgements and estimates. The directors believe that the group has adequate resources to continue as a going concern for the foreseeable future.

Despite the deterioration in the group's liquidity position during 2020 to the date of this report, the directors believe that cash generated by Hulamín's operations, identified cash preservation activities, Hulamín's committed unutilised debt facilities as well as additional funding opportunities will enable the group to continue meeting its obligations as they fall due. The consolidated financial statements for the year ended 31 December 2019, therefore, have been prepared on the going concern basis.

In making this assessment, the board has considered the potential impact of the uncertainties surrounding the group which relate to matters b, c and d listed in the section above, together with a consideration of management's scenarios and forecasts to the end of 2021 set out in note 1.10 of the group financial statements. It is recognised, however, that a more adverse impact of the uncertainties than included in these scenarios, or a different combination thereof, could further deteriorate the group's forecasted liquidity position and may require the group to further increase operational flexibility and reduce costs. The group may also, if necessary, be required to consider raising additional loan facilities or equity capital.

Whilst, the board do not consider it likely that either a lack of approval of the Long-Term Negotiated Pricing Agreement Policy by the Department of Mineral Resources and Energy or an adverse adjudication by NERSA of the electricity supply agreement entered into between South32 and Eskom will prevent the continuation of the metal supply agreement entered into between Hulamín and South32 beyond August 2020, the impact of such an event would be substantial for Hulamín, with annual negative cash flows of between R300 million and R400 million.

Approval

The annual financial statements of the group and company set out on pages 15 to 103 have been approved by the board. Signed on behalf of the board of directors by:



Thabo Patrick Leeuw
Chairman

Pietermaritzburg, KwaZulu-Natal
24 June 2020



Richard Gordon Jacob
Chief Executive Officer

REPORT OF THE AUDIT COMMITTEE

Introduction

The Hulamín Group Audit Committee (“the committee” or “Audit Committee”) presents its report in terms of section 94(7)(f) of the Companies Act, No 71 of 2008, as amended (“Companies Act”), and as recommended by King IV, for the financial year ended 31 December 2019.

The Audit Committee is an independent statutory committee appointed by the shareholders. Further duties are delegated to the committee by the Board of Directors of the company.

Membership and meetings

The committee comprises three independent non-executive directors. All members of the committee have the requisite financial knowledge and commercial skills and experience to contribute effectively to committee deliberations. The members were appointed by shareholders at the 2019 annual general meeting of the company in terms of section 94(2) of the Companies Act. For the year under review, the Audit Committee comprised:

- N Maharajh (Chairman)
- NNA Matyumza
- CA Boles

The Chief Financial Officer, Head of Internal Audit and representatives from the external and internal auditors attend meetings by invitation. Other members of the Board and management team attend as required. The committee meets separately with the external and internal auditors at least once a year without management present, to ensure that all relevant matters have been identified and discussed without undue influence.

The Audit Committee had three scheduled meetings during the year.

Full details of membership of the committee and attendance at committee meetings during the financial year are also set out in the Corporate Governance report available on the Hulamín website at www.hulamin.co.za.

Role and responsibilities

The role and responsibilities of the committee include statutory duties per the Companies Act, and further responsibilities assigned to it by the Board. The committee executed its duties in terms of the requirements of King IV. The Audit Committee fulfils an oversight role regarding financial reporting risks, internal financial controls, fraud risk and information technology risks as it relates to financial reporting.

The key responsibilities of the committee are as follows:

- Ensuring the integrity of the financial reporting process, including sound systems of internal control and financial risk management;
- Review of integrated annual reports, annual financial statements, interim reports and other financial announcements, including the accounting principles and policies adopted therein and compliance with JSE regulations;
- Monitoring the performance and effectiveness of the independent external auditors and evaluating the qualifications, expertise, resources, fees, scope of work and independence of the external auditors prior to recommending their appointment to the Board and shareholders;
- Approving the internal audit workplan and overseeing the conduct of the internal audit and the implementation of internal control enhancements;
- Approving any non-audit services provided by the external auditors;
- Considering the appropriateness of the expertise, resources and experience of the finance function and of the Chief Financial Officer;
- Approving the appointment of an external assurance provider in respect of the sustainability report;
- Performing statutory duties in terms of the Companies Act, as well as to report to the shareholders in respect of the financial year, including those matters in terms of section 94(7)(f) of the Companies Act;
- Ensuring that the combined assurance model introduced by the King IV Code is applied to provide a coordinated approach to assurance activities;
- Providing oversight of the risk management through monitoring the implementation of the group risk policy and group risk plan as approved by the Board;
- Oversee the governance of technology and information by setting the direction on how technology and information should be approached and addressed, and recommend to the Board the policy that gives effect to the set direction of technology and information; and
- Review and recommend to the Board for authorisation the group’s treasury policy, authority limits and funding, investment and treasury risk management strategies.

Performance of duties

The Audit Committee is satisfied that, during the year under review, it complied with its legal, regulatory and other responsibilities, conducted its affairs in compliance with Board-approved terms of reference, and discharged its responsibilities contained therein.

The committee is therefore pleased to report that it discharged the following responsibilities for the period under review:

REPORT OF THE AUDIT COMMITTEE CONTINUED

External auditor appointment and independence

The committee has satisfied itself that the external auditor was independent of the company, as set out in section 94(8) of the Companies Act, which includes consideration of previous appointments of the auditor, the extent of other work undertaken by the auditor for the company and compliance with criteria relating to independence or conflicts of interest as prescribed by the Independent Regulatory Board for Auditors.

The committee ensured that the appointment of the auditor complied with the Companies Act, and any other legislation relating to the appointment of auditors.

In respect of the 2019 financial year, the committee was satisfied with the quality and effectiveness of the audit process of Ernst & Young Inc. and that Ernst & Young Inc. and the designated audit partner, Mr S Sithebe, were accredited as such on the JSE list of auditors and their advisors. As required by the JSE Listings Requirements, the company received a summary from Ernst & Young of its latest IRBA inspection report, responses thereto and any remedial actions in respect thereof, as well as the quality control monitoring system applied by Ernst & Young.

The committee, in consultation with executive management, agreed to the engagement letter, terms, audit plan and audit fees for the 2019 year as disclosed in note 2.4.5 of the financial statements of the group.

There is a formal procedure that governs the process whereby the auditor is considered for non-audit services. The committee considers the approval of non-audit services where the approval will add value to the external audit process or the anticipated engagement is superior to other service providers. The committee approved all engagements for the provision of non-audit services by the external auditor, in terms of the established policy for non-audit services. In terms of the policy the cumulative fee for non-audit services should not exceed 25% of the annual audit fee without the specific approval of the Audit Committee.

Internal audit

The committee is responsible for ensuring that the company's internal audit function is independent and has the necessary resources, standing and authority within the company to enable it to discharge its duties in terms of the established internal audit charter. Furthermore, the committee oversees cooperation between the internal and external auditors and serves as a link between the Board of Directors and these functions.

The internal audit function reports centrally and is responsible for reviewing and providing assurance on the adequacy of the internal control environment across the group's operations.

An internal audit charter is in place which defines the function, responsibility and authority of the group's internal audit activity. The internal audit function's 2019 annual audit plan was approved by the committee.

The Head of Internal Audit had direct access to the committee, was responsible for reporting the findings of the internal audit work against the agreed internal audit plan to the committee on a regular basis and had direct access to the committee.

During the year the committee satisfied itself that the Head of Internal Audit was competent and possessed the appropriate expertise and experience to act in this capacity, and believes that the group's internal audit function met its objectives and that the adequate procedures were in place to ensure that the group complies with its legal, regulatory and other responsibilities.

During the year under review, the committee met with the internal and external auditors without management being present.

Internal financial controls

The committee has overseen a process by which internal audit performed a written assessment of the effectiveness of the company's system of internal control and risk management, including internal financial controls.

Based on the results of the formal documented review of the company's system of internal financial controls by the internal audit function, the information and explanations given by management and the comment by the independent auditors on the results of their statutory audit, including a review of significant issues raised by the internal audit processes and the adequacy of corrective action in response thereto, nothing other than internal control deficiencies at Hulamin Containers has come to the attention of the committee which indicates that, in all material aspects, Hulamin's system of internal financial controls was not operating effectively during the year under review.

Certain internal control deficiencies were identified in finalising the financial results for Hulamin Containers, a business unit forming part of the Hulamin Rolled Products segment, for the year ending 31 December 2019. This led to the suspension of the members of the finance function at the business unit and a reconstruction of the financial results. The committee is monitoring remedial action in relation to the internal control environment at this business unit.

This written assessment by internal audit formed the basis for the committee's recommendation in this regard to the Board, in order for the Board to report thereon. The Board's opinion on the effectiveness of the system of internal controls and risk management is included on page 3. The committee supports the opinion of the Board in this regard.

Governance of risk

The Board has assigned oversight of the company's risk management function to the Risk Committee. The chairman of the Audit Committee attended meetings of the Risk Committee as a member thereof for the year under review to ensure that information relevant to these respective committees was transferred regularly. The Audit Committee fulfils an oversight role regarding financial reporting risks, internal financial controls, and fraud and information technology risks as they relate to financial reporting.

Evaluation of the expertise and experience of the financial director and finance function

The committee has satisfied itself during the year under review that the Chief Financial Officer has appropriate expertise and experience.

The committee is of the view that the finance function needs to be strengthened and has commenced the process to effect this.

Financial statements and accounting practices

The committee has reviewed the accounting policies and the financial statements of the company and the group for the year ended 31 December 2019 and is satisfied that they are appropriate and comply with International Financial Reporting Standards.

The committee has considered and discussed the annual financial statements and associated reports with both management and the external auditors.

During this process, the committee:

- evaluated significant judgements and reporting decisions;
- determined that the going-concern basis of reporting is appropriate;
- evaluated the material factors and risks that could impact on the annual financial statements and associated reports;
- evaluated the completeness of the financial and sustainability discussion and disclosures; and
- discussed the treatment of significant and unusual transactions with management and the external auditors.

The significant audit and accounting matters considered by the Committee in relation to the 2019 annual financial statements were:

- Impairment of property, plant and equipment and related fair value less costs to sell assessments;
- Accounting for the Isizinda transaction;
- The adoption of accounting standard, IFRS 16, "Leases";
- Impact of the control breakdown in Hulamin Containers; and
- The recognition of deferred tax assets.

The auditors have issued an unqualified audit opinion.

Integrated reporting, sustainability and combined assurance

The committee fulfils an oversight role regarding the company's integrated report and the reporting process.

The committee considered the company's sustainability information as disclosed in the integrated report and separate sustainability report of the group for the year ending 31 December 2019 and has assessed its consistency with operational and other information known to committee members, and for consistency with the annual financial statements. The committee discussed the sustainability information with management and has considered the conclusion of the external assurance provider. The committee is satisfied that the sustainability information is reliable and consistent with the financial results.

The committee recommended to the Board the appointment of KPMG Services (Pty) Ltd to perform an assurance engagement on key performance indicators included in the company's 2019 sustainability reporting. The committee determined the scope of this assurance engagement and satisfied itself as to the independence and competency of the external assurance provider.

The committee ensures the combined assurance model is appropriate to address the significant risks facing the business and is satisfied that the company has optimised the assurance coverage obtained from management, and internal and external assurance providers for the year under review.

The committee recommended the 2019 integrated report for approval by the Board of Directors.

REPORT OF THE AUDIT COMMITTEE CONTINUED

Technology and information

The committee oversees the governance of technology and information by setting the direction on how technology and information should be approached and addressed.

The committee reviewed the governance structure, key risks, internal controls and activities of the technology and information function during the year. The key matters which are being attended to relate to a cybersecurity control and resilience improvement programme, and an updated IT strategy, which includes the modernisation of Hulamin's application environment and a digitalisation programme.

Treasury

The committee has reviewed and recommended to the Board for approval the group's treasury strategy, policy and authority limits. The committee has reviewed the risk management activities report as provided by the Treasury Committee and has found the risk management activities to be sufficient to mitigate risk.

Going concern

The committee has reviewed a documented assessment, including key assumptions, prepared by management of the going concern status of the company and the group as at 31 December 2019 and has made a recommendation to the Board in this respect. The Board's statement on the going-concern status of the company and the group, as supported by the committee, is detailed on page 3.

On behalf of the Audit Committee



Naran Maharajh

Chairman of the Audit Committee

Pietermaritzburg, KwaZulu-Natal

24 June 2020

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Hulammin Limited

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of Hulammin Limited (the "Company") and its subsidiaries (the "Group") set out on pages 15 to 103, which comprise the consolidated and separate statements of financial position as at 31 December 2019, and the consolidated and separate statements of profit or loss and other comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group and Company as at 31 December 2019, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated and separate Financial Statements section of our report. We are independent of the group and company in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised November 2018) (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements of the group and company and in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits of the group and company and in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA code) and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated and separate financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated and separate financial statements.

INDEPENDENT AUDITOR'S REPORT CONTINUED

The Key Audit Matter applies equally to the audit of the consolidated and separate financial statements.

Key Audit Matter	How our audit addressed the key audit matter
<p>Impairment assessment of the rolled products cash generating unit (CGU)</p> <p>At year end, the value of the rolled products CGU amounted to R2.5 billion representing 60% (2018: 58%) of total assets and 100% (2018: 100%) of total equity.</p> <p><i>IAS 36 Impairment of assets</i> require an impairment test of non-financial assets to be performed when there are indicators that these may be impaired.</p> <p>The Group's market capitalization was below its net asset value as at 31 December 2019, indicating that the carrying value of the Group's assets may be impaired.</p> <p>Management performed an impairment test which included the following key assumptions which affect the impairment test, and required significant management judgement to be exercised:</p> <ul style="list-style-type: none">• Determining of cash generating units (CGU).• Future sales volumes.• Rolling margins, considering current and anticipated changes in market conditions and product mix.• Forecasted currency exchange rates. <p>The discount rate applied by management was based on the capital asset pricing model which included inputs that are subjective.</p> <p>We considered management's rolled products CGU impairment test of to be a key audit matter due to the size of the balances and due to the complexity, estimation and sensitivity of the cash flow forecast used in the calculation of the of the recoverable amounts:</p> <p>Management's disclosure on impairment consideration are detailed in note 2.4.4 of the Annual Financial Statements.</p>	<p>Our audit procedures for the Impairment assessment of the rolled products CGU, amongst others, included :</p> <ul style="list-style-type: none">• We considered management's assessment of the existence of an impairment indicator against the applicable requirements of <i>IAS 36 Impairment of assets</i>.• We assessed the basis adopted by management in the preparation of the discounted cash flow valuation model against the applicable requirements of <i>IAS 36 Impairment of assets</i>.• We tested the mathematical accuracy of the discounted cash flow valuation model and its formulas• We assessed the management's determination of the cash generating units against the applicable requirements of <i>IAS 36 Impairment of assets</i>.• We interrogated the integrity of supporting calculations and considered the reasonableness of the following key inputs: future sales volume forecasts, forecasted currency rates, rolling margins and cost saving initiatives, with reference to the board approved business plan, external market data and past performance of the CGU. Market data considered included forecast exchange rates, aluminium prices, geographic premiums and inflation rates.• We considered the level of precision with which management had historically prepared their cash flow forecasts by comparing them to actual performance.• We involved our valuation experts, who evaluated the reasonableness of the discount rate as well as the methodology used by management in forecasting the ZAR/USD exchange rates beyond a two-year period premium with reference to independent market data and in light of our knowledge of the industry.• We performed our own independent sensitivity calculations to quantify the extent of downside changes required to result further in impairment and evaluated this against management's sensitivity analyses.• We have assessed the adequacy of the accounting for the resulting impairment of the Rolled Products and Extrusions cash generating units as well as the disclosures made in the Annual Financial Statements in accordance with <i>IAS 36 Impairment of Assets</i>.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Directors' Statutory Report, the Audit Committee's Report and the Company Secretary's Certificate as required by the Companies Act of South Africa, which we obtained prior to the date of this report, and the Annual Report, which is expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's and group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the Group and Company audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT CONTINUED

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Ernst & Young Inc. has been the auditor of Hulamin Limited for two years.

Ernst & Young Inc.

Ernst & Young Inc.

Director: Sifiso Sithebe

Registered Auditor Chartered Accountant (SA)

25 June 2020

Durban

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2019

	Notes	2019 R'000	2018 R'000
ASSETS			
Non-current assets			
Property, plant and equipment	5.1	813 570	1 901 794
Right-of-use assets	5.2	17 108	–
Intangible assets	5.3	13 157	43 136
Retirement benefit asset	8.2(c)	95 560	133 860
Deferred tax asset	9.2(a)	93 130	17 060
		1 032 525	2 095 850
Current assets			
Inventories	4.2	2 176 408	2 262 547
Trade and other receivables	4.3 (b)	804 415	1 530 279
Derivative financial assets	7.1(d)	88 661	71 281
Cash and cash equivalents	4.1	126 207	525 981
Income tax asset	9.3	17 562	18 992
		3 213 253	4 409 080
Non-current assets classified as held for sale	6.2	14 250	6 529
Total assets		4 260 028	6 511 459
EQUITY			
Stated capital and consolidated shares	3.5	1 817 580	1 817 580
Treasury shares	3.5	(22 000)	–
BEE reserve	SOCIE	24 576	51 776
Employee share-based payment reserve		63 305	57 914
Hedging reserve	7.1(d)	12 505	(6 280)
Retained earnings		674 342	1 881 631
Total equity		2 570 308	3 802 621
LIABILITIES			
Non-current liabilities			
Non-current borrowings	3.1	–	54 000
Lease liabilities	3.3	34 405	–
Deferred tax liability	9.2(b)	16 990	221 060
Retirement benefit obligations	8.2(d),(e)	225 007	251 738
		276 402	526 798
Current liabilities			
Trade and other payables	4.4	1 005 121	1 380 209
Current borrowings	3.2	352 083	765 783
Lease liabilities	3.3	12 088	–
Derivative financial liabilities	7.1(d)	44 026	34 011
Income tax liability	9.3	–	2 037
		1 413 318	2 182 040
Total liabilities		1 689 720	2 708 838
Total equity and liabilities		4 260 028	6 511 459

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2019

	Notes	2019 R'000	2018 R'000
Revenue from contracts with customers	2.3	10 708 581	11 533 818
Cost of sales of goods	2.4.1	(9 929 196)	(10 583 507)
Cost of providing services	2.4.1	(76 066)	(82 422)
Gross profit		703 319	867 889
Selling, marketing and distribution expenses	2.4.1	(520 020)	(448 237)
Administrative and other expenses	2.4.1; 2.4.5	(290 670)	(194 806)
Net impairment losses on financial assets	4.3(c)	(1 906)	(671)
Impairment of property, plant and equipment and intangible assets	2.4.4	(1 302 898)	(1450 814)
Gains and losses on financial instruments related to trading activities	2.4.2	79 571	276 963
Other gains and losses	2.4.3	(88 800)	(231)
Operating loss		(1 421 404)	(949 907)
Interest income	9.1	8 021	3 887
Interest expense	9.1	(56 513)	(77 588)
Loss before tax		(1 469 896)	(1 023 608)
Taxation	9.3	265 355	250 197
Net loss for the year attributable to equity holders of the company		(1 204 541)	(773 411)
Loss per share attributable to the ordinary equity holders of the company:			
Basic loss per share	(cents) 2.2	(380)	(242)
Diluted loss per share*	(cents) 2.2	(380)	(242)

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2019

	Notes	2019 R'000	2018 R'000
Net loss for the year attributable to equity holders of the company		(1 204 541)	(773 411)
Other comprehensive income/(loss) for the year		46 807	(22 825)
Items that may be reclassified subsequently to profit or loss:		18 785	(46 279)
Cash flow hedges transferred to the statement of profit or loss	7.1(d)	(54 750)	85 776
Cash flow hedges created/(reversed)	7.1(d)	57 039	(150 053)
Cost of hedging	7.1(d)	23 801	–
Income tax relating to these items	9.2	(7 305)	17 998
Items that will not be reclassified to profit or loss:		28 022	23 454
Remeasurements of retirement benefit obligation	8.2(d),(e)	35 478	33 395
Remeasurements of retirement benefit asset	8.2(c)	955	(2 448)
Income tax relating to these items	9.2	(8 411)	(7 493)
Total comprehensive loss for the year attributable to equity holders of the company		(1 157 734)	(796 236)

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2019

	Notes	2019 R'000	2018 R'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	A	625 512	485 791
Interest paid		(62 754)	(84 378)
Interest received		8 021	3 887
Income taxes paid		(37 492)	(73 682)
Net cash inflow from operating activities		533 287	331 618
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment	5.1	(305 095)	(210 538)
Additions to intangible assets	5.3	(6 222)	(31 206)
Net cash outflow from investing activities		(311 317)	(241 744)
Cash flows before financing activities ("free cash flow")		221 970	89 874
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of current portion of non-current borrowings		(54 000)	(54 000)
Net (repayment of)/proceeds from current borrowings*		(413 700)	445 084
Settlement of employee share incentives schemes	SOCIE	(305)	(9 230)
Payment of principal portion of lease liabilities	3.3	(14 675)	–
Dividends paid	SOCIE	(58 202)	(48 502)
Acquisition of treasury shares	3.5	(22 000)	–
Settlement payments in respect of share-based payment – Isizinda	6.1(d)	(50 000)	–
Net cash (outflow)/inflow from financing activities		(612 882)	333 352
Net (decrease)/increase in cash and cash equivalents		(390 912)	423 226
Cash and cash equivalents at beginning of year	4.1	525 981	111 472
Effects of exchange rate changes on cash and cash equivalents	2.4.2	(8 862)	(8 717)
Cash and cash equivalents at end of year	4.1	126 207	525 981

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

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS

for the year ended 31 December 2018

	Notes	2019 R'000	2018 R'000
A Cash generated from operations			
Loss before tax		(1 469 896)	(1 023 608)
Net interest cost		48 492	73 701
Operating loss		(1 421 404)	(949 907)
Adjusted for non-cash flow items:			
Depreciation	5.1	107 625	222 271
Depreciation of right-of-use assets	5.2	16 483	–
Amortisation of intangible assets	5.3	12 116	19 003
Impairment of property, plant and equipment and intangible assets	2.4.4	1 302 898	1 450 814
Loss on disposal of property, plant and equipment	2.4.3	26 455	231
Net movement in retirement benefit asset and obligations	8.2	48 002	9 112
Value of employee services received under share schemes	2.4.1(a)	6 968	10 008
Fair value changes on derivatives		18 726	(1 048)
Foreign exchange losses/(gains) on cash and cash equivalents	2.4.2	8 862	8 717
Gain on sale of investment	2.4.3	(2 655)	–
Currency exchange translation on foreign debtors and creditors	2.4.2	9 200	(95 990)
Settlement of share-based payment – Isizinda	2.4.3; 6.1(d)	65 000	–
Other non-cash items		(479)	149
Cash generated before working capital changes		197 797	673 360
Changes in working capital	B	427 715	(187 569)
Cash generated from operations		625 512	485 791
B Changes in working capital			
Decrease/(increase) in inventories		86 139	(112 486)
Decrease/(increase) in trade and other receivables		702 704	(189 137)
(Decrease)/increase in trade and other payables		(361 128)	114 054
		427 715	(187 569)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2019

Note	Stated capital and Consolidated shares A R'000	Treasury shares B R'000	Hedging reserve C R'000	Employee Share-based payment reserve D R'000	BEE reserve E R'000	Retained earnings F R'000	Total equity R'000
Balance at 31 December 2017	1 817 580	–	39 999	71 201	51 776	2 668 268	4 648 824
Net loss for the year	–	–	–	–	–	(773 411)	(773 411)
Other comprehensive (loss)/income net of tax:							
– cash flow hedges	–	–	(46 279)	–	–	–	(46 279)
– retirement benefit assets and obligations	–	–	–	–	–	23 454	23 454
Equity settled share-based payment schemes:							
– Value of employee services (note 2.4.1)	–	–	–	10 008	–	–	10 008
– Settlement and forfeiture of employee share incentives	–	–	–	(23 295)	–	14 065	(9 230)
– Tax on employee share incentives	–	–	–	–	–	(2 243)	(2 243)
Dividend paid*	–	–	–	–	–	(48 502)	(48 502)
Balance at 31 December 2018	1 817 580	–	(6 280)	57 914	51 776	1 881 631	3 802 621
Net loss for the year	–	–	–	–	–	(1 204 541)	(1 204 541)
Other comprehensive (loss)/income net of tax:							
– cash flow hedges	–	–	18 785	–	–	–	18 785
– retirement benefit assets and obligations	–	–	–	–	–	28 022	28 022
Equity settled share-based payment schemes:							
– Value of employee services (note 2.4.1)	–	–	–	6 968	–	–	6 968
– Settlement and forfeiture of employee share incentives	–	–	–	(1 577)	–	1 272	(305)
– Settlement of equity-settled share-based payment (note 6.1(d))	–	–	–	–	(27 200)	27 200	–
– Tax on employee share incentives	–	–	–	–	–	(1 040)	(1 040)
Acquisition of treasury shares	–	(22 000)	–	–	–	–	(22 000)
Dividend paid (note 3.6)*	–	–	–	–	–	(58 202)	(58 202)
Balance at 31 December 2019	1 817 580	(22 000)	12 505	63 305	24 576	674 342	2 570 308

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

NOTES TO THE STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

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. Further information of the group's stated capital and consolidation shares is presented in note 3.5.

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.

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. Further analysis of the reserve is presented in note 7.1(d)(iii).

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. Further details of share options outstanding is provided in notes 8.1(c) and 8.1(d)(ii).

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. Further details of these transactions is provided in notes 8.1(d)(i) and 8.1(d)(iii).

F: Retained earnings

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

1. General

1.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), IFRIC interpretations, SAICA Financial Reporting guides as issued by the Accounting Practices Committee, Financial Pronouncements as issued by Financial Reporting Standards Council, the requirements of the Companies Act, no 71 of 2008, as amended, and the Listing Requirements of the JSE Limited.

The basis of preparation is consistent with the prior year, except for new and revised standards and interpretations adopted per note 1.2(a) to the financial statements.

The consolidated financial statements are prepared using the historical cost basis except for certain items as set out in the accounting policies which follow (see the accounting policies relating to derivative financial instruments, share-based payments, retirement benefit assets and obligations and non-current assets held for sale). The consolidated financial statements are presented in South African Rands and all values are rounded to the nearest thousand (R'000), except when otherwise indicated.

The consolidated financial statements are prepared on the going-concern basis using accrual accounting (refer to note 1.10).

Assets and liabilities and income and expenses are not offset unless specifically permitted by an accounting standard. Financial assets and financial liabilities are offset and the net amount reported only when a legally enforceable right to offset exists and the intention is either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading; and
- Expected to be realised within twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading; and
- It is due to be settled within twelve months after the reporting period or there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Assets and liabilities classified as held for sale are presented separately as current items in the statement of Financial position.

Accounting policies (as shown throughout this report) are the specific principles, bases, conventions, rules and practices applied in preparing and presenting financial statements. Changes in accounting policies resulting from the initial application of a standard or an interpretation are accounted for in accordance with the transitional provisions in the accounting standard. If no such guidance is given, they are applied retrospectively.

1.2 New accounting standards

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

Pronouncement	Effective date	Impact
IFRS 16, 'Leases'	1 January 2019	<p>The introduction of IFRS 16, 'Leases' requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for all lease contracts.</p> <p>The group has reviewed existing lease contracts and service arrangements to determine right-of-use assets. On transition the group has applied the modified retrospective approach and has not accounted for leases and service arrangements which come to an end within 12-months from the effective date in accordance with IFRS 16, 'Leases'.</p> <p>IFRS 16, 'Leases' was generally adopted without restating comparative information in accordance with the transitional provisions.</p> <p>Refer to note 10(a) for further information on how the new leases standard has impacted the group results.</p>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

1. General continued

1.2 New accounting standards continued

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

Pronouncement	Effective date	Impact
Amendments to IFRS 9, Financial instruments on prepayment features with negative compensation	1 January 2019	The amendment allows instruments with symmetric prepayment options to qualify for amortised cost or fair value through other comprehensive income measurement where they fail the 'solely a payment of principle and interest' condition The application of the revised standard has had no impact on the results of the group.
Amendments to IAS 19, 'Employee benefits', Plan amendment, curtailment or settlement	1 January 2019	If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service costs and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The application of the revised standard has had no impact on the results of the group.
Annual improvements 2015 to 2017 cycle	1 January 2019	The annual improvements cycle for the period 2015 to 2017 makes the following amendments: <ul style="list-style-type: none"> • IFRS 3, 'Business Combinations' and IFRS 11, 'Joint Arrangements'. The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation it remeasures the previously held interest and the amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation the entity does not remeasure the previously held interest. • IAS 12, 'Income Tax'. The amendments provide clarity that the requirements of paragraph 52B apply to all income tax consequences of dividends. • IAS 23, 'Borrowing Costs'. The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity generally borrows when calculating the capitalisation rate on general borrowings. None of the above revised standards have had an impact on the results of the group.
IFRIC 23, 'Uncertainty over income tax'	1 January 2019	The IFRIC clarifies the accounting treatment in determining taxable profits, tax bases, unused tax credits and tax rates when there is uncertainty over income tax treatments under IAS 12. The application of the revised standard has had no impact on the results of the group.

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

Hulamin will adopt these standards on their effective dates:

Pronouncement	Effective date	Impact
Definition of a Business – Amendments to IFRS 3	1 January 2020	The amendment aims to: <ul style="list-style-type: none"> • clarify the minimum requirements for a business, • remove the assessment of whether market participants are capable of replacing any missing elements, • add guidance to help entities assess whether an acquired process is substantive, • narrow the definitions of a business and of outputs, and • introduce an optional fair value concentration test. The amendments apply prospectively to transactions or other events that occur on or after the date of first application. The amendments to the standard are unlikely to have a material impact on the group's current operating structures. Future transactions involving a 'business' as defined will be reassessed in accordance with the revised standard.

Pronouncement	Effective date	Impact
Definition of Material – Amendments to IAS 1 and IAS 8	1 January 2020	<p>The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.</p> <p>The amendments must be applied prospectively. Early application is permitted and must be disclosed.</p> <p>The impact of this standard cannot be reasonably estimated as specific transactions/events trigger its application.</p>
Revised Conceptual Framework for Financial Reporting	1 January 2020	<p>The revised Conceptual Framework for Financial Reporting (the Conceptual Framework) is not a standard, and none of the concepts override those in any standard or any requirements in a standard. The purpose of the Conceptual Framework is to assist the Board in developing standards, to help preparers develop consistent accounting policies if there is no applicable standard in place and to assist all parties to understand and interpret the standards.</p> <p>The Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.</p> <p>The impact of this standard cannot be reasonably estimated as specific transactions/events trigger its application.</p>
IFRS 17, 'Insurance contracts'	1 January 2023 Early application is permitted for entities that apply IFRS 9, 'Financial Instruments', and IFRS 15, 'Revenue from Contracts with Customers', at or before the date of initial application of IFRS 17.	<p>The IASB issued IFRS 17, 'Insurance contracts', and thereby started a new epoch of accounting for insurers. Whereas the current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and on key performance indicators.</p> <p>Under IFRS 17, the general model requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period.</p> <p>Aside from this general model, the standard provides, as a simplification, the premium allocation approach. This simplified approach is applicable for certain types of contract, including those with a coverage period of one year or less.</p> <p>For insurance contracts with direct participation features, the variable fee approach applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin. As a consequence, the fair value changes are not recognised in profit or loss in the period in which they occur but over the remaining life of the contract.</p> <p>Hulamin is not an insurance company and thus this amendment will not have an impact on the group.</p>
COVID-19 Related Rent Concessions (Amendment to IFRS 16)	Annual reporting periods beginning on or after 1 June 2020	<p>The changes in COVID-19 Related Rent Concessions (Amendment to IFRS 16) amend IFRS 16 to:</p> <ol style="list-style-type: none"> 1. provide lessees with exemption from assessing whether a COVID-19 related rent concession is a lease modification; 2. require lessees that apply the exemption to account for COVID-19-related rent concessions as if they were not lease modifications; 3. require lessees that apply the exemption to disclose that fact; and 4. require lessees to apply the exemption retrospectively in accordance with IAS 8, but not require them to restate prior period figures. <p>The main change from the proposal in the exposure draft is that the IASB had proposed that the practical expedient should only be available for lease payments originally due in 2020. However, after having considered the feedback to the exposure draft, the IASB decided to extend this period to June 2021 to also capture rent concessions granted now and lasting for 12 months.</p> <p>As Hulamin has not entered into rent concessions with its lessors, this standard is not expected to have a material impact on the group.</p>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

1. General continued

1.3 Fair value measurement

The group measures financial instruments such as derivatives at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

External valuers are involved for valuation of significant assets. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

For the purpose of fair value disclosures, the group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

Fair-value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarised in the following notes:

- Assets held for sale (note 6.2)
- Derivative assets and liabilities (note 7.1)
- Impairment of non-financial assets (note 2.4.4)

1.4 Accounting for assets and liabilities

(i) Recognition

Assets and liabilities are recognised when it is probable that future economic benefits associated with them will flow to and from the group respectively, and when their costs or fair values can be measured reliably.

Financial instruments are recognised when the company becomes a party to the contractual provisions of the instrument. Financial assets are recognised based on trade dates.

(ii) Derecognition

Financial assets, or parts thereof, are derecognised when the contractual rights to receive the cash flows have expired, been transferred and/or control has passed.

All other assets are derecognised on disposal or when they no longer meet the definition of an "asset" as prescribed by the Framework.

Financial liabilities are derecognised when the relevant obligation has either been discharged, cancelled or has expired.

1.5 Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI) and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the group has applied the practical expedient, the group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the group has applied the practical expedient are measured at the transaction price as disclosed in note 2.3 Revenue from contracts with customers.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

Subsequent measurement

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The group's financial assets at amortised cost includes trade receivables.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the group's consolidated statement of financial position) when the rights to receive cash flows from the asset have expired or the group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the group has transferred substantially all the risks and rewards of the asset, or (b) the group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment

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. Therefore, the group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

(ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, at amortised cost, financial liabilities at fair value through profit or loss, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The group's financial liabilities include trade and other payables, loans and borrowings and derivative financial instruments.

Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at fair value through profit or loss, or
- Financial liabilities at amortised cost (loans and borrowings).

Financial liabilities at amortised cost (loans and borrowings) is the category most relevant to the group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

The accounting policy on derivatives is detailed in note 7.1.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

1. General continued

1.6 Significant accounting judgements, estimates and assumptions

The preparation of the group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

(i) Methods of depreciation, useful lives and residual values of assets

Items of property, plant and equipment are depreciated over their useful lives taking into account residual values. The estimated useful lives and residual values are assessed annually taking into account technological innovation, product life cycles, maintenance programmes and projected disposal values.

(ii) Post-retirement benefit obligations

Actuarial valuations of post-retirement benefit obligations are based on assumptions which include employee turnover, mortality rates, discount rate, expected long-term rate of return on retirement plan assets, health care costs, inflation rates and salary increments. Management experts are used to assist with valuations of post employment benefit obligations. Refer to note 8.2.

(iii) Share-based payment transactions

The critical estimates and assumptions used in the IFRS 2 calculations are disclosed in note 8.1 of the group financial statements. Management experts are used to determine the grant date fair value of options granted. Management assesses the likelihood of achieving non-market performance measures based on approved budgets and the five-year business plan.

(iv) Impairment of non-financial assets

The recoverable amounts of the assets (or cash-generating units to which they belong) disclosed in notes 5.1 and 5.2 of the group financial statements were estimated at period end in terms of IAS 36.

The critical estimates and assumptions used in the recoverable amount calculations in respect of the assets of the group are disclosed in note 2.4.4 of the group financial statements. Forward-looking financial information is based on board-approved business plans.

(v) Investment in Isizinda Aluminium (Pty) Ltd ("Isizinda")

The group holds a 38.7% (2018: 38.7%) interest in Isizinda. Management have assessed the investment in Isizinda to represent control in terms of the requirements of IFRS 10. These requirements were assessed in conjunction with the substance of various contractual terms including those relating to the funding arrangements and operating activities of Isizinda. Hulamin manages and directs the relevant activities of Isizinda through the Strategic Operator Agreement, read with reference to its Slab Supply Agreement with Isizinda, and is exposed to variable returns in the form of slab pricing and output, which is controlled by Hulamin. In terms of the facility agreement entered into between Hulamin and Isizinda, dividends and any other form of distributions require Hulamin's consent. The investment in Isizinda is accounted for as a subsidiary.

(vi) Determining the lease term of contracts with renewal and termination options

The group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The group has several lease contracts that include extension and termination options. The group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination.

The group included the renewal period as part of the lease term for leases of buildings. The group typically exercises its option to renew for these leases because these buildings are required for staff occupation.

(vii) Assets held for sale

Critical assumptions and estimates have rendered certain assets belonging to the group to meet the criteria to be classified as held for sale at that date for the following reasons:

- The assets are available for immediate sale and can be sold to the buyer in its current condition;
- The actions to complete the sale were initiated and expected to be completed within one year from the date of initial classification; and
- A potential buyer has been identified and negotiations as at the reporting date are at an advanced stage.

For more details on the assets held for sale refer to note 6.2.

(viii) Taxes

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available against which these can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

Further details on the recognised and unrecognised portion of the deferred tax is disclosed in note 9.2.

(ix) Leases – Estimating the incremental borrowing rate

The group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The group has used its incremental borrowing rate with reference to the revolving loan facility.

(x) Provision for expected credit losses of trade receivables

The group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns. The provision matrix is initially based on the group's historical observed default rates. The group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

1.7 Foreign currencies

The functional currency of each entity within the group is determined based on the currency of the primary economic environment in which that entity operates. Transactions in currencies other than the entity's functional currency are recognised at the exchange rate ruling on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of these transactions and from translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss in the period in which they arise, except when deferred in equity as qualifying cash flow hedges. The company and group's functional currency and presentation currency respectively is the South African rand.

1.8 Contingent liabilities

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

1.9 Events after the reporting period

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

(i) Transaction relating to Isizinda Aluminium Proprietary Limited ("Isizinda")

In terms of an agreement entered into between the shareholders of Isizinda, Bingelela Capital Proprietary Limited ("Bingelela") and Hulamin Operations Proprietary Limited ("Hulamin Operations"), Hulamin Operations acquired the rolling slab casting business and assets of Isizinda, effective 1 January 2020, and entered into a lease agreement with Isizinda to continue operating this casting facility. Further details relating to the restructure of Isizinda are set out in note 6.1 (d). Upon the effective date of sale, the "relevant activities" of Isizinda, in terms of IFRS 10 'consolidated financial statements', have changed materially from principally producing rolling slab to managing its investment property and completing the disposal of its remaining assets, including its property, in line with the terms of the restructuring agreement entered into between Bingelela, Hulamin Operations and Isizinda.

(ii) Economic impact of COVID-19

Impact on sales and operations

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

1. General continued

1.9 Events after the reporting period continued

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

Impact on derivatives and hedge accounting

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

The significant weakening of the rand and LME over a short period of time and the sharp decline in sales volumes due to the national lockdown and global events, resulted in excess hedges relative to the 50% metal price lag ("MPL") hedge objective (see further details on Hulamin's hedging strategy in notes 7.1(a) and (b)) but not in excess of the full exposure on the inventory currently held.

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

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

The MPL hedging programme was suspended at the end of March 2020 in order to reduce potential cash flow volatility from the commodity and currency hedges. This will be re-evaluated once the outlook becomes more stable. A large portion of the hedges maturing in March 2020, April 2020 and May 2020 were deemed ineffective in terms of IFRS 9 for the following reasons:

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

Liquidity and cash preservation

Hulamin closed 2019 with a strong balance sheet, with net debt of R272 million and a net debt to equity ratio of 10.6% (refer note 7.4) and considerable headroom in its debt facilities of, in excess of R1 billion (refer note 7.3). In terms of the covenant definition with Hulamin's bankers, the net debt (including letters of credit) to equity (adjusted for intangibles and deferred tax asset) ratio was 16.3% at 31 December 2019, against a covenant level of 50%. Due to the severe impact of Covid-19 on the group's operations, sales and derivative hedging programme, net debt increased to R654 million at 30 April 2020, with a net debt to equity ratio of 41.7% (in terms of the banking covenant definition). Headroom in facilities reduced to R512 million, impacted both by the increase in debt and the reduction in the level of eligible inventory and receivables security, following the sharp decrease in activity levels.

The outbreak of the pandemic, and its consequential economic impacts, requires unprecedented and strong actions. Accordingly, Hulamin has put on hold all uncommitted non-urgent capital expenditure, sharply reduced metal procurement, eliminated variable costs and reduced fixed costs where possible so as to preserve and protect cash flow and the balance sheet. Presently, the group is able to operate up to full production capacity, whilst practicing the required protective measures to limit the spread of the virus on site, and is therefore able to capitalise on opportunities available, although demand side risk continues to exist.

This uncertainty and its impact on the going concern assumption has been further detailed in note 1.10.

Statement of financial position

The impact of Covid-19 is considered a non-adjusting subsequent event in respect of the 2019 financial statements. Certain line items in the statement of financial position may be impacted in the 2020 financial statements. Below are indications of how material line items in the statement of financial position may be affected:

Impact on trade and other receivables

We have seen a delay in customer payments as most local customers only resumed operations during the government lockdown level 3. The group also covers trade receivables through the Credit Guarantee Insurance Company (CGIC) (refer to note 4.3). We are actively engaging with customers regarding outstanding balances in conjunction with CGIC.

Impact on retirement benefit assets

At the end of March 2020, the net asset position was 8.6% lower than at December 2019, but the market has subsequently recovered significantly. This is a long-term asset and will be held for a further estimated 19 years.

Impact on the impairment assessment of property, plant and equipment, intangibles, right-of-use asset and deferred tax assets

The above factors (and those detailed in note 1.10) may impact both on the future recoverability of deferred tax assets and on future impairment assessments of property, plant and equipment, intangibles and the right-of-use asset. However these impacts are uncertain. The impact of COVID-19 is expected to be most pronounced on near-term cash flows, which have a lower effect on possible asset impairment than on the recoverability of the deferred tax assets.

The exchange rate assumptions used in the impairment assessment are explained in note 2.4.4 and reflect a forecast for the South African Rand that is considerably stronger than the exchange rates of the second quarter of 2020. The positive effect on profits of a weaker Rand may largely be offset by lower sales volumes and lower USD-denominated prices during the same timeframe. The exchange rate, sales volumes and USD prices would also likely affect the value of working capital, with the lower USD aluminium price also offsetting the effect of a weaker Rand. The combined off-setting effect of these factors on future cash flows is uncertain and may lead to a higher market risk premium within the discount rate for the next impairment assessment. However any higher risk premium may be offset by lower interest rates, resulting in an uncertain movement in the future weighted average cost of capital.

The extent to which these areas are impacted will depend on future developments relating to the above uncertainties which cannot be predicted at this time.

(iii) US Anti-dumping petition against imports of common alloy sheet

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

Hulamin sells a range of products into the US, including common alloy sheet. On average, over the past three years, Hulamin’s sales of common alloy sheet into the US amounted to approximately 12% of the total sales of Hulamin Rolled Products. Hulamin’s share of the US common alloy sheet market is less than 2%. Preliminary investigations by the International Trade Commission (“ITC”), a department within the US Government, have been completed. The final portion of the ITC’s investigation will be initiated should the Department of Commerce issue an affirmative decision in its preliminary investigation, which is expected on or about 16 August 2020. Any final investigation is expected to be completed by December 2020.

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

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

This uncertainty and its impact on the going concern assumption has been further detailed in note 1.10.

(iv) Metal supply

The primary metal supply agreement with South32 was due for renewal in December 2019. Hulamin and South32 concluded an agreement for the supply of molten and solid primary aluminium for the next 5 years (January 2020 to December 2024) on 30 January 2020.

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

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

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

This uncertainty and its impact on the going concern assumption has been further detailed in note 1.10.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

1. General continued

1.10 Going concern

The financial statements of the Hualamin Group for the year ended 31 December 2019 have been prepared on the going concern basis.

The factors that have been considered in reaching this conclusion are as follows:

- Hualamin's 2019 financial performance and position
- Trading conditions in 2020 and outlook
- Liquidity and access to funding facilities
- Indicators of uncertainty
- Scenarios and forecasts
- Litigation and claims

These matters are considered below:

a. 2019 financial performance and position

The Group's performance and position has been summarized in the table below:

EARNINGS		2019	2018
Operating loss before interest and tax	R'000	(1 421 404)	(949 907)
Net loss	R'000	(1 204 541)	(773 411)
Loss per share (Basic)	cents	(380)	(242)
Headline (loss)/earnings per share (Basic)	cents	(76)	91
Normalised EBITDA	R'000	313 327	677 984
Cash flow and financial position			
Cash flow from operating activities	R'000	533 287	331 618
Cash flow before financing activities ("free cash flow")	R'000	221 970	89 874
Net debt	R'000	272 369	293 803
Equity	R'000	2 570 308	3 802 621
Net debt/equity ratio	%	10.6	7.7
Net current assets	R'000	1 799 935	2 227 040
Current ratio	times	2.3	2.0

Profit and earnings performance

Hualamin Rolled Products

Hualamin Rolled Products experienced challenging conditions in 2019. Other than weakening market conditions both locally and internationally, trading conditions for Hualamin in the USA became increasingly difficult.

The US common alloy market moved sharply into an overstocked position in 2019. The anti-dumping and countervailing duties imposed on Chinese exporters of common alloy to the US in 2018 led to a surge in imports of common alloy from non-Chinese sources, resulting in excess supply. This has been exacerbated by increased availability in the US market from domestic producers.

After a long history of trading in partnership, Hualamin's single distribution channel into the US market suspended its normal procurement pattern from Hualamin early in quarter 3, citing extreme overstocking, impacting Hualamin's sales of heat-treated plate and common alloy products in that market in 2019.

This resulted in a reduction in the sales of common alloy products by some 25% and heat-treated plate by 29%.

In addition, automotive markets globally exhibited a slowdown throughout the year, resulting in a 15% reduction in Hualamin's sales into this industry sector.

These impacts were partly offset by improvements in sales into the can market, with local can stock sales improving 22% over 2018.

All of these factors combined to limit Hualamin Rolled Products sales volumes to 204 000 tons for the year, some 10% lower than the 228 000 tons recorded in 2018. Due to the high fixed manufacturing cost base of the business, the impact on operating profit of this sharp reduction in volume has been severe.

The benefit from a weaker currency, which was 9% weaker than the prior year, was offset by the negative impacts of higher cost inflation, commodity prices and pressure on conversion margins. As a result of the above negative impacts, Hualamin developed a turnaround plan to improve sales, reduce costs and optimise working capital.

These actions have now been completed, with approximately 250 employees having left the group (including Hulamin Extrusions) and contractor reductions, as well as other non-manpower savings, having been recorded. Costs have been reduced by in excess of R250 million per annum as a result of these actions, most of which will impact the business in 2020. In addition, the level of working capital was reduced since peaking in the first half 2019.

Hulamin Extrusions

A major 11-week disruption to the largest press in Hulamin Extrusions in quarter 1 significantly impacted sales volumes, working capital, customer service and profits. The press has been restored to full operating capacity.

A restructuring of Hulamin Extrusions during 2019 resulted in the closure of its Olifantsfontein plant and the consolidation of production at its Pietermaritzburg operation. An agreement has since been concluded for the sale of the property, plant and equipment of the Olifantsfontein plant for R55 million.

This resulted in a reduction in normalised EBITDA by 54% from the previous year.

In addition to the factors detailed above, the following items contributed to a net loss of R1 204.5 million (2018: net loss of R773.4 million):

- a negative metal price lag of R68 million, resulting from the decline in the aluminium price during 2019;
- restructuring costs of R114 million, resulting from the turnaround and restructuring programmes referred to above;
- a charge to profit and loss of R65 million arising from the restructuring of Isizinda Aluminium Proprietary Limited (“Isizinda”) – refer note 6.1(d); and
- an impairment charge of R1.3 billion relating to both Hulamin Rolled Products and Hulamin Extrusions – refer note 2.4.4. These impairments relate to both a reduction in the 5-year forecast cash flows of the primary cash-generating units, reflecting the softer outlook in market conditions, as well as an increase in the Company’s weighted average cost of capital which takes account of increased uncertainty in the macro environment and the associated rise of risk indicators.

Liquidity and solvency

The group’s net borrowings were R225.9 million and net debt was R272.4 million at 31 December 2019. This represents a net debt to equity ratio of 10.6%.

b. Trading conditions in 2020 and outlook

As set out in note 1.9, the lockdowns implemented in South Africa and globally have disrupted operations and constrained consumer demand. This has led to a sharp reduction in sales volumes of around 34% in the 4 months to April 2020, compared with the prior comparative period. The local market was more heavily impacted than exports, with the automotive, local canstock and distributor product categories most affected. Export canstock and heat-treated plate sales proved more resilient.

In addition, the significant weakening of the Rand and the LME aluminium price and the sharp fall in sales volumes has resulted in excess hedges relative to Hulamin’s hedge objectives, negative cash outflows from derivatives, and hedge ineffectiveness.

Domestic market

Sales in the local market have, in recent years, been hampered by the slow growth in the local economy and increased import competition with lower local sales levels anticipated than in the previous business plan.

However, the conversion of the local beverage can market to the all-aluminium can has supported demand for local can body stock, which has also allowed Hulamin to increase its purchases of can maker’s scrap and used beverage cans (UBCs) to reduce its metal procurement costs.

Hulamin’s application for local import tariff protection is currently being assessed by ITAC in terms of its process. A positive ruling thereon is anticipated to have a significant positive impact on Hulamin’s local sales volumes, particularly additional can body stock, foil and local distributor products.

In the short term however, the emergence of the Covid-19 pandemic in the first quarter of 2020 has resulted in a substantial reduction in local market demand as various customers find themselves unable to operate for extended periods of time during the national lockdown that has ensued since late March 2020. Underlying demand for aluminium rolled products in various industries has been negatively impacted by the lockdowns and economic impacts arising from Covid-19.

Sales of material for the heat exchanger market remain an important element of local sales and are expected to be around 35% lower in 2020 than typical historic levels, due to the substantial global decline in automotive sales.

These sales are anticipated to remain under pressure through 2021, with recovery to 2017/2018 levels only during 2022.

The foil business remains challenging, however a perpetuation of the current Rand weakness to the US dollar and/or a successful outcome to Hulamin’s duty application may result in further local foil supply opportunities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

1. General continued

1.10 Going concern continued

b. Trading conditions in 2020 and outlook continued

International market

Hulamin's export sales include canstock, heat-treated plate for general engineering applications, and a substantial volume of lower value, more commoditised products referred to as common alloy.

Significant curtailment in demand in the US for both common alloy sheet/coil and heat-treated plate throughout 2019 had a severe impact on Hulamin Rolled Products. Although sales of heat-treated plate have improved, the impact of coronavirus on fabrication, automotive and aerospace markets may have a negative impact on these sales for the remainder of 2020.

The common alloy product market in the US remains in surplus and prices continue to fall. As a result, the US Aluminium Association has petitioned for anti-dumping and countervailing duties to be imposed on 18 countries, including South Africa, and an investigation by the US authorities has commenced (refer note 1.9). This may curtail Hulamin's sales of common alloy products into this market in 2020, which could require Hulamin to shift more common alloy sales into Europe. The outcome of the investigation is likely to conclude in late 2020.

c. Liquidity and funding

Hulamin's facilities of R1.5 billion comprise a committed working capital facility of R1.0 billion and a 360-day notice general borrowing facility ("GBF") of R500 million. The GBF is comprised of direct facilities (overdraft and loans with a tenor of less than 360 days) of R200 million and indirect facilities (letters of credit and guarantee) of R300 million. These borrowing facilities were renewed in September 2019 and remain in place until September 2022.

The utilisation of the working capital facility is restricted to the underlying eligible inventory and receivables.

The following financial covenants are measured at each 6-month reporting period in respect of the Hulamin Group:

Covenant	Required Level
Current ratio	>1.25 times
Debt to equity ratio	<0.50 times

The following additional security ratios are measured monthly in respect of Hulamin Operations Proprietary Limited:

Covenant	Required Level
Stock cover ratio	>1.5 times
Collateral cover ratio	>1.2 times

As noted above, Hulamin closed 2019 with a strong balance sheet, with net debt of R272 million and a net debt to equity ratio of 10.6% and considerable headroom with respect to its financial covenants and in relation to its direct borrowing facilities of, in excess of R1 billion.

As detailed in note 1.9, due to the severe impact of Covid-19, net debt increased rapidly to R652 million at 30 April 2020, with a net debt to equity ratio of 41.6% (in terms of the banking covenant definition).

Headroom in facilities reduced to R427 million, impacted both by the increase in debt and the reduction in the level of eligible inventory and receivable security, following the sharp decrease in activity levels.

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

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

d. Indicators of uncertainty

Hulamin's sales are largely based on or denominated in US Dollars or Euros, whilst most of Hulamin's operating costs are incurred in Rand. As such, the Group's results and financial condition will be impacted if there is a material change in the Rand/US dollar exchange rate. In the first quarter of 2020, Hulamin Rolled Products hedged its US Dollar and Euro conversion margins through to the end of the year and will therefore not benefit from undue Rand weakness in 2020.

High levels of volatility in currency levels and aluminium prices may also impact on cash flow and profitability through the metal price lag ("MPL") and related hedging activities. As detailed in note 1.9, Hulamin suspended its MPL hedging programme at the end of March 2020 in order to reduce potential further cash flow volatility from the commodity and currency hedges.

Further, Hualamin’s operations may be adversely affected by demand disruptions or production stoppages caused by supply shortages, Covid-19 quarantining and deep cleaning activities, or labour absenteeism.

An uncertainty in the 12-month horizon which could impact demand, production and currency and commodity levels relates to the combination of the following:

i) Continuity of primary aluminium supply from South32

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

ii) The outcome of the US Anti-dumping (“AD”) petition against imports of common alloy sheet

The outlook for common alloy sales in the USA from 2021 onwards will depend on the outcome of the anti-dumping investigation, which could result in one of these possible outcomes:

- The investigation concludes that there is no material harm to US aluminium industry and thus no dumping order is implemented;
- AD duties are implemented across all 18 importing countries with Hualamin (South Africa) receiving a relatively average dumping margin that neither provides a material advantage or disadvantage to Hualamin relative to other importers;
- AD duties are implemented with Hualamin receiving a relatively low dumping margin, thus providing a relative advantage against its competitor importers for sales on common alloy in the USA; or
- AD duties are implemented and Hualamin suffer a larger dumping margin than many of its competitors, resulting in a relative disadvantage against its competitors.

Hualamin is unable to determine at this stage what the impact of any duties imposed might be.

iii) The economic impact of Covid-19

Although Hualamin is currently able to operate fully under alert level 3, a number of uncertainties prevail as a result of the impact of Covid-19 on local and international economies. These uncertainties include:

- Turmoil in the world economy and the possible adverse impact over the short to medium term on the demand for Hualamin’s products, particularly alcoholic beverage packaging and automotive heat exchange products;
- Possible further extensions of the lockdown periods and/or a delay in ramping up South African operations with an impact on local market demand;
- Extended lockdown and delayed return to normal capacity by our key international customers and the economies in which they operate;
- Health and wellbeing of our employees after the extended lockdown; and
- Financial market disruptions and access to funding.

The background to these matters is set out in note 1.9.

These uncertainties have been included in management’s scenarios and forecasts detailed below.

e. Scenarios and forecasts

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

The 4 scenarios are as follows:

Key uncertainties	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Local market demand and trade dynamics	<ul style="list-style-type: none"> • Strong recovery in local market • Local duty application successful 	<ul style="list-style-type: none"> • Strong recovery in local market • Local duty application successful 	<ul style="list-style-type: none"> • Slow recovery and weak demand in local market • Local duty application unsuccessful 	<ul style="list-style-type: none"> • Slow recovery and weak demand in local market • Local duty application unsuccessful
Export market demand and trade dynamics	<ul style="list-style-type: none"> • Strong recovery in export market • US AD investigation leads to relative advantage for Hualamin 	<ul style="list-style-type: none"> • Slow recovery and weak demand in export market • US AD investigation leads to relative disadvantage for Hualamin 	<ul style="list-style-type: none"> • Strong recovery in export market • US AD investigation leads to relative advantage for Hualamin 	<ul style="list-style-type: none"> • Slow recovery and weak demand in export market • US AD investigation leads to Hualamin being neither advantaged or disadvantaged

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

1. General continued

1.10 Going concern continued

e. Scenarios and forecasts continued

The downside scenario, scenario 4, envisages that:

- Public health responses are insufficient locally and globally to sufficiently contain the spread of Covid-19.
- The demand shock from protracted social distancing measures globally results in a wave of business closures across the world, escalating unemployment levels and a far slower economic recovery post containment of the virus.
- Demand for non-packaging aluminium rolled products remains low through 2020 and into 2021. Even demand for canstock reduces somewhat as economies wade through a protracted recession.
- High unemployment levels in South Africa result in an increase in social unrest and crime.

The base case scenario envisages a moderate recovery in both local and international markets, with no advantage or disadvantage accrued from the anti-dumping investigation in the USA, and Hulamin's application for local import duties is not successful.

In the base case, sales volumes of 174kt tons are envisaged for 2020, rebounding to 222kt in 2021. Exchange rates average R16.68/USD in 2020 and R15.97/USD in 2021. The LME aluminium price remains below USD1600/t.

In scenario 4, sales volumes of 156kt tons are envisaged for 2020, rebounding to 203kt in 2021. Exchange rates average R17.76/USD in 2020 and R17.25/USD in 2021. The LME aluminium price remains below USD1500/t.

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

However, a more adverse impact of the various uncertainties than included in the above scenarios, or a different combination thereof, could further deteriorate the group's forecasted liquidity position and may require the group to further increase operational flexibility and reduce costs. The Group may also, if necessary under such circumstances, be required to consider raising additional loan facilities or equity capital. Management also notes the risks related to the US Tariffs and South32, and that if they had to materialise could have an adverse impact of the company's going concern.

f. Litigation and claims

The company is not engaged in any significant legal action nor has it any material contingent liabilities which could have bearing on the ability to continue operations in the forecast period.

2. Performance: measures used to assess performance

2.1 Reportable segment analysis

(a) Accounting policies and significant judgements

Description of segments and principal activities

The group's reportable segments have been determined in accordance with how the Hulamin Executive Committee, which is the group's most senior operating decision-making body, allocates resources and evaluates performance and are predominantly based on business segment hierarchy which is representative of the internal reporting used for management purposes.

The group is organised into two major operating divisions, namely Hulamin Rolled Products and Hulamin Extrusions.

The Hulamin Rolled Products segment, which comprises the Hulamin Rolled Products and Hulamin Containers businesses, manufactures and supplies fabricated and rolled semi-finished aluminium products as well as aluminium foil containers and related products. The Hulamin Extrusions segment manufactures and supplies extruded aluminium products.

Isizinda Aluminium (Pty) Ltd ('Isizinda') supplies slab to Hulamin Rolled Products. The activities of Isizinda are integrated into the Hulamin Rolled Products segment. Reportable segments are based and managed in South Africa.

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

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

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

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

(b) Segmental revenue, earnings and other disclosures

	2019			2018		
	Hulamin Rolled Products R'000	Hulamin Extrusions R'000	Group R'000	Hulamin Rolled Products R'000	Hulamin Extrusions R'000	Group R'000
Revenue from contracts with customers: External	9 957 173	751 408	10 708 581	10 640 844	892 974	11 533 818
Timing of revenue recognition:						
– At a point in time	9 881 107	751 408	10 632 515	10 558 422	892 974	11 451 396
– Over time	76 066	–	76 066	82 422	–	82 422
Earnings						
EBITDA**	104 766	(87 048)	17 718	745 198	(3 017)	742 181
Impairment of property, plant and equipment and intangibles	(1 266 979)	(35 919)	(1 302 898)	(1 376 319)	(74 495)	(1 450 814)
Depreciation and amortisation	(123 142)	(13 082)	(136 224)	(215 329)	(25 945)	(241 274)
Operating loss	(1 285 355)	(136 049)	(1 421 404)	(846 450)	(103 457)	(949 907)
Interest received	8 002	19	8 021	3 847	40	3 887
Interest paid	(47 460)	(9 053)	(56 513)	(77 582)	(6)	(77 588)
Loss before tax	(1 324 813)	(145 083)	(1 469 896)	(920 185)	(103 423)	(1 023 608)
Taxation	265 820	(465)	265 355	252 423	(2 226)	250 197
Net loss for the year	(1 058 993)	(145 548)	(1 204 541)	(667 762)	(105 649)	(773 411)
Reconciliation of net loss (used in calculating earnings per share) to headline earnings						
Net (loss)/profit for the year	(1 058 993)	(145 548)	(1 204 541)	(667 762)	(105 649)	(773 411)
Loss on disposal of property, plant and equipment	26 455	–	26 455	231	–	231
Impairment of property, plant and equipment and intangibles	1 266 979	35 919	1 302 898	1 376 319	74 495	1 450 814
Profit on disposal of investment in Almin Metal Industries Limited (note 6.2(i))	–	(2 655)	(2 655)	–	–	–
Tax effect	(362 161)	–	(362 161)	(385 434)	–	(385 434)
Headline (loss)/earnings for the year	(127 720)	(112 284)	(240 004)	323 354	(31 154)	292 200
Reconciliation of (loss)/headline earnings to normalised EBITDA**						
Headline (loss)/earnings for the year	(127 720)	(112 284)	(240 004)	323 354	(31 154)	292 200
Limitation of IAS 39, “Financial Instruments” resulting in highly effective commodity risk management programme not qualifying for hedge accounting	24 835	–	24 835	(60 921)	–	(60 921)
Restructuring costs	75 757	38 639	114 396	–	–	–
Metal price lag	67 577	–	67 577	(3 507)	–	(3 507)
Settlement of share-based payment – Isizinda (note 6.1.(d))	65 000	–	65 000	–	–	–
Tax effect	(47 087)	(10 819)	(57 906)	18 040	–	18 040
Normalised (loss)/headline earnings (note A)	58 362	(84 464)	(26 102)	276 966	(31 154)	245 812
Interest paid	47 460	9 053	56 513	77 582	6	77 588
Interest income	(8 002)	(19)	(8 021)	(3 847)	(40)	(3 887)
Taxation	143 429	11 284	154 713	114 971	2 226	117 197
Normalised EBIT* (note A)	241 249	(64 146)	177 103	465 672	(28 962)	436 710
Depreciation and amortisation	123 142	13 082	136 224	215 329	25 945	241 274
Normalised EBITDA** (note A)	364 391	(51 064)	313 327	681 001	(3 017)	677 984
Total assets	4 032 486	227 542	4 260 028	6 194 109	317 350	6 511 459
Total liabilities	1 539 212	150 508	1 689 720	2 605 848	102 990	2 708 838

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

2. Performance: measures used to assess performance continued

2.1 Reportable segment analysis continued

(b) Segmental revenue, earnings and other disclosures continued

	2019			2018		
	Hulamin Rolled Products R'000	Hulamin Extrusions R'000	Group R'000	Hulamin Rolled Products R'000	Hulamin Extrusions R'000	Group R'000
Other disclosures						
Additions to property, plant and equipment and intangible assets	280 242	31 075	311 317	215 248	26 496	241 744
Currency conversion						
Rand/US dollar average			14.45			13.25
Rand/US dollar closing			14.01			14.43

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

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

* Earnings before interest and taxation

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

A: Normalised EBIT, normalised EBITDA, headline earnings and normalised headline earnings

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

Normalised EBIT, normalised EBITDA and normalised headline earnings per share are measures which the Hulamin Executive Committee uses in assessing financial performance. These are calculated in a consistent manner as per the 2018 annual financial statements. Normalised headline earnings per share is calculated by dividing normalised headline earnings by the weighted average number of ordinary shares in issue during the year. Normalised headline earnings is defined as headline earnings excluding (i) metal price lag and (ii) material non-trading expense or income items which, due to their irregular occurrence, are adjusted for in order to better present earnings attributable to the ongoing activities of the group. Normalised EBIT and EBITDA are similarly derived.

The presentation of normalised EBIT, 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.

2.2 Earnings per share

Earnings per share, headline earnings per share and normalised headline earnings per share

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

Diluted EPS is calculated by dividing the profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

Potential ordinary shares shall be treated as dilutive only when their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations.

Weighted average number of shares

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

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

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

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

	2019		2018	
	Gross R'000	Net R'000	Gross R'000	Net R'000
Net loss for the year		(1 204 541)		(773 411)
Adjustments	1 326 698	964 537	1 451 045	1 065 611
– Impairment loss on property, plant and equipment and intangible assets	1 302 898	948 144	1 450 814	1 065 445
– Gain on disposal of investment in Almin Metals Industries (note 6.2(i))	(2 655)	(2 655)		
– Loss on disposal of property, plant and equipment	26 455	19 048	231	166
Headline earnings		(240 004)		292 200
Headline earnings per share				
Basic (cents)		(76)		91
Diluted** (cents)		(76)		91
Reconciliation of headline (loss)/earnings to normalised (loss)/earnings				
Headline (loss)/earnings for the year		(240 004)		292 200
Limitation of IAS 39, “Financial Instruments” resulting in highly effective commodity risk management programme not qualifying for hedge accounting		24 835		(60 921)
Restructuring costs		114 396		–
Metal price lag		67 577		(3 507)
Settlement of share-based payment – Isizinda (note 6.1(d))		65 000		–
Tax effect		(57 906)		18 040
Normalised headline earnings		(26 102)		245 812
Normalised headline earnings per share				
Basic (cents)		(8)		(77)
Diluted** (cents)		(8)		(77)

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

Information concerning the classification of securities

(i) Options

Options granted to employees under the various Hulamín group schemes as presented in note 8.1 are considered to be potential ordinary shares. They have been included in the determination of diluted earnings per share if the required performance condition would have been met based on the company's performance up to the reporting date, and to the extent that they are dilutive. The options have not been included in the determination of basic earnings per share.

47 214 968 options were not included in the calculation of diluted earnings per share because they were antidilutive for the year ended 31 December 2019. These options could potentially dilute basic earnings per share in the future.

(ii) Bonus shares

Rights to deferred shares granted to senior management under the group's short-term incentive scheme are included in the calculation of diluted earnings per share assuming all outstanding rights will vest. The rights are not included in the determination of basic earnings per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

2. Performance: measures used to assess performance continued

2.3 Revenue from contracts with customers

(a) Accounting policies and significant judgements

(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 guidance provided under International Chamber of Commerce Terms of Trade, where applicable.

Products are often sold with retrospective volume discounts, rebates and early-settlement terms. These rights give rise to a variable consideration. Revenue from these sales are recognised based on the price specified in the contract, net of the estimated volume discounts, rebates and early settlement discounts.

If the consideration in a contract or sale of goods includes a variable amount, the group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

The group provides retrospective volume rebates to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the group applies the most likely amount method for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The group then applies the requirements on constraining estimates of variable consideration and recognises a refund liability (included in trade and other payables) for the expected future rebates.

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.

(b) Disaggregation of revenue from contracts with customers

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

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

(c) Transportation services

There are contracts with customers which require that the group provides transportation services as a separate performance obligation. The group acts as a principal in these transactions. The performance obligation is satisfied and payment is due upon the final delivery of the goods to the customer.

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December are, as follows:

	2019 R'000	2018 R'000
Within one year	3 543	7 273

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

2. Performance: measures used to assess performance continued

2.4 Material profit or loss items

The group has identified a number of items which are material due to the significance of their nature and/or amount. These are listed separately here to provide a better understanding of the financial performance of the group.

2.4.1 Expenses by nature

	2019 R'000	2018 R'000
Aluminium and other material costs	6 757 735	7 255 827
Utilities and other direct manufacturing costs	1 263 731	1 187 127
Employment costs (note 2.4.1(a))	1 200 513	1 241 193
Termination benefits (note 2.4.1(b))	114 396	–
Depreciation (note 5.1)	107 625	222 271
Depreciation on right-of-use assets (note 5.2)	16 483	–
Amortisation of intangible assets (note 5.3)	12 116	19 003
Repairs and maintenance	305 816	291 799
Freight and commissions	544 284	469 425
Impairment of property, plant and equipment and intangible assets (note 2.4.4)	1 302 898	1 450 814
Other operating income and expenditure	495 159	622 998
	12 120 756	12 760 457
Classified as:		
Cost of sales of goods	9 929 196	10 583 507
Cost of providing services	76 066	82 422
Selling, marketing and distribution expenses	520 020	448 237
Administrative and other expenses (including net impairment losses on financial assets) (note 2.4.5)	292 576	195 477
Impairment of property, plant and equipment and intangible assets (note 2.4.4)	1 302 898	1 450 814
	12 120 756	12 760 457

2.4.1(a) Employee benefit costs

The cost of short-term employee benefits is recognised in the statement of profit or loss in the period in which the service is rendered and is not discounted.

The expected cost of profit-sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorised as service cost, net interest expense or income and remeasurement.

The group presents service cost and net interest expense or income in profit or loss. Curtailment gains and losses are accounted for as past service costs.

	2019 R'000	2018 R'000
Employment costs		
Salaries and wages	1 103 179	1 143 886
Retirement benefit costs:		
Defined contribution schemes (note 8.2)	68 167	64 926
Defined benefit scheme (note 8.2)	(8 764)	(9 254)
Post retirement medical aid costs (note 8.2)	23 757	24 559
Retirement gratuities (note 8.2)	7 206	7 068
Share incentive costs	6 968	10 008
	1 200 513	1 241 193

2.4.1(b) Termination benefits

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

(i) Hulamin Extrusions

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

(ii) Hulamin Rolled Products

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

	2019 R'000
Termination benefits can be attributable as follows:	
Hulamin Rolled Products	75 757
Hulamin Extrusions	38 639
	114 396

2.4.2 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, where effective, accounted for as cash flow hedges.

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

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

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

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

During the previous financial year, management identified that the expectation of prospective effectiveness of commodity hedges did not exist and therefore the requirements to hedge account commodity derivative instruments were not satisfied. Economically, Hulamin's commodity risk management strategy is effective in mitigating the impact of metal price lag as it converts the metal purchase price to the price received on sale of the metal. In order to apply hedge accounting to this programme as envisaged in

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

2. Performance: measures used to assess performance continued

2.4 Material profit or loss items continued

2.4.2 Gains and losses on financial instruments related to trading activities continued

IAS 39, 'Financial Instruments', the group has historically designated the sale, and not the purchase of the inventory, as the hedged item. As IAS 39 does not allow the components of the hedged item to be hedged individually the group was required to consider the movement in the full invoice price from the time of the forecast sale (at the point the metal is purchased) to the completion of the sale and compare this to the underlying hedging instrument (which only relates to the commodity portion of the sale). Management considered the historic movements in the other components of the invoice price (rolling margins, geographic premiums and transport costs) and found that historically volatility in these other components caused ineffectiveness in individual hedges.

In 2019, Hulamin adopted the hedge accounting provisions of the new financial instruments standard, IFRS 9, which overcomes these limitations in IAS 39. This has resulted in the commodity hedges being effective for hedge accounting purposes, thereby allowing profit and losses to be recognised in the same year as the underlying revenue (Refer to note 10 (b)).

2.4.3 Other gains and losses

	2019 R'000	2018 R'000
Loss on disposal of property, plant and equipment	(26 455)	(231)
Gain on disposal of investment in Almin Metal Industries (note 6.2(i))	2 655	–
Settlement of share-based payment – Isizinda (note 6.1.(d))	(65 000)	–
	(88 800)	(231)

2.4.4 Impairment of non-financial assets

At each reporting date, the carrying amount 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. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

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 – Individual assets

(i) Isizinda Aluminium property, plant and equipment

The decision to restructure the business served as an indicator for impairment (see note 6.1(d)). An impairment test was conducted and it was determined that the carrying amount of land and buildings exceeds the recoverable value of the property. The property was thus impaired to reflect its recoverable amount, which in this case represents the fair value less costs to sell. The recoverable amount was determined to be R68.7 million. The fair value of the property is level 3 in the valuation hierarchy. The fair value of the property was determined with reference to market related rental prices per square metre, accepted vacancy rates and maintenance costs per square metre. An independent valuator was used to determine the fair value less costs to sell.

(ii) Extrusions Olifantsfontein property, plant and equipment

During the course of 2019, Hulamin Extrusions proceeded to restructure its business operations, which included the disposal of its Olifantsfontein operation (refer note 2.4.1(b)(i)). This served as an indicator of impairment. An impairment test was conducted and it was determined that the carrying amount of plant and equipment exceeds its recoverable amount, which represents fair value less costs of disposal. Accordingly, an impairment charge of R6 million has been recognised. The carrying value of the property is lower than its fair value less costs of disposal and no impairment charge has been recognised. The fair value of the property, plant and equipment is level 1 in the valuation hierarchy and was determined with reference to an agreement of sale entered into with a third party buyer for these assets (refer note 6.2(ii)).

(b) Impairment assessment – Cash generating unit

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.

(i) Rolled Products Cash Generating Unit

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

Key assumptions include:

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

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

- Increases in the component elements of the discount rate, particularly an increase in the industry Beta, reflecting the heightened level of uncertainty in world markets in general, and in the global aluminium industry in particular.
- The adoption of a 4.25% specific risk premium, which is a significant increase compared to the 3% premium used in 2018. This heightened risk premium has been adopted as the CGU's future cash flows are impacted by increased uncertainty. As a major exporter of aluminium semi-fabricated products operating in South Africa, Hulamín is particularly exposed to a slowdown in global growth and trade actions as well as domestic operating conditions. There is increased uncertainty relating to the impact on Hulamín of increasing protectionism in the US, the stagnation and vulnerability of the local economy and the sustainability of the local availability of primary aluminium.

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 annual average of R15.03 in 2020 to R16.04 in 2024.

Although sales volumes are forecast to peak at levels similar to what was forecast in December 2018, the recovery from the lower 2019 volume will reduce cash flows in the next five years. In late 2018, duties levied on imports of aluminium into the USA positively affected Hulamín's sales. However the US distribution channel became over-stocked resulting in lower sales during 2019. During the second half of 2019, the depth of the over-stocking became clear and the predicted re-balancing of demand and supply was extended into 2020.

Rolling margin forecasts include anticipated changes in both market conditions and the product mix. The pressures on sales volume also impact selling prices and the sales mix. Selling prices will be compromised in the next few years while sales volume is defended, particularly in the US common alloy market, where the combined impact of a slowdown in demand and the supply surplus are expected to result in longer term selling prices in the US to settle at levels lower than what was forecast in December 2018.

As a partial counter-measure to the over-stocked distribution channels that Hulamín has employed in the past, Hulamín will service the US market on shorter lead times through increasing the volume of finished goods warehoused in the USA. This will see a greater investment in working capital for the foreseeable future.

The key assumptions in deriving the value in use amount have changed significantly since the reporting of the half year results in accordance with IAS 34, Interim Financial Reporting. When compared with the value-in-use calculation at 30 June 2019, the total forecast sales volume has not changed in the fifth year of the projection. However sales in year one are forecast to be lower than what was assumed at June. The clearing of the above-mentioned over-stocked distribution channels and the re-balancing of demand and supply was expected to be complete during the second half of 2019, but in December 2019 it was clear that 2020 would continue to be affected by these factors. Consequently, the December forecasts of sales volumes and prices are lower than those of June. The decision to not impair the non-financial assets at 30 June 2019 was based on a pre-tax discount rate that was similar to the December 2018 in both amount and composition. At 30 June 2019, the annual average ZAR : USD exchange rate forecast for year five was R15.45. By December the weaker forecast exchange rates were offset by lower conversion prices, suppressed 2020 sales volume and lower cost savings. The cost savings assumed at June were based on the board-approved turnaround plan to be implemented in the second half of 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

2. Performance: measures used to assess performance continued

2.4 Material profit or loss items continued

(b) Impairment assessment – Cash generating unit continued

After negotiation with labour, the actual manpower cost savings were lower than what was planned, partly due to rates of pay and headcount.

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

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

Sensitivity analysis

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

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

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

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

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

(ii) Extrusions Cash Generating Unit

The Extrusions cash generating unit continued to experience difficult trading conditions in 2019. Following the completion of the turnaround plan (refer 2.4.1 (b)(i)), performance and cash flows are forecast to improve in the future, but the market uncertainty impacting the achievement of these cash flows remains high and this is reflected in the discount rate. The carrying value of the assets therefore exceeds the recoverable amount by R39 million. The impairment charge was limited to R30 million based on the fair value less costs of disposal of individual assets.

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

Sensitivity analysis

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

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

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

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

The impairment charges recognised in the income statement are as follows:

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

The impairment charges on the cash generating units have been allocated to all assets in the cash generating unit, including right-of-use assets. The impairment charges allocated are limited to individual assets recoverable amount.

2.4.5 Administrative and other expenses

This note provides a breakdown of the items included in administrative and other expenses.

	2019 R'000	2018 R'000
Increase in expected credit loss of debtors	1 906	3 764
Termination benefits (note 2.4.1(b))	114 396	–
Auditors' remuneration (Internal and external)	13 087	5 625
Audit fees	12 894	4 501
Fees for other services	–	248
Expenses	193	876

3. Debt/equity: measures to assess group leverage

3.1 Non-current borrowings

	2019 R'000	2018 R'000
Nedbank loan facility	54 000	108 000
Less: Current portion included in current borrowings (note 3.2)	(54 000)	(54 000)
	–	54 000
Effective interest rate (%)	9,70	10,50

The Nedbank long-term loan is secured against a mortgage bond of R405 million (2018: R405 million) over land and buildings disclosed in note 5.1 with a carrying amount of R188.0 million.

The fair values of the non-current borrowings approximate their carrying value since the interest payable on these borrowings approximates current market rates. The fair value of the borrowings are classified as level 3 fair values in the fair value hierarchy due to the use of unobservable inputs, including own credit risk.

The loan is repayable in quarterly instalments over five years commencing in March 2016. As R54 million (2018: R54 million) is due within twelve months from reporting date, it has been reclassified to current borrowings (note 3.2).

3.2 Current borrowings

	2019 R'000	2018 R'000
Nedbank revolving facilities	298 083	632 149
Current portion of term loan (note 3.1)	54 000	54 000
Pension fund loan (note 9.4)	–	79 634
	352 083	765 783
Effective interest rates are as follows:		
Nedbank revolving facility (%)	8,96	8,88
Pension fund loan (%)	0,49	9,06

The Nedbank revolving facilities comprise a gross borrowings of R298 million (2018: 1 276.0 million) which has been offset by bank balances of Rnil million (2018: R644.0 million) in terms of the loan agreements with Nedbank. A new agreement was signed with Nedbank in the current year and under this agreement there is no restriction on credit balances in the receivable account. Therefore no cash will offset debt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

3. Debt/equity: measures to assess group leverage continued

3.2 Current borrowings continued

The Nedbank revolving facilities are secured against inventories, trade receivables, bank balances, moveable items of property, plant and equipment and also against credit insurance on trade receivables and against insurance on fixed assets.

The terms of the Nedbank revolving facilities require prior notification for the following specified events:

- Encumbering any assets to secure financial indebtedness in excess of R20 million;
- Making loans or guarantees in excess of R20 million;
- Disposing of assets for which the higher of market value or sales price thereof exceeds R20 million;
- Entering into a merger or corporate restructuring; and/or
- Amendments to the aluminium price and exchange rate hedging strategy;
- Pre-approval is required when incurring additional financial indebtedness in excess of R50 million.

The Nedbank Revolving Facility requires that the group comply with the following financial covenants:

	2019	2018
Current ratio	>1.25	>1.25
Debt to equity ratio*	<0.5	<0.5

* As defined in the contractual agreements.

The group has complied with the financial covenants of its borrowing facilities during the 2019 and 2018 reporting period.

The obligations of the revolving credit facility have been guaranteed by each of Hulamin Limited and Hulamin Extrusions Proprietary Limited. The debt package is held through Hulamin Operations Proprietary Limited.

The pension fund loan was fully paid off in the current year. Prior to settlement the pension fund loan was unsecured and had no fixed terms of repayment. The pension fund was able to recall the loan at any stage and as such the loan was historically classified as a current liability.

The fair values of the current borrowings approximate their carrying value based on the short-term nature of these borrowings.

3.3 Lease liabilities

At the commencement date of the lease, the group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments and variable lease payments that depend on an index or a rate. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the group. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The group leases various buildings, forklifts and IT-equipment. Rental contracts typically extend for fixed periods of 1 to 5 years but may have further extension options. Rentals periods vary between monthly and quarterly. Lease payments for some contracts include CPI increases.

Set out below are the carrying amounts of lease liabilities (included under interest-bearing loans and borrowings) and the movements during the period:

	2019 R'000
As at 1 January 2019	47 299
Additions	13 869
Payment of principal and interest	(19 622)
Interest	4 947
As at 31 December 2019	46 493
Current	12 088
Non-current	34 405

The maturity analysis of lease liabilities is disclosed in note 7.3.

3.4 Net debt reconciliation

This section sets out an analysis of net debt and movements in net debt for the year ended 31 December 2019.

	2019 R'000	2018 R'000
Net debt comprises:		
Cash and cash equivalents	126 207	525 981
Non-current borrowings	–	(54 000)
Current borrowings	(352 083)	(765 783)
Lease liabilities	(46 493)	–
Net debt (note 7.4)	(272 369)	(293 802)
Cash and cash equivalents	126 207	525 981
Gross debt – variable interest rates	(398 576)	(819 783)
Net debt	(272 369)	(293 802)

The categories of net debt are reconciled as per the table below:

	Assets		Liabilities from financing activities			Total
	Cash	Lease liabilities – due within one year	Lease liabilities – due after one year	Borrowings – due within one year	Borrowings – due after one year	
Opening balance as at 31 December 2017	111 472	–	–	(320 690)	(108 000)	(317 218)
Cash flows	423 225	–	–	(391 093)	–	32 132
Transfer between categories	–	–	–	(54 000)	54 000	–
Foreign exchange adjustments	(8 717)	–	–	–	–	(8 717)
Net debt as at 31 December 2018	525 981	–	–	(765 783)	(54 000)	(293 802)
Recognised on adoption of IFRS 16	–	(12 378)	(34 921)	–	–	(47 299)
Net debt as at 1 January 2019	525 981	(12 378)	(34 921)	(765 783)	(54 000)	(341 101)
Cash flows	(408 636)	(3 816)	(10 860)	467 700	–	44 389
Acquisition – leases	–	4 106	11 376	–	–	15 482
Transfer between categories	–	–	–	(54 000)	54 000	–
Foreign exchange adjustments	8 862	–	–	–	–	8 862
Net debt as at 31 December 2019	126 207	(12 088)	(34 405)	(352 083)	–	(272 369)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

3. Debt/equity: measures to assess group leverage continued

3.5 Stated capital, consolidation shares and treasury shares

Transactions relating to the acquisition and sale of shares in the company, together with their associated incremental direct costs, are accounted for in equity. Other transactions are accounted for directly in equity only if permitted by IFRS.

Consolidated shares represent the A and B class ordinary shares issued to the BEE investor company and the ESOP Trust. Accordingly, the subscription value of these shares is deducted from equity attributable to the equity holders of the company until the shares are cancelled, disposed of or reissued.

(a) Authorised

800 000 000 ordinary shares of no par value (2018: 800 000 000 ordinary shares)
 31 477 333 A ordinary shares of no par value (2018: 31 477 333 A ordinary shares)
 36 072 000 B ordinary shares of no par value (2018: 36 072 000 B ordinary shares)
 The A ordinary shares consist of 4 721 600 A1 shares and 26 755 733 A2 shares.
 The B ordinary shares consist of 9 018 000 B1 shares, 9 018 000 B2 shares and 18 036 000 B3 shares.

(b) Issued

	2019 R'000	2018 R'000
Ordinary shares		
Closing balance: 319 596 836 shares of no par value (fully paid up) (2018: 319 596 836 shares (fully paid up))	1 817 580	1 817 580
A ordinary shares		
Closing balance: 4 721 600 A1 and 26 755 733 A2 shares (fully paid up) (2018: 4 721 600 A1 and 26 755 733 A2 shares (fully paid up))	59 656	59 656
B ordinary shares		
Closing balance: 9 018 000 B1, 9 018 000 B2, 18 036 000 B3 shares (fully paid up) of no par value (2018: 9 018 000 B1, 9 018 000 B2, 18 036 000 B3 shares (fully paid up))		361 361
Total issued stated capital	1 877 597	1 877 597
Consolidated A and B ordinary shares	(60 017)	(60 017)
Stated capital	1 817 580	1 817 580

(c) A and B ordinary shares

All A ordinary shares and B ordinary shares have voting rights which rank *pari passu* with ordinary shares.

A1 ordinary shares are entitled to dividends whilst all A2 and B ordinary shares have no entitlement to dividends.

(d) Unissued

(i) Under option to employees:

Details of the employee share incentive schemes, including the share options outstanding at the end of the year, the range of exercise prices and the weighted average contractual lives related thereto, are set out in note 8.1.

(ii) Under the control of the directors:

At 31 December 2019, 6 801 529 unissued ordinary shares (2018: 6 801 529) were under the control of the directors, for the purpose, *inter alia*, of existing employee share incentive schemes. Shares under the control of the directors are approved annually at the Annual General Meeting.

(e) Treasury shares

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

3.6 Dividends per share

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

4. Working capital: measures used to assess liquidity

4.1 Cash and cash equivalents

Cash and cash equivalents are measured at amortised cost and includes cash on hand and deposits held with local banks with original maturities of three months or less.

	2019 R'000	2018 R'000
Bank balances	110 182	17 372
Overnight call deposits	16 000	508 600
Cash on hand	25	9
	126 207	525 981
Effective interest rate on credit balances	(%) 1.38	2.38

Bank balances with a carrying value of R30.9 million (2018: 508.6 million) have been pledged as security for borrowing facilities (note 3.2). For further information on the credit quality of cash refer to the Financial Risk Management section (note 7).

The group has sufficient liquidity available through its working capital facilities in place with Nedbank Limited. Committed undrawn facilities available at year-end are further detailed in note 7.3.

Included in bank balances are the following foreign currency denominated accounts:

	2019 R'000	2018 R'000
Euro	–	156
Pound Sterling	50	27
US Dollar	672	111

4.2 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs represents the costs incurred in bringing each product to its present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and costs necessary to make the sale.

The cost is determined on the following basis:

Consumable stores: Weighted average.

Raw materials, work in progress and finished goods: First-in-first-out.

The inventory balance consists of:

	2019 R'000	2018 R'000
Raw materials	352 349	475 476
Work-in-progress	520 040	622 797
Finished goods	1 023 437	880 613
Consumable stores	280 582	283 661
	2 176 408	2 262 547

Inventories with a carrying value of R1 998 million (2018: R2 015 million*) are encumbered as security for borrowing facilities (note 3.2). Inventories recognised as an expense during the year ended 31 December 2019 amounted to R10 000 million (2018: R10 665 million). Certain items of inventory were written down to net realisable value. These were recognised as an expense and included in cost of sale of goods in the statement of profit or loss as follows:

	2019 R'000	2018 R'000
Inventory net realisable value adjustment	18 649	(9 825)

* Encumbered assets for 2018 has been restated for accuracy.

4.3 Trade and other receivables

(a) Accounting policies and significant judgements

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 60 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of the consideration that is unconditional. Details of the group's impairment policies are provided in section (c) below.

Due to the short-term nature of the current receivables, the carrying amount approximates their fair value.

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

Sundry receivables generally arise from transactions outside of the usual trading activities of the group.

(b) Financial and non-financial assets

	2019 R'000	2018 R'000
Financial assets	702 160	1 355 256
Trade receivables – net of settlement discounts	695 727	1 343 727
Less: Loss allowance	(7 001)	(5 271)
Net Trade receivables	688 726	1 338 456
Sundry receivables	13 434	16 800
Non-financial assets	102 255	175 023
Prepayments	40 786	40 613
Value-added taxation receivable	61 469	134 410
	804 415	1 530 279

Included in trade receivables is an amount of R16.6 million (2018: R12.3 million) relating to claims from customers on current year sales for which it is probable that credit notes will be issued in the following financial year.

Included in sundry receivables is an amount of R8.7 million relating to the sale of Almin Metal Industries Limited (note 6.2 (i)).

(c) Impairment of trade receivables

The group applies IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure expected credit losses trade receivables have been grouped based on shared credit risk characteristics and days past due. The group has trade receivables for sales of inventory and the provision of services. The sale of goods and provision of services have substantially the same risk characteristics for the same type of customer. The group has therefore concluded that the expected loss rate relating to sale of goods are a reasonable approximation of the loss rate for the provision of services. The group also covers all trade receivables through the Credit Guarantee Insurance Company (CGIC) and cover is 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.

The group has determined that it is appropriate to group trade receivables into local and export receivables. The aggregation of trade receivables in this manner is consistent with the way in which the executive committee monitors sales and market demand. Further the cover obtained through CGIC quotes a premium based on the two categories of trade receivables, local and export, further indicating the similarity of trade receivables within these two categories.

The expected loss rates are based on the payment profile of sales over a period of 24-months before 31 December 2019 or 1 January 2019 respectively and the corresponding historical credit losses experienced within this period. As debtors days are on average 30 days for local debtors and 45 days for export debtors a 24-month period reflects sufficient data points over the life of the asset to determine historical credit losses. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customer to settle the receivables. Current forward looking information considered by the Hulam Credit Risk Committee includes regional growth and political stability. If forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults the historical default rates are adjusted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

4. Working capital: measures used to assess liquidity continued

4.3 Trade and other receivables continued

The assessment of the correlation between historical observed default rates, forecast economic conditions and expected credit losses requires judgement. The amount of the expected credit loss is sensitive to changes in circumstances and forecast economic conditions. The group's historical credit loss experience and forecast economic conditions may also not be representative of the customer's actual default in the future.

On that basis, the loss allowance as at 31 December 2019 was determined as follows for trade receivables:

	Current	30 days	60 days	90 days	120 days	More than 120 days	Total
Export debtors 31 December 2019							
Expected loss rate (%)	–	0.3	1.2	1.9	1.8	–	
Gross carrying amount (R'000)	378 502	113 161	13 213	7 242	3 994	122	516 233
Loss allowance (R'000)	20	289	164	137	73	–	683
Local debtors 31 December 2019							
Expected loss rate (%)	–	0.3	0.6	7.1	37.9	65.1	
Gross carrying amount (R'000)	175 506	46 164	29 903	2 367	3 769	6 715	264 424
Loss allowance (R'000)	17	154	174	169	1 429	4 375	6 318

The loss allowance as at 31 December 2018 was determined as follows for trade receivables:

	Current	30 days	60 days	90 days	120 days	More than 120 days	Total
Export Debtors: 31 December 2018							
Expected loss rate (%)	–	0.2	0.6	0.9	2.8	4.6	–
Gross carrying amount (R'000)	578 472	139 782	28 237	18 646	17 788	52 692	835 617
Loss allowance (R'000)	34	341	170	171	505	2 429	3 650
Local Debtors: 31 December 2018							
Expected loss rate (%)	–	–	0.5	1.8	3.7	53.9%	–
Gross carrying amount (R'000)	219 723	283 764	10 381	4 845	8 811	2 049	529 573
Loss allowance (R'000)	5	51	53	87	322	1 104	1 621

The closing loss allowance for trade receivables as at 31 December 2019 reconciles to the opening loss allowance as follows:

	2019 R'000	2018 R'000
Opening loss allowance as at 31 December 2018	5 271	1 303
Increase in loss allowance recognised in profit or loss during the year	1 906	4 648
Receivables written off during the year as uncollectible	(176)	(671)
Unused amounts reversed	–	(9)
Closing loss allowance at 31 December 2019	7 001	5 271

(d) Credit risk of trade receivables

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. Customer credit risk is managed by each business unit subject to the group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored and any shipments to major customers are generally covered by letters of credit or other forms of credit insurance. The group's credit risk exposure to customers is mainly influenced by individual customer characteristics and there is no significant concentration of risk related to industry segments. In addition to significant exposures arising from specific customers, credit exposures to both local and overseas customers are detailed below. The establishment and subsequent maintenance of credit limits is, in the majority of cases, based on the specific amount of credit insurance that can be secured for each new customer. The percentage of all trade receivables covered by insurance is detailed below.

As at 31 December, the ageing analysis of trade and sundry receivables, which constitute financial assets, is as follows:

	2019 R'000	2018 R'000
Receivables that are not overdue and remain within credit limits	502 678	872 528
Receivables which have exceeded credit terms and are:	199 482	482 728
Overdue by less than 60 days	194 851	469 801
Overdue by more than 60 days	4 631	12 927
Total financial assets, net of provision for credit losses	702 160	1 355 256

At 31 December 2019, the group had 22 debtors that owed it more than R10 million each and accounted for approximately 68% of all receivables outstanding (the prior year included 13 debtors that owed it more than R10 million each and accounted for approximately 65% of all receivables outstanding). In the prior year there were three debtors which owed the group more than R100 million each and accounted for approximately 49% of receivables outstanding. There is no other significant concentration of risk related to particular customer or industry segments. As at 31 December 2019, the exposure of the group to trade receivables neither overdue nor impaired (excluding sundry receivables), in local and overseas markets, and the extent to which these are subject to credit insurance cover is as follows:

		2019 R'000	2018 R'000
Local trade receivables		155 659	241 563
– Balance subject to credit insurance	(%)	92	100
Export trade receivables		333 585	614 164
– Balance subject to credit insurance	(%)	92	99
		489 244	855 727

Trade receivables covered by credit insurance are subject to a 10% excess local and export debtors.

Trade and other receivables with a carrying value of R757.2 million (2018: R1 478 million) have been ceded as security for borrowing facilities (note 3.2).

The group is exposed to exchange rate fluctuations on the following uncovered export trade debtors at year-end. This exposure arises due to the early closure of financial institutions on 31 December.

	2019 Foreign amount '000	2019 Rand amount R'000	2018 Rand amount R'000
Euro	–	–	3 031
US Dollar	15 046	219 069	104 007
		219 069	107 038

4.4 Trade and other payables

Trade payables are unsecured and are usually paid within 60 days of recognition. Trade and other payables comprises of:

	2019 R'000	2018 R'000
Trade payables	769 568	1072 214
Bonus accrual	9 363	53 059
Termination benefits**	9 209	–
Leave pay	65 438	75 534
Current leave obligations expected to be settled after 12 months*	16 704	18 059
Current leave obligations expected to be settled within 12 months*	48 734	57 475
Outstanding Isizinda settlement value (note 6.1(d))	15 000	–
Sundry accruals and other payables	136 543	179 402
	1 005 121	1 380 209

* The entire amount of the leave pay accrual is presented as current, since the group does not have an unconditional right to defer settlement. However, based on past experience, the group does not expect all employees to take the full amount of accrued leave or require payment within the next 12-months.

** Termination benefit provisions are recognised only when the group has a constructive obligation, which is when: (i) there is a detailed formal plan that identifies the business or part of the business concerned, the location and number of employees affected, the detailed estimate of the associated costs, and the timeline; and (ii) the employees affected have been notified of the plan's main features. The business turnaround plan for the Hulammin Rolled products and Hulammin Extrusions divisions included a strategy to reduce costs which has resulted in the loss of 250 jobs. An agreement was reached with the local union representatives in November and October 2019 respectively, which specifies the number of staff involved and the voluntary redundancy compensation package offered by the group, as well as amounts payable to those made redundant. The total cost of restructuring raised in the current year of R114 million has seen R105 million settled during the current financial year. The total estimated staff restructuring costs still to be paid is R9 million and is expected to be fully settled during the next 12 months.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

4. Working capital: measures used to assess liquidity continued

4.4 Trade and other payables continued

Sundry accruals and other payables includes provisions, employee benefit obligations and accrued interest and is due to be settled within 12-months.

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Due to the short-term nature of the current payables, the carrying amount approximates their fair value.

5. Long-term assets: utilisation of fixed and intangible assets

5.1 Property, plant and equipment

(a) Accounting policies and significant judgements

Capital works under construction is stated at cost, net of accumulated impairment losses. Plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses. Such cost includes the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects.

(i) Useful lives and residual values

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

Buildings	30 to 50 years
Plant and machinery	4 to 50 years
Vehicles	4 to 10 years
Equipment	5 to 20 years
Furniture	5 to 10 years

Depreciation commences when the assets are ready for their intended use. Where significant parts of an item have different useful lives to the item itself, these parts are depreciated over their estimated useful lives. The methods of depreciation, useful lives and residual values are reviewed annually. During the current year the useful lives and residual values were assessed by the Asset Management team who have appropriate skills and expertise to make such assessments. No adjustments have been made to these.

(ii) Derecognition

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

(iii) Borrowing costs

Borrowing costs include interest and other costs incurred in connection with the borrowing of funds.

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed in the period in which they are incurred.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's general borrowings during the year. The amount of borrowing costs capitalised during the year ended 31 December 2019 was R6.2 million (2018: R6.8 million) The weighted average interest rate used for borrowing costs capitalised is 9.23% (2018: 9.31%).

(b) Property, plant and equipment movement schedule

	Total R'000	Land and buildings R'000	Plant and machinery R'000	Vehicles, equipment and other R'000	Capital works under construction R'000
2019					
At cost					
Balance at beginning of year	8 037 015	1 114 589	6 567 947	217 476	137 003
Additions	305 095	4 806	30 725	3 597	265 967
Borrowing costs capitalised	6 245	–	–	–	6 245
Capitalised from capital works under construction	–	1 364	105 485	12 897	(119 746)
Disposals	(152 192)	–	(152 192)	–	–
Transfer to Assets-held-for sale (note 6.2)	(77 529)	(16 387)	(60 011)	–	(1 131)
Balance at end of year	8 118 634	1 104 372	6 491 954	233 970	288 338
Accumulated depreciation and impairment losses					
Balance at beginning of year	6 135 221	571 134	5 343 230	153 045	67 812
Charge for the year (note 2.4.1)	107 625	18 850	76 930	11 845	–
Capitalised from capital works under construction	–	329	17 784	5 422	(23 535)
Impairment of property, plant and equipment (note 2.4.4)	1 251 603	300 165	782 667	29 514	139 257
Disposals	(126 105)	–	(126 105)	–	–
Transfer to Assets-held-for sale (note 6.2)	(63 280)	(8 638)	(54 642)	–	–
Balance at end of year	7 305 064	881 840	6 039 864	199 826	183 534
Carrying value at 31 December 2019	813 570	222 532	452 090	34 144	104 804
2018					
At cost					
Balance at beginning of year	7 841 222	1 103 600	6 408 490	198 962	130 170
Additions	210 538	3 433	34 159	3 817	169 129
Borrowing costs capitalised	6 790	–	–	–	6 790
Capitalised from capital works under construction	–	7 556	135 735	25 795	(169 086)
Transfers	(138)	–	–	(138)	–
Disposals	(21 397)	–	(10 437)	(10 960)	–
Balance at end of year	8 037 015	1 114 589	6 567 947	217 476	137 003
Accumulated depreciation and impairment losses					
Balance at beginning of year	4 516 629	553 510	3 859 029	104 090	–
Charge for the year (note 2.4.1)	222 271	17 624	191 036	13 611	–
Impairment of property, plant and equipment (note 2.4.4)	1 417 621	–	1 303 367	46 442	67 812
Transfers	(138)	–	–	(138)	–
Disposals	(21 162)	–	(10 202)	(10 960)	–
Balance at end of year	6 135 221	571 134	5 343 230	153 045	67 812
Carrying value at 31 December 2018	1 901 794	543 455	1 224 717	64 431	69 191

A register of land and buildings is available for inspection at the company's registered office.

Moveable items with a carrying value of R17.2 million (2018: R41.1 million) and land and buildings, largely production buildings located at the Campsdrift site, with a carrying value of R188.0 million (2018: 192.9 million) are encumbered as security for borrowing facilities (note 3.2).

The total depreciation charge is included in cost of sales, R78.7 million (2018: R200.2 million), and inventory, R28.9 million (2018: R22.1 million).

Included in property, plant and equipment are assets with a carrying amount of R21.8 million (2018: R32.5 million) which are currently mothballed and not classified as held-for-sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

5. Long-term assets: utilisation of fixed and intangible assets continued

5.2 Right-of-use assets

The group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

The group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Land and buildings	5 to 10 years
Vehicles, equipment and other	5 to 10 years

The group applies the short-term lease recognition exemption to its short-term leases (i.e. those leases that have a lease term of 12 months or less from the commencement date). It also applies the lease of low-value assets recognition exemption to leases that are considered to be low value, this would generally include rental of printers etc. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	Total R'000	Land and buildings R'000	Vehicles, equipment and other R'000
As at 1 January 2019	47 299	7 617	39 682
Additions	13 869	–	13 869
Depreciation expense (note 2.4.1)	(16 483)	(1 345)	(15 138)
Impairment (note 2.4.4)	(27 577)	(4 027)	(23 550)
As at 31 December 2019	17 108	2 245	14 863

From 2019 leased assets are presented as a separate line item in the balance sheet. Refer to note 10(a) for details about the implementation of IFRS 16, 'Leases'.

5.3 Intangible assets

(a) Accounting policies and significant judgements

The group's only intangible asset is computer software. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring into use the specific software. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. These costs are amortised over their estimated useful lives, as follows:

Internally generated	3 to 15 years
Other external	3 to 10 years

Maintenance costs are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognised as intangible assets when all the asset recognition criteria are met. Directly attributable costs that are capitalised as part of the software product comprise mainly software development employee costs.

An intangible asset is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

Computer software costs recognised as assets are amortised over their estimated useful lives.

(b) Intangible assets movement schedule

	2019 R'000	2018 R'000
Software costs – internally generated and capitalised		
Balance at beginning of year	93 103	79 962
Additions	4 118	21 545
Written-off	(19 951)	(8 404)
Balance at end of year	77 270	93 103
Accumulated amortisation		
Balance at beginning of year	70 096	59 580
Charge for the year (note 2.4.1)	6 910	7 067
Written-off	(19 582)	(8 404)
Impairment of intangible assets (note 2.4.4)	13 623	11 853
Balance at end of year	71 047	70 096
Carrying value at end of year	6 223	23 007
Software costs – purchased		
Balance at beginning of year	104 228	100 566
Additions	2 104	9 661
Written-off	–	(5 999)
Balance at end of year	106 332	104 228
Accumulated amortisation		
Balance at beginning of year	84 099	56 804
Charge for the year (note 2.4.1)	5 206	11 936
Written-off	–	(5 980)
Impairment of intangible assets (note 2.4.4)	10 093	21 339
Balance at end of year	99 398	84 099
Carrying value at end of year	6 934	20 129
Total software costs		
Cost	183 602	197 331
Accumulated amortisation	(170 445)	(154 195)
Carrying value at end of year	13 157	43 136

Total amortisation is included in cost of sales in the statement of profit or loss.

The weighted average interest rate used for borrowing costs capitalised is 9.23% (2018: 9.31%).

Capital work in progress (“CWIP”) included within the total software cost above is R14.7 million (2018: R9.5 million).

5.4 Capital expenditure commitments

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

6. Investments: investments in subsidiaries and associates

6.1 Details of investments in subsidiaries and associates

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2019. Control exists where the group is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Specifically, the group controls an investee if, and only if, the group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the group has less than a majority of the voting or similar rights of an investee, the group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The group's voting rights and potential voting rights

The group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. The results of entities controlled by the group acquired or disposed of during the year are included in the group statement of profit or loss from the date the group exercised control, or up until the point it ceases to exercise control. Inter-company transactions, balances and unrealised gains and losses on transactions between group entities are eliminated on consolidation.

The group treats transactions with non-controlling interest as transactions with equity holders of the group. Gains or losses arising from these transactions are recorded in equity.

(b) Investment in associates

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The group's share of its associates' post-acquisition profits or losses is recognised in the statement of financial position, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post acquisition movements are adjusted against the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses unless it has incurred obligations or made payments on behalf of the associate. The total carrying value of associates is evaluated annually for impairment. An impairment loss on an associate should be recognised in the share of profit of an associate in the statement of profit or loss. Any reversal of that impairment loss is recognised in accordance with IAS 36: Impairment of Assets to the extent that the recoverable amount of the investment subsequently increases.

Almin Metal Industries Limited ("Almin"), an associate company, was fully impaired in prior years.

During the 2017 financial year, the previously recognised impairment of R6.5 million was reversed after taking into account an offer to purchase the investment. Refer to note 6.2.

(c) The consolidated financial statements of the group includes

	Country of incorporation	Percentage equity interest 2019	Percentage equity interest 2018	Principal activities
Subsidiaries				
Hulamin Rolled Products (Pty) Ltd*	South Africa	100	100	Dormant
Hulamin Systems (Pty) Ltd*	South Africa	100	100	Dormant
Hulamin Operations (Pty) Ltd	South Africa	100	100	Semi-fabrication and fabrication of rolled aluminium products
Hulamin Extrusions (Pty) Ltd*	South Africa	100	100	Semi-fabrication of extruded aluminium products
Hulamin North America LLC*	United States of America	100	100	Sales office
Isizinda Aluminium (Pty) Ltd** (note 6.1(d))	South Africa	38,7	38,7	Creation of sustainable value-added aluminium
Associates				
Almin Metal Industries Limited**	Zimbabwe	–	49	Manufacture of aluminium profiles

* Subsidiaries of Hulamin Operations (Pty) Ltd.

Beneficial interest of 100%.

** Investment held by Hulamin Extrusions (Pty) Ltd.

All the investments are unlisted.

Structured entities

The following structured entities have been consolidated:

- Imbewu SPV 14 (Pty) Ltd (note 8.1(d)(i))
- The 2015 Hulamin Employee Share Ownership Trust (note 8.1(d)(ii))
- The Isizinda Employee Share Incentive Scheme Trust (note 8.1(d)(iii))

Structured entities have no material individual assets or liabilities. All transactions with structured entities eliminate on consolidation. No financial guarantees are provided on behalf of structured entities.

(d) Isizinda Aluminium (Pty) Ltd (“Isizinda”)

Capitalisation of Isizinda and acquisition of Bayside casthouse

On 1 July 2015, Isizinda acquired the Bayside casthouse business for a purchase consideration of R100.2 million, funded largely by a loan from Hulamin Operations (Pty) Ltd (“Hulamin Operations”) to Isizinda. At the time, Bingelela Capital (Pty) Ltd (“Bingelela”) had a 60% interest and Hulamin Operations had a 40% interest in Isizinda. On 2 February 2016, the Isizinda Employee Share Incentive Scheme Trust purchased a 2.5% interest in Isizinda, in equal portions from Bingelela and Hulamin, resulting in Bingelela’s interest reducing to 58.7% and Hulamin Operation’s interest reducing to 38.7% (refer note 8.1(d)(iii)).

Isizinda supplies rolling slab to Hulamin Operations and, as such, all revenue earned by Isizinda is eliminated on consolidation. The investment of Hulamin Operations in Isizinda (shares and loan) are also eliminated on consolidation.

Management have assessed the investment in Isizinda to represent control in terms of the requirements of IFRS 10 (refer note 1.6 (v)) and have accordingly accounted for the investment in Isizinda as a subsidiary (refer note 6.1 (c)).

The interest held by Bingelela is accounted for as a grant of an equity option with a fair value at the grant date of R27.2 million (refer note 8.1(d)(iii)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

6. Investments: investments in subsidiaries and associates continued

6.1 Details of investments in subsidiaries and associates continued

(d) Isizinda Aluminium (Pty) Ltd ("Isizinda") continued

Restructure of Isizinda

The shareholders of Isizinda, Bingelela and 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 (refer note 1.9(i)).

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

These decisions served as an indicator for impairment. An impairment test was conducted and it was determined that the carrying amount of land and buildings exceeds the recoverable value of the property. Accordingly, an impairment charge of R13 million has been recognised (refer note 2.4.4 (a)).

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

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

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

Details of the settlement of the share-based payment are set below:

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

6.2 Non-current assets held-for-sale

The group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (or disposal group), excluding finance costs and income tax expense.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

(i) Almin Metal Industries Limited (“Almin”)

During the 2018 financial year, the group received an offer from a third party to acquire the 49% interest which it holds in Almin. The sale was approved by the Board and was expected to be completed within 12 months from year-end. All conditions of sale have since been satisfied and the associate has been disposed of in the current financial year. The difference between the carrying amount of the associate of R6.5 million and the proceeds from disposal amounting to R8.7 million (after the payment of an amount of R0.4 million in capital gains tax) has been recognised in profit or loss as a gain on disposal (note 2.4.3).

(ii) Extrusions Olifantsfontein plant

In May 2019, Hulamin Extrusions announced the proposed restructuring of its business operations which included the intended disposal of the property, plant and equipment of its Olifantsfontein operation (refer to note 2.4.1(b) for further details).

It was further determined that the assets relating to the Olifantsfontein plant were going to be recovered principally through sale rather than through use. The sale of these assets is highly probable. Hulamin Extrusions has entered into an agreement of sale of these assets with a third party. The sale of these assets was expected to realise within one year from 30 June 2019 (classification date). At classification date, the carrying amount was lower than its fair value less costs to sell, thus no impairment loss was recognised. Subsequently the fair value less costs to sell was determined with reference to a binding sale agreement, which indicated that the carrying amount exceeded the fair value less costs to sell by R6 million and consequently an impairment charge of that amount was booked in profit or loss (refer note 2.4.4 (a)(ii)).

	2019 R'000	2018 R'000
Investment in associate – Almin	–	6 529
Property, plant and equipment – Extrusions Olifantsfontein (note 5.1(b))	14 250	–
	14 250	6 529

7. Financial risk management: measures to mitigate risk

Financial risk factors

This note explains the group's exposure to financial risks and how these risks could affect the group's future financial performance.

The group's risk management is predominantly controlled by a central treasury department (group treasury) under policies approved by the board of directors. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the group's operating units. The board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and use of derivative financial instruments.

7.1 Market risk

(a) Foreign exchange risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar and the Euro.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities that are denominated in a currency that is not the group's functional currency, which is South African Rand. The group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar and the Euro. The group's risk management policy is to hedge its currency exposure related to import and export transactions, foreign currency assets and liabilities. The values of aluminium purchases and sales are determined with reference to the US Dollar and it is the group's policy to hedge 50% of the currency exposure on aluminium, while the value added portion of export transactions are hedged from invoice date. The group uses foreign exchange contracts, transacted with commercial banks, to manage these risks. The details of the hedge accounting requirements is laid out below.

For every 5% weakening or strengthening of the South African Rand against the group's foreign currency exposure at 31 December, the after tax profit for the year would have been higher or lower by R720 405 (2018: R21 580 655) based on the group's exposure at the balance sheet date. The sensitivity of profits to changes in exchange rates is a result of foreign exchange gains or losses on translation of foreign currency denominated trade receivables and payables and financial assets and liabilities at fair value through profit or loss that are offset by equivalent gains or losses in currency derivatives. For currency cash flow hedges the above change in currency exchange rates would have resulted in equity being lower or higher by R18 360 107 (2018: R31 618 484).

The group uses forward exchange contracts to hedge its exposure to foreign currency risk. The group only designates the spot component of foreign currency forwards in hedge relationships. The spot component is determined with reference to relevant spot exchange rates. The differential between the contracted forward rate and the spot market exchange rate is defined as the forward points. The changes in the forward element of the foreign currency forwards that relate to hedged items is recorded in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

7. Financial risk management: measures to mitigate risk continued

7.1 Market risk continued

(b) Commodity price risk

The group purchases and sells aluminium at prices that fluctuate with movements in prices on the London Metal Exchange and the group is thus exposed to commodity price risk. Due to this commodity price risk having opposing effects on cash flows and profit, the approach is to hedge 50% of the risk using futures contracts. At 31 December 2019, 50% (2018: 50%) of the risk was hedged.

There is an economic relationship between the hedged items and the hedging instruments as the terms of the foreign exchange and commodity forward contracts match the terms of the expected highly probable forecast transactions (i.e., notional amount and expected payment date). The group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the foreign exchange and commodity forward contracts are identical to the hedged risk components. To test the hedge effectiveness, the group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks.

The hedge ineffectiveness can arise from:

- Differences in the timing of the cash flows of the hedged items and the hedging instruments
- Different indexes (and accordingly different curves) linked to the hedged risk of the hedged items and hedging instruments
- The counterparties' credit risk differently impacting the fair value movements of the hedging instruments and hedged items
- Changes to the forecasted amount of cash flows of hedged items and hedging instruments

Due to the adoption of hedge accounting for all commodity hedges, for every 5% weakening or strengthening of the price of aluminium at 31 December, after tax profit for the year would have been lower or higher by Rnil (2018: R31 609 402) based on the group's exposure to firm customer commitments at the balance sheet date. The above change in aluminium prices would have had R23 177 081 effect on equity (2018: Rnil).

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The group has no significant interest-bearing assets and interest rate risk is solely related to borrowings. The group's borrowings bear interest at variable rates and the group has not fixed the interest rate on any of its borrowings. Consequently, every 0,5 percentage point increase or decrease in the interest rate at 31 December would have no fair value effect on after-tax profit (2018: nil) and no effect on equity (2018: nil).

The group is also exposed to future cash flow risks on borrowings. Had interest rates for the year been 0,5 percentage points higher or lower and been applied to the period end net debt, the interest expense for the year would have been higher or lower by R1.4 million (2018: R2.7 million).

The group analyses the impact on profit and loss of defined interest rate shifts – taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. The analysis is only for liabilities that represent the major interest-bearing positions.

(d) Hedge accounting

(i) Classification of derivatives

Derivatives are only used for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedge accounting requirements, they are classified as 'fair value through profit or loss'. They are presented as current assets or liabilities to the extent they are expected to be settled within 12-months after the end of the reporting period.

The fair value of derivative assets and derivative liabilities are calculated as the difference between the contracted value and the value to maturity at the year-end date. The value to maturity of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date. The value to maturity of commodity futures are determined by reference to quoted prices at the balance sheet date.

(ii) Derivatives and hedging activities

As part of its risk management strategy, the group has identified a series of risk categories with corresponding hedging strategies using derivatives.

Hedge accounting is adopted when all the IFRS requirements are fulfilled, which includes documenting at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. In addition, the group documents the assessment, both at hedge inception and on an ongoing basis, of the hedge effectiveness. Transactions that are entered into in accordance with the group's hedging objectives but which do not qualify for hedge accounting, are referred to in these financial statements as economic hedge relationships.

A cash flow hedge is the hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with an asset or a liability that could affect profit or loss or a highly probable forecast transaction that could affect profit or loss. If a cash flow hedge meets the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in the statement of comprehensive income and accumulated in equity and the ineffective portion is recognised in profit or loss. A hedge of the foreign currency risk of a firm commitment is designated and accounted for as a cash flow hedge. If an effective hedge of a forecast transaction subsequently results in the recognition of a financial asset or financial liability, the associated gains or losses accumulated in equity are transferred to income in the same period in which the asset or liability affects profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gains or losses accumulated in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability.

In the comparative financial information hedge accounting was discontinued. Hedge accounting is discontinued on a prospective basis when the hedge no longer meets the hedge accounting criteria (including when it becomes ineffective), when the hedge instrument is sold, terminated or exercised, when for cash flow hedges the forecast transaction is no longer expected to occur or when the hedge designation is revoked. Any cumulative gain or loss on the hedging instrument for a forecast transaction is retained in equity until the transaction occurs, unless the transaction is no longer expected to occur, in which case it is transferred to profit or loss for the period.

On the implementation of the hedging component of IFRS 9, 'Financial Instruments' during the current year, When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset such as inventory. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

The hedging reserve accumulates all movement in the fair value of financial instruments designated as hedges of transactions that have yet to be recognised on the balance sheet. When the underlying transaction is recognised, the related accumulated hedging reserve is released to the income statement, and reflected in revenue. The release of the hedge reserve follows the hedged item represented by probable forecast sales transactions.

Effective 1 January 2019, the group adopted the hedge accounting provisions of IFRS 9, 'Financial Instruments'. Please refer to note 10 (b) for a summary of the impacts of the adoption.

(iii) Impact of hedging on equity

Set out below is the reconciliation of each component of equity and the analysis of other comprehensive income:

	Spot component of currency forwards R'000	Spot component of LME futures R'000	Intrinsic value of options R'000	Cost of hedging R'000	Total hedge reserve R'000
Opening balance 1 January 2018	39 999	–	–	–	39 999
Add: Change in fair value of hedging instrument recognised in OCI	(150 053)	–	–	–	(150 053)
Less: Reclassified to profit or loss – on hedge maturity	85 776	–	–	–	85 776
Less: Deferred tax	17 998	–	–	–	17 998
Closing balance 31 December 2018	(6 280)	–	–	–	(6 280)
Add: Change in fair value of hedging instrument recognised in OCI	7 495	39 326	10 218	–	57 039
Add: Costs of hedging deferred and recognised in OCI	–	–	–	23 801	23 801
Less: Reclassified to profit or loss	21 585	(48 901)	–	(27 434)	(54 750)
Less: Deferred tax	(8 142)	2 681	(2 861)	1 017	(7 305)
Closing balance 31 December 2019	14 658	(6 894)	7 357	(2 616)	12 505

* See note 10(b) for details on hedge accounting LME futures under IFRS 9 in 2019 as well as revisions to the treatment of forward points.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

7. Financial risk management: measures to mitigate risk continued

7.1 Market risk continued

(iv) Amount recognised in profit or (loss)

During the year the following amounts were recognised in profit or (loss) in relation to derivative instruments that were hedge accounted for:

	2019 R'000	2018 R'000
Net gains on forwards for LME futures not qualifying as hedges included in gains and losses on financial instruments relating to trading activities	(27 434)	–
Hedge ineffectiveness of foreign currency forwards included in gains and losses on financial instruments relating to trading activities	3 887	–
Cash flow hedges included in revenue	(31 203)	85 776
	(54 750)	85 776

(v) Hedge ineffectiveness

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments, to ensure that an economic relationship exists between the hedged item and hedging instrument.

There is an economic relationship between the hedged items and the hedging instruments as the terms of the foreign exchange and commodity forward contracts match the terms of the expected highly probable forecast transactions. The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the foreign exchange and commodity forward contracts are identical to the hedged risk components. To test the hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instruments against the changes in fair value of the hedged items attributable to the hedged risks. The hedge ineffectiveness can arise from:

- Differences in the timing of the cash flows of the hedged items and the hedging instruments.
- Different indexes (and accordingly different curves) linked to the hedged risk of the hedged items and hedging instruments.
- The counterparties' credit risk differently impacting the fair value movements of the hedging instruments and hedged items.
- Changes to the forecasted amount of cash flows of hedged items and hedging instruments.

	2019 R'000	2018 R'000
A summary of the group's financial instruments used to mitigate foreign exchange and commodity price risk is shown below		
Foreign currency management – probable forecast sales	41 551	(10 555)
Foreign currency management – firm commitments, trade debtors, creditors and import orders	16 727	(6 628)
Commodity price management	(13 643)	54 453
	44 635	37 270
Grouped as:		
Financial assets	88 661	71 281
Financial liabilities	(44 026)	(34 011)
	44 635	37 270

The credit quality of all derivative financial assets is sound and there have been no defaults in the past. None are overdue or impaired and the group does not hold collateral on derivatives. The group's maximum exposure to counterparty credit risk on derivative assets at 31 December 2019 is R58.3 million (2018: R54.5 million).

The fair value measurement classification of the above financial instruments is level 2 (observable inputs) in accordance with the fair value hierarchy prescribed by IFRS 13. Key inputs used in the determination of fair value relate to London Metal Exchange aluminium prices and currency exchange rates.

(e) Foreign currency management – probable forecast sales

The following forward foreign exchange contracts (FECs) on hand at period end were designated as hedging instruments in terms of hedge accounting.

	2019			2018		
	Foreign amount '000	Rand amount R'000	Fair value asset/(liability) R'000	Foreign amount '000	Rand amount R'000	Fair value asset/(liability) R'000
Forward purchases						
US Dollar	13 125	189 697	(5 594)	18 351	263 401	2 066
		189 697	(5 594)		263 401	2 066
Forward sales						
US Dollar	(48 733)	(732 579)	47 145	(78 679)	(1 131 137)	(12 621)
		(732 579)	47 145		(1 131 137)	(12 621)
Net total		(542 883)	41 551		(867 736)	(10 555)
Maturing in*:						
2019		–	–		(867 736)	(10 555)
2020		(542 883)	41 551		–	–
		(542 883)	41 551		(867 736)	(10 555)
Cash flow hedges		(542 883)	41 551		(867 736)	(10 555)
Grouped as:						
Financial assets			47 204			2 073
Financial liabilities			(5 653)			(12 628)
			41 551			(10 555)

Cash flow hedges

The group enters into FECs to hedge US Dollar exposure of probable forecast sales. These FECs are hedge accounted and are designated as cash flow hedges, accounted for in accordance with the accounting policy detailed in this note. When assessing the effectiveness of the hedges during hedge effectiveness testing, the group compares the change in the fair value of the forecast sales transaction attributable to movements in exchange rates to the change in the fair value of the FECs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

7. Financial risk management: measures to mitigate risk continued

7.1 Market risk continued

(f) Foreign currency management – firm commitments, trade debtors, creditors and import orders

The following forward foreign exchange contracts and options cover foreign currency risk on trade debtors, creditors balances and import orders. The forward exchange contracts were not designated as hedging instruments for hedge accounting purposes at the period end:

	2019			2018		
	Foreign amount '000	Rand amount R'000	Fair value asset/(liability) R'000	Foreign amount '000	Rand amount R'000	Fair value asset/(liability) R'000
Forward purchases						
Euro	10 522	167 810	(1 434)	13 374	225 402	(2 113)
Pound Sterling	531	10 104	(245)	739	13 887	(215)
US Dollar	41 810	604 879	(16 474)	30 691	445 002	1 108
		782 793	(18 153)		684 291	(1 220)
Forward sales						
Euro	(14 302)	(230 187)	4 085	(19 705)	(321 452)	(6 822)
Pound Sterling	(287)	(5 562)	245	(1 043)	(19 013)	(260)
US Dollar	(49 305)	(712 053)	19 897	(45 577)	(664 870)	1 674
		(947 802)	24 227		(1 005 335)	(5 408)
Currency options						
US Dollar	(10 000)	(151 300)	10 653		–	–
		(151 300)	10 653		–	–
Net total		(316 309)	16 727		(321 045)	(6 628)
Maturing in:*						
2019					(321 045)	(6 628)
2020		(316 309)	16 727		–	–
		(316 309)	16 727		(321 045)	(6 628)
Grouped as:						
Financial assets			35 263			10 691
Financial liabilities			(18 536)			(17 319)
			16 727			(6 628)

* Derivative instruments on average hold a maturity of three-months or less.

(g) Commodity price management

The following futures contracts cover commodity price risk on future sales. The requirement for hedge accounting were met in 2019 but were not met in 2018:

	2019			2018		
	Tons	Contracted value R'000	Fair value asset/(liability) R'000	Tons	Contracted value R'000	Fair value asset/(liability) R'000
Net aluminium futures purchases/(sales) maturing in*:						
2019				(21 325)	644 462	54 453
2020	(18 575)	32 389	(13 643)			
	(18 575)	32 389	(13 643)	(21 325)	644 462	54 453
Grouped as:						
Financial assets			6 194		58 517	
Financial liabilities			(19 837)			(4 064)
			(13 643)		54 453	

The group enters into London Metal Exchange (LME) futures to hedge the metal price exposure on firm commitments with customers and probable forecast sales. These LME futures were hedge accounted for the period ended 2019 but were not hedge accounted for the period ended 2018.

* Derivative instruments on average hold a maturity of three-months or less.

7.2 Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. All deposits are held with major South African banks and all foreign exchange hedging transactions are undertaken with these banks. All aluminium futures are undertaken with Category 1 London Metal Exchange brokers. Hulamin will only enter into currency hedges with the four major South African banks.

Quantitative data on credit risk is disclosed in the notes to the annual financial statements on derivative financial instruments (under the hedging section of this note) and trade and other receivables (note 4.3).

7.3 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, flexibility in funding is maintained through ensuring availability under committed credit lines. Management monitors rolling forecasts of the group's liquidity reserve, being the excess of available facilities over forecast net borrowings and available cash balances.

The group's facility utilisation (including cash reserves) at the period end was:

	Note	2019 R'000	2018 R'000
Revolving working capital facility		1 000 000	1 300 000
General short term facility		500 000	350 000
Pension fund		–	79 635
Term loan		54 000	54 000
Current facilities		1 554 000	1 783 635
Non-current facilities		–	54 000
Total borrowing facilities		1 554 000	1 837 635
Less: indirect facilities allocated to letters of credit		(300 000)	–
		1 254 000	1 837 635
Utilised by:			
Non-current borrowings	3.1	–	(54 000)
Current borrowings	3.2	(352 083)	(765 783)
Cash and cash equivalents	4.1	126 207	525 981
Committed undrawn direct facilities and cash		1 028 124	1 543 833

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

7. Financial risk management: measures to mitigate risk continued

7.3 Liquidity risk continued

In the prior period end, non-current facilities comprise a term loan of R108 million used to fund the upgrade of the aluminium recycling plant in 2015. The loan facility is repayable quarterly in arrears starting on 31 March 2016 and has a remaining one year term, and has thus been classified as a current facility.

In addition to the term loan, Hulamin borrowing facilities include a general short-term facility of R500 million (2018: R350 million), of which R300 million has been allocated to a letter of credit facility and revolving working capital facilities of R1 000 million (2018: R1 300 million). The pension fund loan was repaid in full in the current year and thus has a Rnil balance (2018: R79.6 million).

Financial liabilities with maturity dates within the next twelve months comprise current borrowings, trade and other payables, sundry accruals and derivative liabilities.

The table below summarises the maturity profile of the group's financial liabilities based on contractual undiscounted payments:

	Less than one year R'000	One to three years R'000	Three to four years R'000	Greater than four years R'000	Total R'000
2018					
Non-current borrowings	–	59 670	–	–	59 670
Current borrowings	833 938	–	–	–	833 938
Trade and other payables (excluding employee benefit payables)	1 216 445	–	–	–	1 216 445
Derivative financial liabilities	34 011	–	–	–	34 011
	2 084 394	59 670	–	–	2 144 064
2019					
Non-current borrowings	–	–	–	–	–
Current borrowings*	383 419	–	–	–	383 419
Trade and other payables (excluding employee benefit payables)	874 015	–	–	–	874 015
Lease liabilities	13 176	19 272	11 563	6 666	50 677
Derivative financial liabilities	44 026	–	–	–	44 026
	1 314 636	19 272	11 563	6 666	1 352 137

* Borrowing facilities incur interest at variable rates. As fixed contractual terms are not known in future periods, management has estimated interest charges using a best estimate of the forecast rate and applied this to the average balance for the year.

Included in the above amounts payable within a period of less than one year, are financial liabilities in the amount of R1 024 million (2018: R1 395 million) which are payable within a period of three months, including trade payables in the amount of R770 million (2018: 1 072 million). Trade receivables amounting to R688 million (2018: R1 338 million) are recoverable within a period of three months.

7.4 Capital risk management

For the purpose of the group's capital management, capital includes issued capital, convertible preference shares, share premium and all other equity reserves attributable to the equity holders of the parent. The primary objective of the group's capital management is to maximise the shareholder value and to safeguard its ability to continue as a going-concern and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

These objectives result in varying capital ratios, with current and future borrowings being evaluated against the group's expected operating cash flows and capital investment needs. Capital adequacy and liquidity are managed by monitoring gearing ratios, interest cover and debt service ratios.

The group's gearing ratio at the period end was as follows:

	Notes	2019 R'000	2018 R'000
Non-current borrowings	3.1	–	54 000
Current borrowings	3.2	352 083	765 783
Lease liabilities (current and non-current)		46 493	–
Total borrowings		398 576	819 783
Less: Cash and cash equivalents	4.1	(126 207)	(525 981)
Net debt		272 369	293 802
Total equity		2 570 308	3 802 621
Total capital		2 842 677	4 096 423
Gearing ratio percentage (net debt over total capital)		9,6	7,2

In order to achieve this overall objective, the group's capital management, among other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. There have been no breaches of the financial covenants of any interest-bearing loans and borrowing in the current period.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 2018.

The gearing ratio excluding lease liabilities is 8.1% and increases to 9.6% at 31 December 2019 following the inclusion of IFRS 16 Leases. Both net debt and gross assets increased following the recognition of right-of-use assets and lease liabilities on 1 January 2019.

8. Benefits and remuneration: our investment in our people

8.1 Share-based payments

(a) Employee schemes

The group's employee share incentive schemes are accounted for as equity-settled share-based payments. Equity-settled share-based payments are measured at fair value at the date of grant and recognised in profit or loss on the straight-line basis over the vesting period, based on the estimated number of shares that will eventually vest and adjusted for the effect of non-market vesting conditions.

Fair value is measured using the Monte Carlo Simulation, Black-Scholes and binomial tree valuation models.

(b) BEE transactions

BEE transactions where the group receives or acquires goods or services as consideration for the issue of equity instruments of the group are treated as share-based payment transactions.

BEE transactions where employees are involved are measured and accounted for on the same basis as share-based payments, as disclosed above.

Transactions in which share-based payments are made to parties other than employees are measured by reference to the fair value of equity instruments granted if no specific goods or services are received. Vesting of the equity instrument occurs immediately and an expense and related increase in equity is recognised on the date that the instrument is granted. No further measurement or adjustments are required as it is presumed that the BEE credentials are received upfront. Incremental costs that are directly associated with the BEE transaction are expensed immediately in the determination of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

8. Benefits and remuneration: our investment in our people continued

8.1 Share-based payments continued

(c) Information relating to employee share scheme grants

(i) Hulamin Limited Share Appreciation Right Scheme 2007

Under the Share Appreciation Right Scheme, participating employees are awarded the right to receive shares equal in value to the difference between the exercise price and the grant price.

The vesting of the right is conditional on the achievement by Hulamin of performance conditions over a three-year period.

Grant price	Estimated weighted average fair value per right	Expiring seven years from	Number of rights at December 2018	Rights exercised in 2019	Rights forfeited/lapsed in 2019	Number of rights at December 2019	Rights time constrained
R3.60	R0.81	22 October 2012	116 730	–	116 730	–	–
R4.56	R1.35	25 February 2013*	532 997	–	532 997	–	–
R6.90	R2.73	24 April 2014	2 505 966	–	–	2 505 966	–
R6.50	R2.59	26 April 2017	7 333 187	–	–	7 333 187	7 333 187
			10 488 880	–	649 727	9 839 153	7 333 187

* On 25 February 2013 a grant was made to a group of employees who had been excluded from the grant made on 22 October 2012. The vesting period of the award was 32 months and the awards vested on 22 October 2015. Participants had an additional four-years within which to exercise their rewards.

The volume-weighted average share price during the year for Hulamin shares was R2.86.

The estimated fair value of these share appreciation rights at grant date was determined using a binomial tree valuation model, based on the following significant inputs:

		2017	2014	2013	2012
Share price at grant date	(R)	6.50	6.90	4.56	3.60
Risk-free interest rate	(%)	7,74	8,17	6,44	6,38
Expected volatility	(%)	42,09	42,22	42,70	40,33
Expected dividends	(%)	0,55	0,50	4,00	9,85
Expected remaining life	(months)	52	16	–	–
Contractual life	(months)	84	84	84	84

Vesting conditions:

- Time Three years
- Non-market An increase in Hulamin Limited headline earnings per ordinary share as determined by the Remuneration Committee.
- Market None

(ii) Hulamim Limited Long Term Incentive Scheme 2007 (without performance conditions)

Under the Long Term Incentive Plan, participating employees are granted conditional awards. The vesting of the award is conditional on the employee continuing employment with the company or any other employer company until the vesting date.

Grant price	Estimated weighted average fair value per right	Expiring three years from	Number of conditional awards at December 2018	Conditional awards exercised in 2019	Conditional awards forfeited/lapsed in 2019	Number of conditional awards at December 2019	Conditional time constrained
Nil	R5.67	1 May 2016	145 370	–	145 370	–	–
Nil	R5.81	1 June 2016	87 867	87 867	–	–	–
Nil	R6.44	15 May 2017	78 577	–	–	78 577	78 577
			311 814	87 867	145 370	78 577	78 577

The volume-weighted average share price during the year for Hulamini shares was R2.86.

The estimated fair value costing of these conditional share awards at the grant date was based on the following significant inputs:

		2017	2016
Share price at grant date	(R)	6,55	5,75 (May) 5,89 (June)
Risk-free interest rate	(%)	7,12	7,87 (May) 8,15 (June)
Expected volatility	(%)	42,09	40,42 (May) 40,22 (June)
Expected dividends	(%)	0,55	0,49 (May) 0,48 (June)
Expected remaining life	(months)	4,5	–
Contractual life	(months)	36	36

Vesting conditions:

- Time Three years
- Non-market None
- Market None

(iii) Equity-settled Conditional Share Plan (Bonus shares)

Under the Equity-settled Conditional Share Plan (Bonus shares), participating employees are granted conditional awards. The vesting of the award is conditional on the employee continuing employment with the company or any other employer company until the vesting date.

Grant price	Estimated weighted average fair value per right	Expiring three years from	Number of conditional awards at December 2018	Conditional awards granted in 2019	Conditional awards exercised in 2019	Conditional awards forfeited/lapsed in 2019	Number of conditional awards at December 2019	Conditional time constrained
Nil	R3,93	26 July 2018	1 852 693	–	–	249 146	1 603 547	1 603 547
Nil	R3,70	15 May 2019	–	1 602 082	–	–	1 602 082	1 602 082
			1 852 693	1 602 082	–	249 146	3 205 629	3 205 629

The volume-weighted average share price during the year for Hulamini shares was R2.86.

The estimated fair value costing of these conditional share awards at the grant date was based on the following significant inputs:

		2018	2019
Share price at grant date	(R)	4,34	4,11
Risk-free interest rate	(%)	7,34	7,08
Expected volatility	(%)	N/A	N/A
Expected dividends	(%)	3,27	3,49
Expected remaining life	(months)	19	28
Contractual life	(months)	36	36

Vesting conditions:

- Time Three years
- Non-market None
- Market None

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

8. Benefits and remuneration: our investment in our people continued

8.1 Share-based payments continued

(iv) Equity-settled Conditional Share Plan (Performance shares)

Under the Equity-settled Conditional Share Plan (Performance shares), participating employees are granted conditional awards. These awards are converted into shares in Hulamín on the achievement of Return on Capital Employed (ROCE) and Total Shareholders' Return (TSR) performance conditions over a three-year period.

Grant price	Estimated weighted average fair value per right	Expiring three years from	Number of conditional awards at December 2018	Conditional awards granted in 2019	Conditional awards exercised in 2019	Conditional awards forfeited/lapsed in 2019	Number of conditional awards at December 2019	Conditional time constrained
Nil	R3,28	26 July 2018	2 847 042	–	–	914 872	1 932 170	1 932 170
Nil	R3,22	15 May 2019	–	1 240 045	–	–	1 240 045	1 240 045
			2 847 042	1 240 045	–	914 872	3 172 215	3 172 215

The volume-weighted average share price during the year for Hulamín shares was R2.86.

The estimated fair value costing of these conditional share awards at the grant date was based on the following significant inputs:

	2018	2019
Share price at grant date	(R) 4,34	4,11
Risk-free interest rate	(%) 7,34	7,08
Expected volatility	(%) 44,34	41,63
Expected dividends	(%) 3,27	3,49
Expected remaining life	(months) 19	28
Contractual life	(months) 36	36

Vesting conditions:

- Time Three years
- Non-market ROCE weighted 67%
- Market TSR weighted 33%

(v) Equity-settled Conditional Share Plan (Retention shares)

Under the Equity-settled Conditional Share Plan (Retention shares), participating employees are granted conditional awards. The vesting of the award is conditional on the employee continuing employment with the company or any other employer company until the vesting date.

Grant price	Estimated weighted average fair value per right	Expiring three years from	Number of conditional awards at December 2018	Conditional awards granted in 2019	Conditional awards exercised in 2019	Conditional awards forfeited/lapsed in 2019	Number of conditional awards at December 2019	Conditional time constrained
Nil	R3,93	26 July 2018	602 164	–	–	–	602 164	602 164
			602 164	–	–	–	602 164	602 164

The volume-weighted average share price during the year for Hulamín shares was R2.86.

The estimated fair value costing of these conditional share awards at the grant date was based on the following significant inputs:

		2018
Share price at grant date	(R)	4,34
Risk-free interest rate	(%)	7,34
Expected volatility	(%)	N/A
Expected dividends	(%)	3,27
Expected remaining life	(months)	19
Contractual life	(months)	36

Vesting conditions:

- Time Three years
- Non-market None
- Market None

(d) BEE Equity Transactions

(i) Strategic Partners

On 22 December 2015, HulamIn concluded agreements with BEE partners to facilitate the acquisition of an equity interest in HulamIn. The BEE partners consist of Eligible Employees and long-standing Strategic Partners.

The Strategic BEE partners, through Imbewu SPV 14 (Pty) Ltd, subscribed for 9 018 000 B1 ordinary, 9 018 000 B2 ordinary shares, and 18 036 000 B3 ordinary shares at a total cost of R361 000. For accounting purposes the fair value of the transaction at grant date is R20 000 000, which was expensed in full in the 2015 financial year. The share-based payments charge is based on the number of B1 and B2 ordinary shares. The fair value of the B1 share-based payments takes into account an effective grant price of 50% of the 30-day volume-weighted average price (VWAP) (R5.83) of the group's ordinary shares on grant date, while the fair value of the B2 share-based payments is based on an effective grant price of 100% of the same VWAP.

The fair value of the transaction was determined using a Black Scholes valuation model using the following significant inputs:

Share price at grant date	R5.49
Expected option life	Five years
Lock in period	Three years
Risk free rate	8,58%
Expected volatility	43,15%
Expected dividends	0,50%
Expected remaining life	12 months
Contractual life	60 months

Vesting conditions:

- Time Five years
- Non-market None
- Market Share price

(ii) 2015 HulamIn Employee Share Ownership Plan (ESOP)

On 22 December 2015, the ESOP trust subscribed for 4 721 600 A1 ordinary and 26 755 733 A2 ordinary shares. Under the scheme, participating employees are granted conditional awards. The vesting of the award is conditional on the employee continuing employment with the company until the vesting date and the employee must fall within stipulated Patterson Bands.

The fair value of the share-based payments takes into account an effective grant price of Rnil for the A1 shares and an effective grant price of the 30-day VWAP of the group's ordinary shares on grant date (R5.83) for the A2 shares, with the grant price reduced by dividends accruing to those shares over the vesting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

8. Benefits and remuneration: our investment in our people continued

8.1 Share-based payments continued

The estimated fair value costing of these conditional share awards at the grant date was based on the following significant inputs:

Share price at grant date	R5.49
Risk free rate	8,58%
Expected volatility	43,15%
Expected dividends	0,50%
Expected remaining life	12 months
Contractual life	60 months

Vesting conditions:

- Time Five years
- Non-market None
- Market Share price

(iii) Isizinda Aluminium (Pty) Ltd (Isizinda)

Bingelela Capital (Pty) Ltd (Bingelela)

On 1 July 2015, Isizinda acquired the Bayside cashouse business for a purchase consideration of R100.2 million funded by a loan from Hulamin to Isizinda. At the time Bingelela had a 60% interest and Hulamin had a 40% interest in Isizinda. The interest held by Bingelela is accounted for as a grant of an equity option. The fair value of the option at the grant date was R27.2 million, which was determined on an indirect basis with reference to the intrinsic value of the business. This was determined on an indirect basis with reference to the bargain purchase gain (R51.9 million) and the contributed capital of R4 million from the outside shareholder. The time value component was deemed to be nominal.

During the 2019 financial year, Bingelela and Hulamin Operations agreed on a restructure of Isizinda whereby, *inter alia*, payments totalling R65 million were agreed to be made to Bingelela. This constitutes a settlement of the equity-settled share-based payment. The fair value of Bingelela's 60% interest in Isizinda was determined to be Rnil immediately before settlement.

Isizinda Employee Share Incentive Scheme Trust (the Trust)

On 2 February 2016, the Trust purchased a 2.53% interest in Isizinda, in equal portions from Bingelela and Hulamin. The interest held by the Trust is treated as a grant of an equity option. The fair value of the option at the grant date was R 1.1 million, which was determined on an indirect basis with reference to the intrinsic value of the business. As at 31 December 2019, Bingelela owned 117 472 shares (58.74%) in Isizinda and the Trust owned 5 056 shares (2.53%). The fair value of these share-based payments take into account an exercise price of nil.

8.2 Retirement benefits

(a) Accounting policies and significant judgements

(i) Pension obligations

The group provides retirement benefits to employees in the form of defined contribution plans. Certain benefits to some employees accrue with service and are therefore accounted for as a defined benefit plan. The assets of all retirement schemes are held separately from those of the group and are administered and controlled by trustees.

Contributions to defined contribution schemes are charged to profit or loss when incurred. The cost of providing benefits to the group's defined benefit plan are determined and provided using the projected unit credit actuarial valuation method. Remeasurements, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

The retirement benefit obligation recognised in the group statement of financial position represents the actual deficit or surplus in the group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans. The plan remains in a sound financial position and is governed by the Pension Funds Act, 1956 (Act No. 24 of 1956).

(ii) Post-retirement medical aid benefits and retirement gratuities

Provisions for post-retirement medical aid benefits and gratuities payable on retirement are calculated on an actuarial basis. Actuarial gains or losses are recognised in the same manner as those of pension obligations.

(iii) Retirement Benefit Schemes

The group contributes towards retirement benefits for substantially all permanent employees who are required to be a member of one of the retirement benefit plans, either pension fund or provident fund, elected by the group. These schemes are governed by the relevant fund legislation. Their assets consist primarily of listed shares, fixed income securities, property investments and money market instruments and are held separately from those of the group. The scheme assets are administered by boards of trustees, each of which includes elected representatives.

(b) Provident fund

The group's contributions to the Metal Industries Provident Fund scheme, a defined contribution plan, amounted to R14.8 million (2018: R14.6 million) and were expensed during the year.

(c) Hulamin Pension Fund

During 2012, members and pensioners accepted an offer made by the fund to convert the benefits of all in-service members from defined benefit to defined contribution and to transfer the liabilities for the payment of pensions to an insurer. The group has no further exposure to actuarial or investment risk relating to the defined contribution section of the fund.

In addition to an enhancement of benefits granted by the fund to members and pensioners on conversion, the fund also provided certain members with a further benefit which targeted (but provided no guarantee of), at the date of conversion, equivalent benefits on retirement in terms of the defined contribution basis as would have been obtained had the member remained on the defined benefit basis (the "retirement benefit equalisation value").

The assets relating to the retirement benefit equalisation value are held in the employer surplus account and there is no cross-subsidisation between the retirement benefit equalisation value and the assets held by the fund in terms of the defined contribution section of the fund. In addition to the assets relating to the retirement benefit equalisation value, assets relating to the surplus apportionment to the company are held in the employer surplus account.

The company provides no guarantee in terms of the investment returns that are earned on members' retirement benefit equalisation values. The retirement benefit equalisation value benefit accrues with service and is therefore accounted for as a defined benefit plan in terms of IAS 19 (revised). The group holds no actuarial or investment risk relating to the retirement benefit equalisation value benefit.

An actuarial valuation of the group's defined benefit obligation (in relation to the retirement benefit equalisation value) and assets in the employer surplus account was performed in accordance with IAS 19 (revised) at 31 December 2019. The next valuation will be performed at 31 December 2020.

	2019 R'000	2018 R'000
(i) Amounts recognised in the statement of financial position are as follows:		
Fair value of plan assets (represents amounts held in employer surplus account)	113 239	150 157
Present value of funded obligations	(17 679)	(16 297)
Pension fund asset at end of year	95 560	133 860
(ii) Movement in the defined benefit obligation is as follows:		
Defined benefit obligation at beginning of year	16 297	17 259
Current service cost	2 507	3 138
Interest cost	1 934	2 029
Remeasurements:		
Actuarial gains arising from changes in financial assumptions	(1 924)	(2 937)
Actuarial gains arising from experience adjustments	(356)	(2 980)
Benefits paid	(779)	(212)
Defined benefit obligation at end of year	17 679	16 297

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

8. Benefits and remuneration: our investment in our people continued

8.2 Retirement benefits continued

	2019 R'000	2018 R'000
(iii) Movement in the fair value of plan assets (amounts held in employer surplus account) is as follows:		
Fair value of plan assets at beginning of year	150 157	144 313
Interest income	13 205	14 421
Remeasurements:		
Losses on plan assets, excluding amounts included in interest income	(1 325)	(8 365)
Contribution funded from employer reserves	(48 019)	–
Benefits paid	(779)	(212)
Fair value of plan assets at end of year	113 239	150 157
The fair value of plan assets comprises the employer surplus account which comprises:		
Quoted market price in an active market:		
Market risk portfolio	59 814	57 065
Conservative portfolio	354	239
Money market and cash	53 071	13 219
Other assets:		
Loan to employer company (note 3.2)	–	79 634
Fair value of plan assets at end of year	113 239	150 157
Balances in respect of the retirement benefit equalisation value included in the fair value of plan assets at end of year	60 237	70 523
(iv) The amounts recognised in the statement of profit or loss are as follows:		
Defined benefit plan (retirement benefit equalisation value)	(8 764)	(9 254)
Current service cost	2 507	3 138
Net interest income	(11 271)	(12 392)
Defined contribution plan	53 367	50 326
Employer contribution from reserves (utilisation of employer surplus account)	48 019	–
Employer cash contribution	5 348	50 326
Total	44 603	41 072
(v) Amounts recognised in other comprehensive income are as follows:		
Actuarial gains arising from changes in financial assumptions	(1 924)	(2 937)
Actuarial gains arising from experience adjustments	(356)	(2 980)
Gains on plan assets, excluding amounts included in interest income	1 325	8 365
Total	(955)	2 448
The average duration of the benefit obligation at 31 December 2019 is 19.0 years (2018: 20.2 years).		
(vi) Principal actuarial assumptions at the end of the reporting period are as follows:		
Discount rate (%)	10,30	10,50
Future inflation rate (%)	5,50	6,30
Sensitivity of discount rate:		
1% increase in discount rate – effect on current service cost	(368)	(414)
1% increase in discount rate – effect on the obligation	(2 761)	(2 692)
1% decrease in discount rate – effect on current service cost	451	512
1% decrease in discount rate – effect on the obligation	3 378	3 325

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur and changes in some of the assumptions may be correlated. When calculating the sensitivity the same method has been applied as when calculating the liability recognised within the statement of financial position. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous year.

(d) Post-retirement Medical Aid Benefits

The group has undertaken to contribute to the medical aid costs after retirement of employees engaged prior to 30 June 1996. The obligation is unfunded.

	2019 R'000	2018 R'000
(i) Amounts recognised in the statement of financial position are as follows:		
Present value of unfunded obligations	195 739	208 915
Liability in the balance sheet	195 739	208 915
(ii) The liability can be reconciled as follows:		
Balance at beginning of year	208 915	223 929
Total expense accrued	23 757	24 559
Remeasurements:		
Actuarial gains arising from changes in financial assumptions	(18 151)	(21 725)
Actuarial gains arising from experience adjustments	(6 674)	(5 413)
Benefit payments	(12 108)	(12 435)
Balance at end of year	195 739	208 915
(iii) Amounts recognised in the statement of profit or loss are as follows:		
Interest costs	21 531	22 053
Current service costs	2 226	2 506
	23 757	24 559
(iv) Amounts recognised in other comprehensive income are as follows:		
Remeasurements:		
Actuarial gains arising from changes in financial assumptions	(18 151)	(21 725)
Actuarial gains arising from experience adjustments	(6 674)	(5 413)
	(24 825)	(27 138)

(v) Principal risks

Through its post-retirement medical aid subsidy benefit, the group is exposed to a number of risks, principally changes in

Financial assumptions:

- Discount rate, which is set having regard to the market yield on suitable government bonds taking into account the estimated duration of the liability.
- Long-term price inflation rate, which is measured by the relationship between the yields of conventional and inflation-linked government bonds, taking into account the estimated duration of the liability.
- Medical inflation rate

Demographic assumptions:

- Withdrawal, pre-retirement mortality and ill-health retirement rates
- Post-retirement mortality
- Family statistics

The demographic assumptions used in the valuation of the liability are consistent with those of the prior year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

8. Benefits and remuneration: our investment in our people continued

8.2 Retirement benefits continued

Principal actuarial assumptions at the end of the reporting period are as follows:

		2019 R'000	2018 R'000
Discount rate	(%)	10,30	10,50
Future company subsidy rate – in service	(%)	5,50	6,30
Future company medical subsidy increase – pensioners	(%)	7,25	8,05
Sensitivity of future company subsidy rate:			
1% increase in future company subsidy rate – effect on the aggregate of the service and interest costs		2 526	3 171
1% increase in future company subsidy rate – effect on the obligation		21 528	25 637
1% decrease in future company subsidy rate – effect on the aggregate of the service and interest costs		(2 145)	(2 660)
1% decrease in future company subsidy rate – effect on the obligation		(18 383)	(21 633)
Sensitivity of discount rate:			
1% increase in discount rate – effect on current service cost		(343)	(744)
1% increase in discount rate – effect on the obligation		(17 704)	(20 985)
1% decrease in discount rate – effect on current service cost		348	812
1% decrease in discount rate – effect on the obligation		21 005	25 221

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur and changes in some of the assumptions may be correlated. When calculating the sensitivity the same method has been applied as when calculating the liability recognised within the balance sheet. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous year.

The average duration of the benefit obligation at 31 December 2019 is 10.9 years (2018: 12.2 years). This number is analysed as follows:

- active members 17.3 years (2018: 17.8 years)
- retired members 8.7 years (2018: 8.9 years)

	2019 R'000	2018 R'000
Estimated benefits payable by the group in the next financial year	14 152	12 181

(e) Retirement gratuities

The group has in the past made discretionary payments, on retirement, to eligible employees who have remained in service until retirement age, and have completed a minimum service period. This constructive obligation is unfunded.

	2019 R'000	2018 R'000
(i) Amounts recognised in the statement of financial position are as follows:		
Present value of unfunded obligations	29 268	42 823
Liability in the balance sheet	29 268	42 823
(ii) The liability can be reconciled as follows:		
Balance at beginning of year	42 823	42 838
Total expense accrued	7 206	7 068
Remeasurements:		
Actuarial gains arising from changes in financial assumptions	(3 377)	(3 813)
Actuarial (gains)/losses arising from experience adjustments	(3 753)	(2 444)
Curtailement (gain)/loss	(3 523)	–
Gratuity payments	(10 108)	(826)
Balance at end of year	29 268	42 823
(iii) Amounts recognised in the statement of profit or loss are as follows:		
Interest costs	4 666	4 495
Service costs	2 540	2 573
	7 206	7 068
(iv) Amounts recognised in other comprehensive income are as follows:		
Actuarial gains arising from changes in financial assumptions	(3 377)	(3 813)
Actuarial (gains)/losses arising from experience adjustments	(3 753)	(2 444)
Curtailement (gain)/loss	(3 523)	–
	(10 653)	(6 257)

(v) Principal risks

Through its retirement gratuity benefit, the group is exposed to a number of risks, principally changes in:

Financial assumptions:

- Discount rate, which is set having regard to the market yield on suitable government bonds taking into account the estimated duration of the liability.
- Long-term price inflation rate, which is measured by the relationship between the yields of conventional and inflation-linked government bonds, taking into account the estimated duration of the liability.
- Salary inflation in excess of price inflation

Demographic assumptions:

- Withdrawal, pre-retirement mortality and ill-health mortality rates
- Post-retirement mortality
- Family statistics

The demographic assumptions used in the valuation of the liability are consistent with those of the prior year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

8. Benefits and remuneration: our investment in our people continued

8.2 Retirement benefits continued

Changes in the principal financial assumptions are detailed below.

Principal actuarial assumptions at the end of the reporting period are as follows:

		2019 R'000	2018 R'000
Discount rate	(%)	10,30	10,50
Future salary inflation rate	(%)	5,50	6,30
Sensitivity of future salary inflation rate:			
1% increase in future salary inflation rate – effect on the aggregate of the service and interest costs		599	832
1% increase in future salary inflation rate – effect on the obligation		3 190	4 309
1% decrease in future salary inflation rate – effect on the aggregate of the service and interest costs		(518)	(722)
1% decrease in future salary inflation rate – effect on the obligation		(2 799)	(3 789)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur and changes in some of the assumptions may be correlated. When calculating the sensitivity the same method has been applied as when calculating the liability recognised within the statement of financial position. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous year.

The average duration of the benefit obligation at 31 December 2019 is 10.9 years (2018: 10.2 years).

Estimated retirement gratuities, payable by the group during the next financial year are R1 671 000 (2018: R1 855 000).

8.3 Directors' remuneration and interest

8.3.1 Directors' remuneration

(i) Directors' and prescribed officer's remuneration during the 2019 financial year

	Retainer fees Rand	Attendance fees Rand	Cash package Rand	Severance and related payments ¹ Rand	Medical aid contributions Rand	Retirement fund contributions Rand	Subtotal Rand	Value of options granted ² Rand	Total Rand	Gains on exercise of share options Rand
Non-executive										
TP Leeuw	556 662	270 290					826 952		826 952	
VN Khumalo ³	253 883	153 360					407 243		407 243	
NNA Matyumza	324 809	145 210					470 019		470 019	
SP Ngwenya	215 858	99 890					315 748		315 748	
PH Staude ⁴	124 350	26 030					150 380		150 380	
GHM Watson	612 164	274 945					887 109		887 109	
N Maharajh	337 920	152 830					490 750		490 750	
CA Boles	286 784	143 960					430 744		430 744	
B Mehlomakulu	262 114	126 450					388 564		388 564	
RL Larson	500 807	229 918					730 725		730 725	
	3 475 353	1 622 883	–	–	–	–	5 098 236	–	5 098 236	–
Executive										
RG Jacob			5 139 420		152 284	641 603	5 933 306	–	5 933 306	–
AP Krull			3 791 784		147 966	473 148	4 412 898	–	4 412 898	–
MZ Mkhize			3 537 108		163 878	441 314	4 142 300	–	4 142 300	–
	–	–	12 468 312	–	464 128	1 556 064	14 488 504	–	14 488 504	–
Prescribed officer										
DR Weisz ⁵			1 697 185	3 117 120	108 253	211 667	5 134 225	–	5 134 225	–
	–	–	1 697 185	3 117 120	108 253	211 667	5 134 225	–	5 134 225	–
	3 475 353	1 622 883	14 165 497	3 117 120	572 381	1 767 731	24 720 965	–	24 720 965	–

¹ Severance costs include notice pay, leave pay and gratuity on retirement.

² The value of the equity-settled options granted is the annual expense determined in accordance with IFRS 2, 'Share-based Payments'. No awards were made to the executive in 2019.

³ Directors' fees due to a shareholder nominee on the Hulamin Board are paid to the employer organisation and not to the nominee.

⁴ PH Staude resigned from the Board with effect from 17 June 2019.

⁵ DR Weisz served as managing director of Hulamin Extrusions to 4 July 2019, when the position was made redundant.

Executive Committee members' remuneration (excluding acting executive committee members) during the 2019 financial year¹

	Cash package Rand	Severance and related payments ² Rand	Medical aid contributions Rand	Retirement fund contributions Rand	Subtotal Rand	Value of options granted Rand	Total Rand	Gains on exercise of share options Rand
Total	17 225 178	4 513 278	770 413	2 094 501	24 603 370	–	24 603 370	305 224

¹ Excluding executive directors and prescribed officer.

² Severance costs include notice pay, leave pay and gratuity on retirement.

(ii) Directors' and prescribed officer's remuneration during the 2018 financial year

	Retainer fees Rand	Attendance fees Rand	Cash package Rand	Bonus and performance related payments ¹ Rand	Medical aid contributions Rand	Retirement fund contributions Rand	Subtotal Rand	Value of options granted ² Rand	Total Rand	Gains on exercise of share options Rand
Non-executive										
ME Mkwanazi ³	198 380	108 520					306 900		306 900	
TP Leeuw ³	488 378	195 590					683 968		683 968	
VN Khumalo ⁴	262 615	144 160					406 775		406 775	
NNA Matyumza	329 983	110 280					440 263		440 263	
SP Ngwenya	205 022	74 240					279 262		279 262	
PH Staudé	262 615	89 990					352 605		352 605	
GHM Watson	588 799	248 692					837 492		837 492	
N Maharajh	297 972	101 370					399 342		399 342	
CA Boles	250 437	118 840					369 277		369 277	
B Mehlomakulu	209 387	88 080					297 467		297 467	
RL Larson	442 126	189 827					631 953		631 953	
AT Nzimande ⁵	100 215	25 780					125 995		125 995	
	3 635 930	1 495 369	–	–	–	–	5 131 300	–	5 131 300	–
Executive										
RG Jacob			4 821 624	1 269 239	137 630	601 878	6 830 371	1 516 156	8 346 527	731 021
AP Krull			3 557 424	933 026	138 331	443 853	5 072 634	963 539	6 036 173	
MZ Mkhize			3 310 776	1 037 249	230 337	413 022	4 991 384	727 123	5 718 507	267 509
	–	–	11 689 824	3 239 514	506 298	1 458 753	16 894 389	3 206 818	20 101 207	998 530
Prescribed officer										
HT Molale ⁶			2 787 144	375 421	189 757	347 568	3 699 890	564 888	4 264 778	227 094
DR Weisz ⁷			2 771 232	395 764	127 512	345 579	3 640 087	1 150 252	4 790 339	227 100
	–	–	5 558 376	771 185	317 269	693 147	7 339 977	1 715 140	9 055 117	454 194
	3 635 930	1 495 369	17 248 200	4 010 699	823 568	2 151 900	29 365 666	4 921 958	34 287 624	1 452 724

¹ The bonus payments reflected above are in relation to the 2018 year, paid in 2019.

² The value of the equity-settled options granted is the annual expense determined in accordance with IFRS 2, 'Share-based Payments'.

³ ME Mkwanazi resigned Board with effect from 26 April 2018. Mr TP Leeuw was appointed chairman from this date.

⁴ Directors' fees due to a shareholder nominee on the Hulam Board are paid to the employer organisation and not to the nominee.

⁵ AT Nzimande was appointed with effect from 26 April 2018.

⁶ HT Molale served as managing direct of Hulam Extrusions to 28 February 2018 (2 months).

⁷ DR Weisz served as managing direct of Hulam Extrusions from 1 March 2018 (10 months).

Executive Committee members' remuneration (excluding acting executive committee members) during the 2018 financial year¹

	Cash package Rand	Bonus and performance related payments ² Rand	Medical aid contributions Rand	Retirement fund contributions Rand	Subtotal Rand	Value of options granted Rand	Total Rand	Gains on exercise of share options Rand
Total	19 910 146	4 426 008	859 185	2 103 554	27 298 893	5 195 000	32 493 893	871 900

¹ Excluding executive directors and prescribed officer.

² The bonus payments reflected above are in relation to the 2018 year, paid in 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

8. Benefits and remuneration: our investment in our people continued

8.3 Directors' remuneration and interest continued

8.3.2 Interest of directors and prescribed officers in share-based instruments

(i) Hulam Limited Share Appreciation Right Scheme 2007

	Number of rights granted in 2013	Number of rights granted in 2014	Number of rights granted in 2016	Number of rights granted in 2017	Number of rights at December 2018	Number of rights exercised in 2019	Number of rights lapsed in 2019	Number of rights at December 2019	Rights time constrained
Executive directors									
RG Jacob	–	633 100	744 440	604 005	1 981 545		744 440	1 237 105	–
AP Krull	–	–	–	327 554	327 554			327 554	–
MZ Mkhize	241 172	201 780	313 573	304 817	1 061 342		554 745	506 597	–
	241 172	834 880	1 058 013	1 236 376	3 370 441	–	1 299 185	2 071 256	–
Prescribed officer									
DR Weisz	–	170 607	265 944	258 032	694 583			694 583	–
	–	170 607	265 944	258 032	694 583	–	–	694 583	–
Grant price	R4,01	R6,90	R6,30	R6,50					
Grant date	27 May 2013	24 April 2014	22 April 2016	26 April 2017					

(ii) Hulam Limited Long Term Incentive Plan 2007 – Without Performance Conditions

	Number of conditional awards granted in 2016	Number of rights at December 2018	Number of conditional awards exercised in 2019	Number of conditional awards lapsed in 2019	Number of conditional awards at December 2019
Executive director					
AP Krull	145 370	145 370	–	145 370	–
Grant price		R5,75			
Grant date		1 May 2016			

(iii) Employee Conditional Share Plan (Bonus shares)

	Number of conditional awards granted in 2018	Number of conditional awards granted in 2019	Number of conditional awards lapsed in 2019	Number of conditional awards at December 2019	Conditional awards time constrained
Executive directors					
RG Jacob	117 649	–	–	117 649	117649
AP Krull	78 538	–	–	78 538	78538
MZ Mkhize	57 682	–	–	57 682	57682
	253 869	–	–	253 869	253869
Prescribed officer					
DR Weisz	39 259	–	–	39 259	39259
	39 259	–	–	39 259	39259
Grant price		R6,22			
Grant date		26 July 2018			

(iv) Employee Conditional Share Plan (Performance shares)

	Number of conditional awards granted in 2018	Number of conditional awards exercised in 2019	Number of conditional awards lapsed in 2019	Number of conditional awards at December 2019	Conditional awards time constrained
Executive directors					
RG Jacob	321 279	–	–	321 279	321 279
AP Krull	199 660	–	–	199 660	199 660
MZ Mkhize	152 571	–	–	152 571	152 571
	673 510	–	–	673 510	673 510
Prescribed officer					
DR Weisz	125 183	–	–	125 183	125 183
	125 183	–	–	125 183	125 183
Grant price	R6,22				
Grant date	26 July 2018				

8.3.3 Interest of directors and prescribed officers of the company in share capital

The aggregate holdings as at 31 December 2019 of those directors of the company holding issued ordinary shares of the company are detailed below:

	Direct beneficial shares	Indirect beneficial shares	Held by associates	Shares total
As at 31 December 2019				
Executive				
RG Jacob	928 432			928 432
MZ Mkhize	84 554			84 554
	1 012 986	–	–	1 012 986
Non-executive				
CA Boles	60 000			60 000
PH Staude*	91 610			91 610
GH M Watson	27 763			27 763
	179 373	–	–	179 373
Total	1 192 359	–	–	1 192 359
As at 31 December 2018				
Executive				
RG Jacob	903 432			903 432
MZ Mkhize	84 554			84 554
	987 986	–	–	987 986
Non-executive				
CA Boles	60 000			60 000
PH Staude	91 610			91 610
GHM Watson	27 763			27 763
	179 373	–	–	179 373
Total	1 167 359	–	–	1 167 359

*PH Staude resigned during the current financial year and has not been replaced.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

9. Other: detailed disclosure requirements

9.1 Net finance costs

	2019 R'000	2018 R'000
Interest expense	56 513	77 588
Non-current borrowings interest	8 718	14 178
Current borrowings interest	49 093	70 200
Interest on lease liabilities	4 947	–
Interest capitalised	(6 245)	(6 790)
Interest income	(8 021)	(3 887)
Net finance costs	48 492	73 701

9.2 Deferred tax

Deferred tax is provided on temporary differences arising between tax bases of the assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on the tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities, and the deferred taxes relate to the same taxable entity and the same taxation authority.

	2019 R'000	2018 R'000
(a) Deferred tax asset		
At beginning of year	17 060	21 152
Tax (charged)/credited directly to equity		(57)
Statement of profit or loss:		
Current year credit/(charge)	(129)	(4 721)
Prior year credit/(charge)		1 536
Deferred tax charge in other comprehensive income	(557)	(851)
Debit balance transferred from deferred tax liabilities	76 756	–
At end of year	93 130	17 060
Comprising:		
Fixed assets	10 679	–
Retirement benefit obligations and other provisions	31 644	17 053
Provisions and leave accrual	28 136	–
Lease liabilities	12 520	–
Right-of-use asset	(4 306)	–
Share schemes	1 582	–
Assessed loss	–	–
Other	12 875	7
	93 130	17 060
Deferred tax asset to be recovered after more than 12 months	35 486	17 053
Deferred tax asset to be recovered within 12 months	57 644	7
	93 130	17 060

For the year ended 31 December 2018, Hulamín Extrusions had both an assessed loss and temporary differences for which a deferred tax asset was not recognised, as there was a significant uncertainty that there would be sufficient taxable profits in future. During 2019, the Hulamín Extrusions business was restructured by way of the closure of its Olifantsfontein operation and the restructure of its Pietermaritzburg operation. This has resulted in a significant reduction in the cost base of the business and an improvement in margins through focusing sales on the most attractive markets. Management has performed an assessment of future cash flows and taxable profits of the restructured operation, taking into account the disposal of the property, plant and equipment of the Olifantsfontein operation, and is of the view that there remains insufficient future taxable profits and taxable temporary differences to utilise the unrecognised deferred tax asset.

In addition, during the current year Hulammin Operations Proprietary Limited, which comprises the Hulammin Rolled Products and Hulammin Containers business units, incurred a significant impairment charge and recorded a tax loss. Based on an assessment of future cash flows and taxable profits, management is of the view that there is insufficient future taxable profits and taxable temporary differences to utilise a portion of the deferred tax asset and as a result the group has not recognised a deferred tax asset of R117 million (2018: R34.8 million) relating to deductible temporary differences and unused tax losses as the probability of recovery is uncertain.

	2019 R'000	2018 R'000
(b) Deferred tax liability		
At beginning of year	221 060	578 568
Tax charged directly to equity	(1 753)	2 099
Statement of profit or loss:		
Current year (credit)/charge	(297 263)	(344 311)
Prior year (credit)/charge	3 160	(3 940)
Deferred tax (credit)/charge in other comprehensive income	15 030	(11 356)
Transfer of debit balance to deferred tax liability	76 756	
At end of year	16 990	221 060
Comprising:		
Accelerated tax depreciation	18 756	272 915
Provisions and leave pay accruals	(1 766)	(95 580)
Defined benefit fund	–	37 481
Share schemes	–	(6 504)
Hedging reserve	–	(2 443)
Derivative instruments – not designated as hedging instruments	–	15 191
	16 990	221 060
Deferred tax liability to be settled after more than 12 months	–	(152 427)
Deferred tax liability to be settled within 12 months	16 990	373 487
	16 990	221 060

9.3 Taxation

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

An income tax asset arises as a result of provisional tax payments made during the year being in excess of the current tax charges. The income tax asset in the current year includes overpayments of tax made both in the current year and 2018.

Deferred tax balances related to property, plant and equipment have been amended after an independent external review of the Hulammin Rolled Products fixed asset register. The review identified certain allowances claimed on fixed assets in the 2017 year of assessment for which it is not probable that the Commissioner for The South African Revenue Service would agree with the treatment presented. Consequently an additional charge of R2.6 million has been provided in the current financial year.

	2019 R'000	2018 R'000
South African normal taxation:		
Current		
Current year charge	36 706	88 668
Prior year under/(over) provision	(8 551)	6 201
Deferred		
Current year (credit)/charge	(297 135)	(339 590)
Prior year (over)/under provision	3 160	(5 476)
	(265 820)	(250 197)
Foreign capital gains tax	465	–
	(265 355)	(250 197)
South African income tax is levied on the company and its subsidiaries and not the group.		
Tax rate reconciliation		
Normal rate of taxation	(%) 28,0	28,0
Adjusted for:		
Allowances not included in the statement of profit and loss	(%) 0,3	0,3
Prior year over provision	(%) 0,4	(0,2)
Expenses not deductible for tax purposes	(%) (0,1)	(0,6)
Income not taxable for tax purposes	(%) 0,1	(0,3)
Prior year deferred tax asset reversed	(%) –	(2,0)
Deferred tax asset not recognised	(%) (10,6)	(0,8)
Effective rate of taxation	(%) 18,1	24,4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

9. Other: detailed disclosure requirements continued

9.4 Related party transactions

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. Further details of such transactions and balances can be found in the Company financial statements. Details of transactions between the group and the pension fund are disclosed below:

	2019 R'000	2018 R'000
Loan from pension fund (refer note 3.2)	–	79 634
Interest paid to pension fund	388	6 899

Transactions with key management personnel, which comprises directors (executive and non-executive), prescribed officers and members of the executive committee, are detailed in note 8.3.

9.5 Financial assets and financial liabilities

The group holds the following financial instruments:

	Note	Financial instruments at amortised cost R'000	Financial instruments at fair value through profit or loss R'000	Derivatives applied under hedge accounting R'000	Total R'000
2019					
Financial assets – current					
Trade and other receivables	4.3(b)	804 415			804 415
Derivative financial assets	7.1(d)			88 661	88 661
Cash and cash equivalents	4.1	126 207			126 207
		930 622	–	88 661	1 019 283
Financial liabilities – current					
Trade and other payables	4.4	1 005 121			1 005 121
Borrowings	3.2	352 083			352 083
Lease liabilities	3.3	12 088			12 088
Derivative financial instruments	7.1(d)			44 026	44 026
		1 369 292	–	44 026	1 413 318
Financial liabilities – non-current					
Lease liabilities	3.3	34 405			34 405
2018					
Financial assets – current					
Trade and other receivables	4.3(b)	1 530 279			1 530 279
Derivative financial assets	7.1(d)		69 208	2 073	71 281
Cash and cash equivalents	4.1	525 981			525 981
		2 056 260	69 208	2 073	2 127 541
Financial liabilities – current					
Trade and other payables	4.4	1 380 209			1 380 209
Borrowings	3.2	765 783			765 783
Derivative financial instruments	7.1(d)		21 383	12 628	34 011
		2 145 992	21 383	12 628	2 180 002
Financial liabilities – non-current					
Borrowings	3.1	54 000			54 000

The group's exposure to various risks associated with the financial instruments is discussed in note 7. The associated inputs to the fair value calculation, where applicable, is provided in note 7. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

10. Adoption of new and amended accounting standards

(a) IFRS 16 Leases

(i) Impact of adoption – 1 January 2019

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

The group leases various buildings, forklifts and IT-equipment. Rental contracts typically extend for fixed periods of 1 to 5 years but may have further extension options. Extension and termination options are included in a number of property leases across the group and are included in the calculation to determine the value of lease liabilities. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the group and not by the respective lessor. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowings.

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

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

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

- fixed payments (including in-substance fixed payments)
- variable lease payment that are based on an index or a rate

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

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

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

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

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

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

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

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment.

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

Practical expedients applied

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

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

10. Adoption of new and amended accounting standards continued

(a) IFRS 16 Leases continued

(i) Impact of adoption – 1 January 2019 continued

Measurement of lease liabilities

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

Measurement of right-of-use assets

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

Adjustments recognised in the balance sheet on 1 January 2019:

Statement of financial position (extract)

	31 December 2018 R'000	IFRS 16 adjustment R'000	1 January 2019 R'000
Assets			
Non-current assets			
Right-of-use assets	–	47 299	47 299
Total non-current assets	2 095 850	47 299	2 143 149
Total assets	6 511 459	47 299	6 558 758
Liabilities			
Non-current liabilities			
Lease liabilities	–	34 921	34 921
Total non-current liabilities	526 798	34 921	561 719
Current liabilities			
Lease liabilities	–	12 378	12 378
Total current liabilities	2 182 040	12 378	2 194 418
Total liabilities	2 708 838	47 299	2 756 137
Total equity and liabilities	6 511 459	47 299	6 558 758

(ii) Impact of adoption 31 December 2019

Amounts recognised in the balance sheet:

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

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

Amounts recognised in the statement of profit or loss

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

	31 December 2019 R'000
Depreciation charge of right-of-use assets	
Land and buildings	1 345
Vehicles, equipment and other	15 138
	16 483
Impairment charge of right-of-use assets	
Land and buildings	4 027
Vehicles, equipment and other	23 550
	27 577
Interest expense (note 9.1)	4 947
Expense relating to short-term leases (included in cost of goods sold and administrative expenses)	1 963
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in cost of goods sold and administrative expenses)	356

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

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

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

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

(i) Derivatives and hedging

IFRS 9, 'Financial Instruments': Hedge Accounting permits separately identifiable and reliably measurable risk components to be eligible as hedge items which was not permitted under IAS 39. Therefore the adoption of IFRS 9 has enabled Hulamín to elect the metal price component of an invoice as the hedge item which has overcome the short comings in measuring hedge effectiveness under IAS 39, referred to in note 13. From 1 January 2019 Hulamín has elected to resume hedge accounting for commodity derivatives.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

10. Adoption of new and amended accounting standards continued

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

(i) Derivatives and hedging continued

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

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

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

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

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

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

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

Fair value hedges

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

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

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

Cash flow hedges

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

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

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

For any other cash flow hedges, the amount accumulated in OCI is reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the hedged cash flows affect profit or loss. IFRS 9.6.5.11.

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

COMPANY STATEMENT OF FINANCIAL POSITION

as at 31 December 2019

	Notes	2019 R'000	2018 R'000
ASSETS			
Non-current assets			
Investment in subsidiaries	4.1	2 550 367	3 385 256
Deferred tax asset	6.1	16 375	17 060
		2 566 742	3 402 316
Current assets			
Income tax asset		1 870	–
		1 870	–
Total assets		2 568 612	3 402 316
EQUITY			
Stated capital and share premium	3.1	1 877 597	1 877 597
BEE reserve		20 000	20 000
Employee share-based payment reserve		63 308	57 914
Retained earnings		549 066	1 384 917
Total equity		2 509 971	3 340 428
LIABILITIES			
Non-current liabilities			
Post-retirement medical aid benefits	5.1	58 479	60 902
		58 479	60 902
Current liabilities			
Trade and other payables		162	784
Income tax liability		–	201
		162	985
Total liabilities		58 641	61 888
Total equity and liabilities		2 568 612	3 402 316

COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2019

	Notes	2019 R'000	2018 R'000
Revenue from contracts with customer	2.1.1	15 961	8 779
Interest income	2.1.2	118 375	113 650
Administrative expenses	2.2	(22 180)	(13 732)
Net impairment losses on investments in subsidiaries	4.1	(859 392)	–
Operating (loss)/profit		(747 236)	108 697
Taxation	6.2	(31 846)	(30 434)
Net (loss)/profit for the year attributable to equity holders of the company		(779 082)	78 263
Other comprehensive income for the year			
Items that will not be reclassified to profit or loss		1 433	3 895
Remeasurement of post-retirement medical obligation		1 992	5 411
Income tax effect		(559)	(1 516)
Total comprehensive (loss)/income for the year attributable to equity holders of the company		(777 649)	82 158

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2019

	Stated capital R'000	Employee share-based payment reserve R'000	BEE reserve R'000	Retained earnings R'000	Total equity R'000
Balance at 31 December 2017	1 877 597	71 176	20 000	1 351 261	3 320 034
Net profit for the year	–	–	–	78 263	78 263
Other total comprehensive income for the year after tax	–	–	–	3 895	3 895
Value of employee services of subsidiaries–net of forfeiture	–	(4 031)	–	–	(4 031)
Settlement of employee share incentives	–	(9 231)	–	–	(9 231)
Dividends paid	–	–	–	(48 502)	(48 502)
Balance at 31 December 2018	1 877 597	57 914	20 000	1 384 917	3 340 428
Net loss for the year	–	–	–	(779 082)	(779 082)
Other total comprehensive income for the year after tax	–	–	–	1 433	1 433
Value of employee services of subsidiaries–net of forfeiture	–	5 699	–	–	5 699
Settlement of employee share incentives	–	(305)	–	–	(305)
Dividends paid	–	–	–	(58 202)	(58 202)
Balance at 31 December 2019	1 877 597	63 308	20 000	549 066	2 509 971

COMPANY CASH FLOW STATEMENT

for the year ended 31 December 2019

	Notes	2019 R'000	2018 R'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	A	123 271	138 732
Net income tax paid		(33 792)	(28 418)
Post-retirement medical aid benefits paid	5.1	(6 470)	(5 574)
Net cash inflow from operating activities		83 009	104 741
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in investments in subsidiaries		(24 502)	(47 008)
Net cash outflow from investing activities		(24 502)	(47 008)
CASH FLOWS FROM FINANCING ACTIVITIES			
Settlement of employee share incentives		(305)	(9 231)
Dividends paid		(58 202)	(48 502)
Net cash outflow from financing activities		(58 507)	(57 733)
Net increase in cash and cash equivalents		–	–
Cash and cash equivalents at beginning of year		–	–
Cash and cash equivalents at end of year		–	–
A: CASH GENERATED BEFORE WORKING CAPITAL CHANGES			
Operating (loss)/profit		(747 236)	108 697
Adjusted for:			
Post-retirement medical aid accrued expense	5.1	6 038	5 091
Value of employee services of subsidiaries-net of forfeiture		5 699	(4 031)
Net impairment losses on investments in subsidiaries	4.1	859 392	–
Cash generated before working capital changes		123 893	109 757
Changes in working capital	B	(622)	28 975
Cash generated from operations		123 271	138 732
B: CHANGES IN WORKING CAPITAL			
Decrease in trade and other receivables		–	28 413
Increase in trade and other payables		(622)	562
		(622)	28 975

NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the year ended 31 December 2019

1. General

1.1 Basis of preparation

The company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), IFRIC interpretations, SAICA Financial Reporting guides, the requirements of the Companies Act, no. 71 of 2008, as amended, and the Listing Requirements of the JSE Limited.

The basis of preparation is consistent with the prior year, except for new and revised standards and interpretations adopted per note 1.2 to the group financial statements. All of which had no material impact on the company's reported results or financial position.

The separate financial statements are prepared using the historical cost basis except as set out in the accounting policies which follow (see the accounting policy relating to share based payments).

The financial statements are prepared on the going-concern basis using accrual accounting (refer to note 1.10 of the Group financial statements for reference to the going-concern assessment).

Assets and liabilities and income and expenses are not offset unless specifically permitted by an accounting standard. Financial assets and financial liabilities are offset and the net amount reported only when a legally enforceable right to set off the amounts exists and the intention is either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Accounting policies are the specific principles, bases, conventions, rules and practices applied in preparing and presenting financial statements. Changes in accounting policies resulting from the initial application of a standard or an interpretation are accounted for in accordance with the transitional provisions in the accounting standard. If no such guidance is given, they are applied retrospectively.

1.2 New accounting standards

New and revised standards and interpretations have been highlighted in note 1.2 to the Group financial statements. These standards and interpretations have had an immaterial impact on the company financial statements.

New and revised IFRS in issue but not yet effective have been highlighted in note 1.2 of the Group financial statements. These standards and interpretations are expected to have an immaterial impact on the company financial statements.

1.3 Accounting for assets and liabilities

Recognition of assets and liabilities

Assets and liabilities are recognised when it is probable that future economic benefits associated with them will flow to and from the company respectively, and when their costs or fair values can be measured reliably.

Financial instruments are recognised when the company becomes a party to the contractual provisions of the instrument. Financial assets are recognised based on trade dates.

Derecognition of assets and liabilities

Financial assets or parts thereof are derecognised when the contractual rights to receive the cash flows have expired, been transferred and or control has passed.

All other assets are derecognised on disposal or they no longer meet the definition of an "asset" as prescribed by the Framework.

Financial liabilities are derecognised when the relevant obligation has either been discharged, cancelled or has expired.

1.4 Judgements made by management

The key judgements, assumptions and sources of estimation uncertainty at the statement of financial position date that could have a significant risk of causing material adjustment to the carrying amounts of the assets and liabilities within the next financial year are:

(i) Post-employment benefit obligations

Actuarial valuations of post-employment benefit obligations are based on assumptions which include employee turnover, mortality rates, discount rate, expected long-term rate of return on retirement plan assets, healthcare costs, inflation rates and salary increments. Management experts are used to assist with valuations of post-employment benefit obligations.

(ii) Share-based payment transactions

The critical estimates and assumptions used in the IFRS 2 calculations are disclosed in note 8.1 of the group financial statements. Management experts are used to determine the grant date fair value of options granted. Management assesses the likelihood of achieving non-market performance measures based on approved budgets and business plan.

(iii) Provision for expected credit losses of intercompany loans

The company determines the maximum period over which expected impairment losses should be measured as the longest contractual period where an entity is exposed to credit risk. In the case of loans repayable on demand, the contractual period is the very short period needed to transfer cash once demanded.

In a scenario where the borrower has sufficient highly liquid available liquid assets to repay the loan the credit losses are likely to be very close to zero. Judgement is required to determine whether a borrower has available facilities at reporting dates to determine the magnitude of the allowance which should be raised.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

1. General continued

1.4 Judgements made by management continued

If the borrower is unable to immediately repay the loan if demanded by the lender, the lender might expect that it would maximise recovery of the loan by allowing the borrower time to pay, instead of forcing the borrower to liquidate or sell some or all of its assets to repay the loan immediately. Management considers the general 3-stage general impairment model in determining the magnitude of the impairment:

- Probability of default: The likelihood that the borrower would not be able to repay in the very short term payment period.
- Loss given default: That is, the loss that occurs if the borrower is unable to repay in that very short payment period.
- Exposure at default: That is, the outstanding balance at the reporting date.

If the borrower at reporting date does not have sufficient liquid assets available the lender will need to determine what its recovery scenarios are to determine the exposure at default. Management has considered that they will not require a 'fire sale' of the borrowers assets but would allow the borrower time to settle the debt based on the free cash flows generated from the latest business plan for the entity. Management will adopt a 'repay over time' strategy. Management will utilise future cash flow forecasts to determine the necessary time required to repay the loan and as such, the loss given default would be limited to the effect of discounting the amount due on the loan.

1.5 Events after the reporting period

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

These have been highlighted in note 1.9 of the group financial statements.

2. Performance:

2.1 Measures used to assess performance

2.1.1 Revenue from contracts with customers

Revenue of the company comprises management fees and agency fees earned from related companies within the group. Management and agency fees are earned from Hulamin Operations Proprietary Limited.

Management fees are earned on expenditure incurred such as consulting fees, directors fees, etc.

Revenue is measured at the fair value of the consideration received or receivable.

Management and agency fees are recognised as the services are performed.

2.1.2 Interest income

Interest income comprises interest earned on loan to subsidiary. Interest income is accrued on a time basis using the effective interest rate method. When a loan and receivable is impaired, the company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

2.2 Expenses by nature:

	2019 R'000	2018 R'000
Post-employment medical aid costs	5 225	5 091
Auditors' remuneration	–	(103)
Other costs	16 955	8 744
	22 180	13 732
Auditors' remuneration		
Audit fees	–	120
Expenses	–	–
Prior year over provision	–	(223)
	–	(103)
Directors' emoluments		
Non-executives		
Fees	5 099	5 131
	5 099	5 131

3. Debt/equity: Measures to assess group leverage

3.1 Share capital and share premium

Transactions relating to the acquisition and sale of shares in the company, together with their associated incremental direct costs, are accounted for in equity. Other transactions are accounted for directly in equity only if permitted by the standards.

Authorised

800 000 000 ordinary shares of no par value (2018: 800 000 000 ordinary shares of no par value)

31 477 333 A ordinary shares of no par value (2018: 31 477 333 ordinary shares of no par value)

36 072 000 B ordinary shares of no par value (2018: 36 072 000 ordinary shares of no par value)

The A ordinary shares consist of 4 721 600 A1 shares and 26 755 733 A2 shares.

The B ordinary shares consist of 9 018 000 B1 shares, 9 018 000 B2 shares and 18 036 000 B3 shares.

	2019 R'000	2018 R'000
Issued		
Ordinary shares		
Opening balance: 319 596 836 ordinary shares of no par value (2018: 319 596 836 ordinary shares of no par value)	1 817 580	1 817 580
Issued during the year : nil (2018: nil)	–	–
Closing balance: 319 596 836 ordinary shares of no par value (2018: 319 596 836 ordinary shares of no par value)	1 817 580	1 817 580
A ordinary shares		
Opening balance and closing balance: 4 271 600 A1 and 26 755 733 A2 shares of no par value (2018 : 4 271 600 A1 and 26 755 733 A2 shares of no par value)	59 656	59 656
B ordinary shares		
Opening balance and closing balance: 90 018 000 B1, 9 018 000 B2 and 18 036 000 B3 shares of no par value (2018: 90 018 000 B1, 9 018 000 B2 and 18 036 000 B3 shares of no par value)	361	361
Total issued capital	1 877 597	1 877 597

Unissued

Under option to employees:

Details of the employee share incentive schemes including the share options outstanding at the end of the year, the range of exercise prices and the weighted average contractual lives related thereto, are set out in note 8.1 of the group financial statements.

Under the control of the directors:

At 31 December 2019, 6 801 529 unissued ordinary shares (2018: 6 801 529) were under the control of the directors, for the purpose, *inter alia*, of existing employee share incentive schemes.

3.2 Dividends per share

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

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

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

4. Investments: Investments in subsidiaries

4.1 Investment in subsidiaries

Subsidiaries are all entities over which the group has control, generally accompanying a shareholding of more than one half of the voting rights.

The company financial statements recognise interests in subsidiaries, which include loans granted to subsidiaries by the company, at cost, except in the case of certain limited group reorganisations where net assets are disposed. In these instances, interests in subsidiaries will be based on the carrying amount of the net assets disposed.

The company has applied the expected credit loss model in considering the loss allowance required at 31 December 2019. The maximum period over which expected loss allowances should be measured is the longest contractual period over which the company is exposed to credit risk. As the loan is repayable on demand, the exposure to credit risk is the period between an assumed demand at the financial year-end and the period it would take the subsidiary to settle the outstanding balance. Hulamin Operations Proprietary Limited has sufficient facilities available at financial year-end to repay the full loan balance on demand. The company is therefore not exposed to credit risk and no loss allowance has been provided for on the outstanding loan balance.

	2019 R'000	2018 R'000
Investment in shares in subsidiaries	1 631 576	2 485 574
Loan to subsidiary	918 791	899 682
	2 550 367	3 385 256

Included in the investment in shares in subsidiaries is an investment in cumulative redeemable preference shares issued by Hulamin Operations Proprietary Limited.

An impairment amount of R859 million has been recognised in the current year as a result of the carrying amount of the investment exceeding the carrying amount of the investee's net assets.

The effective interest rate on the loan to subsidiary for the year was 12.9% variable interest (2018: 12.6%).

No repayment terms have been set, and consequently no portion of the loan is considered past due.

The loan to subsidiary is subordinated in favour of Nedbank as security for group borrowings.

The company holds the following direct and indirect investments:

Name	Country of incorporation	% Equity interest 2019	% Equity interest 2018	Principal Activities
Subsidiaries				
Hulamin Rolled Products (Pty) Ltd*	South Africa	100	100	Dormant
Hulamin Systems (Pty) Ltd*	South Africa	100	100	Dormant
Hulamin Operations (Pty) Ltd	South Africa	100	100	Semi-fabrication and fabrication of rolled aluminium products
Hulamin Extrusions (Pty) Ltd*	South Africa	100	100	Semi-fabrication of extruded aluminium products
Hulamin North America LLC*	United States of America	100	100	Sales office
Isizinda Aluminium (Pty) Ltd**	South Africa	38.7	38.7	Creation of sustainable value-added aluminium
Associates				
Almin Metal Industries Limited**	Zimbabwe	–	49	Manufacture of aluminium profiles

* Subsidiaries of Hulamin Operations (Pty) Ltd.

Beneficial interest of 100%.

** Investment held by Hulamin Extrusions (Pty) Ltd.

5. Benefits and remuneration: Our investment in employees

5.1 Post-retirement medical aid benefits

The company has undertaken to contribute to the medical aid costs after retirement of employees engaged prior to 30 June 1996. The obligation is unfunded.

	2019 R'000	2018 R'000
Amounts recognised in the statement of financial position are as follows:		
Present value of unfunded obligations	58 479	60 902
Liability in the statement of financial position	58 479	60 902
The liability can be reconciled as follows:		
Balance at beginning of year	60 902	66 796
Total expense accrued	6 038	5 091
Remeasurements:		
Actuarial gains arising from changes in financial assumptions	(2 444)	(1 841)
Actuarial gains arising from changes in experience adjustments	453	(3 570)
Benefit payments	(6 470)	(5 574)
Balance at end of year	58 479	60 902
Amounts recognised in the statement of profit or loss are as follows:		
Interest costs	6 038	5 091
	6 038	5 091
Amounts recognised in other comprehensive income are as follows:		
Remeasurements:		
Actuarial gains arising from changes in financial assumptions	(2 444)	(1 841)
Actuarial gains arising from changes in experience adjustments	453	(3 570)

Principal risks

Through its post-retirement medical aid subsidy benefit, the group is exposed to a number of risks, principally changes in:

- Financial assumptions:
 - » Discount rate, which is set having regard to the market yield on suitable government bonds taking into account the estimated duration of the liability.
 - » Long-term price inflation rate, which is measured by the relationship between the yields of conventional and inflation-linked government bonds, taking into account the estimated duration of the liability.
 - » Medical inflation rate
- Demographic assumptions:
 - » Post-retirement mortality
 - » Family statistics

The demographic assumptions used in the valuation of the liability are consistent with those of the prior year.

Changes in the principal financial assumptions are detailed below.

Principal financial assumptions:

		2019	2018
Discount rate	(%)	10.30	10.50
Future company subsidy rate – in service	(%)	6.50	7.75
Future company subsidy rate – pensioners	(%)	7.25	8.05

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2019

5. Benefits and remuneration: Our investment in employees continued

5.1 Judgements made by management continued

Sensitivity of future medical inflation rate

	2019 R'000	2018 R'000
1% increase in future medical inflation rate – effect on the aggregate of the service and interest costs	426	476
1% increase in future medical inflation rate – effect on the obligation	4 132	4 531
1% decrease in future medical inflation rate – effect on the aggregate of the service and interest costs	(381)	(424)
1% decrease in future medical inflation rate – effect on the obligation	(3 701)	(4 040)
The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice this is unlikely to occur and changes in some of the assumptions may be correlated. When calculating the sensitivity the same method has been applied as when calculating the liability recognised within the statement of financial position. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous year.		
The average duration of the benefit obligation at 31 December 2019 is 7.2 years (2018: 7.6 years).		
Estimated benefits payable by the company in the next financial year	7 051	6 793

6. Other: Other detailed disclosure requirements

6.1 Deferred tax

Deferred tax is provided on temporary differences arising between tax bases of the assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on the tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current income tax assets against current income tax liabilities, and the deferred taxes relate to the same taxable entity and the same taxation authority.

	2019 R'000	2018 R'000
DEFERRED TAX ASSET		
At beginning of year	17 060	18 703
Deferred tax in the statement of profit or loss:		
Current year charge	(126)	(127)
Deferred tax credit on other comprehensive items	(559)	(1 516)
At end of year	16 375	17 060
Comprising:		
Post-retirement medical aid provision	16 375	17 053
Other	–	7
	16 375	17 060
Deferred tax asset to be recovered after more than 12 months	16 375	17 053
Deferred tax asset to be recovered within 12 months	–	7
	16 375	17 060

6.2 Taxation

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

		2019 R'000	2018 R'000
South African normal taxation:			
Current			
Current year		31 720	30 510
Prior year (over)/under provision		–	(203)
Deferred			
Current year		126	127
		31 846	30 434
Tax rate reconciliation			
Normal rate of taxation	(%)	28.0	28,0
Adjusted for:			
Expenses not deductible for tax purposes	(%)	(23.7)	–
Effective rate of taxation	(%)	4.3	28,0

6.3 Related party transactions

During the year the company, in the ordinary course of business, entered into the following related party transactions:

		2019 R'000	2018 R'000
Interest received from subsidiary		118 375	113 650
Agency fees received from subsidiary		104	104
Management fees received from subsidiary		15 857	8 675
Transactions with non-executive directors are detailed in the group annual financial statements.			
The following balances were outstanding at the end of the reporting period:			
Loan balance owing by subsidiary (note 4.1)		918 791	899 682

ANALYSIS OF SHAREHOLDERS

	Number of ordinary shareholders	Percentage of total	Number of shares	Percentage of issued shares
Ordinary shareholders				
1 – 1 000	2 606	54,56	632 364	0,19
1 001 – 10 000	1 368	28,64	5 803 358	1,82
10 001 – 100 000	614	12,85	19 965 153	6,25
100 001 – 1 000 000	143	2,99	41 318 635	12,93
Over 1 000 000 shares	46	0,96	251 877 326	78,81
	4 777	100,0	319 596 836	100,0
Public/non-public shareholders				
Non-public shareholders	7	0,15	103 918 481	32,52
Directors of the company	5	0,11	1 192 359	0,37
Strategic holding (more than 10%)	1	0,02	94 587 954	29,60
Treasury Stock	1	0,02	8,138,168	2,55
Public shareholders	4 770	99,85	215 678 355	67,48
Total listed shareholders	4 777	100,00	319 596 836	100,00
Beneficial shareholders holding more than 3% of share capital				
Industrial Development Corporation			94 587 954	29,60
Investec			19 665 034	6,15
Total			114 252 988	35,75
A and B ordinary shareholders (refer to note 3.4 in the annual financial statements)				
Hulamin ESOP				
A1 ordinary (voting and beneficial)			4 721 600	6,99
A2 ordinary (voting and beneficial)			26 755 733	39,61
BEE strategic partners B1 ordinary (voting and beneficial)			9 018 000	13,35
B2 ordinary (voting and beneficial)			9 018 000	13,35
B3 ordinary (voting only)			18 036 000	26,70
Total non-listed A and B ordinary shareholders			67 549 333	100,00

CORPORATE INFORMATION

Hulamin Limited

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

Business address and registered office

Moses Mabhida Road
Pietermaritzburg
3200

Postal address

PO Box 74
Pietermaritzburg
3200

Contact details

Telephone: +27 33 395 6911
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
Private bag X9000
Saxonwold
2132
South Africa

Auditors

Ernst & Young Inc.
102 Rivonia Road,
Sandton
2146
Private Bag X14, Sandton, 2146
Practice number: 918288
Telephone: +27 11 772 3000
Facsimile: +27 11 772 4000
Website: <http://www.ey.com>

Sponsor

Questco Corporate Advisory Proprietary Limited
1st Floor, Yellowwood House
Ballywoods Office Park
33 Ballyclare Drive
Bryanston
2191
Telephone: +27 11 011 9200
Email: sponsor@questco.co.za
Website: www.questco.co.za

Directorate

Non-executive directors

CA Boles*
VN Khumalo
RL Larson*
TP Leeuw, Chairman*
N Maharajh*
NNA Matyumza*
B Mehlomakulu (Dr)*
SP Ngwenya
PH Staude*¹
GHM Watson*
GC Zondi (Alternate)

Executive directors

RG Jacob, Chief Executive Officer
AP Krull, Chief Financial Officer
MZ Mkhize, Managing Director: Hulamin Rolled Products²
* Independent non-executive directors
¹ Retired 30 June 2019
² Resigned 28 February 2020

Company Secretary

W Fitchat
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Corporate information and investor relations

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www.hulamin.com