



MATUSON

ASSOCIATES

**GENERAL MEETING OF AFFECTED PERSONS:
EVRAZ HIGHVELD STEEL AND VANADIUM
LIMITED**

Date: 17 March 2016

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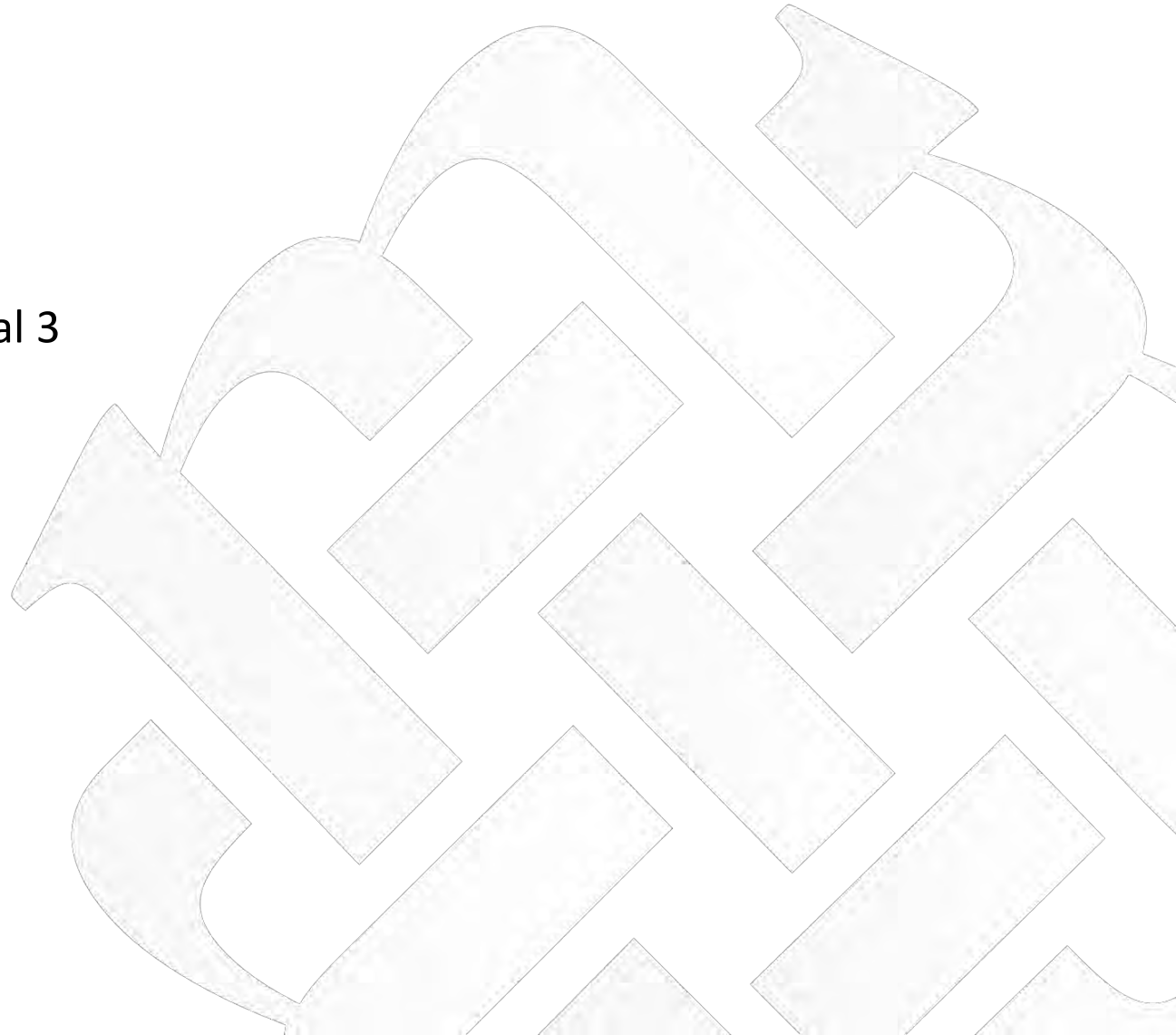
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CONTENTS

- Welcome
- Background
- Wind-Down Plan
- Cash Flow
- Liquidation vs. Proposal 3
- Creditors' Claims
- Risks
- Questions
- Conclusion



BACKGROUND



PROPOSED TRANSACTION

Proposed Transaction

- Pursuant to the adoption of the business rescue plan (“Plan”), the BRPs commenced with implementing the proposed transaction contemplated in the Plan
- In terms of the proposed transaction, the deadline for the fulfilment or waiver of the conditions precedent was 31 January 2016
- As at 31 January 2016, all of the conditions precedent had not been fulfilled or waived. Consequently the proposed transaction has failed

Reasons for failure

- Due to the non-timeous fulfilment of the last two remaining conditions precedent, being Competition Commission approval and reaching agreement with the Department of Environmental Affairs
- IRL ran out of time for these regulatory conditions precedent to be fulfilled and it was uncertain as to how long it would take to meet them

ACTIONS TAKEN

Employees

- The BRPs were advised that, despite same having been approved, the Training and Layoff Scheme has been placed on hold. As a result, Evraz Highveld was unable to pay employees' salaries and was forced to issue notices in terms of Section 189 of the Labour Relations Act, to all employees on Wednesday, 10 February 2016
- All employees were retrenched, by agreement, effective 29 February 2016

Eskom

- The BRPs suspended Evraz Highveld's obligation to pay the fixed fee in respect of the nominated maximum demand ("NMD"), as contemplated in section 136 of the Companies Act, until the BRPs request for a reduction in the NMD from 300MVA to 60MVA was granted
- Eskom agreed and reduced the NMD to 60MVA effective 1 February 2016

Contracts

- Evraz Highveld has commenced identifying agreements that require cancellation and will attempt to cancel same by agreement, failing which, by application

Settlement

- Evraz Highveld has settled with Sasfin on terms acceptable to both parties

ACTIONS TAKEN CONT.

Cost reduction

- Evraz Highveld has begun implementing substantial cost cutting in key areas, including:
 - Insurance
 - Information technology
 - IDC has been requested to review interest rates
 - Eskom NMD has been reduced
 - Cancellation of unnecessary subscriptions
- Where services are being provided to 3rd parties, these costs are to be recovered
- Security has not been reduced

Care and maintenance

- A core group of staff members has been retained to ensure assets remain in good condition

Register of interest

- The BRPs have received several expressions of interest in parts of the business or specific assets

Sustainability Plan

- Evraz Highveld developed a Sustainability Plan, which has the ability to restart parts of the business however funding was not received for this initiative
- The Sustainability Plan will however be used in an attempt to sell or lease parts of the business as a going concern

ACTIONS TAKEN CONT.

Wind-Down Proposals

- In terms of the adopted Plan, in the event that the proposed transaction failed, the business rescue would proceed in accordance with Proposal 3, i.e. the wind-down of Evraz Highveld
- The BRPs have proceeded in terms of Proposal 3, which contemplates the sale of the business, or portions thereof, as a going concern, alternatively the sale of Evraz Highveld's assets
- The BRPs obtained proposals from two independent parties as well as from management

WIND-DOWN PLAN



OVERVIEW AND STRATEGY

- Key management will be engaged on a salary plus risk based incentive basis to assist the BRPs to maximise on value recovery
- The Plan is expected to take at least 36 months to complete, i.e up to the end of March 2019
- The Plan is designed to generate cash within the constraints of the current market dynamics
- The Plan yields R1,134bn being adequate to cover all employee severance packages, secured creditors, costs and pay a minimum dividend to creditors within the range contemplated in the plan
- It is anticipated that assets will be classified into one of the following three categories:

	Asset Class	Description
Asset Class 1	Liquid Assets	Assets which can be converted to cash in a short space of time. Examples: Copper, Scrap Steel, Raw Material Stocks, etc.
Asset Class 2	Re-Usable Assets	Assets which can be sold as movable and operational assets. Examples: Pumps, Valves, Motors, Mud Guns, Cables, etc.
Asset Class 3	Strategic Assets	Assets which can be sold as operational plants Examples: Structural Mill, Rotary Kilns, Iron Plant 2, etc.

KEY DELIVERABLES

- Maximisation of proceeds
- Cost-containment within acceptable risk parameters
- Maximum possible dividend within timeframe
- Business wind down activities will include as a minimum:
 - All IT systems backed-up and shut down under controlled environment
 - All statutory reports and submissions completed and documentation identified and stored safely
 - Financial reports, audits and accounts balanced, reconciled and safely stored
 - Human Resources / employee records secured, debt validated / documented and safeguarded
 - Ongoing environmental obligations / sampling being maintained and managed orderly
 - Current and future financial liabilities will be managed and executed under the control of the BRPs
 - Company secretarial duties and requirements will be wound down in a compliant manner
- Develop best case scenario for Mapochs Mine (Pty) Ltd

CASH FLOW FORECAST



CASH FLOW FORECAST

	Year 1	Year 2	Year 3	Total
Total Proceeds	380 040 888	581 769 720	331 409 426	1 293 220 034
Income Tax / VAT	-36 916 000	-61 755 000	-33 078 000	-131 749 000
Net Proceeds	343 124 888	520 014 720	298 331 426	1 161 471 034
Holding Costs	-162 502 000	-157 932 000	-122 786 000	-443 220 000
Cash Available for Distribution	180 622 888	362 082 720	175 545 426	718 251 034
Payments to Employees	-180 622 888	-148 155 112	-	-328 778 000
Repayment of Short Term Borrowings	-	-150 000 000	-	-
Payment to Creditors	-	-63 927 608	-175 545 426	-202 788 034
Closing Balance	0	0	0	0

HOLDING COST

Holding Costs	Monthly
Salaries	4 750 000
Dismantling cost	1 800 000
Interest	1 600 000
Electricity	1 100 000
Security	1 000 000
Professional Fees	1 000 000
Selling auction costs	750 000
IT / Services / Telephony	250 000
Insurance	250 000
Monthly average year 1	12 500 000

LIQUIDATION VS. PROPOSAL 3



LIQUIDATION VS. PROPOSAL 3

The advantages of proceeding with the 3rd Proposal as opposed to a liquidation are, *inter alia*:

	Proposal 3	Liquidation
Employees	Full severance packages in terms of the Labour Relations Act	Employees would only be entitled to receive a maximum preferent claim of R28 000 each
Fees	Business rescue costs will be substantially less than the fees of liquidators	Liquidators' fees are calculated on a percentage of the proceeds received
Timing	Creditors will receive distributions as and when cash is available commencing within 6 months	Any payments would only be made once the final L&D account is lodged and confirmed by the Master
Concurrent Dividend	Between 10c and 14c in the Rand	R0c

CREDITORS CLAIMS



WATERFALL OF PAYMENT

As per section 135 of the Companies Act and paragraph 28 of the Plan, creditors are paid in the following order of priority:

1. Business Rescue Costs, including but not limited to
 - I. Legal costs, the costs of the Advisors and other costs associated with the business rescue and other professional fees
 - II. Holding costs
 - III. Post commencement supplies
2. Employees
3. Secured PCF Creditors
4. Unsecured PCF Creditors
5. Concurrent Creditors

A buffer to cater for expenses will be retained, but all surplus cash will be distributed as and when received in terms of the waterfall

EMPLOYEE CLAIMS

Breakdown of the Employee claims:

	Value of Claims R million
Severance	101.8
Leave / Gratuity	32.6
Notice pay	57.9
Bonus / 13 th cheques	46.3
February salary	54.2
Total	292.8 million

- Agreement signed with both Numsa, Solidarity and non-unionised employees
- Full and final settlement (excluding right to pursue alleged claim relating to short time)
- Effective termination date of 29 February 2016
- Minimum as per the Labour Relations Act, ie. 1 week per completed year of service
- Investigation underway with regard to legal obligation in terms of bonus / 13th cheques
- Preferent ranking as per the waterfall

PRE-COMMENCEMENT CREDITORS CLAIMS

It is important to note that the value of claims received and accepted will have a direct impact on the dividend available to concurrent creditors.

Creditors will be informed if their submitted claim is disputed.

Breakdown of the Total Claims Received:

	# of Claims	Value of Claims
Accepted Claims	513	1 455 848 948
Unresolved Claims	39	861 093 745
Total Claims Received	552	2 316 942 693

- A process is underway where Evraz Highveld is reconciling all Unresolved Claims.

SARS

- Of the 39 unresolved claims, totalling R861m, SARS accounts for R689m.
- The BRPs are currently engaging with SARS in order to resolve their claim. As this has a material impact on all concurrent creditors, the BRPs will endeavour to keep affected persons informed.

RISKS OF THE WIND DOWN



IDENTIFIED RISKS

1. Risks as per the Plan:
 - unforeseen litigation
 - unforeseen damages claims arising from the cancellation of any contracts or agreements
 - any changes in legislation that impact Business Rescue
 - any regulatory challenges
 - any unforeseen circumstances outside of the control of the BRPs that impact on the Business Rescue
 - material discrepancies in the information made available to the BRPs by the directors and senior management
 - market conditions worsen
 - the settlement of the PRMA
2. Additional claims:
 - Claims for damages relating to termination of contracts
 - Environmental claims
 - Other
3. Asset realization less than expected:
 - Saleability of assets as going concern
 - Regulation with regards to scrap process
4. Change in market conditions

GENERAL AND QUESTIONS



CONCLUSION



CONCLUSION

1. Creditors asked to forward any:
 - I. interested parties to BRPs
 - II. ideas with regards to alternative uses / approaches welcomed
2. Quartely review meetings / updates



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