CONSOLIDATED
STEEL INDUSTRIES

24 November 2020

To: The Creditors of Consolidated Steel Industries (Pty) Ltd

Dear Sirs,

STATUS UPDATE ON THE BUSINESS RESCUE OF CONSOLIDATED STEEL INDUSTRIES (PTY) LTD

On Thursday 19 November we were informed that the material flow prognosis from Arcelor Mittal South Africa ("AMSA") has deteriorated following their strike on Monday 16 November which resulted in a delayed return to work. AMSA have also advised us that there appear to be a number of equipment and production-related issues which are likely to result in serious adverse consequences for material supply for the remainder of the year.

Needless to say, this news was met with shock by the steel industry in general, as the industry had been led to believe that AMSA was on the road to recovery and that November was likely to see a return to a somewhat normalized level of supply. The steel industry places enormous reliance on AMSA for supply, with CSI, for one, having traditionally relied on AMSA for approximately 70% of the value of its raw materials purchases.

Since these developments the CSI management team and the Business Rescue Practitioners have acted with speed to proactively manage this situation in order to protect our creditors and customers' interests.

To this end, the following measures are being implemented with immediate effect in order to mitigate the negative financial effect of the AMSA crisis:

- The import programme which commenced two and a half months ago is being expanded and accelerated with the intention that Global Roofing Solutions ("GRS", the largest division of CSI) should not have to rely on local supply in order to operate profitably.

- A bonded warehouse facility is being investigated to maximise the utilisation of import credit facilities.

- In light of the now significantly impaired November/December/January outlook, the GRS short-term financial forecasts are in the process of being re-worked to limit the extent of the inevitable financial loss as much as possible. Once the forecasts have been re-worked, we expect to introduce a number of measures including further deep cost cutting and further strategies to generate possible margin improvement, which will be rolled out in line with the forecasts.

- As cost cutting and margin improvement alone are unlikely to counter the negative effect of the crisis on GRS's cash flow, it is more or less inevitable that pre-Business Rescue creditor repayments in accordance with the approved Business Rescue plan will need to be delayed in order to ensure that the company/division retains sufficient liquidity to trade through the traditionally lower December sales environment and is able to increase stock levels for the purposes of achieving Q1 2021 sales targets. The BRPs are however pleased to confirm that c.R101m of ring-fenced creditor payments have been made to date with a further R127m payments forecast for payment, albeit on a delayed basis and expected to re-commence during Q1 2021.

Until this news was received, GRS was forecast to achieve sales in the order of R82 million for November, which would have seen the division turn profitable for the first time since the advent of Covid-19 and the national lockdown. Needless to say, this would have been a significant milestone in the Business Rescue of CSI, as the operational turnaround of GRS is a critical element of the Business Rescue plan.

Some of the key milestones achieved since the commencement of the Business Rescue of CSI are the following:

- Post-commencement finance ("PCF") to the value of R257 million was agreed with CGIC, the biggest creditor of CSI, shortly after commencement of Business Rescue.

- The Business Rescue plan was approved by 98% of creditors (by value who elected to vote), six and a half weeks after the company commenced Business Rescue.

- Onerous contracts have been renegotiated to CSI's benefit or terminated.

- The payroll cost (excluding retrenchment costs) was reduced by 43% effective two and a half weeks after the company commenced Business Rescue.

- A relatively smaller, more focused and agile CSI with growth potential has been established with the aim of developing into a bigger more streamlined business with a more significant role in the industry.

- The first S189 retrenchment process, which was started before Business Rescue, was completed prior to the approval and adoption of the Business Rescue plan.

- The second S189 retrenchment process, which commenced during Business Rescue (in respect of the employees of CSI's Stalcor division) commenced in November and is scheduled to be completed in early December.

- Following commencement of Business Rescue, the property leases were suspended pending renegotiation with landlords, which is ongoing.

- A sale process of the two primary divisions and/or their assets commenced shortly after Business Rescue, resulting in a comprehensive Information Memorandum being published at the same time as the Business Rescue plan.

- The stock of the second largest division, Stalcor, was sold in line with the approved Business Rescue plan just two months after the adoption of the Business Rescue plan, leading to a circa 100% recovery of its carrying value. This sale has assisted in meeting some of the creditor obligations.

- An import strategy was rolled out two weeks after the Business Rescue plan was approved, in order to mitigate the risk of CSI being solely reliant on local supply (this import strategy is now being substantially expanded as mentioned above).

- A comprehensive operational turnaround plan for GRS has been rolled out since commencement of Business Rescue, which effectively sees the division's income statement being "project managed to profitability" on a line-by-line basis (subject to the supply problems mentioned above).

The order book of GRS has been full (and severely backlogged) since before Business Rescue, and has remained so in rescue. Stable supply is critical to the survival of GRS and hence CSI. Whilst the import strategy is well underway, there is still a significant dependency on local supply. The success of the division in the short term is now almost entirely reliant on imported material and further reduction of costs to the greatest extent possible whilst local supply remains constrained.

We understand of course that this development is likely to have a further detrimental financial effect on you as our creditors in these extremely challenging times.

However, the management team of CSI and the Business Rescue Practitioners strongly believe this business has a future, with these developments only serving to delay our ultimate goal.

We hope that the achievements during the Business Rescue process to date have given you confidence in the ability of management and the turnaround team to continue to work together as they have been in weathering the storms that have passed and the storm that lies ahead, in order to ultimately provide you with the best outcome that could reasonably be achieved under the circumstances.

We will keep you updated as to progress of the mitigation initiatives we have detailed in this letter and the management of the situation.

Yours faithfully

Ian Fleming – Joint BRP

Sello Mkhondo – Joint BRP