



MATUSON

ASSOCIATES



MAZARS

**EVRAZ HIGHVELD STEEL AND VANADIUM
LIMITED ("HIGHVELD")
FIRST MEETING OF CREDITORS**

DATE: 30/04/2015

EVRAZ HIGHVELD STEEL AND VANADIUM LTD BUSINESS RESCUE FIRST CREDITORS' MEETING



Agenda

- Welcome
- The Business Rescue Process
- Business Rescue Timeline
- Background and Prospects (TAP)
- Financial Position
- Actions to Date
- Liquidation vs Business Rescue
- The Way Forward
- Opinion by Practitioners
- Proof of Claims
- Creditors' Committee

BUSINESS RESCUE PROCESS (“BRP”)



The Directors signed and filed a Resolution placing the Company into Business Rescue on 13 April 2015, which resolution was confirmed by the CIPC on the 14 April 2015.

About Business Rescue:

- The New Companies Act of 2008 became effective 1 May 2011
- Business Rescue is a relatively untested process in South Africa
- There is limited case law and precedent
- Business Rescue involves proceedings to facilitate the rehabilitation of a company that is financially distressed by providing for –
 - the temporary supervision of the company, and of the management of its affairs, business and property;
 - a temporary moratorium on the rights of claimants against the company or in respect of property in its possession.

BUSINESS RESCUE PROCESS (“BRP”)



The Primary objective of Business Rescue

- The development and implementation of a plan that:
 - Either
 - A) Rescues the company by restructuring its debt and equity in a manner that maximizes the likelihood of the company continuing its existence on a solvent basis.
 - Or
 - B) If that is not possible, results in a better return for the company’s creditors or shareholders than would result from the immediate liquidation of the company.

BUSINESS RESCUE PROCESS (“BRP”)

The appointment of the Joint Business Rescue Practitioners

Piers Marsden and Daniel Terblanche were appointed as the Joint Business Rescue Practitioners and the appointments were confirmed by the CIPC on 15 April 2015.

- In terms of the Act, the Practitioners are required to notify all Affected Parties of their appointment within five business days and convene a meeting of all Affected Parties within ten business days.
- The main objectives of today’s meeting are as follows:
 - The Joint Business Rescue Practitioners need to express an opinion as to whether they believe there is a reasonable prospect of Business Rescue being successful
 - Appointment of a Creditors’ Committee
 - Receipt of claims from Creditors

BUSINESS RESCUE TIMELINE



Key Dates:

- | | |
|---|----------------------|
| 1. Resolution Signed | 13 April 2015 |
| 2. Commencement of Business Rescue Proceedings | 13 April 2015 |
| 3. Appointment of Joint Practitioners | 15 April 2015 |
| 4. First Meeting of Employees | 29 April 2015 |
| 5. First Meeting of Creditors | 30 April 2015 |
| 6. Publish the Business Rescue Plan | by 22 May 2015 |
| 7. Meeting to Consider the Business Rescue Plan | 5-10 days thereafter |

HIGHVELD IS OF NATIONAL IMPORTANCE TO SA

PROMOTING EMPLOYMENT & SKILLS DEVELOPMENT

- ✓ Turns an environmental liability into jobs and value creation, extracting titanium from worlds largest titanium dump
- ✓ Highveld has a fully accredited apprentice training centre
 - up to 200 apprentices can be trained at any time
 - annually awards between 10 and 20 graduate level bursaries in engineering and metallurgy and around 20 technician level bursaries

PLAYING A KEY PART IN COMMUNITY UPLIFTMENT

- ✓ Highveld spent R788m during 2014 in eMalahleni
- ✓ Turns an environmental liability into jobs and value creation- extracting titanium from world's largest titanium dump
- ✓ Mapochs spent R297m during 2014 on the Roossenekal community

A SOUTH AFRICAN BENEFICIATION STORY

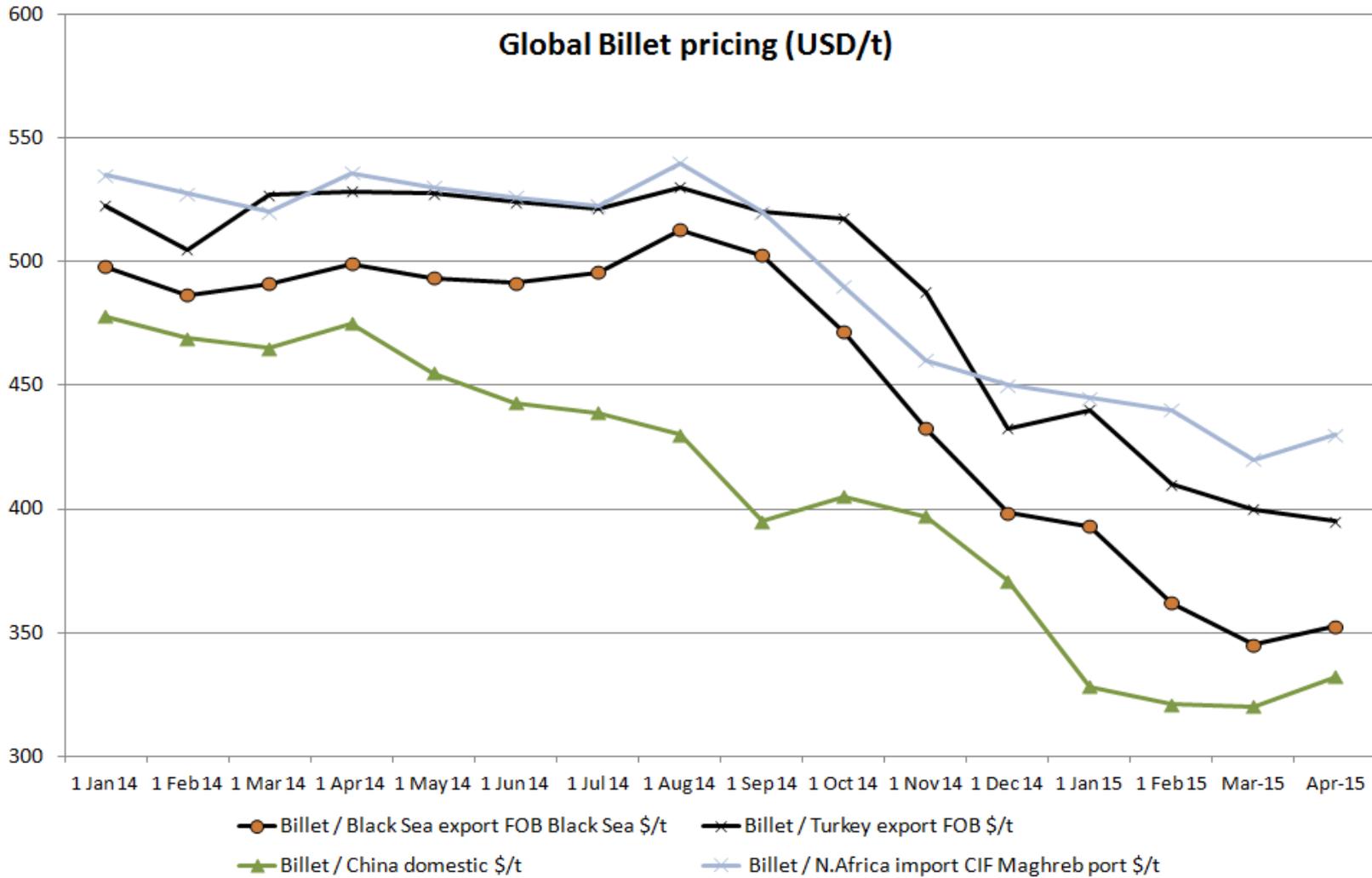
- ✓ Converts South African minerals into South African products
- ✓ Foreign exchange savings from vanadium sales
- ✓ Supplier of 40% unique structural steel- heavy construction products
- ✓ Producer of 15% of global vanadium
- ✓ The only steelmaker in the world that has the technology and infrastructure to economically beneficiate the magnetite rich Bushveld Igneous Complex which by far is the largest Iron ore resource left in SA
- ✓ Significant progress has been made with the developing of a business plan to produce rail tracks as Highveld is most ideally positioned to produce rail tracks in South Africa, resulting in the creation of high skill job opportunities

Employees per year	<u>2014</u>	<u>2013</u>	<u>2012</u>
Steelworks	2 233	2 113	2 095
Mapochs	144	143	148
Contractors	1 400	1 400	1 400
Total	3 777	3 656	3 645

- Employer of approximately –
 - 2 243 permanent employees
 - 1 400 contractors
 - stimulating the Nkangala District economy
- Converter of South African mined iron ore and coal into steel and vanadium slag as a valuable by-product
- The only producer of heavy structural steel in South Africa and one of only five in the world
 - Close to 40% of Highveld's product range is unique structural steel products
- Highveld is hedged against market volatility of it's primary raw material input cost, iron ore, mined at it's Mapochs iron ore mine. This will be of critical importance when the inevitable upswing in the commodity cycle returns

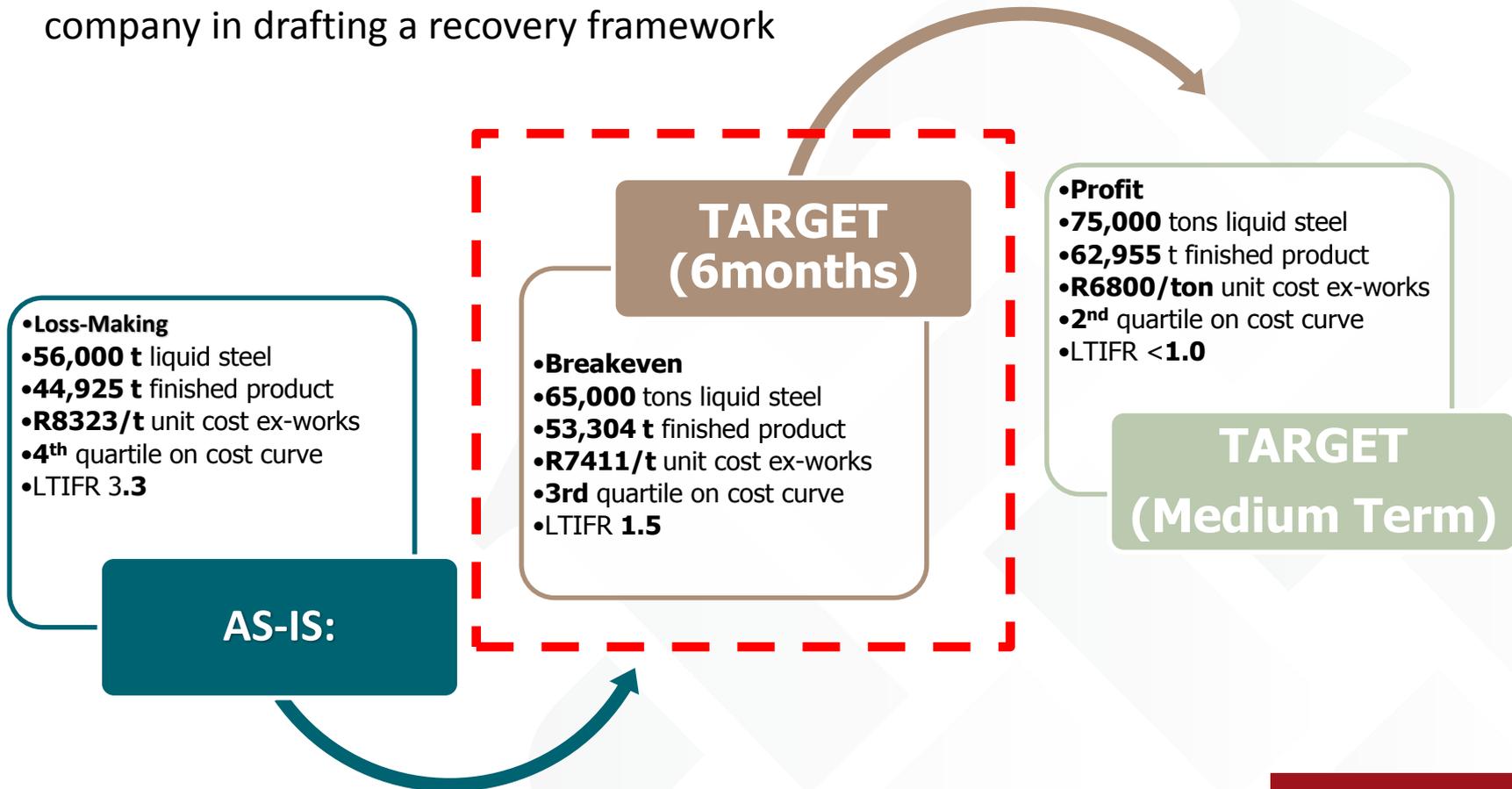
KEY MARKET TRENDS

Global Billet pricing (USD/t)



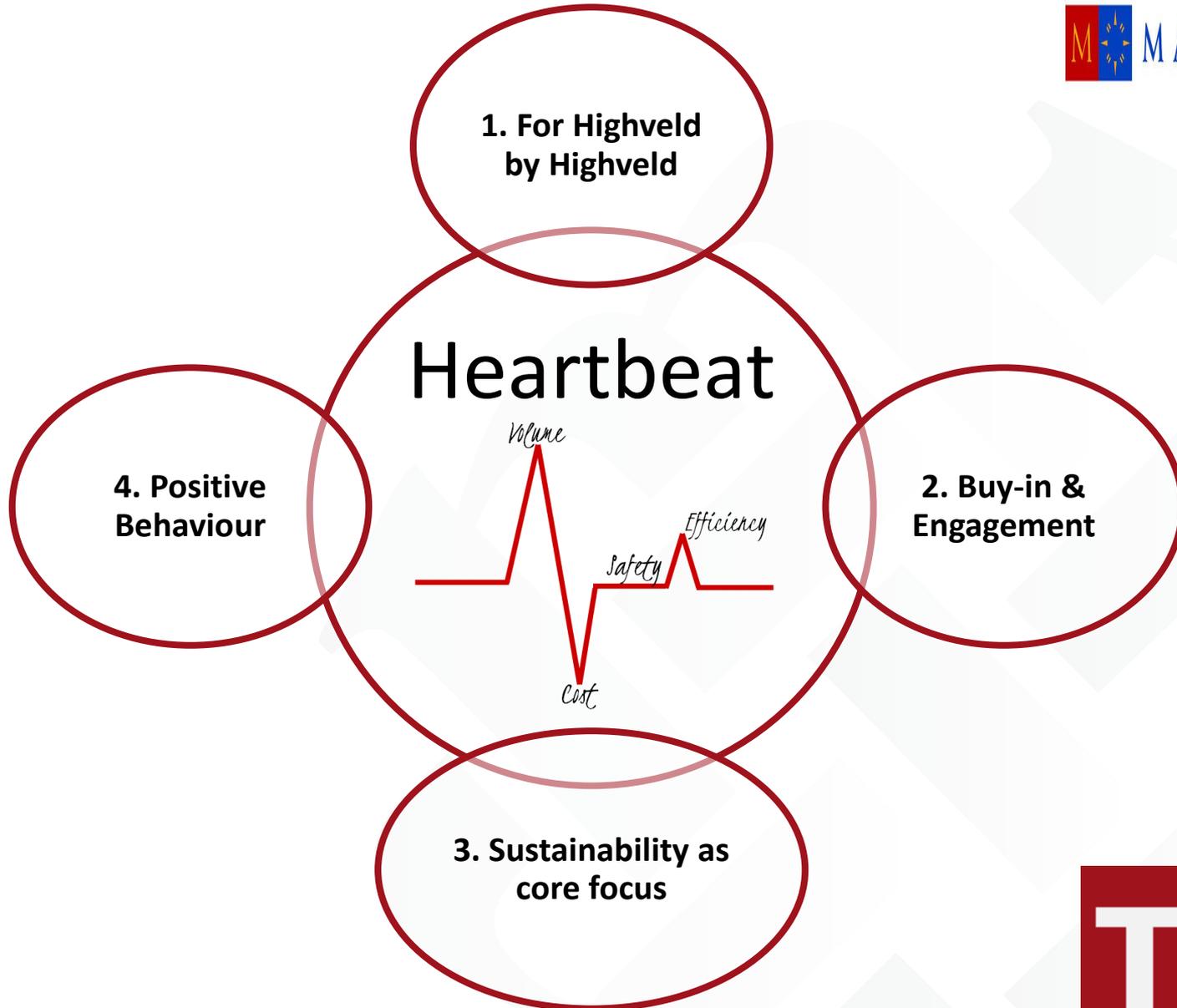
HIGHVELD TURN AROUND PLAN (“TAP”)

- Initiated in November 2014 by the new senior management team with aim of restoring profitability.
- Introduced a team of Steel Industry Experts who assisted the company in drafting a recovery framework



TAP

TAP : FUNDAMENTALLY DIFFERENT



TAP

TAP : PROJECT OWNERS



Derek Pienaar
(33) – **Manager,**
Iron Making

(9 years)

- B.Eng Mechanical 2003 (University of Pretoria)
- Professional Eng (Mech)
- MBA (Wits Business School) 2013
- GCC

Jacoline Botha
(38)- **Acting**
Manager, Steel
Plant

(20 years)

- MDP (Unisa)
- Hons. B. Eng (Metallurgy) degree (University of Pretoria)
- B. Eng Metallurgy, 1998 (Potch)

Jaco Pienaar (37)
– **Manager,**
Structural Mill

(17 years)

- B.Eng Electrical (NWU)
- MBA, 2003 (NWU)
- Professional Eng (Elect)
- GCC

Gert Hamman
(41) – **Acting**
Works Manager,
Engineering

(20 years)

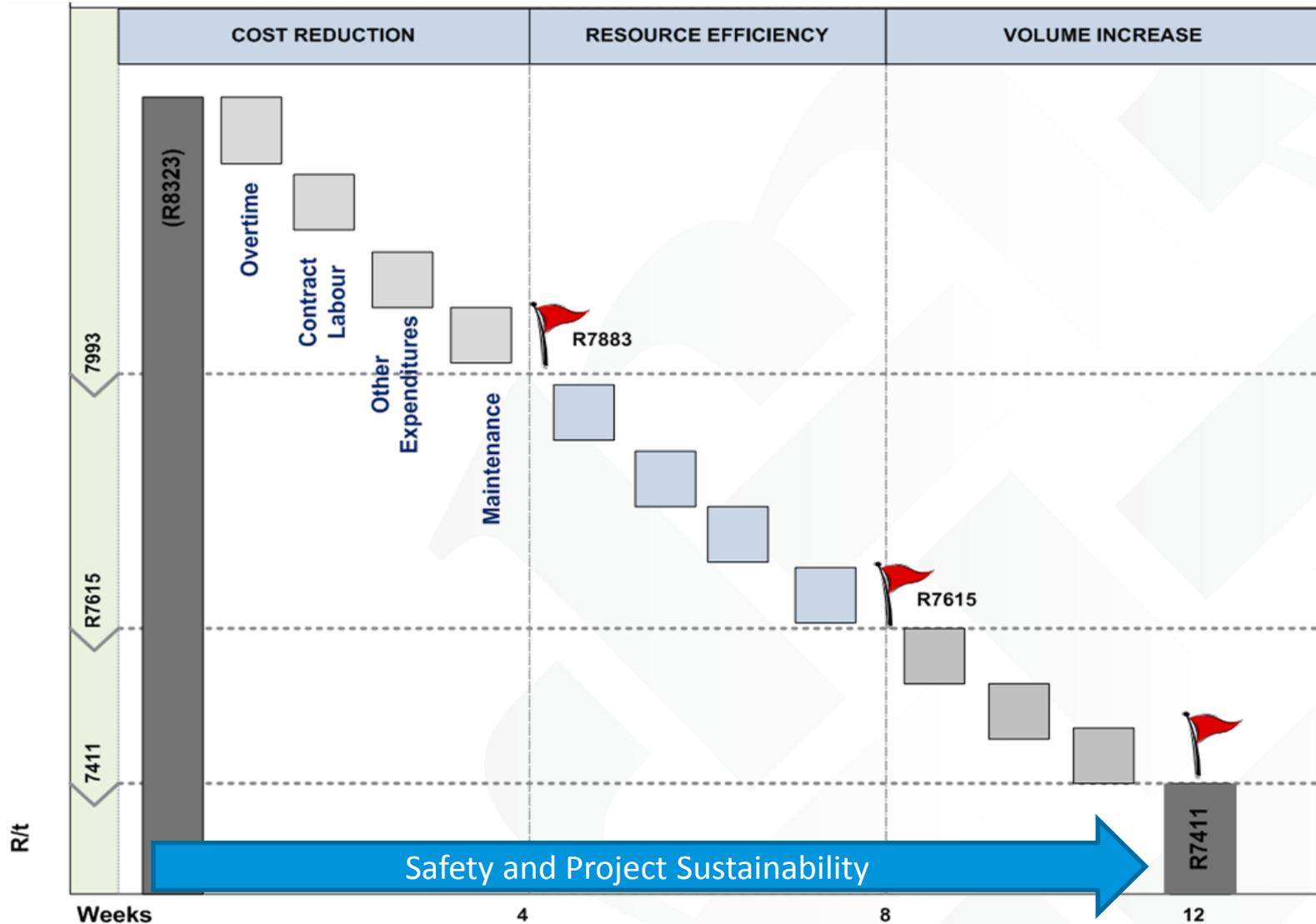
- D.Eng Mechanical (UJ)
- M.Eng Engineering Management (RAU)
- Professional Eng (Mech)
- GCC

Lethabo Mokgoale (43) –
Manager,
Continuous
Improvement (4
years)

- BSc Mechanical Engineering 1995 (University of Cape Town)

TAP

TAP : PROJECT GOALS

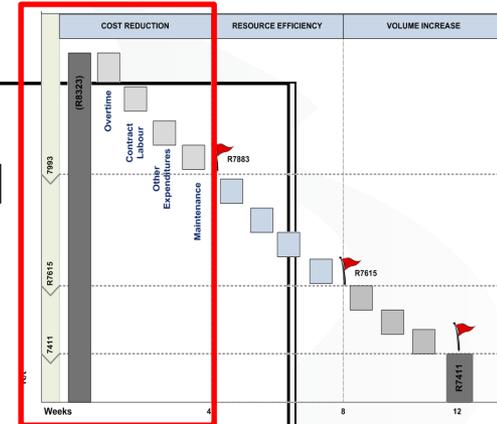
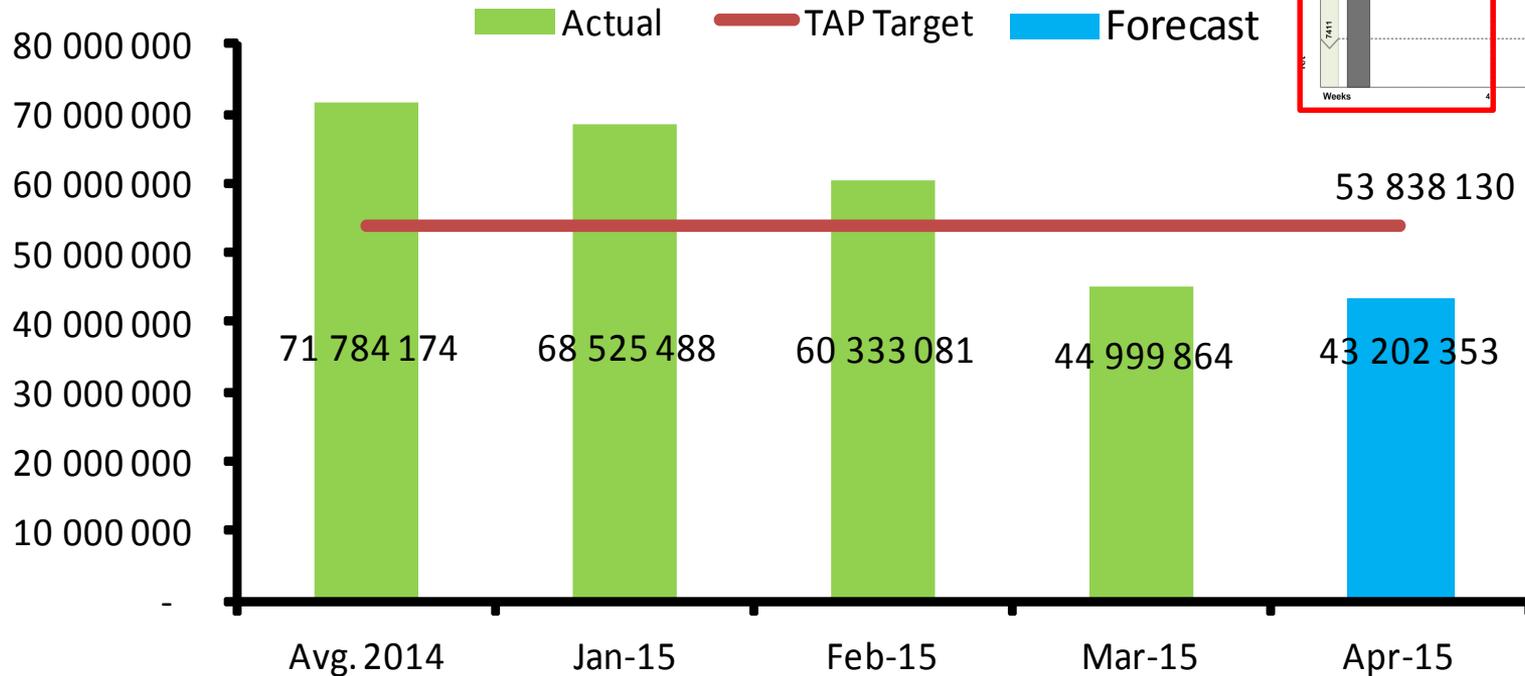


TAP : PROJECT IMPACT

- Significant reduction in targeted costs since commencement of the Turn Around Project

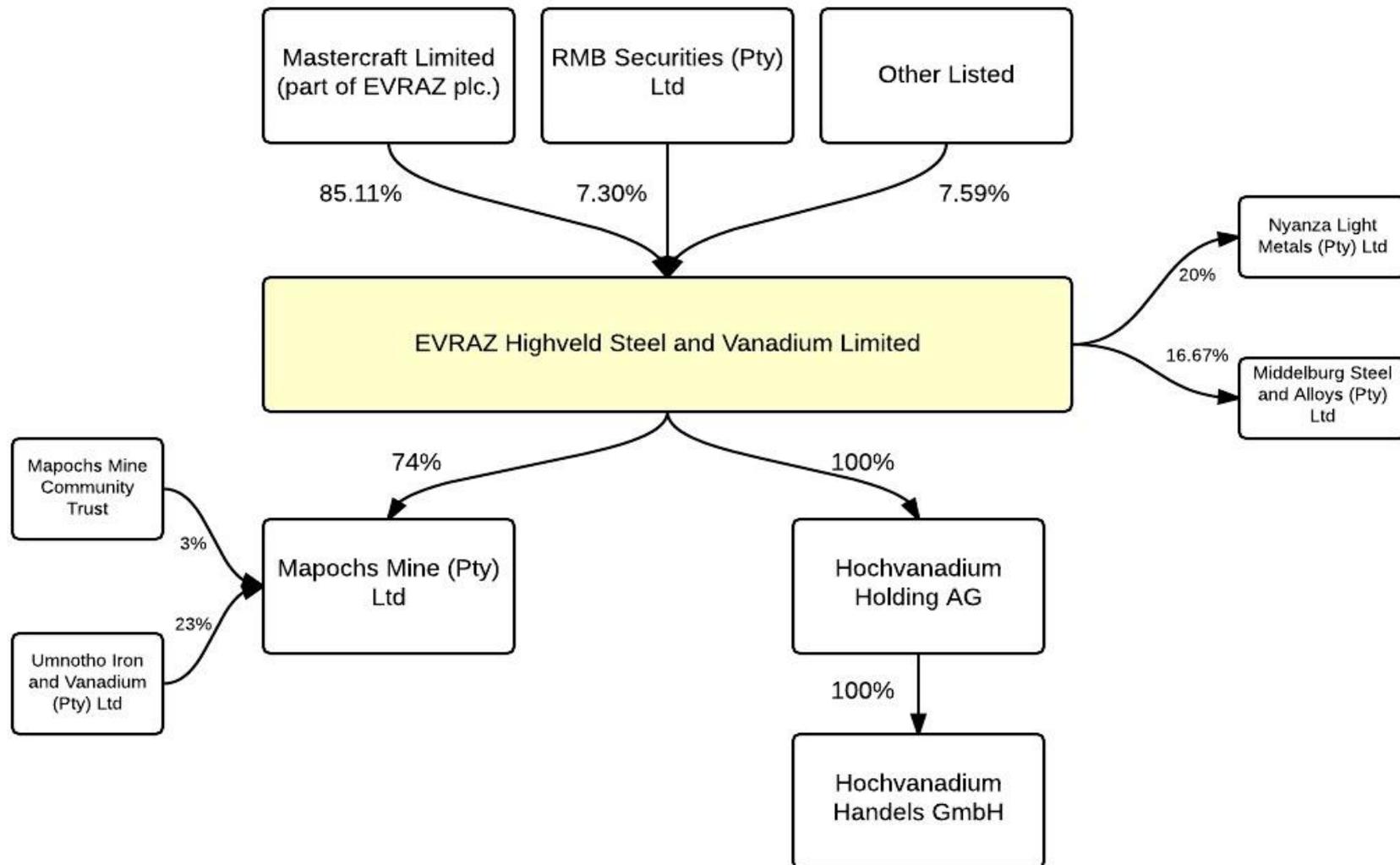


Total (Overtime, Contract Labour and Maintenance/Other)



BACKGROUND

- The Group structure is as follows:



HISTORIC TRADING PERFORMANCE

	Unaudited	Reviewed	Reviewed	Audited	Audited	Audited	Audited
	30-Jun-14	31-Dec-13	31-Dec-12	31-Dec-11	31-Dec-10	31-Dec-09	31-Dec-08
	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Revenue	1 643	5 190	4 346	5 587	5 125	4 252	8 022
Cost of Sales	-1 694	-4 990	-4 746	-4 750	-5 031	-3 578	-4 414
Gross Profit	(51)	200	(400)	837	94	674	3 608
Other Operating Income	11	77	138	87	-	-	-
Selling and Distribution Costs	-85	-273	-248	-301	-301	-243	-244
Administrative Costs	-57	-242	-289	-306	-353	-201	-256
Other Operating Expenses	-	-55	-55	-366	-263	-38	-30
Operating (Loss) / Profit	(182)	(293)	(854)	(49)	(823)	192	3 078
Finance Costs	-14	-69	-52	-50	-49	-61	-39
Finance Income	2	2	8	26	36	73	152
(Loss) / Profit before Tax	(194)	(360)	(898)	(73)	(836)	204	3 191
Income Tax Expense	-3	-19	-45	118	287	-41	-1 015
(Loss) / Profit for the Period	(197)	(379)	(943)	45	(549)	163	2 176

Source: Management

FINANCIAL POSITION

ASSETS AS AT 31 MARCH 2015

	Consolidated
	R'000
Non-Current Assets	
Property, Plant and Equipment	1 525 382
Restricted Cash	42 121
	1 567 503
Current Assets	
Inventories	907 729
Trade and Other Receivables	806 438
Prepayments	31 605
Income Tax Receivable	1 745
Cash and Short-Term Deposits	28 514
	1 776 301
TOTAL ASSETS	3 343 534

Source: Management

FINANCIAL POSITION

LIABILITIES AS AT 31 MARCH 2015

	Consolidated R'000
EQUITY AND LIABILITIES	
Capital and Reserves	508 542
Environmental and Medical Liabilities	737 270
Non-Current Liabilities	737 270
Trade and Other Payables	1 447 679
Provisions and Accruals	151 585
Interest-Bearing Loans and Borrowings	498 458
Current Liabilities	2 097 722
TOTAL EQUITY AND LIABILITIES	3 343 534

FINANCIAL PERFORMANCE

CONSOLIDATED Q1 (JANUARY - MARCH 2015)

	Consolidated Q1 R'000
Total Revenues	1 533 076
Cost of Sales	-1 447 522
Gross Profit	85 554
Selling Expenses	-80 552
General & Administrative Expenses	-59 796
Social Expenses	-506
Foreign Exchange Loss	-28 457
Other Operating Income	11 464
Other Operating Expenses	-11 007
Profit on Disposal of PPE	546
Loss from Operations	-82 754
Interest Income	984
Interest Expenses	-29 783
Income Tax	-406
Net Loss for Q1	-111 959

	Consolidated Q1 R'000
Loss from Operations	-82 754
Depreciation	63 977
Foreign Exchange Loss	28 457
Profit on Disposal of PPE	-546
EBITDA	9 134

Source: Management

ACTIONS TAKEN TO DATE

- Business Rescue
 - Administration
 - Notifications
- Meeting of Employees / Representative Unions
- Financial Management
 - Cash Flow Analysis
 - Bank Signatories
 - Critical Payments
- Turnaround Plan (“TAP”)
- Review of Current Agreements and Contracts
- Debtors
 - Settlement of Debtor Financing
 - Potential SASFIN litigation
- Post Commencement Finance
- Eskom
- Creditor Queries

BUSINESS RESCUE VS LIQUIDATION

■ **Moratorium**

- The formal moratorium under Business Rescue allows “breathing space” to formulate, propose and implement a Business Rescue Plan.
- During Business Rescue Proceedings, no legal proceeding, including enforcement action against the company, may be commenced or proceeded with in any forum, without the written consent of the Practitioners or with the leave of court.

■ **The Business Rescue Plan**

- The Business Rescue Plan will be approved if:
 - a) it is supported by the holders of more than 75% of the creditors’ voting interests that are voted, AND
 - b) the votes in support of the proposed plan include at least 50% of the independent creditors’ voting interests if any, that are voted.

BUSINESS RESCUE VS LIQUIDATION

■ The Business Rescue Plan

- If a proposed business rescue plan does alter the rights of any class of holders of the company's securities –
 - (i) the practitioner must immediately hold a meeting of holders of the class, or classes of securities who rights would be altered by the plan, and call for a vote by them to approve the adoption of the proposed business rescue plan; and
 - (ii) The business rescue plan will be approved if the votes in support of the proposed plan include at least 50% of the voting rights that were exercised.

BUSINESS RESCUE VS LIQUIDATION

■ Fees

- In Business Rescue the fees are significantly less and are based on a set tariff or by agreement.
- In a liquidation, fees are based on fixed percentages of the gross value of assets realised, irrespective of the third party costs incurred in achieving such realisations.
- The Practitioners fees will on approval of the Plan be increased from the statutory rates for a large company of R1,750 per hour to normal commercial rates of R3,000 per hour. This is linked to the successful adoption of the Business Rescue Plan.

THE WAY FORWARD

1. **Business Continuity**
 - a) Keep operations running
2. **Post Commencement Finance**
 - a) Conclude post commencement finance agreement to cater for critical post commencement supplies and operational costs
3. **Strategic investor**
 - a) Continue negotiations with interested parties
 - b) Attempt to conclude binding agreements
4. **Business rescue process**
 - a) Administration of claims
 - b) Preparation of Business Rescue Plan
5. **Turnaround plan**
 - a) Continue to implement the TAP program

OPINION OF THE JOINT PRACTITIONERS

It is the view of the Practitioners that, notwithstanding inevitable risks and challenges, there is a reasonable prospect of the business rescue being successful, based on the following :

- The ongoing support of stakeholders in the process
- The ability to conclude a corporate transaction
- The prevailing market conditions
- The likelihood of procuring Post Commencement Funding.
- The likelihood of recapitalisation of the Company.
- Whether the Business Rescue Process will achieve a better result than that of liquidation.

OPINION OF THE JOINT PRACTITIONERS



Opinion:

The Practitioners are of the opinion that there is a reasonable prospect of achieving a Business Rescue. Various options will be investigated, together with input from management, shareholders and creditors.

OPINION OF THE JOINT PRACTITIONERS



Should the Joint Practitioners at anytime conclude that there is no reasonable prospect for the company to be rescued, the Practitioners must advise affected persons and apply to court for an order discontinuing the proceedings and placing the company into liquidation.

The BRP can also be terminated in the following circumstances:

- The Plan proposed is rejected and proceedings are not extended
- The Court orders the setting aside of the order that initiated the BRP
- The Court orders the conversion of the BRP into liquidation
- The Practitioner concludes that the company is no longer in financial distress
- The Practitioner files notice of substantial implementation of the approved Plan

PROOF OF CLAIMS



■ Claims

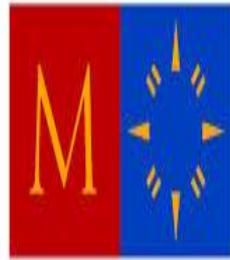
- Outstanding amounts for services rendered and goods delivered prior to the commencement of Business Rescue are in the moratorium.
- A claim form will need to be submitted for such amounts. These Claims will be reconciled to the Company's records and any discrepancies investigated.
- The payment of these amounts will be dealt with in terms of the Business Rescue Plan.

CREDITORS COMMITTEE

- One of the main objectives of today's meeting is to form a Creditors' Committee
- Functions, Duties and Membership of this Committee
 - Consult with the Practitioners about any matter relating to proceedings
 - Receive and consider reports relating to proceedings
 - Members need to be an independent creditor or authorised agent of an independent creditor
- It is our view that the input of a pro-active Creditors' Committee will add significantly to the process and will be helpful in achieving the goals set out in the Business Rescue Plan.

CREDITORS COMMITTEE

- We seek nominations for the Creditors' Committee from the following:
 - SARS
 - Credit Insurers
 - Eskom
 - Trade Creditors with technical expertise



MAZARS



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