EVRAZ

EVRAZ HIGHVELD STEEL AND VANADIUM

EVRAZ Highveld Steel and Vanadium Limited
(Incorporated in the Republic of South Africa)
(Registration number: 1960/001900/06)
Share code: EHS ISIN: ZAE000146171
(the Company or the Group)

GROUP REVIEWED RESULTS

for the six months ended 30 June 2012

- Headline loss R455 million (H1 2011: profit R90 million)
- Net loss R376 million (H1 2011: profit R86 million)
- Successful finalisation of arbitration matter against the Channel Induction Furnace supplier

Chairman and CEO's review

1. Safety

The Lost Time Injury Frequency Rate (LTIFR) decreased by 20% from 1.31 in the second quarter of 2011 to 1.05 in the second quarter of 2012, reflecting a 33% reduction in the number of Lost Time Injuries during this period.

2. Key financials

The operating loss for the period was R200 million, compared to a profit of R53 million for the same period in 2011. The main reason for the decrease was lower sales volumes. The adjusted EBITDA for the period was a R170 million loss, compared to a R169 million profit for the same period last year. Sales revenue decreased to R2 563 million compared to R2 985 million for the same period last year as a result of lower sales volumes.

3. Operations

Steel

The cast steel output for the period decreased by 11% to 328 566 tons, mainly due to problems with the availability of Steel Plant production equipment. Hot metal volumes were reduced since June 2012 to focus mainly on the domestic market.

Production of long products decreased by 3% to 121 114 tons for the period compared to the same period in 2011 mainly due to weakened demand. The production of flat products decreased by 17%, to 136 851 tons due to the reduced availability of cast steel and a weaker export market for heavy plate.

Vanadium

A total of 26 399 tons of vanadium slag was produced with 3 807 Mt V for the period, compared to 33 827 tons, with 4 485 Mt V produced for the same period last year. The lower production was as a result of lower hot metal production and lower vanadium yields.

4. Markets

Global and local markets

Global crude steel production for the first six months of 2012 increased slightly by 0.9% to 766 861 000 tons compared to the same period in 2011. South African production contracted by 19.2% during this period.

EVRAZ Highveld sales

Domestic steel sales volumes for the period decreased by 19% to 194 928 tons, compared to the same period in 2011. Export steel sales volumes decreased by 27% to 75 449 tons, and overall steel sales volumes by 21%. This was mainly due to problems experienced regarding the availability of Steel Plant production equipment, weaker export market for heavy plate and a business stabilisation project aimed at re-aligning the business to the current challenging trading enviroment. Total semi product sales for the period decreased from 35 601 tons to 2 022 tons compared to the same period in 2011.

Domestic steel sales volumes in the second quarter of 2012 decreased by 21%, compared to the first quarter of 2012. Export steel sales volumes increased by 110% for the second quarter of 2012 compared to the first quarter, resulting in an increase of 3% in overall sales volumes. The increase in export sales was mainly due to orders that were booked in the first quarter and realised in the second quarter.

Export vanadium slag sales increased by 7% to 3 293 tons V for the period compared to the same period in 2011. Domestic vanadium slag sales decreased by 80% to 40 tons V, due to low demand during the first quarter of 2012. A total of 541 tons V modified vanadium oxide and nitrovan were sold during the period (1H 2011: 874 tons V). This reduction is mainly due to maintenance work carried out at the beginning of 2012.

5. Competition Commission Referral

The Company received a Referral from the Competition Commission on 2 April 2012 wherein the Commission alleges that the Company has participated in concerted practices, direct or indirect, aimed at price fixing and dividing markets. The Company is confident that it has good prospects of success in the matter.

6. Outlook

Global leading indicators paint a challenging picture with further imminent steel production cutbacks, especially in Europe and North America, and weakening GDP forecasts for most economies. The Eurozone debt crisis and slower growth in China have contributed to the continued weakening of global apparent steel demand.

The local economic situation, especially the steel market, has not been left unscathed by the current global economic situation, which is expected to continue for the time being. Demand for steel products remains soft with prices reflecting a global over-supply situation.

The Company initiated a business stabilisation project in June 2012 which includes reduction of fixed costs. As part of this initiative the Company has engaged with its workforce regarding restructuring of its employee base. Numsa, the majority union, declared a strike on 16 July 2012 and we are pleased that the strike was ultimately resolved on 10 August 2012 and the operations resumed on 13 August 2012. The ramp up of the operations are expected to be at full capacity by the end of August 2012.

B J T Shongwe
(Chairman)

M D Garcia
(Chief Executive Officer)

22 August 2012

Basis of preparation

The Group's financial results for the half year ended 30 June 2012 set out below have been prepared in accordance with the principal accounting policies of the Group, which comply with International Financial Reporting Standards (IFRS) and in the manner required by the Companies Act in South Africa and are consistent with those applied in the Group's most recent annual financial statements, including the Standards and Interpretations as listed below.

These results are presented in terms of International Accounting Standards (IAS) 34 applicable to Interim Financial Reporting.

Significant accounting policies

(i) The Group has adopted the following new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretation Committee (IFRIC) of the IASB, that are relevant to its operations and effective for accounting periods beginning on 1 January 2012. These Standards had no impact on the results or disclosures of the Group:
- Improvements to IFRS – Issued May 2010 (effective from 1 January 2011);
- IAS 12, Amended – Deferred tax: Recovery of underlying assets (effective from 1 January 2012);
- IFRS 7, Amended – Financial instruments: Disclosures – Transfers of financial assets (effective from 1 July 2011); and
- IFRS 1, Amended – Severe hyperinflation and removal of fixed dates for first-time adopters (effective from 1 July 2011).

(ii) The following Standards, amendment to the Standards and Interpretations, effective in future accounting periods have not been adopted in these financial statements:
- Improvements to IFRS – Issued May 2012 (effective from 1 January 2013);
- IAS 1, Amended – Financial statement presentation: Presentation of items of other comprehensive income (effective from 1 July 2012);
- IAS 19, Amended – Employee benefits (effective from 1 January 2013);
- IAS 27, Separate financial statements (as revised in 2011) (effective from 1 January 2013);
- IAS 28, Investments in associates and joint ventures (as revised in 2011) (effective from 1 January 2013);
- IFRS 9, Financial instruments classification and measurement (effective from 1 January 2013);
- IFRS 10, Consolidated financial statements (effective from 1 January 2013);
- IFRS 11, Joint arrangements (effective from 1 January 2013);
- IFRS 12, Disclosure of involvement with other entities (effective from 1 January 2013);
- IFRS 13, Fair value measurement (effective from 1 January 2013);
- IFRIC 20, Stripping costs in the production phase of a surface mine (effective from 1 January 2013);
- IFRS 7, Amended – Disclosures: Offsetting financial assets and financial liabilities (effective from 1 January 2013);
- IAS 32, Amended – Offsetting financial assets and financial liabilities (effective from 1 January 2014); and
- IFRS 9 and IFRS 7, Amended – Mandatory effective date and transition disclosures (IFRS 9 effective from 1 January 2015, IFRS 7 depends on when IFRS 9 is adopted).

This abridged report was prepared under supervision of the Chief Financial Officer, Mr Jan Valenta (Chartered Accountant).

The financial information has been reviewed by Ernst & Young Inc. whose unmodified review report is available for inspection at the Company's registered office.

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	Reviewed as at 30 Jun 2012 Rm	Reviewed as at 30 Jun 2011 Rm	Audited as at 31 Dec 2011 Rm
ASSETS				
Non-current assets		**1 707**	1 691	1 927
Property, plant and equipment		**1 700**	1 606	1 760
Deferred tax asset	5	**7**	85	167
Current assets		**2 299**	2 767	2 531
Inventories		**801**	824	831
Trade and other receivables and pre-payments		**608**	853	516
Cash and short-term deposits		**890**	1 090	1 184
TOTAL ASSETS		**4 006**	4 458	4 458
EQUITY AND LIABILITIES				
Total equity		**2 250**	2 623	2 620
Non-current liabilities		**653**	566	624
Long-term borrowing	6	**15**	–	–
Provisions		**638**	566	624
Current liabilities		**1 103**	1 269	1 214
Trade and other payables		**936**	1 010	1 016
Income tax payable		**45**	48	45
Provisions		**122**	211	153
TOTAL EQUITY AND LIABILITIES		**4 006**	4 458	4 458
Net asset value – cents per share		**2 269.3**	2 645.5	2 642.5

INTERIM CONSOLIDATED INCOME STATEMENT

	Notes	Unaudited for the three months ended 30 Jun 2012 Rm	Unaudited for the three months ended 30 Jun 2011 Rm	Reviewed for the six months ended 30 Jun 2012 Rm	Reviewed for the six months ended 30 Jun 2011 Rm	Audited for the year ended 31 Dec 2011 Rm
Sale of goods		**1 232**	1 484	**2 563**	2 985	5 587
Revenue		**1 232**	1 484	**2 563**	2 985	5 587
Cost of sales		**(1 255)**	(1 235)	**(2 582)**	(2 684)	(4 750)
Gross (loss)/profit		**(23)**	249	**(19)**	301	837
Other operating income	7	**115**	–	**112**	80	87
Selling and distribution costs		**(80)**	(76)	**(153)**	(173)	(301)
Administrative expenses		**(58)**	(80)	**(140)**	(155)	(306)
Other operating expenses		**–**	(48)	**–**	–	(366)
Operating (loss)/profit		**(46)**	45	**(200)**	53	(49)
Finance costs		**(9)**	(9)	**(20)**	(20)	(50)
Finance income		**1**	10	**4**	14	26
(Loss)/profit before tax		**(54)**	46	**(216)**	47	(73)
Income tax (expense)/credit	8	**(228)**	19	**(160)**	39	118
(Loss)/profit for the period/year		**(282)**	65	**(376)**	86	45
		Cents	Cents	**Cents**	Cents	Cents
(Loss)/profit per share – basic and diluted		**(284.3)**	65.5	**(379.0)**	86.7	45.4

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited for the three months ended 30 Jun 2012 Rm	Unaudited for the three months ended 30 Jun 2011 Rm	Reviewed for the six months ended 30 Jun 2012 Rm	Reviewed for the six months ended 30 Jun 2011 Rm	Audited for the year ended 31 Dec 2011 Rm
(Loss)/profit for the period/year	**(282)**	65	**(376)**	86	45
Other comprehensive income/(loss):					
Exchange differences on translation of foreign operations	**11**	7	**(2)**	27	55
Total comprehensive (loss)/income for the period/year	**(271)**	72	**(378)**	113	100

HEADLINE EARNINGS PER SHARE

	Unaudited for the three months ended 30 Jun 2012 Rm	Unaudited for the three months ended 30 Jun 2011 Rm	Reviewed for the six months ended 30 Jun 2012 Rm	Reviewed for the six months ended 30 Jun 2011 Rm	Audited for the year ended 31 Dec 2011 Rm
Reconciliation of headline (loss)/earnings					
(Loss)/profit for the period/year	**(282)**	65	**(376)**	86	45
(Deduct)/add after tax effect of:					
Insurance claim proceeds on items of property, plant and equipment scrapped	**–**	–	**–**	–	(63)
Proceeds on successful litigation against the Channel Induction Furnace supplier	**(79)**	–	**(79)**	–	–
(Profit)/loss on disposal and scrapping of property, plant and equipment	**(*)**	4	**(*)**	4	3
Headline (loss)/profit	**(361)**	69	**(455)**	90	(15)

*Less than R1 million.

	Cents	Cents	**Cents**	Cents	Cents
(Loss)/earnings per share – headline and diluted	**(363.7)**	69.6	**(458.5)**	90.8	(15.1)
	Million	Million	**Million**	Million	Million
Number of shares					
Ordinary shares in issue as at end date *†	**99.2**	99.2	**99.2**	99.2	99.2

*Rounded to nearest hundred thousand.

†Agree to weighted average and diluted number of ordinary shares.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Issued capital and share premium Rm	Other reserves Rm	Retained earnings Rm	Total Rm
2011					
Balance at 1 January 2011 – Audited		585	138	1 787	2 510
Profit for the period				21	21
Other comprehensive income for the quarter			20		20
Balance at 31 March 2011 – Unaudited		585	158	1 808	2 551
Profit for the period				65	65
Other comprehensive income for the quarter			7		7
Balance at 30 June 2011 – Reviewed		585	165	1 873	2 623
Loss for the period				(117)	(117)
Other comprehensive income for the quarter			50		50
Balance at 30 September 2011 – Unaudited		585	215	1 756	2 556
Profit for the period				76	76
Other comprehensive loss for the quarter			(22)		(22)
Share-based payment reserve	9		10		10
Balance at 31 December 2011 – Audited		585	203	1 832	2 620
2012					
Balance at 1 January 2012 – Audited		**585**	**203**	**1 832**	**2 620**
Loss for the period				**(94)**	**(94)**
Other comprehensive loss for the quarter			**(13)**		**(13)**
Balance at 31 March 2012 – Unaudited		**585**	**190**	**1 738**	**2 513**
Loss for the period				**(282)**	**(282)**
Other comprehensive income for the quarter			**11**		**11**
Share-based payment reserve	9		**8**		**8**
Balance at 30 June 2012 – Reviewed		**585**	**209**	**1 456**	**2 250**

	Unaudited for the three months ended 30 Jun 2012 Cents	Unaudited for the three months ended 30 Jun 2011 Cents	Reviewed for the six months ended 30 Jun 2012 Cents	Reviewed for the six months ended 30 Jun 2011 Cents	Audited for the year ended 31 Dec 2011 Cents
Dividends per share					
Dividends declared and paid	**–**	–	**–**	–	–

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INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited for the three months ended 30 Jun 2012 Rm	Unaudited for the three months ended 30 Jun 2011 Rm	**Reviewed for the six months ended 30 Jun 2012 Rm**	Reviewed for the six months ended 30 Jun 2011 Rm	Audited for the year ended 31 Dec 2011 Rm
Cash flows from operating activities					
Cash generated by/(used in) operations before tax paid	**76**	644	**(210)**	758	1 070
Income tax paid	**(*)**	(4)	**(*)**	(4)	(6)
Net cash generated by/(used in) operating activities	**76**	640	**(210)**	754	1 064
Cash flows from investing activities					
Proceeds from sale and scrapping of property, plant and equipment	**–**	–	**1**	–	90
Net additions to property, plant and equipment	**(36)**	(120)	**(97)**	(170)	(485)
Net cash used in investing activities	**(36)**	(120)	**(96)**	(170)	(395)
Cash flows from financing activities					
Increase in long-term loans	**–**	–	**15**	–	–
Net cash generated by financing activities	**–**	–	**15**	–	–
Net increase/(decrease) in cash and cash equivalents	**40**	520	**(291)**	584	669
Cash and cash equivalents at the beginning of the period/year	**840**	567	**1 184**	492	492
Effects of exchange rate changes on cash held in foreign currencies	**10**	3	**(3)**	14	23
Cash and cash equivalents at the end of the period/year	**890**	1 090	**890**	1 090	1 184

**Less than R1 million.*

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. Companies Act and JSE Limited Listings Requirements

Compliance with the Companies Act, No. 71 of 2008, as well as the Listings Requirements of the JSE Limited has been maintained throughout the reporting periods.

2. Related party transactions

Sales to East Metals A.G. (a fellow subsidiary) amounted to R347 million (June 2011 YTD: R505 million) for the six months ended 30 June 2012. This constitutes 14% of total revenue for the period, compared to 17% for the period ended 30 June 2011. Technical services (slag tolling agreement) and other services with EVRAZ Vametco Alloys Proprietary Limited (a fellow subsidiary) amounted to R42 million for the six months ended 30 June 2012 (June 2011 YTD: R60 million).

3. Segment information

The Group is organised into business units based on their products and has two reportable segments as follows:

Steelworks

The major products of the steel segment are magnetite iron ore, structural steel, plate and coil.

Vanadium

The major products of the vanadium segment are vanadium slag and ferrovanadium. Vanadium slag is a waste product from the steelmaking process, and this slag is transferred from the Steelworks to the Vanadium Plant, which then forms the input into the vanadium business.

No operating segments have been aggregated to form the above reportable operating segments. Management monitors the operating results of its business units separately for the purposes of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit.

The following tables present the revenue, operating profit and total assets information regarding the Group's operating segments:

	Unaudited for the three months ended 30 Jun 2012 Rm	Unaudited for the three months ended 30 Jun 2011 Rm	**Reviewed for the six months ended 30 Jun 2012 Rm**	Reviewed for the six months ended 30 Jun 2011 Rm	Audited for the year ended 31 Dec 2011 Rm
Revenue from the sale of goods					
Steelworks	**882**	1 083	**1 878**	2 131	3 957
Vanadium	**350**	401	**685**	854	1 630
Total	**1 232**	1 484	**2 563**	2 985	5 587

Intersegment revenue is eliminated on consolidation.

	Unaudited for the three months ended 30 Jun 2012 Rm	Unaudited for the three months ended 30 Jun 2011 Rm	**Reviewed for the six months ended 30 Jun 2012 Rm**	Reviewed for the six months ended 30 Jun 2011 Rm	Audited for the year ended 31 Dec 2011 Rm
Operating (loss)/profit					
Steelworks	**(153)**	(75)	**(387)**	(193)	(542)
Vanadium	**107**	120	**187**	246	493
Total	**(46)**	45	**(200)**	53	(49)

	Reviewed as at 30 Jun 2012 Rm	Reviewed as at 30 Jun 2011 Rm	Audited as at 31 Dec 2011 Rm
Total assets			
Steelworks	**3 149**	3 781	3 664
Vanadium	**857**	677	794
Total	**4 006**	4 458	4 458

4. Supplementary revenue information – Unaudited

		For the three months ended 30 Jun 2012	For the three months ended 30 Jun 2011	**For the six months ended 30 Jun 2012**	For the six months ended 30 Jun 2011	For the year ended 31 Dec 2011
Sales volumes of major products						
Total steel	Tons	**137 136**	161 374	**270 377**	343 493	603 094
Ferrovanadium	Tons V	**1 301**	1 439	**2 855**	2 940	6 031
Modified vanadium oxide	Tons V	**213**	56	**228**	304	398
Nitrovan	Tons V	**194**	452	**313**	570	1 105
Vanadium slag	Tons V_2O_5	**71**	160	**71**	355	664
Fines ore	Tons	**212 017**	166 189	**377 782**	342 431	662 395

Vanadium slag sales reduced from 355 tons V_2O_5 for the six months ended 30 June 2011 to 71 tons V_2O_5 for the six months ended 30 June 2012 due to lack of orders received and unavailability of slag.

		For the three months ended 30 Jun 2012	For the three months ended 30 Jun 2011	**For the six months ended 30 Jun 2012**	For the six months ended 30 Jun 2011	For the year ended 31 Dec 2011
Weighted average selling prices achieved for major products						
Total steel	US$/t	**734**	907	**789**	819	825
Ferrovanadium	US$/kg V	**24**	29	**24**	29	27
Modified vanadium oxide	US$/kg V	**18**	21	**18**	22	21
Nitrovan	US$/kg V	**24**	28	**24**	28	27
Vanadium slag	US$/kg V_2O_5	**4**	5	**4**	6	5
Fines ore	US$/t	**22**	37	**21**	39	33
Average R/$ exchange rate		**8.13**	6.80	**7.95**	6.90	7.26

5. Impairment of deferred tax assets

Deferred tax assets are tested for impairment bi-annually and when circumstances indicate the carrying value may be impaired. The Group's impairment test for deferred tax assets is based on clear projections that the deferred tax assets will be utilised in the foreseeable future. Due to the current assessed loss and no specific indication as to when the assets will be utilised, the Group decided to impair the assets. When more definite indications exist on the future utilisation of the assets, the assets will be recognised to the value of the expected utilisation.

The amount derecognised during the period amounted to R163 million. Unrecognised deferred tax assets of R243 million exist as at 30 June 2012.

The R7 million deferred tax asset that is recognised at period end relates to the deductible temporary differences of the wholly owned foreign subsidiary.

6. Long-term borrowing

The long-term borrowing of R15 million (2011: Rnil million) consist of the loan due by Umnotho Iron and Vanadium Proprietary Limited to Umnotho weSizwe Group. This loan has no fixed repayment terms and interest is charged at prime rate.

7. Other operating income

The R112 million other operating income for the six months ended 30 June 2012 relates mainly to a R109 million settlement received, relating to the claim against the Channel Induction Furnace supplier, for the same period last year, R80 million other operating income for the six months ended June 2011 relates mainly to the adjustment of the Net Realisable Value provision of R141 million (income), net stock write down of R26 million (expense), profit related to bonus adjustment of R33 million (income) and idle plant cost of R86 million (expense).

8. Income tax

	Unaudited for the three months ended 30 Jun 2012 Rm	Unaudited for the three months ended 30 Jun 2011 Rm	**Reviewed for the six months ended 30 Jun 2012 Rm**	Reviewed for the six months ended 30 Jun 2011 Rm	Audited for the year ended 31 Dec 2011 Rm
South African					
Normal					
Current	**–**	–	**–**	–	–
Deferred					
Current	**228**	(7)	**160**	(30)	(112)
Prior year (over)/under provision	**–**	–	**–**	–	(1)
Non-South African					
Normal					
Current	*****	(3)	*****	–	3
Prior year (over)/under provision	**–**	(9)	**–**	(9)	(8)
Income tax expense/(credit)	**228**	(19)	**160**	(39)	(118)

**Less than R1 million.*

The period income tax expense is accrued using the estimated average annual effective income tax rate applied to the pre-tax income of the interim report.

9. Share-based payment reserve

Certain key management personnel participate in a Long Term Incentive Plan (LTIP) for EVRAZ Group plc shares. The shares are traded on the London Stock Exchange. The vesting of the shares occur on or before the 90th day following the announcement of EVRAZ Group plc financial results. The cost of the LTIP award will be settled in equity by EVRAZ Group plc. The amount recognised according to IFRS 2 in 2012 is R8 million (2011: R10 million).

10. Guarantees

As required by the Mineral and Petroleum Resources Development Act, a guarantee amounting to R264 million (2011: R264 million) was issued in favour of the Department of Mineral Resources for the unscheduled closure of Mapochs Mine.

As required by certain suppliers to the Company, guarantees were issued in favour of these suppliers to the value of R9 million (2011: R9 million) in the event that the Company will not be able to meet its obligations to the suppliers.

11. Contingent liabilities

In terms of the Company's employment policies, certain employees could become eligible for post-retirement medical aid benefits at any time in the future prior to their retirement, subject to certain conditions. The potential liability, should they become medical scheme members in the future, is R31 million before tax and R22 million after tax (2011: R31 million before tax and R22 million after tax).

A supplier company has claimed against the Company in respect of structural damage to assets sold in the past. The claim is in the amount of R42 million. The arbitration matter was heard and the claim was dismissed with costs.

On 30 March 2012 the Competition Commission issued a Referral of Complaint to the Competition Tribunal against EVRAZ Highveld and two others. The Commission is seeking orders from the Tribunal, amongst other things, declaring that: (i) the parties have divided certain markets; (ii) the parties directly or indirectly fixed the purchase prices of flat products; and (iii) the parties committed a concerted practice which substantially prevented or lessened competition in the relevant market. Should the matter not be settled, it is unlikely that it would be finalised in the 2012 financial year. The Company is confident that it has good prospects of success in the matter. The maximum administrative penalty which the Tribunal could impose in respect of the allegations contained in the Referral is 10% of the annual turnover in South Africa of the Group (including exports from South Africa) for the preceding financial year.

12. Subsequent events

There are no events to be reported on since 30 June 2012.