EVRAZ

EVRAZ HIGHVELD STEEL AND VANADIUM

EVRAZ Highveld Steel and Vanadium Limited
(Incorporated in the Republic of South Africa)
(Registration No: 1960/001900/06)
Share code: EHS ISIN: ZAE000146171
("the Company" or "the Group")

GROUP UNAUDITED RESULTS
for the six months ended 30 June 2014

- Net loss R302 million (June YTD 2013: loss R10 million)
- EBITDA loss R134 million (June YTD 2013: profit R199 million)
- Appointment of the Chairman of the Board and change in directorate

Chairman and CEO's review

1. Safety

EVRAZ Highveld Lost Time Injuries (LTI) increased by 22% to 11% in H1 2014 from 9% in H1 2013, whilst its progressive Lost Time Injury Frequency Rate (LTIFR) increased 14% to 2.21 in H1 2014 from 1.94 in H1 2013. The LTIFR improved by 20% to 1.96 in Q2 2014 from 2.46 in Q1 2014.

Safety is a high priority for the Company and any safety concerns will continue to be addressed.

2. Key Financials

The operating loss for H1 2014 was R271 million, compared to a profit of R49 million for H1 2013, mainly attributed to a lower equipment availability and poor steel plant and structural mill yields. The Company increased its maintenance costs to R261 million in H1 2014 from R166 million in 2013 to improve operational performance. The EBITDA for the period was a negative of R134 million, compared to a R199 million profit for the same period in 2013. During the first half of 2014 sales revenue of R3 199 million was up by 12% and reflected higher average market prices compared to the first half of 2013.

Revenue from sale of goods increased to R3 195 million, compared to R2 864 million for H1 2013. This increase in revenue is as a result of favourable steel product pricing.

There is visible change in the market purchasing trends from imports to domestic supply, combined with notable progress towards production improvement and labour stability. The Company continues to utilise a credit line from shareholders that is committed to 31 December 2014. Significant progress has, consequently, been made to secure commercial funding.

The financial statements are prepared on the basis of accounting policies applicable to a going concern. The Board believes that the Company remains a going concern, taking cognisance of any matters that may cast doubt about the ability of the Company to continue as a going concern and its ability to realise its assets and discharge its liabilities in the ordinary course of business.

3. Operations

Mining

Production of lump ore decreased by 7% to 700 011 tons for H1 2014 compared to 754 566 tons for H1 2013, and fines ore decreased by 5% to 334 964 tons from 352 683 tons for the six-month period. Output suffered as a result of plant shut down for major repairs during the course of H1 2014.

In addition to the strip mining operations, commercial pit mining has also commenced in the second quarter of 2014.

Steel

Iron output increased by 3% to 343 664 tons for the period compared to H1 2013, mainly due to improved Ironmaking furnace and kiln availability. Steel output decreased by 5% to 319 197 tons in H1 2014 from 334 560 tons in H1 2013, as a result of operational challenges incurred on the slab caster and the basic oxygen furnaces.

Production of long products increased by 6% to 103 176 tons during H1 2014, compared to 96 880 for H1 2013, mostly due to an improved order book and supply of cast steel to the mill. Production of flat products increased by 4% to 168 514 tons from 161 518, mainly as a result of improved availability of equipment and successful reduction of semi-finished cast steel stock.

Kiln operational stability was compromised in the first quarter due to unusually wet weather conditions, resulting in higher kilowatt/hour per ton electricity consumption in the plant. This condition improved in the second quarter.

Vanadium

A total of 26 296 tons of vanadium slag was produced containing 3 332 tons V for H1 2014, compared to 26 283 tons slag containing 3 539 tons V for H1 2013.

4. Markets

Global and local markets

The global economy remained weak throughout H1 2014 and has not reached the required levels of growth needed to support a strong overall recovery in steel demand. There are some positive data received from the United States and Europe that predicts a likely global steel demand increase by 3.1% to 1 475 Mt in 2014.

Following the platinum industry strikes, South African GDP forecasts for 2014 have been revised to 1.7% from 2.4%. The trend of the weak Rand in H1 2014 has continued to drive the change in market purchasing trends from imports to domestic supply during this period.

EVRAZ Highveld sales

Steel sales volumes increased by 6% to 283 522 tons in H1 2014 from 266 896 tons in H1 2013.

The five-month platinum industry strike had a marked effect on steel consumption in the South African market and as such domestic steel sales decreased by 13% from 264 295 to 230 841 tons for the period, while export steel sales volumes increased to 52 681 tons for the six months against 2 601 tons for H1 2013.

Ferrovanadium sales for H1 2014 increased by 10% to 2 608 tons V compared to 2 375 tons V for H1 2013. Total vanadium slag sales were 375 tons V for H1 2014, compared to 192 tons V for H1 2013.

5. Sale of the majority shareholding in the Company

The cautionary announcement regarding the pending sale of the majority shareholding was withdrawn on 13 August 2014 with the SENS announcement that declared the signing of an agreement to sell 34% of the issued share capital in the Company held by EVRAZ to Macrovest 147 Proprietary Limited ("Macrovest") for ZAR 289 million (equivalent of USD 27 million as of 12 August 2014). As a result of the transaction, EVRAZ will remain a 51% shareholder of the Company.

6. Changes in directorate

The Company has announced the appointment of Mr Barend Petersen as non-executive director and Chairman of the Board, with effect from 19 August 2014. He replaces Mr Bheki Shongwe who resigned as independent non-executive director and Chairman from the Board with effect from 19 August 2014. Mr Mohammed Bhabha was elected lead independent director of the Board with effect from 25 September 2014.

Mr Johan Burger was appointed as executive director of the Board with effect from 19 August 2014 and as Chief Executive Officer of the Company with effect from 1 October 2014, following on the resignation of Mr Jan Valenta as executive director from the Board and Chief Executive Officer, with effect from 30 September 2014; and the appointment of Mr Valery Borisov as executive director of the Board and Chief Financial Officer of the Company with effect from 1 October 2014, following on the resignation of Ms Olga Luzik as executive director from the Board and Chief Financial Officer, with effect from 1 October 2014.

Mr Andrew Maralack was appointed as non-executive director of the Board, with effect from 19 August 2014.

Mrs Babalwa Ngonyama resigned as independent non-executive director from the Board and Chairman of the Audit and Risk Committee and Messrs Giacomo Baizini and Vusi Nkosi resigned as non-executive directors from the Board with effect from 19 August 2014.

On 25 September 2014 Mr Barend Petersen was elected Chairman of the Social and Ethics Committee, whilst Mr Thabo Mosololi was appointed as member of this committee.

Mr Petersen was also appointed as member of the Remuneration and Nominations Committee with effect from 25 September 2014.

Mr Dimitrij Ščuka was appointed as member of the Audit and Risk Committee and Mr Thabo Mosololi was elected as Chairman of this committee with effect from 25 September 2014.

7. Outlook

The industrial action in the platinum and more recently the engineering and metals industries will negatively affect sales to the domestic market in the short term and revenue will be under pressure in H2 2014 as a result. Given the low GDP growth forecast for the local economy and the slow pace of implementation of the government infrastructure spending programme, the domestic steel industry is not expected to expand significantly in the near future. The industry will be further pressurised by a volatile labour market, notable energy tariff increases and electricity supply concerns.

Global steel markets will remain under pressure for the remainder of 2014 as the market struggles with overcapacity and supply, prices are predicted to remain static and a market recovery in global steel demand is not expected during the remainder of 2014.

The Department of Trade and Industry's declaration of steel as a designated commodity for local procurement may provide some relief to the pressure in the market and may give rise to favourable market opportunities for the Company.

B Petersen
(Chairman)

J Valenta
(Chief Executive Officer)

29 September 2014

Basis of preparation

The Group's (Group includes all consolidated entities) financial results for the half year ended 30 June 2014 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.

The unaudited financial statements were prepared under the going concern basis.

The Group incurred a net loss for H1 2014 of R302 million, (H1 2013: loss R10 million).

There is visible change in the market purchasing trends from imports to domestic supply, combined with notable progress towards production improvement and labour stability. The Company continues to utilise a credit line from shareholders that is committed to 31 December 2014. Significant progress has, consequently, been made to secure commercial funding.

The financial statements are prepared on the basis of accounting policies applicable to a going concern. The Board believes that the Company remains a going concern, taking cognisance of any matters that may cast doubt about the ability of the Company to continue as a going concern and its ability to realise its assets and discharge its liabilities in the ordinary course of business.

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 2014. These Standards had no impact on the results or disclosures of the Group.

- IAS 32, Amended – *Offsetting financial assets and financial liabilities* (effective from 1 January 2014);
- IFRS 10, IFRS 12 and IAS 27, Amended – *Investment entities* (effective from 1 January 2014);
- IFRIC 21, *Levies* (effective from 1 January 2014);
- IAS 36, Amended – *Recoverable amount disclosures for non-financial assets* (effective from 1 January 2014); and
- IAS 39, Amended – *Novation of derivatives and continuation of hedge accounting (effective from 1 January 2014).*

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

- IFRS 9, *Financial instruments – classification and measurement* (1 January 2015 effective date has been deferred until the issue date of the completed version of IFRS 9 is known);
- IFRS 9 and IFRS 7, Amended – *Mandatory effective date and transition disclosures* (IFRS 9 effective date deferred, IFRS 7 depends on when IFRS 9 is adopted);
- IFRS 14, *Regulatory deferral accounts* (effective from 1 January 2016);
- IAS 19, Amended – *Defined benefit plans: employee contributions* (effective from 1 July 2014); and
- Improvements to IFRS – issued December 2013 (effective from 1 July 2014).

This abridged report was prepared under supervision of the Chief Financial Officer, Ms Olga Luzik (Chartered Accountant).

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	Unaudited as at 30 Jun 2014 Rm	Reviewed as at 31 Dec 2013 Rm
ASSETS			
Non-current assets		**1 666**	1 723
Property, plant and equipment		**1 563**	1 621
Restricted cash	14	**41**	40
Deferred tax asset	5	**62**	62
Current assets		**2 072**	1 865
Inventories		**841**	1 059
Trade and other receivables and prepayments	6	**896**	522
Income tax receivable		**–**	2
Cash and short-term deposits		**335**	282
TOTAL ASSETS		**3 738**	3 588
EQUITY AND LIABILITIES			
Total equity		**1 169**	1 461
Non-current liabilities		**773**	757
Interest-bearing loans and borrowings	7	**11**	11
Provisions		**762**	746
Current liabilities		**1 796**	1 370
Trade and other payables		**1 354**	935
Interest-bearing loans and borrowings	7	**311**	304
Income tax payable		**4**	–
Provisions		**127**	131
TOTAL EQUITY AND LIABILITIES		**3 738**	3 588
Net cash		**54**	7
Net asset value – cents per share		**1 179**	1 474

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	**Unaudited for the three months ended 30 Jun 2014 Rm**	Unaudited for the three months ended 30 Jun 2013 Rm	**Unaudited for the six months ended 30 Jun 2014 Rm**	Unaudited for the six months ended 30 Jun 2013 Rm	**Reviewed for the year ended 31 Dec 2013 Rm**
Revenue		**1 645**	1 452	**3 199**	2 866	**5 192**
Sale of goods		**1 643**	1 451	**3 195**	2 864	**5 190**
Cost of sales		**(1 694)**	(1 337)	**(3 172)**	(2 581)	**(4 990)**
Gross (loss)/profit	8	**(51)**	114	**23**	283	**200**
Other operating income	9	**11**	15	**24**	26	**77**
Selling and distribution costs		**(85)**	(63)	**(164)**	(127)	**(273)**
Administrative expenses		**(57)**	(61)	**(132)**	(122)	**(242)**
Other operating expenses		**–**	(6)	**(22)**	(11)	**(55)**
Operating (loss)/profit		**(182)**	(1)	**(271)**	49	**(293)**
Finance costs		**(14)**	(18)	**(28)**	(37)	**(69)**
Finance income		**2**	1	**4**	2	**2**
(Loss)/profit before tax		**(194)**	(18)	**(295)**	14	**(360)**
Income tax expense	10	**(3)**	(22)	**(7)**	(24)	**(19)**
Loss for the period/year		**(197)**	(40)	**(302)**	(10)	**(379)**
		Cents	Cents	**Cents**	Cents	**Cents**
Loss per share – basic and diluted		**(198.3)**	(40.2)	**(305.0)**	(10.0)	**(382.2)**

Directors: B Petersen *(Chairman)*, J Valenta *(Chief Executive Officer) (Czech)*, M Bhabha, IJ Burger, Ms O Luzik *(Russian)*, AP Maralack, T Mosololi, D Ščuka *(Czech)*, PS Tatyanin *(Russian)*, TI Yanbukhtin *(Russian)*.

Company Secretary: Ms A Weststrate

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited for the three months ended 30 Jun 2014 Rm	Unaudited for the three months ended 30 Jun 2013 Rm	**Unaudited for the six months ended 30 Jun 2014 Rm**	Unaudited for the six months ended 30 Jun 2013 Rm	**Reviewed for the year ended 31 Dec 2013 Rm**
Loss for the period/year	**(197)**	(40)	**(302)**	(10)	**(379)**
Other comprehensive income:					
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:					
Exchange differences on translation of foreign operations	**(6)**	41	**2**	88	**104**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:					
Actuarial gain on defined benefit plan, net of tax	**–**	–	**–**	–	**12**
Total comprehensive (loss)/income for the period/year	**(203)**	1	**(300)**	78	**(263)**
	Cents	Cents	**Cents**	Cents	**Cents**
Comprehensive (loss)/income per share – basic and diluted	**(204.7)**	1.1	**(302.6)**	78.8	**(265.3)**

HEADLINE LOSS PER SHARE

	Unaudited for the three months ended 30 Jun 2014 Rm	Unaudited for the three months ended 30 Jun 2013 Rm	**Unaudited for the six months ended 30 Jun 2014 Rm**	Unaudited for the six months ended 30 Jun 2013 Rm	**Reviewed for the year ended 31 Dec 2013 Rm**
Reconciliation of headline loss					
Loss for the period/year	**(197)**	(40)	**(302)**	(10)	**(379)**
(Deduct)/add after tax effect of:					
(Profit)/loss on disposal and scrapping of property, plant and equipment	**(*)**	*	*****	*	**5**
Headline loss	**(197)**	(40)	**(302)**	(10)	**(374)**
** Less than R1 million.*					
	Cents	Cents	**Cents**	Cents	**Cents**
Loss per share – headline and diluted	**(198.7)**	(40.2)	**(304.6)**	(10.0)	**(377.2)**
	Million	Million	**Million**	Million	**Million**
Number of shares					
Ordinary shares in issue as at reporting 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.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	**Issued capital and share premium Rm**	**Other reserves Rm**	**Retained earnings Rm**	**Total Rm**
2013					
Balance at 1 January 2013 – Reviewed#		585	264	860	1 709
Profit for the period				30	30
Other comprehensive income for the quarter			47		47
Share-based payment reserve	11		3		3
Balance at 31 March 2013 – Unaudited		**585**	**314**	**890**	**1 789**
Loss for the period				(40)	(40)
Other comprehensive income for the quarter			41		41
Share-based payment reserve	11		3		3
Balance at 30 June 2013 – Unaudited		**585**	**358**	**850**	**1 793**
Loss for the period				(212)	(212)
Other comprehensive income for the quarter			17		17
Share-based payment reserve	11		3		3
Balance at 30 September 2013 – Unaudited		**585**	**378**	**638**	**1 601**
Loss for the period				(157)	(157)
Other comprehensive loss for the quarter			(1)		(1)
Actuarial gain on defined benefit plan				12	12
Share-based payment reserve	11		6		6
Balance at 31 December 2013 – Reviewed		**585**	**383**	**493**	**1 461**
2014					
Balance at 1 January 2014 – Reviewed		**585**	**383**	**493**	**1 461**
Loss for the period				**(105)**	**(105)**
Other comprehensive income for the quarter			**8**		**8**
Share-based payment reserve	11		**4**		**4**
Balance at 31 March 2014 – Unaudited		**585**	**395**	**388**	**1 368**
Loss for the period				**(197)**	**(197)**
Other comprehensive loss for the quarter			**(6)**		**(6)**
Share-based payment reserve	11		**4**		**4**
Balance at 30 June 2014 – Unaudited		**585**	**393**	**191**	**1 169**

 # Restated.

	Unaudited for the three months ended 30 Jun 2014 Cents	Unaudited for the three months ended 30 Jun 2013 Cents	**Unaudited for the six months ended 30 Jun 2014 Cents**	Unaudited for the six months ended 30 Jun 2013 Cents	**Reviewed for the year ended 31 Dec 2013 Cents**
Dividends per share					
Dividends declared and paid	**–**	–	**–**	–	**–**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited for the three months ended 30 Jun 2014 Rm	Unaudited for the three months ended 30 Jun 2013 Rm	**Unaudited for the six months ended 30 Jun 2014 Rm**	Unaudited for the six months ended 30 Jun 2013 Rm	**Reviewed for the year ended 31 Dec 2013 Rm**
Cash flows from operating activities					
(Loss)/profit before tax	**(194)**	(18)	**(295)**	14	**(360)**
Non-cash items	**158**	55	**275**	140	**419**
Net movement in working capital	**255**	8	**168**	(329)	**(385)**
Net interest received/(paid)	**1**	(2)	**3**	(15)	**(28)**
Income tax paid	**–**	(1)	**(1)**	(2)	**(4)**
Net cash generated by/(used in) operating activities	**220**	42	**150**	(192)	**(358)**
Cash flows from investing activities					
Proceeds from sale and scrapping of property, plant and equipment	*****	1	**1**	1	**3**
Additions to property, plant and equipment	**(26)**	(30)	**(97)**	(68)	**(140)**
Net cash used in investing activities	**(26)**	(29)	**(96)**	(67)	**(137)**
Cash flows from financing activities					
(Decrease)/increase in long-term interest-bearing loans and borrowings	**–**	–	**–**	–	**(6)**
(Decrease)/increase in short-term interest-bearing loans and borrowings	**–**	(17)	**–**	283	**204**
Net cash (repaid)/generated by financing activities	**–**	(17)	**–**	283	**198**
Net increase/(decrease) in cash and cash equivalents	**194**	(4)	**54**	24	**(297)**
Cash and cash equivalents at the beginning of the period/year	**143**	583	**282**	527	**527**
Cash transferred to restricted cash	**(1)**	–	**(1)**	–	**(40)**
Effects of exchange rate changes on cash held in foreign currencies	**(1)**	51	*****	79	**92**
Cash and cash equivalents at the end of the period/year	**335**	630	**335**	630	**282**

** Less than R1 million.*

NOTES TO THE CONDENSED 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 R238 million (June 2013 YTD: R111 million) for the six months ended 30 June 2014. This constitutes 7% of total revenue for the period, compared to 4% for the period ended 30 June 2013. During 2013 a loan was received from East Metals A.G., a related party, amounting to R311 million (December 2013: R304 million) which is repayable by 31 December 2014 and interest is charged at market rate. Technical services (slag tolling agreement) and other services with EVRAZ Vametco Alloys Proprietary Limited (a fellow subsidiary) amounted to R31 million for the six months ended 30 June 2014 (June 2013 YTD: R48 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 by-product from the steelmaking process, and this slag is transferred from the steelworks to the vanadium plant, 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 (loss)/profit and total assets information regarding the Group's operating segments:

	Unaudited for the three months ended 30 Jun 2014 Rm	Unaudited for the three months ended 30 Jun 2013 Rm	**Unaudited for the six months ended 30 Jun 2014 Rm**	Unaudited for the six months ended 30 Jun 2013 Rm	**Reviewed for the year ended 31 Dec 2013 Rm**
Revenue from customers					
Steelworks	**1 314**	1 104	**2 484**	2 220	**4 022**
Vanadium	**430**	431	**896**	803	**1 487**
Elimination in intersegmental revenue	**(101)**	(84)	**(185)**	(159)	**(319)**
Total	**1 643**	1 451	**3 195**	2 864	**5 190**

	Unaudited for the three months ended 30 Jun 2014 Rm	Unaudited for the three months ended 30 Jun 2013 Rm	**Unaudited for the six months ended 30 Jun 2014 Rm**	Unaudited for the six months ended 30 Jun 2013 Rm	**Reviewed for the year ended 31 Dec 2013 Rm**
Operating (loss)/profit					
Steelworks	**(242)**	(54)	**(395)**	(91)	**(545)**
Vanadium	**60**	53	**124**	140	**252**
Total	**(182)**	(1)	**(271)**	49	**(293)**

	Unaudited as at 30 Jun 2014 Rm	Reviewed as at 31 Dec 2013 Rm
Total assets		
Steelworks	**3 327**	3 143
Vanadium	**411**	445
Total	**3 738**	3 588

4. Supplementary revenue information – Unaudited

		For the three months ended 30 Jun 2014	For the three months ended 30 Jun 2013	**For the six months ended 30 Jun 2014**	For the six months ended 30 Jun 2013	**For the year ended 31 Dec 2013**
Sales volumes of major products						
Total steel	Tons	**145 315**	131 384	**283 522**	266 896	**486 706**
Ferrovanadium	Tons V	**1 238**	1 291	**2 608**	2 375	**4 827**
Modified vanadium oxide	Tons V	**32**	85	**52**	85	**143**
Nitrovan	Tons V	**136**	127	**331**	351	**398**
Vanadium slag	Tons V	**285**	88	**375**	192	**386**
Ore fines	Tons	**201 584**	168 352	**336 856**	352 322	**650 418**
Weighted average selling prices achieved for major products						
Total steel	US$/t	**680**	752	**663**	757	**718**
Ferrovanadium	US$/kg V	**25**	27	**25**	28	**27**
Modified vanadium oxide	US$/kg V	**19**	20	**25**	21	**19**
Nitrovan	US$/kg V	**25**	29	**25**	29	**28**
Vanadium slag	US$/kg V	**8**	10	**8**	10	**9**
Ore fines	US$/t	**25**	32	**23**	38	**30**
Average R/$ exchange rate		**10.54**	9.49	**10,70**	9,22	**9,65**

5. Deferred tax asset

In light of the Company's own financial performance and the uncertainty of future taxable profits to account against its deferred tax asset, management concluded, following due assessment, that it was prudent to impair its deferred tax asset as at 31 December 2013 (R195 million) to the extent that it exceeded the deferred taxation liability. Whilst the taxable income forecast for the Company is based on its most favourable outlook scenario, the current assessed tax loss implies that it will take many years before the Company is in a position to utilise the tax assets as at 31 December 2013. Following the impairment, a zero balance for deferred taxation is disclosed for the Company. No reversal of the 2012 impairment was considered necessary as at 31 December 2013. The deferred tax asset position remained the same at 30 June 2014 as at 31 December 2013.

6. Trade and other receivables and pre-payments

The increase in comparison to 31 December 2013 can mainly be attributed to increased sales volumes on local steel, improved production and an increase in MVO/Nitrovan sales.

7. Interest-bearing loans and borrowings

The long-term borrowings of R11 million (2013: R11 million) consist of the loan due by Umnotho Iron and Vanadium Proprietary Limited payable to Umnotho weSizwe Group Proprietary Limited. This loan has no fixed repayment terms and interest is charged at prime rate. The short-term borrowings consists of a Dollar-denominated loan from East Metals A.G. (a related party) which is payable by 31 December 2014, and carries interest at market rate.

8. Gross (loss)/profit

The decline in gross profit is mainly attributable to higher production costs in H1 2014, driven largely by an increase in maintenance spend. A significant increase in export sales volumes in H1 2014 compared to H1 2013 also contributed to the lower gross profit, as export sales attract a lower margin compared to local sales.

9. Other operating income and expenses

The R11 million other operating income for the three months ended 30 June 2014 includes mainly sundry income of R4 million and reversal of bad debts provision of R1 million. The Q2 2013 other operating income of R15 million includes sundry sales of R3 million and inventory stock count and inventory net realisable value adjustments of R12 million.

10. Income tax

	Unaudited for the three months ended 30 Jun 2014 Rm	Unaudited for the three months ended 30 Jun 2013 Rm	**Unaudited for the six months ended 30 Jun 2014 Rm**	Unaudited for the six months ended 30 Jun 2013 Rm	**Reviewed for the year ended 31 Dec 2013 Rm**
South African					
Deferred					
Current	**–**	14	**–**	14	**18**
Non-South African					
Normal					
Current	**3**	8	**7**	10	**1**
Income tax expense	**3**	22	**7**	24	**19**

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.

11. Share-based payment reserve

Certain key management personnel participate in a Long Term Incentive Plan (LTIP) over shares in EVRAZ plc. The shares are traded on the London Stock Exchange. The vesting of the shares occur on the 90th day following the announcement of EVRAZ plc financial results. The cost of the LTIP award will be settled in equity by EVRAZ plc. The amount recognised according to IFRS 2 in H1 2014 is R8 million (2013: R15 million).

12. Guarantees

As required by the Mineral and Petroleum Resources Development Act, a guarantee amounting to R370 million (2013: R370 million) was issued on 1 September 2013 in favour of the Department of Mineral Resources (DMR) for the unscheduled closure of Mapochs Mine.

As required by certain suppliers of the Group, guarantees were issued in favour of these suppliers to the value of R8 million (2013: R8 million) in the event the Group will not be able to meet its obligations to the suppliers.

13. Contingent liabilities

In terms of the Group'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 for the Group, as at 31 December 2013, should they become medical scheme members in the future is R14 million before tax and R10 million after tax.

On 5 June 2008, the Commission initiated a complaint against the Company for an alleged contravention of section 4(1)(b)(i) of the Competition Act, No. 89 of 1998 (the Competition Act). The allegations against the Company are that it fixed prices and trading conditions for flat and long steel products. In a letter from the Commission dated 18 September 2009, the Commission confirmed that it would not be pursuing a case of collusion in the long steel market against the Company. On 30 March 2012 the Commission referred the complaints relating to the flat steel market to the Competition Tribunal for prosecution. The allegations against the Company contained in the Commission's complaint referral are that the Company fixed prices and trading conditions for flat steel products, and divided markets in respect of flat steel products, which are contraventions of sections 4(1)(b)(i) and 4(1)(b)(ii) of the Competition Act respectively. It is further alleged in the Commission's complaint referral that the Company has contravened sections 4(1)(b)(i) and 4(1)(b)(ii), alternatively section 4(1)(a), of the Competition Act by engaging in the exchange of information with a competitor through information exchanges and meetings of the SAISI or its committees. Should the Competition Commission be successful, it could impose a maximum penalty of R554 million against the Company.

14. Restricted cash

The restricted cash disclosed as a non-current asset consist of R33 million paid to an insurance company as guarantee to the DMR for the Mapochs environmental rehabilitation obligation. An amount of R8 million is deposited with a commercial bank as security for guarantees issued to two supplier companies. Interest on both amounts are earned at money market rates.

15. Subsequent events

There are no events to be reported on since 30 June 2014.