



HULAMIN

TERMS ANNOUNCEMENT RELATING TO HULAMIN'S PROPOSED BROAD-BASED BLACK ECONOMIC EMPOWERMENT ("BEE") TRANSACTION ("BEE TRANSACTION")

Hulamin Limited
Incorporated in the Republic of South Africa
Registration number: 1940/013924/06 JSE share code: HLM ISIN: ZAE000096210

HIGHLIGHTS

- Broad-based BEE ownership transaction including employees, black management and long-standing strategic black partners;
In aggregate, the transaction will place 17% of votes and 13% of Hulamin's equity under the control of the strategic black partners and the new ESOP;
Demonstrates Hulamin's on-going commitment to transformation and broad-based black economic empowerment;
Significant employee participation through a broad-based employee share trust for eligible employees and black management within the Hulamin group, enhancing the attraction and retention of core skills;
Five-year employee and eight-year strategic partner participation period promotes long-term mutual value creation for all stakeholders; and
Transaction structure ensures high probability of financial returns to BEE participants, whilst limiting impact on dividend flows and dilution to ordinary shareholders on vesting.

1. INTRODUCTION AND RATIONALE

Hulamin implemented a BEE transaction during 2007 ("Initial BEE Transaction") upon the unbundling of the Company from the Tongaat Hulett Group, which involved both an employee element and a strategic partner element. The employee share ownership plan implemented during 2007 ("Initial ESOP") matured during 2012 and resulted in minimal value vesting in the hands of the management participants and no value vesting in the hands of non-management employee participants.

As a large South African manufacturer, Hulamin's own strategy is closely aligned with the industrialisation and beneficiation objectives of the South African government. Hulamin is a key participant in the local aluminium industry, an industry that supports the South African government's broad-based BEE initiatives and recognises the importance of these in achieving meaningful participation by black people in the mainstream economy.

Hulamin is committed to the implementation and success of broad-based empowerment throughout the Group and has already implemented a number of initiatives relating to employment equity, skills development, preferential procurement, enterprise development and corporate social investment.

Given the above, and in light of the requirements of the Revised DTI Codes of Good Practice, Hulamin intends implementing a new strategic partners' BEE transaction ("Strategic Partners' BEE Transaction") and a new employee share ownership plan ("ESOP"), collectively referred to herein as the BEE Transaction, as a replacement for the Initial BEE Transaction.

The BEE Transaction will advance Hulamin's empowerment objective of increasing participation by black people in the Group by transferring long-term economic benefits of its success to a broad spectrum of black South Africans.

The inclusion of eligible employees in the BEE Transaction is intended to spread a significant portion of the benefits of the BEE Transaction among Hulamin's permanent employees. The sustainability and prospects of Hulamin will be enhanced by:

- improving Hulamin's ability to attract, incentivise and retain black employees and managers;
aligning the interests of employees and Hulamin shareholders; and
recognising and rewarding employees who have contributed to the success of the Group.

The BEE Transaction has been structured in a manner which will provide a high probability of value vesting in the hands of the participants.

Hulamin Shareholders are advised that, in accordance with the JSE Limited Listings Requirements, a circular to Hulamin shareholders containing further details of the BEE Transaction, including inter alia the pro forma financial effects with a more detailed description of the assumptions used to arrive at the pro forma financial effects and the full fairness opinion as issued by KPMG as independent expert, together with a notice of a general meeting to Hulamin shareholders, will be issued within 70 calendar days of this announcement, following approval thereof by the JSE Limited ("the Circular"). An announcement will be released on the Stock Exchange News Service to notify Hulamin shareholders of the posting date of the Circular, including the details of the general meeting.

2. DETAILS OF THE BEE TRANSACTION

The Strategic Partners' BEE Transaction will entail the issue of three tranches of B ordinary shares (B1 ordinary shares, B2 ordinary shares and B3 ordinary shares) to the strategic black partners. The B1 ordinary shares and the B2 ordinary shares will carry both economic and voting rights and will be issued on a notional vendor financed ("NVF") basis. The B3 ordinary shares will carry only voting rights. The B ordinary shares will entitle the entity through which the strategic partners hold their interest ("BEE SPV") to approximately 9.3% of the voting rights in Hulamin. The term of the Strategic Partners' BEE Transaction will be a total of eight years, consisting of a vesting period of five years and a three-year post-vesting lock-in period.

The shareholders in BEE SPV are essentially the same shareholders as those involved in the Initial Strategic Partners' BEE Transaction. The vehicle invested in the Initial Strategic Partners' Transaction, Chaldee Trading 67 Proprietary Limited ("Chaldee"), was 40% held by the Makana Consortium and 60% held by the Imbewu Consortium. BEE SPV, the entity invested in Hulamin through the Strategic Partners' BEE Transaction is also 40% held by the Makana Consortium and 60% held by the Imbewu Consortium (there have been some small changes to the shareholding of the Imbewu Consortium).

The ESOP will entail the issue of two tranches of A ordinary shares (A1 ordinary shares and A2 ordinary shares) to the trust established to hold the A ordinary shares on behalf of eligible employees (the "ESOP Trust"). The A1 ordinary shares are grant (free) shares and the A2 ordinary shares will be issued on a NVF basis. The A ordinary shares will have both economic and voting rights. The A ordinary shares will provide the ESOP Trust with an 8.1% interest in Hulamin. Black management and all non-management employees will participate in the ESOP. The term of the ESOP will be five years.

2.1 PROPOSED CONVERSION AND PROPOSED CREATION

In order to ensure that Hulamin has sufficient authorised but unissued ordinary share capital to implement the BEE Transaction, Hulamin proposes creating the A1 ordinary shares, the A2 ordinary shares, the B1 ordinary shares, the B2 ordinary shares and the B3 ordinary shares, which are no par value shares ("Proposed Creation"). Hulamin further proposes cancelling the existing unissued A ordinary shares and B1, B2 and B3 ordinary shares that were created for purposes of the Initial BEE Transaction.

In terms of the Regulations promulgated under the Companies Act No. 71 of 2008, a company is not permitted to create any new par value shares, or shares having a nominal value, on or after 1 May 2011. Accordingly, Hulamin proposes converting its authorised (unissued and issued) par value shares into no par value shares so that all Hulamin ordinary shares are no par value shares ("Proposed Conversion").

2.2 AMENDING HULAMIN'S MEMORANDUM OF INCORPORATION

Hulamin proposes amending its current Memorandum of Incorporation ("MOI") in order to give effect to the cancellation of the shares created for the Initial BEE Transaction and the Proposed Creation and the Proposed Conversion as contemplated in paragraph 2.1 above.

2.3 DETAILS OF BEE SPV PARTICIPATION

2.3.1 Details of the BEE SPV

BEE SPV is a special purpose vehicle established for the purpose of holding the interests of the strategic black partners in Hulamin. BEE SPV will be 40% owned by the Makana Consortium and 60% owned by the Imbewu Consortium.

The shareholders of Makana Consortium are Makana Investment Corporation (60%) and Makana Investment KZN (40%).

The Makana Consortium is led by the Makana Investment Corporation, a broad-based BEE company established to enable former political prisoners to participate in the South African economy. The majority shareholder of Makana Investment Corporation is the Makana Trust which was established in 1996 for the benefit of former political prisoners.

Peter-Paul Ngwenya is a founder member and executive chairman of Makana Investment Corporation. Peter-Paul is a 22.5% shareholder in Makana Investment Corporation through African Sky Consortium.

Makana Investment KZN was formed to enable KwaZulu-Natal-based former political prisoners to benefit from growth opportunities in KwaZulu-Natal by participating in SMME business opportunities in the province.

The Imbewu Consortium is led by Imbewu Capital Partners, a black controlled private equity and investment holding company. Gcina Zondi is the founding Chief Executive of Imbewu Capital Partners and J B Magwaza is the Non-Executive Chairman. The shareholders of the Imbewu Consortium are:

Table with 2 columns: Shareholder, Percentage interest in Imbewu. Includes Imbewu Capital Partners (48.70%), Moptuso Investments (16.67%), J B Magwaza (16.29%), Monica Malunga (14.27%), Omame Investments (4.07%).

Peter-Paul Ngwenya and J B Magwaza have served on the Hulamin board of directors for a number of years.

2.3.2 Issue of B ordinary shares to BEE SPV

The salient terms of the B ordinary shares will be as follows:

- 9,018,000 B1 ordinary shares will be issued to BEE SPV at a 50% discount to the volume-weighted average price ("VWAP") of the Hulamin ordinary shares as calculated for the 30 JSE trading days preceding the date upon which the B1 ordinary shares are subscribed for;
9,018,000 B2 ordinary shares will be issued to BEE SPV at the VWAP of the Hulamin ordinary shares as calculated for the 30 JSE trading days preceding the date upon which the B2 ordinary shares are subscribed for;
18,036,000 B3 ordinary shares will be issued to BEE SPV at nominal value.

2.3.3 Subscription for the BEE SPV Shares

Hulamin will issue the B ordinary shares to BEE SPV, at the relevant subscription amounts, on the effective date, which is expected to be on or about 1 June 2015. Hulamin will contribute the BEE SPV subscription amount to BEE SPV in order to enable BEE SPV to subscribe for the B ordinary shares.

The B ordinary shares will be held by BEE SPV for five years post the date of issue thereof. BEE SPV will be restricted from encumbering or transferring the B ordinary shares before the expiry of such period.

2.3.4 BEE SPV Repurchase Shares and Conversion to Hulamin Ordinary Shares

Hulamin shall repurchase a number of the B1 ordinary shares and B2 ordinary shares, determined in accordance with the relevant BEE SPV repurchase formulae, at a nominal amount on the vesting date. The BEE SPV repurchase formulae will effectively allow Hulamin to recover the outstanding amount of the NVF on the vesting date.

On the vesting date, the remaining B1 ordinary shares and B2 ordinary shares will be converted to Hulamin ordinary shares. The BEE SPV will be restricted from encumbering or transferring these shares until after the three-year post-vesting lock-in period.

Hulamin will repurchase all of the issued B3 ordinary shares at the conclusion of the eighth anniversary of the subscription date.

2.3.5 Salient terms of the Relationship Agreement

The Relationship Agreement has been entered into between Hulamin, BEE SPV, shareholders of BEE SPV and direct and certain indirect shareholders of BEE SPV shareholders and regulates, inter alia, the ongoing relationship between the parties for the duration of the BEE Transaction.

In terms of the relationship agreement, Hulamin undertakes to pay to BEE SPV a BEE support fee of R850 000 per year (in quarterly instalments) for the eight-year term of the transaction, escalating at a rate of 6% per annum to cover the reasonable operating expenditure requirements of BEE SPV.

The Relationship Agreement requires that BEE SPV and shareholders thereof maintain a specified minimum shareholding percentage in respect of black ownership and black women ownership ("Required BEE Shareholding Threshold"), failing which a compulsory option is triggered in terms of which Hulamin is entitled to purchase the shares from BEE SPV at a determinable discounted purchase price.

Further to the above, the Relationship Agreement incorporates numerous safeguards which seek to maintain the current relationship in order to attain the BEE objectives.

2.4 DETAILS OF THE ESOP TRUST

2.4.1 Establishment of the ESOP Trust

The Company has established the ESOP Trust for the purpose of holding the A ordinary shares for the benefit of the employee beneficiaries. The employee beneficiaries will become vested beneficiaries to the capital and income thereof by accepting an offer to become employee beneficiaries as contained in an allocation notice.

The ESOP Trust and trust property will be managed by the ESOP Trust trustees. Three of the ESOP Trust trustees will be elected by the employee beneficiaries and two of the ESOP Trust trustees will be appointed by Hulamin.

Around 95% of the employee beneficiaries of the ESOP Trust will be historically disadvantaged employees.

2.4.2 Structure of the ESOP

The ESOP will be allocated two different tranches of A ordinary shares (A1 ordinary shares and A2 ordinary shares). The shares will bear the following characteristics:

- 4,721,600 A1 ordinary shares will be issued at nominal value (i.e. will be free shares). To the extent that ordinary dividends are declared on Hulamin ordinary shares, dividends will accrue to the A1 ordinary shares. The A1 ordinary shares will have a five-year vesting period; and
2,765,733 A2 ordinary shares will be issued at the VWAP of the Hulamin ordinary shares for the 30 JSE trading days preceding the date upon which the A2 ordinary shares are subscribed for.

The value of the A2 ordinary shares on vesting will be capped (i.e. no incremental value will accrue to holders of A2 ordinary shares should Hulamin's share price exceed the share price cap at the date upon which the A2 ordinary shares vest) such that the aggregate economic cost of the A1 and A2 shares will equal 3.4% of Hulamin's market capitalisation on the date of issue. Details of the cap will be included in the Circular.

2.4.3 Subscription for the Employee Shares

Hulamin will issue the A ordinary shares to the ESOP Trust on the effective date, which is expected to be on or about 1 June 2015. Hulamin employer companies will contribute the employee subscription amount to the ESOP Trust in order to enable the ESOP Trust trustees to subscribe for the A ordinary shares.

2.4.4 Employee Repurchase Shares and Conversion to Hulamin Ordinary Shares

Hulamin shall repurchase a number of A2 ordinary shares, determined in accordance with the employee repurchase formula, at a nominal amount on the vesting date. The employee repurchase formula will effectively allow Hulamin to recover the outstanding amount of the NVF on the vesting date.

On the vesting date, all A1 ordinary shares and the remaining A2 ordinary shares will be converted to Hulamin ordinary shares and the trustees will distribute these ordinary shares to each employee beneficiary according to the beneficiary's allocation rights.

2.5 VESTING AND LOCK-IN

The BEE SPV and ESOP Trust ("BEE Vehicles") may not dispose of or encumber their subscription shares during the five-year period following the issue date thereof. The strategic black partners will be locked in for three years post the vesting date of the B ordinary shares, during which time the strategic black partners may not dispose of or encumber their shares.

2.6 DIVIDENDS AND OTHER DISTRIBUTIONS

During the five-year period following the issue of the A and B ordinary shares, the holders of the A ordinary shares will be entitled to dividends to the extent that these are declared and paid on Hulamin ordinary shares. Dividends accruing to the A1 ordinary shares will be paid in cash, and dividends accruing to the A2 ordinary shares will be applied to reduce the notional vendor finance against these shares. The B ordinary shares will not be entitled to receive dividends.

2.7 VOTING

The BEE Vehicles will be entitled to exercise all voting rights attached to the A and B ordinary shares of which they are the registered owner until such shares are either repurchased by Hulamin or are converted to Hulamin ordinary shares and are transferred to the participants, following which the new holders of the Hulamin ordinary shares shall be entitled to exercise all voting rights attached to the shares received. The ESOP Trust trustees will vote the A ordinary shares on behalf of the ESOP according to the instructions received from the beneficiaries.

2.8 CORPORATE ACTIONS

- In relation to the B ordinary shares, the BEE SPV shall be entitled to elect that the vesting date is accelerated and that any lock-in period falls away; and
In relation to the A ordinary shares, Hulamin shall be entitled to accelerate the vesting date thereof.

3. ESTIMATED ECONOMIC COST

The estimated economic cost of implementing the BEE Transaction for the Company and Hulamin shareholders, excluding the BEE support fee referred to in 2.3.5, is R103 million, based on Hulamin's market capitalisation of R2.44 billion on 11 December 2014, and is allocated to the BEE Vehicles as follows:

- R83 million relating to the ESOP Trust (representing approximately 3.4% of the market capitalisation of Hulamin on 11 December 2014) which is to be amortised over the vesting period; and
R20 million relating to BEE SPV (representing approximately 0.8% of the market capitalisation of Hulamin on 11 December 2014) which is to be expensed in full on the date of issue of the B ordinary shares.

In total, this represents approximately 4.2% of the market capitalisation of Hulamin on 11 December 2014.

This figure was calculated with reference to the requirements of IFRS, including IFRS 2 - Share Based Payments.

The actual economic cost of the BEE Transaction will depend on the market capitalisation of Hulamin on the date of issue of the A ordinary shares and B ordinary shares to the BEE parties.

4. UNAUDITED PRO FORMA FINANCIAL EFFECTS OF THE BEE TRANSACTION

The unaudited pro forma financial effects of the Hulamin presented below are the responsibility of the Directors of Hulamin and are based on the most recently published unaudited interim results of Hulamin for the 6 months ended 30 June 2014.

The accounting policies of Hulamin for the 6 months ended 30 June 2014 have been used in preparing the unaudited pro forma financial effects.

The unaudited pro forma financial effects are the responsibility of the Directors of Hulamin and were prepared for illustrative purposes only and may, due to the nature thereof, not fairly present Hulamin's financial position, changes in equity, and results of its operations or cash flows as at the relevant reporting date. The unaudited pro forma financial effects do not purport to be indicative of what the financial results would have been, or will be, had the BEE Transaction been implemented on a different date.

The Company wishes to highlight that the earnings and headline earnings per share impacts shown below are magnified as the BEE SPV related economic cost will be expensed in full at the date of issue of the B ordinary shares. In accordance with IFRS 2 requirements, the economic cost relating to the ESOP Trust will be amortised over the NVF period. As a result, the total IFRS 2 charge will reduce in years two to five. The BEE support fee and the transaction costs of the BEE Transaction, which are expensed up front, will also not impact the earnings and headline earnings per share in years two to five.

Unaudited pro forma per share information for the half-year ended 30 June 2014

The unaudited pro forma historical financial effects of the BEE Transaction are as follows:

Table with 6 columns: For the half-year ended 30 June 2014, Before, Pro forma Before the BEE Transaction, Pro forma After the BEE Transaction, Net impact, % change. Rows include Net asset value (NAV) per share, Tangible net asset value (TNAV) per share, Earnings per share, Diluted earnings per share, Headline earnings per share, Diluted headline earnings per share, Weighted average number of shares in issue, Diluted weighted average number of shares in issue.

Notes:

- The EPS, diluted EPS, HEPS, NAV and TNAV per Hulamin Ordinary Share "Pro forma Before the BEE Transaction" are based on the unaudited interim results for the half-year ended 30 June 2014 after adjusting for the pro forma effect of the unwinding of the Initial Strategic Partners' BEE Transaction which matured on or about 9 July 2014.
The EPS, diluted EPS and HEPS "Pro forma After the BEE Transaction" for 30 June 2014 are based on the assumption that the BEE Transaction was implemented on 1 January 2014, and includes the following:
2.1 an IFRS 2 charge of R 28.3 million (of which R20.0 million relates to the BEE SPV) for the half-year ended 30 June 2014, estimated based on the market capitalisation of Hulamin on 11 December 2014 of R2.44 billion;
2.2 transaction costs associated with the implementation of the BEE Transaction, estimated at R 9.4 million, which are not recurring in nature; and
2.3 an up-front provision for the BEE support fee, determined as the present value of the BEE support fee payments over the 8-year term of the BEE Transaction, in the amount of R5.1 million.
2.4 for accounting purposes, the shares issued to the BEE Vehicles are treated in a manner similar to that of an option. Consequently, these shares are being treated as potential Hulamin Shares for the purpose of calculating diluted EPS.
3. For a full understanding of Hulamin's ordinary share capital and weighted average number of shares before the BEE Transaction, refer to Hulamin's June 2014 interim results, read with Hulamin's December 2013 annual financial statements.
4. There are no material post balance sheet events other than the maturing of the Initial Strategic Partners' Transaction which require adjustment to the unaudited pro forma financial effects.

5. CONDITIONS PRECEDENT

All the provisions of the BEE Transaction agreements are subject to the fulfilment of the following conditions:

- all the relevant shareholder approvals as set out in the Circular being duly obtained;
the amendments to Hulamin's MOI, as set out in the Circular, being filed with the Companies and Intellectual Property Commission ("CIPC");
the directors or trustees, as the case may be, of each of the parties authorising the entry into and implementation of the BEE Transaction agreements to which that party is a party;
the BEE SPV MOI being adopted, and filed with the CIPC;
the MOI (in the case of a company) and/or the trust deed (in the case of a trust) of each of the relevant BEE Parties (other than the BEE SPV) being amended to take into account the relevant provisions of the BEE Transaction documents (in so far as it is applicable to it), and any such amendments being filed with the CIPC;
the ESOP Trust Deed being filed with the relevant office of the Master of the High Court;
Hulamin being satisfied that there has been no change in the BEE status, the shareholding structures and accompanying contractual arrangements of the BEE SPV;
Hulamin confirming in writing (after having consulted with BEE SPV) that it is satisfied that, through the implementation of the BEE Transaction, the BEE SPV and the direct shareholders of the BEE SPV will have met the Required BEE Shareholding Threshold; and
there being no breach of any of the representations, warranties or undertakings contained in the BEE Transaction agreements between the period commencing on the signature date and ending on the completion date thereof.

6. DIRECTOR'S OPINION AND FAIRNESS OPINION

The Hulamin Board has considered the terms and conditions of the BEE Transaction and is of the opinion that the BEE Transaction is in the best interests of all of the Hulamin shareholders and, accordingly, recommends that Hulamin shareholders vote in favour of the resolutions required to implement the BEE Transaction.

KPMG has been appointed by Hulamin to prepare an independent fairness opinion, as required in terms of the JSE Listings Requirements and the Companies Act, due to the BEE Transaction involving related parties as defined in the JSE Listings Requirements, the issue of unlisted voting instruments, the issue of shares at a discount as well as provisions of financial assistance. KPMG has considered the terms and conditions of the BEE Transaction and is of the opinion that these are fair to Hulamin shareholders.

Details of the opinion will be provided in the Circular.

Pietermaritzburg
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