

Risk management

INTRODUCTION

The employment of an effective risk management process is critical to Hulamín achieving its strategic and operational goals, particularly in the current environment of change and uncertainty.

Hulamín recognises that risk is intrinsic to the business and that there is a balance to be struck between managing risk and exploiting opportunities. The group's response to identified risks includes acceptance, avoidance, transfer and mitigation, as informed by the group's risk appetite and tolerance levels.

It is Hulamín's policy that risks should be understood and managed through a relevant and formal structure to facilitate the achievement of the business' long-term objectives, which objectives recognise the interests of all stakeholders in the business. The formal structure assists in:

- Identifying and evaluating risks
- Setting acceptable risk limits
- Monitoring risk management actions and controls
- Assessing the effectiveness of risk management

RISK MANAGEMENT FRAMEWORK

Hulamín's risk management framework provides the basis for the implementation of a consistent, efficient and economical approach to identify, evaluate and respond to key risks that may impact Hulamín's objectives. The framework also addresses the specific responsibilities and accountabilities for the Enterprise Risk Management (ERM) process and the reporting of risks and incidents at various levels within Hulamín. The framework, ISO 31000, which is based on the ERM framework published by the International Organisation for Standardisation (ISO) of the Treadway Commission, assists Hulamín with the aligning of its risk appetite and strategy; pursuing business objectives through transparent identification and management of acceptable risk; prioritising risks to ensure that resources and capital are focused on high-priority risks faced by the group; enhancing risk response decisions; reducing operational surprises and losses; identifying and managing multiple and cross-enterprise risks; seizing opportunities;

improving allocation and deployment of capital; ensuring compliance with laws and regulations; and increasing the probability of achieving objectives.

RISK MANAGEMENT REVIEW

- The board of Hulamín is ultimately responsible for the governance of risk of the group and assumes overall ownership thereof.
- The board carries out its responsibilities for risk management via the Risk and Safety, Health and Environment (SHE) Committee which has oversight of the group's enterprise risk management framework, policy and processes.
- There is also a Hulamín Risk Management Committee, a sub-committee of the Hulamín Executive Committee, which, together with the Hulamín SHE Committee, is accountable to the Risk and SHE Committee for designing, implementing and monitoring the process of risk management and integrating risk management into the day-to-day activities of the various departments.
- The Hulamín Executive Committee, supported by management, supports Hulamín's risk management philosophy; promotes compliance with the risk appetite; identifies, assesses and manages risks within their spheres of responsibility consistent with risk appetite and tolerances; and manages the implementation of risk reduction actions and appropriate internal controls.
- All Hulamín employees are responsible for executing enterprise risk management in accordance with established directives and protocols.
- A number of external stakeholders often provide information useful in effecting enterprise risk management, but they are not responsible for the effectiveness of Hulamín's enterprise risk management.
- Various external and internal parties provide risk assurance and compliance

PRINCIPAL RISKS

The Risk Management Committee conducts a formal review of the most significant risks and the group's responses to these risks three times a year. These are reviewed by the Risk and SHE Committee three times a year.

The key strategic risks of the group, extracted from the group risk register, are shown in the table on pages 79 to 81. These risks have been assessed according to materiality and likelihood on an inherent and residual risk basis.

INTERNAL CONTROL AND ASSURANCE

The Hulamín board is responsible for establishing and maintaining an effective system of internal control which is designed to provide reasonable assurance that the group's business objectives will be achieved in accordance with the group's risk appetite.

A key element of the system of internal control is the review by assurance providers who assess the adequacy and effectiveness of the controls.

The group's internal audit function is responsible, *inter alia*, for the following:

- *Effectiveness of internal financial controls:* Internal audit provides a written statement annually to the Audit Committee on the effectiveness of the systems of internal financial control.
- *Effectiveness of internal controls and risk management:* Internal audit provides a written statement annually to the board on the effectiveness of the systems of internal control and risk management.

Specialist assurance providers are used to assess the adequacy and effectiveness of controls in certain instances. These include environmental and safety audits. The output of the risk management process, in conjunction with the work of the independent assurance providers, indicates to the directors that the controls in place are adequate and effective.

This assurance recognises that the organisation is dynamic and that at any point in time there are new areas of risk exposure which may require management attention. As such, there is a continual focus on ensuring that the control environment is understood and maintained at the required level. Assurance efforts are documented in the combined assurance plan



Principal risk	Risk consequence	Risk response	Link to strategy
i The weak economic climate in South Africa, waning political confidence and unclear policy direction, leading to a further ratings downgrade <ul style="list-style-type: none"> • Change in risk outlook of financing institutions • Period of austerity to improve credibility with ratings agencies • Unemployment or underemployment 	Reduced liquidity and an increase in the cost of debt	<ul style="list-style-type: none"> • Committed working capital funding in place • Reduction in working capital with lower inventory and debtor balances; and extended payment terms to creditors • Improve cash flow by expanding local market sales, in particular can stock products 	1, 2, 3 A, C
	Weakening currency or currency volatility	<ul style="list-style-type: none"> • A weaker Rand benefits revenue generated from export sales • Board approved policies have been established, risk is reported to board, hedging system in place and results monitored • All foreign currency transactions are hedged 	1, 2 C
	Reduced investment in infrastructure	<ul style="list-style-type: none"> • Shift in Hulamin's product mix to higher value OEM sectors with lower dependence on infrastructural projects • Monitor capability of outgoing logistics; road, rail and port infrastructure • Reduce electricity use and maintain back up generating capability 	3, 1, 4 C, A, E
ii The breakdown of social cohesion and trust as result of poor growth and slow economic transformation <ul style="list-style-type: none"> • Greater social instability and unrest • Shift in political discourse resulting in delayed roll-out of growth policies • Capital and investment moving away from South Africa 	Greater militancy and protracted wage negotiations	<ul style="list-style-type: none"> • Continuous engagement with the Union and Union representatives • Annual survey and active programmes to improve employee engagement 	1 A
	Constrained local market growth and a continued reliance on export market sales	<ul style="list-style-type: none"> • Engagement with all levels of government to promote the value of the aluminium industry to the local economy 	5 E
	Capital and investment moving away from South Africa	<ul style="list-style-type: none"> • Relationship building and engagement with multinational customers to promote Hulamin's value proposition in South Africa • Cooperate with industry and DTI regarding incentive programmes for industrial development coupled with local sourcing 	3 C

Risk management continued

	Principal risk	Risk consequence	Risk response	Link to strategy
iii	<p>Commodity down cycle affecting revenue and aggregate demand in emerging economies</p> <ul style="list-style-type: none"> • Growth in energy economies in Africa remain depressed for longer, resulting in under investment in infrastructure and industry • Under investment in commodity project pipelines lead to scarcity when aggregate demand recovers • Limited packaging demand growth due to limited consumer spending power • Migration of skills to developed economies 	Low regional demand for aluminum semi-fabricated products	<ul style="list-style-type: none"> • Diversification of local and regional markets towards further beneficiation of Hualamin's products for export (e.g. Automotive Body Sheet) • Ongoing exploitation of high value export product markets 	3, 1 C, A
		Energy price shock	<ul style="list-style-type: none"> • Reduce dependence on LPG with its strong link to petroleum pricing and currency volatility, by converting to Natural or Methane-Rich Gas. • Ongoing programmes to enhance energy efficiency 	2 B
		Skills retention and scarcity	<ul style="list-style-type: none"> • Competitive remuneration and incentive schemes offered to attract new employees and enhance retention • Effective contractual arrangements with key executives • Development programmes to enhance the pool of leadership skills • Ongoing development of succession plans for key roles 	1 A
iv	The global economy is in a state of flux with political upheaval in many of the developed economies with nationalist campaigns seemingly usurping the liberal democratic order.	Pervasive campaigning for protectionist trade policies and termination of favourable trade agreements	<ul style="list-style-type: none"> • Engagement with the DTI to negotiate the maintenance of existing favourable trade agreements like AGOA. • Develop local and regional sales, including the promotion of local market OEM type products 	3, 5 C, E
v	<p>Global macroeconomic underperformance due largely to the "new normal" Chinese economy</p> <ul style="list-style-type: none"> • Shift in asset investment and exports to internal consumption in China • Asset bubbles in developed economies as well as China • Leverage induced contagion through the banking systems • Loss in business confidence affecting investment, consumption and income 	Lower global growth outlook limiting aggregate demand and escalating competition for market share	<ul style="list-style-type: none"> • Monitor competitor actions • Pursue manufacturing excellence and low cost of production • Optimise production mix and entrench positions in profitable market sectors • Continue with progress up the profitability curve and new product development • Develop local and regional sales, including the promotion of local market OEM type products 	1, 2, 3 A, B, C

Principal risk	Risk consequence	Risk response	Link to strategy
vi Global oversupply of aluminium semi-fabricated products, driven by continued capacity investments in China <ul style="list-style-type: none"> Investment in capacity exceeds demand growth, leading to lower utilisation rates over the next 5 to 10 years Greater protection in the form of subsidisation or trade barriers, limiting or skewing global trade flows Shift in technology to counteract the product capability of the Chinese industry 	Greater competition for global market share with depressed conversion margins	as per v above	as per v above
	Investment in new product or process technology	<ul style="list-style-type: none"> Ongoing development of international technology relationships to support product development and innovation Periodical review of capability investment Proven competence in capability development and capital investment projects 	1 A, C
	Subsidisation of products exported from China	<ul style="list-style-type: none"> Focus on developing OEM market sectors in South Africa Continue with the application for tariff protection Enhance non-tariff barriers where possible 	5, 3 E, C
vii Failure of climate-change mitigation and adaption <ul style="list-style-type: none"> Water scarcity impacting on the ability of industry to produce Food crises with many interrelated risk consequences 	Water scarcity affecting manufacturing operations	<ul style="list-style-type: none"> Projects to reduce water consumption in all cooling towers Projects to limit water dumping Increase the water storage capacity on site Investigation in the use of recycled water on all manufacturing sites Engaged the services of the NCPC (National Cleaner Production Centre) to get a sponsored water efficiency programme running on site 	1, 2 A, B
viii Escalating measures to mitigate the impact of climate change, sparked by greater advocacy and social unrest <ul style="list-style-type: none"> Policies of economical sanction (Carbon tax, legislated limits on older technologies) Technological shifts resulting in the redundancy of existing technology, resources or competencies Large scale capital investment in green technology 	Introduction of Carbon Tax in South Africa and other legislation	<ul style="list-style-type: none"> Engagement with government regarding an appropriate approach to the levying of carbon tax on the aluminium industry Ongoing efforts to reduce Hulamin's electricity and gas consumption 	5, 2 E, B
	Large scale capital investment for new technology	<ul style="list-style-type: none"> Capital expenditure programme includes ongoing investment in relevant and efficient equipment updates 	1, 2 A, B
	Cost of sustainable or renewable energy	<ul style="list-style-type: none"> Opportunity evaluation of renewable energy technologies with consideration of OEM funded solutions Access to secure lower cost gas supply open up more efficient CHP energy options 	2 B

	Horizon I	Horizon II	Horizon III
Strategic objectives key	Strengthen the core to compete	Improving rolling margins	Build assets of tomorrow
1 Achieve benchmark operational performance	A	A	A
2 Achieve global cost competitiveness	B		B
3 Grow local and regional sales		C	C
4 Secure competitive aluminium supply		D	D
5 Supportive regulatory environment		E	E


 Refer to page 28 for more detail on our strategic objectives