



DRAFT LAYOUT

SETTING STANDARDS FOR THE FUTURE

Evraz Highveld Steel and Vanadium Limited celebrates its 50th anniversary this year, having been established in 1960. Eric Payne talks to the company's new Chief Executive Officer, Mr Scott MacDonald, about the company's unique production processes and plans for future development.

Evraz Highveld Steel and Vanadium Limited (Evraz Highveld) has come a long way in the past 50 years, developing its iron ore and vanadium mining assets into an integrated mining, processing and marketing operation, with sales throughout South Africa and in export markets.

In 2006, Evraz, the Russian metallurgical giant, and Credit Suisse, purchased Anglo American plc's 24.9 percent share in Evraz Highveld. In 2007, Evraz exercised its option to acquire the share capital held by Credit Suisse as well as the share capital still held by Anglo American. In February 2008, the transaction was completed fully.

Singular processes

Evraz Highveld employs in the region of 2,300 people with wide-ranging expertise. As a fully vertically integrated steel company – running its own mining, processing and sales operations – Evraz Highveld directly employs a range of specialist engineers throughout the organisation. "The key is to have appropriately skilled and qualified people in all of the various stages of our production process, which is why we spend a lot of time on training to enable us to maintain the right balance of skills. Finding, attracting and retaining the right numbers of skilled people is a challenge in

South Africa, and a lot of other countries today, hence we put a lot of time and effort into that."

One factor that makes Evraz Highveld largely unique is its integrated operations. The process starts at the Mapochs mine, where Evraz Highveld mines iron ore, which is then transported directly to its Steelworks for processing into steel. During the steel making process the company also extracts vanadium slag which is sold to be processed into ferro-vanadium. "At the moment, the Mapochs mine is fully owned by Evraz Highveld," Mr MacDonald explains. "However, the intention is for the facility



to feed into a BEE (Black Economic Empowerment) transaction later in 2010. In April 2009 we concluded an agreement to transfer 26% of the ordinary equity interest in Mapochs to local partners. The transaction is subject to certain conditions and now we are waiting for the approval of the regulator that will be given in due course". Today, the Mapochs mine is basically open cast; most of the ore is on the sur-

face, making it relatively easy to extract. The mine is located roughly 130 kilometres from Evraz Highveld's processing facility and material is shipped directly between the two via rail. "The steel making process itself, however, is quite unique," Mr MacDonald emphasises. "Unique in the sense that the ore that we extract is a magnetite ore with high levels of titanium in it. There are very few other facilities

around the world that mine and process this ore. As such, when this company was established, some very clever people developed a specific process for working with that ore, which is unique to Evraz Highveld. New Zealand Steel has a similar process, but even that is not exactly the same." The iron making procedure involves bringing iron ore into the plant, transfer-

ring into openslagbath furnaces. The liquid iron is transferred to the Steel plant to produce steel. The steel is casted into slabs, blooms or billets at the continuous caster. The slabs are transported to the flat products mill for rolling into flat products. The blooms are transported to the structural mill for rolling into structural products and the billets are sold as final products."

Sales avenues

In terms of its production levels, at the moment, the company is working at around 95 percent capacity, which it intends to continue doing for the remainder of 2010. "Our core market is obviously South Africa; 75 percent of our output is sold to the domestic market," he affirms. "In terms of sectors, like in many other markets around the world, the biggest sector is construc-

tion – and we have a particular focus on producing heavy sections. "There are two major steel companies in South Africa – ArcelorMittal and Evraz Highveld Steel and Vanadium Limited. However, we are the only company in South Africa that manufactures steel sections, and clearly one of the biggest consumers of sections is the construction sector. The other major sector that we focus on in South



Africa is mining. As you will be more than aware, the FIFA 2010 World Cup was hosted by South Africa earlier this year, and a lot of stadiums were built in preparation. Stadiums require a lot of sections, so we have been doing very good business supplying those. Post-World Cup, we are starting to see signs that the general economy in South Africa is beginning to improve. There is still a long way to go, but the signs are that there is real underlying improvement in demand."

"Evraz Highveld specializes in two product areas, steel products, which are mainly sold through service centres in South Africa – Macsteel Service Centres SA, which is part of an international group, being one of the largest; and vanadium, which the company produces as slag and supplies to Austria.

Naturally, the company also targets specific projects, when they are well suited to what Evraz Highveld is able to supply. "We follow all of the major contracts issued in

South Africa, which are then followed up on by our sales people. For instance, Eskom recently received a World Bank loan for US\$3.75 billion, to build a new coal-fired power plant, and we will certainly be looking to link into the steel supply," Mr MacDonald confirms.

Technical compliance

As a vertically integrated company, Evraz Highveld can leverage significant advantages over other steel companies in terms of how

it manages supply and demand. "Other steel companies are looking to become more vertically integrated, whereas we are already. This, combined with our two product streams – steel and vanadium – gives us a significant competitive advantage," Mr MacDonald attests. "The third competitive advantage I would list is that we are a JSE-listed company with a major shareholder in the form of Evraz, the global steel company, which holds just over an 85 per cent stake in Evraz Highveld. As such, if

we want to increase our presence in export markets, Evraz already has a global footprint that we can take advantage of."

In terms of quality control, Evraz Highveld is ISO 9001 approved by the German regulatory body, TÜV. The company is also very safety focussed and will be even more so under Mr MacDonald's leadership. "I started working here on 1st March 2010, and one of my top priorities for the company is even greater focus on safety. One of the programmes that we run

inside of the company is called H0TT0, or Evraz Highveld Zero Tolerance Target Zero. This is the banner under which all of our posters, initiatives and safety rules are set."

As far as Mr MacDonald is concerned, the best way to improve and maintain high safety standards is by demonstrating it through leadership: "All of the people on the management team have to demonstrate that health and safety is a key priority through their actions. The two things that I have already said to people here is, be chal- ▶



Mr Scott MacDonald
Chief Executive Officer

lenged and challenge. If you see someone carrying out an unsafe practice, challenge them. Having already raised this with the unions on site, the response has been extremely positive. But, as I said to them, it is equally important that their members act accordingly and do not become complacent on site. Our ultimate objective is zero accidents."

Likewise, the environment is one of the company's "top focuses", as Mr MacDonald describes it.

"At the moment, we are in the process of establishing a five-year plan for environmental development, which will certainly involve some form of capital expenditure. Like in many other countries around the world, the environment is right at the top of the agenda in South Africa, and we

have regular liaisons with government departments to get their input and listen to their suggestions".

Future priorities

Looking to the future, the company's top priority is to identify areas where it can improve efficiencies and reduce waste in its manufacturing processes. "We will be looking at the entire supply chain, from when we extract ore out of the ground to when we deliver a finished product to a customer, in order to make what we do as simple as possible," Mr MacDonald attests.

"Environmental issues are another high priority which we have just covered, and looking to the slightly longer term, we will be looking to establish some kind of co-generation facility. Much like in many other

countries around the world at the moment, electricity prices are increasing quite dramatically. We have started the initial evaluation and, two or three years down the line, we expect to be developing some form of co-generation project.

"Another key driver for our future will be a focus on customers," he continues. "At the end of the day, we have to meet customer expectations and address needs within sectors as the markets develop. In that sense, getting closer to our customers is going to be very important. By way of summary, better, faster, smarter are the three words I would use to describe what we are doing here.

"In terms of the market itself, we are cautiously optimistic. To draw a comparison, when I look at the UK, which is where I am from, I see re-stocking, but is underlying

demand improving? I'm not so sure at this stage. Whereas in South Africa, there are signs that real underlying demand is improving and that the market has slowly started moving in the right direction. "Finally, in the past, we have not been particularly communicative with investors on the JSE. This is going to change," Mr MacDonald announces. "As of March 2010, we have embarked on a series of road shows where we speak with investors, and this has gone down extremely well. The feedback we received has been positive and we are more conscious than ever of the fact that, as a public company, we have got to be a lot more open than we have been in the past. Indeed, the company publicly celebrated its 50th anniversary on 19th May 2010." □

