

EVRAZ

EVRAZ HIGHVELD STEEL AND VANADIUM

Evrz 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 "Evrz Highveld" or "the Group")



AUDITED RESULTS

for the year ended 31 December 2010

↓ EBITDA loss of R263 million
 (2009: positive R447 million)

↓ **Headline loss of R383 million**
 (2009: earnings R167 million)

↑ Sales revenue increased to R5.1 billion from
 R4.3 billion in 2009

Chairman and CEO's Review

1. Key financials

The operating loss for the period was R823 million, compared to an operating profit of R192 million made in 2009. Domestic steel sales prices decreased by 5%, resulting in a R145 million reduction in revenue.

Cost increases were mainly due to: a 13% strengthening of the Rand against the Dollar, resulting in a R280 million loss in export revenue; an impairment of R230 million for the channel induction furnace; R200 million increase in energy costs, mainly due to a 24% price increase; additional maintenance costs of R160 million due to the deferment of maintenance projects in 2009 and an increase in provisions of R150 million.

As a result of the interruption in gas supply experienced during the first half of the year, a substantial volume of tons of both steel and vanadium slag were lost. In order to address the issue, arbitration has been initiated against the gas supplier, namely Afrox.

2. Health and Safety

The Company's lost time injury frequency rate for 2010 was 1.85, compared to 1.80 for 2009. This is disappointing considering that Safety is the key priority for the Company. An aggressive strategy, including intensified focus on a culture of a safe working environment and zero tolerance for unsafe acts, is being implemented.

3. Operations

Steel

The casted steel output for the period increased by 12% to 773,646 tons compared to the same period last year. However, production was less than planned mainly as a result of disruptions in the gas supply and operational shutdowns.

Vanadium

A total of 64,202 tons of vanadium slag was produced with 8,673 tons of V in V₂O₅ for the period, compared to 46,614 tons, with 6,297 tons of V in V₂O₅ produced for the same period last year.

Environment

The Company is working together with the Department of Environmental Affairs to address the quality of its emissions. Environmental capital projects have commenced and a comprehensive action plan has been submitted.

4. Markets

Global and South African markets

Global crude steel production increased by 15.7% to 1.39 billion tons and by 20.6%, excluding China, in 2010, compared to 2009. In South Africa, steel production for the period increased by a more modest 13.3%. Real consumption in South Africa in 2010 increased by approximately 7% compared to 2009. However, the imports into South Africa increased by approximately 26.6% during 2010 compared to 2009, mainly as a result of the strengthening of the Rand.

Evrz Highveld sales

Domestic steel sales volumes during the period increased by 8% compared to 2009. As a result of increased mining activities in South Africa as well as neighbouring countries, rail sales increased by 84% compared to 2009.

Total international steel sales volumes decreased by 1% during 2010 compared to 2009. However, the export sales volumes of semi-finished products decreased by 52%. Conversely, export sales volumes of structural steel products increased by 111% and that of flat-rolled products by 106% in 2010, compared to 2009.

Both domestic vanadium slag sales volumes and export sales volumes increased with 159% and 17% respectively during 2010 compared with 2009.

5. Granting of new order mining rights

The Department of Mineral Resources ("DMR") granted the Company's application for the conversion of its old order mining rights on 28 January 2011. The formal process of notarial execution and registration is continuing and it is expected to be completed within the forthcoming quarter. This will bring about the finalisation of the empowerment transaction with Umnotho weSizwe for the Mapochs Mine.

6. Outlook

2010 was an extremely difficult and challenging year. However, indications of market improvement are becoming evident with increases in demand and prices for both steel and vanadium. The construction sector is currently still weak, with some indications that it would improve in the longer term.

B J T Shongwe
 (Chairman)

A S MacDonald
 (Chief Executive Officer)

16 March 2011

Group audited financial results

Basis of preparation

The Group's financial results for the quarter and twelve months ended 31 December 2010 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 2010. These Standards had no impact on the results or disclosures of the Group.

- IFRS 2, Amended – Share-based Payments: Group cash-settled share-based payment transactions (effective from 1 January 2010)
- IFRS 3, Revised – Business Combinations (effective from 1 January 2010)
- IAS 27, Amended – Consolidated and Separate Financial Statements (effective from 1 January 2010)
- IAS 39, Amended – Financial Instruments: Recognition and Measurement – Eligible Hedged Items (effective from 1 January 2010)
- IFRIC 17, Distribution of Non-cash Assets to Owners (effective from 1 January 2010)
- IFRIC 18, Transfers to Assets from Customers (effective from 1 January 2010)
- Improvements to IFRS (issued April 2009 – effective mostly from 1 January 2010)

(ii) From January 2010, the Group changed its accounting policy for the valuation of scrap inventory from a cost formula where equal costs per ton were allocated to scrap and to prime steel, to a formula where scrap inventory is valued at the prevailing market price. It is not possible to apply this change in allocation retrospectively, therefore it has been done on all scrap produced from 1 January 2010.

(iii) The following Standards, amendment to the Standards and Interpretations, effective in future accounting periods have not been adopted in these financial statements:

- IAS 32, Amended – Classification of rights issues denominated in a foreign currency (effective from 1 May 2010)
- IAS 24, Amended – Related party disclosures (effective from 1 January 2011)
- IFRS 9, Financial Instruments Classification and Measurement (effective from 1 January 2013)
- IFRIC 14, Amended – Prepayments of a minimum funding requirement (effective from 1 January 2011)
- IFRIC 19, Extinguishing financial liabilities with equity instruments (effective from 1 July 2010)
- IFRS 1, Amended – Severe Hyperinflation and removal of fixed dates for First-time adopters (effective from 1 July 2011)
- IFRS 7, Amended – Financial Instruments: Disclosures (effective from 1 July 2011)
- IAS 12, Amended (previously ED 2010/11) – Deferred Tax: Recovery of underlying assets (effective from 1 July 2011)
- Improvements to IFRS (effective from either 1 July 2010 or 1 January 2011)

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

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Audited as at 31 Dec 2010 Rm	Audited as at 31 Dec 2009 Rm
ASSETS		
Non-current assets	1 661	1 884
Property, plant and equipment	1 607	1 884
Deferred tax asset	54	–
Current assets	2 402	3 011
Inventories	1 084	1 228
Trade and other receivables and prepayments	826	711
Cash and short-term deposits	492	1 072
TOTAL ASSETS	4 063	4 895
EQUITY AND LIABILITIES		
Total equity	2 510	3 074
Non-current liabilities	536	712
Provisions	536	469
Deferred tax liability	–	243
Current liabilities	1 017	1 109
Trade and other payables	745	771
Income tax payable	54	156
Provisions	218	182
TOTAL EQUITY AND LIABILITIES	4 063	4 895
Net cash	492	1 072
Net asset value – cents per share	2 532	3 101

CONDENSED CONSOLIDATED INCOME STATEMENTS

	Unaudited for the three months ended 31 Dec 2010 Rm	Unaudited for the three months ended 31 Dec 2009 Rm	Audited for the year ended 31 Dec 2010 Rm	Audited for the year ended 31 Dec 2009 Rm
Sale of goods	1 214	1 233	5 125	4 252
Revenue	1 214	1 233	5 125	4 252
Cost of sales	(1 334)	(1 004)	(5 031)	(3 578)
Gross (loss)/profit	(120)	229	94	674
Selling and distribution costs	(84)	(70)	(301)	(243)
Administrative expenses	(85)	(53)	(353)	(201)
Other operating expenses	(221)	(26)	(263)	(38)
Operating (loss)/profit	(510)	80	(823)	192
Finance costs	(12)	(11)	(49)	(61)
Finance income	7	10	36	73
(Loss)/Profit before tax	(515)	79	(836)	204
Income tax credit/(expense)	5	(21)	287	(41)
(Loss)/Profit for the period/year	(377)	58	(549)	163
	Cents	Cents	Cents	Cents
(Loss)/Earnings per share – basic and diluted	(380.2)	59.0	(553.7)	164.4

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Unaudited for the three months ended 31 Dec 2010 Rm	Unaudited for the three months ended 31 Dec 2009 Rm	Audited for the year ended 31 Dec 2010 Rm	Audited for the year ended 31 Dec 2009 Rm
(Loss)/Profit for the period/year	(377)	58	(549)	163
Other comprehensive (loss)/income:				
Exchange differences on translation of foreign operations	(17)	9	(15)	(37)
Total comprehensive (loss)/income for the period/year	(394)	67	(564)	126

HEADLINE EARNINGS PER SHARE

	Unaudited for the three months ended 31 Dec 2010 Rm	Unaudited for the three months ended 31 Dec 2009 Rm	Audited for the year ended 31 Dec 2010 Rm	Audited for the year ended 31 Dec 2009 Rm
Reconciliation of headline (loss)/earnings:				
(Loss)/Profit for the period/year	(377)	58	(549)	163
Add after tax effect of:				
Net loss on disposal and scrapping of property, plant and equipment	162	6	166	4
Headline (loss)/earnings	(215)	64	(383)	167
	Cents	Cents	Cents	Cents
(Loss)/Earnings per share – headline and diluted	(216.8)	64.6	(386.3)	168.1

Headline (loss)/earnings per share is calculated in terms of Circular 8/2007 Headline Earnings issued by the South African Institute of Chartered Accountants.

	Million	Million	Million	Million
Number of shares				
Ordinary shares in issue as at end date **	99.2	99.2	99.2	99.2

* Rounded to nearest hundred thousand.

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

Directors: B J T Shongwe (*Chairman*),
A S MacDonald (*Chief Executive Officer*) (*British*),
G C Baizini (*Italian*), M Bhabha, C B Brayshaw,
Mrs B E de Beer, A V Frolov (*Russian*), Mrs B Ngonyama,
D Scuka (*Czech*), P M Surgey, P S Tatyaniin (*Russian*) and
T I Yanbukhtin (*Russian*)

Company Secretary: Mrs C I Lewis

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CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

for the period/year ended

	Issued capital and share premium Rm	Other capital reserves Rm	Retained earnings Rm	Total Rm
2009				
Balance at 1 January 2009	585	191	2 173	2 949
Profit for the period			130	130
Other comprehensive loss for the quarter		(10)		(10)
Balance at 31 March 2009 – Reviewed	585	181	2 303	3 069
Profit for the period			16	16
Other comprehensive loss for the quarter		(35)		(35)
Balance at 30 June 2009 – Reviewed	585	146	2 319	3 050
Loss for the period			(41)	(41)
Other comprehensive loss for the quarter		(2)		(2)
Balance at 30 September 2009 – Reviewed	585	144	2 278	3 007
Profit for the period			58	58
Other comprehensive income for the quarter		9		9
Balance at 31 December 2009 – Audited	585	153	2 336	3 074
2010				
Loss for the period			(17)	(17)
Other comprehensive income for the quarter		2		2
Balance at 31 March 2010 – Reviewed	585	155	2 319	3 059
Loss for the period			(127)	(127)
Other comprehensive loss for the quarter		(2)		(2)
Balance at 30 June 2010 – Reviewed	585	153	2 192	2 930
Loss for the period			(28)	(28)
Other comprehensive income for the quarter		2		2
Balance at 30 September 2010 – Unaudited	585	155	2 164	2 904
Loss for the period			(377)	(377)
Other comprehensive loss for the quarter		(17)		(17)
Balance at 31 December 2010 – Audited	585	138	1 787	2 510
	Unaudited for the three months ended 31 Dec 2010 Rm	Unaudited for the three months ended 31 Dec 2009 Rm	Audited for the year ended 31 Dec 2010 Rm	Audited for the year ended 31 Dec 2009 Rm
Dividends per share				
Dividends declared and paid	-	-	-	-

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Unaudited for the three months ended 31 Dec 2010 Rm	Unaudited for the three months ended 31 Dec 2009 Rm	Audited for the year ended 31 Dec 2010 Rm	Audited for the year ended 31 Dec 2009 Rm
Cash flows from operating activities				
Cash from/(used in) operations before tax paid	36	(27)	(179)	104
Income tax paid	(26)	(68)	(109)	(565)
Net cash from/(used in) operating activities	10	(95)	(288)	(461)
Cash flows from investing activities				
Proceeds from disposal of discontinued operations	-	164	-	164
Net additions to property, plant and equipment	(78)	(50)	(250)	(196)
Net cash (used in)/from investing activities	(78)	114	(250)	(32)
Net (decrease)/increase in cash and cash equivalents	(68)	19	(538)	(493)
Cash and cash equivalents at the beginning of the period/year	575	1 058	1 072	1 601
Effects of exchange rate changes on cash held in foreign currencies	(15)	(5)	(42)	(36)
Cash and cash equivalents at the end of the period/year	492	1 072	492	1 072

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Companies Act and JSE Limited Listings Requirements

Compliance with the Companies Act, No. 61 of 1973, 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 S.A. (a fellow subsidiary of Mastercroft Limited) amounted to R895 million (2009: R490 million) for the twelve months ended 31 December 2010. This constitutes 17% of total revenue for the year, compared to 11% for the year ended 31 December 2009.

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 at zero cost, which then forms the input into the business of 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 31 Dec 2010 Rm	Unaudited for the three months ended 31 Dec 2009 Rm	Audited for the year ended 31 Dec 2010 Rm	Audited for the year ended 31 Dec 2009 Rm
Revenue from the sale of goods				
Steelworks	799	943	3 612	3 208
Vanadium	415	290	1 513	1 044
Total	1 214	1 233	5 125	4 252

	Unaudited for the three months ended 31 Dec 2010 Rm	Unaudited for the three months ended 31 Dec 2009 Rm	Audited for the year ended 31 Dec 2010 Rm	Audited for the year ended 31 Dec 2009 Rm
Operating (loss)/profit				
Steelworks	(559)	(64)	(1 220)	1
Vanadium	49	144	397	191
Total	(510)	80	(823)	192
Total assets				
Steelworks	3 340	3 996		
Vanadium	723	899		
Total	4 063	4 895		

4. Supplementary revenue information – Unaudited

	For the three months ended 31 Dec 2010	For the three months ended 31 Dec 2009	For the year ended 31 Dec 2010	For the year ended 31 Dec 2009
Sales volumes of major products				
Total steel	158 315	158 536	610 602	580 943
Ferrovanadium	1 153	1 360	5 488	4 884
Modified Vanadium Oxide	421	-	468	-
Vanadium slag	-	810	2 102	810
Fines ore	167 610	158 906	623 928	519 578
Weighted average selling prices achieved for major products				
Total steel	663	756	715	621
Ferrovanadium	28	23	27	23
Modified Vanadium Oxide	21	-	20	-
Vanadium slag	-	6	6	5
Fines ore	37	19	38	24
Average R/\$ exchange rate	6.91	7.51	7.32	8.43

5. Income tax

	Unaudited for the three months ended 31 Dec 2010 Rm	Unaudited for the three months ended 31 Dec 2009 Rm	Audited for the year ended 31 Dec 2010 Rm	Audited for the year ended 31 Dec 2009 Rm
South African				
<i>Normal</i>				
Current	-	(16)	-	2
Prior year over provision	1	-	1	-
<i>Deferred</i>				
Current	(159)	23	(318)	23
Prior year under provision	21	10	21	10
Non-South African				
<i>Normal</i>				
Current	(1)	4	9	6
Income tax (credit)/expense	(138)	21	(287)	41

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

6. Financial ratios – Unaudited

	2.36 8 279	2.72 6 394	2.36 8 279	2.72 6 394
Current ratio				
Market capitalisation – Rm				

7. Impairment of channel induction furnace

In the fourth quarter of 2010 the Board resolved to impair, in its present condition, the channel induction furnace resulting in a write-off of the book value of R230 million in terms of accounting principles. This furnace was originally intended for superheating blown metal after the shaking ladle and to melt extra scrap in the Steel Plant. After two major breakdowns it was concluded that the furnace is most probably not fit for purpose. The Company has placed the supplier on terms, in that the supplier must produce a furnace that is fit for the purpose of the channel induction furnace within a reasonable time.

8. Inventories

The amount of write-down of inventories due to net realisable value provision requirement is R178 million (2009: R101 million) (Work-in-Progress R92 million (2009: R76 million) and finished goods R86 million (2009: R25 million)).

9. Contingent liabilities and guarantees

As required by the Mineral and Petroleum Resources Development Act, a guarantee amounting to R264 million before tax and R190 million after tax (2009: R235 million before tax and R169 million after tax) was issued in favour of the DMR for the unscheduled closure of Mapochs Mine.

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 R32 million before tax and R23 million after tax (2009: R39 million before tax and R28 million after tax).

As required by certain suppliers of the Company, guarantees were issued in favour of these suppliers to the value of R9 million (2009: R8 million) in the event that the Company will not be able to meet its obligations to the suppliers.

10. Status of previously reported possible litigation

A new summons was received on 13 May 2010 from the Competition Commission relating to a complaint referring to price fixing allegations of flat products. A comprehensive response with requested documentation was compiled and submitted to the Commission on 5 July 2010. No further response has been received from the Commission.

A summons was received on 3 March 2010 from Xai-Xai Slag Distributors (Proprietary) Limited and Rothinvest 30 (Proprietary) Limited t/a Xai-Xai Slag Management (in liquidation). The Company brought an application for exception, which was heard on 14 February 2011. The judgement is awaited.