CONSOLIDATED STEEL INDUSTRIES

31 March 2021

CONSOLIDATED STEEL INDUSTRIES (PTY) LIMITED
(In Business Rescue) ("CSI" or the Company")

SECTION 132(3)(A) REPORT TO AFFECTED PERSONS
FOR THE MONTH ENDED 28 February 2021

The Company's directors and duly appointed Business Rescue Practitioners ("**BRP's**") have pleasure in submitting their report on the trading performance and financial position of the Company for the month ended 28 February 2021 ("**4th Monthly Report**").

Previous monthly reports to Affected Persons issued are herein after referred to as follows:

- **1st Monthly Report** – for the month ended 30 November 2020
- **2nd Monthly Report** – for the month ended 31 December 2020
- **3rd Monthly Report** – for the month ended 31 January 2021

INTRODUCTION AND BACKGROUND

CSI is one of South Africa's market leading industrial conglomerates that comprised two distinct principal business units, namely:

- Global Roofing Solutions ("**GRS**"), one of the oldest and largest metal roofing and roofing accessory manufacturers in South Africa that services the construction, roofing and hardware merchanting industries in South Africa and Sub-Saharan Africa; and until recently,
- **Stalcor**, previously one of the top three 'Tier 1' distributors of stainless steel and aluminium products in South Africa, servicing customers in the fabrication sector and steel merchants.

The ravaging economic effects of the Covid-19 Lockdown exacerbated by an already recessionary South African economy, systemic challenges in local steel production and a delicately capitalized CSI balance sheet gave cause for the directors of CSI to place the Company into Business Rescue on 13 July 2020, whereafter the duly-appointed BRP's assumed operational control over the CSI business.

Within 5 weeks of being placed into business rescue, the BRP's published the CSI Business Rescue Plan ("**BR Plan**") on 18 August 2020, which was subsequently approved by more than 98% of creditors on 27 August 2020. As part of the approved plan, a post-commencement finance ("**PCF**") facility of R257 million was negotiated with CSI's biggest creditor to help ensure continuity of operations while the company implemented its 'back-to-basics' restructuring and business re-engineering.

The principal purpose of this report is to provide monthly feedback and insight as to the progress made in the implementation of the approved BR Plan, which highlighted the following key elements:

- Gross profit/margin maximisation
- Cost cutting
- Recovery of creditors funds
- Operational separation and restructuring
- Potential division/asset sales

As detailed in the 1st Monthly Report, with effect from 1 November 2020 the Company disposed of all of the Stalcor inventories, which pre-empted the decision to wind down the Stalcor business. This decision was principally driven by Stalcor's low sales margins, onerous stocking requirements and Covid-19's negative impact on the high-volume dependency of this business. Accordingly, the Company's only remaining on-business is that of GRS.

TRADING AND SALES MARGINS

Sales Revenues

	R'000		
	Actual	Forecast	Planned
Sales revenues for February 2021:			
- GRS	70,036	70,115	66,478
- Stalcor	4,967	3,690	n/a **
- CSI (total)	**75,003**	**73,805**	

***: No 'Planned' sales revenues for Stalcor as this business is in the process of winding down its operations*

	Percentage %
Percentage of Actual vs Forecast achieved for the month of February 2021	101,6%

'Planned' sales revenues for GRS represent those projected sales as reflected in the BR Plan.

Comment on Sales Revenues:

GRS:

During February 2021, GRS continued to suffer, albeit to a lesser extent, the effects of the general shortages of galvanised and painted steel coil in South Africa, which shortages continued to impact numerous companies and industries in South Africa. This systemic steel shortage is first referred to in the 1st Monthly Report.

As referred to in the 3rd Monthly Report, it is encouraging to note that imported raw material ordered by the Company is being received in increasing quantities and contributed to the achievement of GRS's February 2021 sales revenues.

GRS exceeded its Planned sales revenues by 5,3% in February 2021.

In its efforts to restore steel supply into the South African market, ArcelorMittal SA ("**AMSA**") resumed hot-rolled coil production in late December 2020, however, its downstream coil galvanizing and painting lines took approximately 2 further months to become fully operational.

GRS's sales achievements for February 2021 are also largely attributed to 'part deliveries' during the month of long outstanding purchase orders from AMSA. Encouragingly, by late February/early March 2021, AMSA's downstream production lines were generating sufficient levels of inventory to ensure a 'return to normality' for raw material supply to GRS.

Notwithstanding this achievement, additional sales opportunities and orders for the month were frustrated, lost or postponed by the late arrival of certain imported steel coil, which had been ordered by GRS in late November 2021, originally scheduled for arrival in early February 2021. These imports eventually only arrived in port during the first week of March 2021.

Stalcor:

A decision was taken during late October 2020 to accept an offer to sell all Stalcor inventories to a trade buyer at an average price of approximately 78% of book value, effective from 1 November 2020. This included a significant amount of slow-moving inventory. Accordingly, the Stalcor sales revenues for the month of February 2021 represent a continuance of the 'winding down' of Stalcor's traditional business, as opposed to a normal trading month characterized by ongoing trading stock replenishment.

Sales margins

GRS achieved its Planned gross profit margins in February 2021 notwithstanding the ongoing difficulties it experienced in procuring sufficient raw materials to satisfy its sales order book for the month.

The Stalcor inventory sale and winding down process progressed as planned during February 2021. As was expected, the slower moving inventories were sold at 15% discount to cost during February 2021 (4% discount in January 2021). Although these discounts-to-cost have expectantly deepened, the targeted aggregate gross proceeds of 78% of book value of all Stalcor inventories is expected to be achieved, if not exceeded.

Sales Order Book

The GRS forward sales order book remains buoyant with 5,000 tons on formal customer orders. Formal sales orders for March 2021 delivery account for 44% of the total formal order book. In addition to these formal customer orders, GRS expects its 'intra month' sales demand of 2,400 tons will continue to significantly augment monthly sales revenues.

Delivery against this sales order book is, in the short term, largely dependent on resumption of regular and predictive supply of raw material in the form of galvanised and painted coil from both AMSA and foreign suppliers.

Purchase Order Book

At 28 February 2021, the Company had over R481,6 million of raw materials on purchase order for delivery during the three-month period ending 31 May 2021. Notably R65,8 million of these purchases represent imported product. These purchase orders are to satisfy the formal sales orders, the 'intra-month' sales demand and to increase inventory to sustainable levels.

As referred to above, albeit somewhat improved, a significant backlog of purchase orders made by GRS on AMSA remained undelivered by 28 February 2021, which negatively impacted GRS's February 2021 sales and gross profit generation.

THE STALCOR WIND-DOWN

As referred to in the 1st Monthly Report the BRP's, with the assistance of Deloitte and CSI Management concluded a sale of Stalcor's entire steel inventories on a piece-meal basis, including all slow moving and redundant stock, to another trader in the market, effective 1 November 2020.

These piece-meal sales of Stalcor inventories continue to progress as planned/agreed. This has resulted in the winding down of the traditional Stalcor business, and consequent retrenchments.

All affected Stalcor employees accepted the retrenchment terms as negotiated and agreed under the Section 189 consultation processes. All retrenchment obligations to affected Stalcor employees were paid by 31 December 2020. At 28 February 2021, CSI had retained a 'skeleton' Stalcor staff complement of 8 people to conclude the disposal of the remaining Stalcor inventories. The employment contracts relating to these staff members will be terminated during March 2021

STEEL INDUSTRY CHALLENGES

AMSA supply shortages

As previously reported, towards the end of October 2020, it became alarmingly apparent to both CSI Management and the BRP's that ArcelorMittal South Africa's (AMSA) production problems, following its wildcat strikes and plant maintenance issues, would lead to critical raw material shortages for GRS in the months of November and December 2020. As described above, these shortages did in fact occur and, regrettably extended into January and for the large part of February 2021.

AMSA's inability to supply steel resulted in a domino effect felt by steel merchants and fabricators throughout the country. Thus far, AMSA has been by far the major supplier of raw material to GRS, and this delay or loss of supply negatively affected GRS' projected sales by circa R100 million during the five-month period ended 28 February 2021 thereby depriving GRS of trading profits of approximately R20 million. Most of GRS's customers were negatively impacted but have since witnessed some relief in this regard during February 2021. The delays/backlogs have also had the effect on payments due to creditors according the BR Plan.

CSI response to the shortages

As previously reported, management and the BRP's instituted additional initiatives and control mechanisms to mitigate the risk of short/unreliable supply. During late October and early November 2020, strategies were implemented to shift the reliance on local supply to imports. The implementation of this strategy continues to garner the support of CSI's funders with whom management and the BRP's are in constant contact.

Having experienced the shock of the shortages, referred to above, GRS has increased the level of imports going forward as can be seen from the above review of the Purchase Order Book. The positive effects of this strategy are now beginning manifest. Forecasts have been updated to reflect the impact of these new the strategies.

Notably, in response to the worldwide steel shortages, the local and international price of hot rolled coil, has over recent months, increased considerably (*circa* 45% increase over the past year). Both management and the BRP's are acutely aware of this and, as part of the Company's import strategy, continue to strive to seek out parcels of high-quality steel from international mills and steel traders at discounted/competitive prices.

COST REDUCTIONS IMPLEMENTED

Prior to the Covid-19 Lockdown, CSI typically generated *circa* R210 million in monthly revenues against a total manufacturing and overhead cost-base averaging around R25 million per month, the majority of which were 'fixed costs' in nature.

The BR Plan anticipated that 'post Covid-19' trading activity would reduce to *circa* 60% of pre-Covid levels and, accordingly, the CSI cost base had to be urgently and decisively reduced to stop further losses. Under the guidance and direction of the BRP's, the implementation of this much needed cost-reduction and cost optimization plan was accelerated in July 2020.

We are pleased to again report that through continued monitoring and intervention, the cost-base of GRS (in relation to continuing operations) for the month of February 2021 was only R0.7 million more than that originally budgeted and was R0.5 million less than the forecast of R13.5 million. Comparatively, the February 2020 (prior year) cost base for GRS amounted to R17,2 million.

CASH FLOW

The BRP's and CSI management continue to successfully focus on and manage cash flow on a daily basis.

During the month of February 2021, the Company continued to achieve close to a +95% accuracy in terms of its budgeted/forecast cash flows and remain confident and committed to the settlement of all remaining 'ring-fenced' historical creditor obligations (amounting to *circa* R90 million) together with the payment, within terms, of all trade payables arising post business rescue.

Regrettably, the impact of below 'Planned' sales during the period October 2020 to 31 January 2021, increased reliance on imports and the abnormal cost variances associated with the discontinuance of the traditional Stalcor business resulted in delayed payment expectations pertaining to Ring-fenced historical creditors. It is pleasing to report that, notwithstanding the above constraints and as referred to in the 3rd Monthly Report, limited payments to Ring-fenced creditors continued into February 2021 with a total amount of R13.9 million being disbursed in the latter part of the month. The target for completion of the Ring-fenced payments remains end of June 2021.

In this regard, it is pleasing to report that cash balances, together with available banking facilities at 28 February 2021 were R14 million higher than those forecast for the month then ended. This higher than forecast liquidity bodes well for additional Ring-fenced creditor payments in March and April 2021.

Management and the BRP's remain committed to executing on the Business Rescue Plan according to schedule, to the extent possible barring all external influences. Management and BRP's further wish to thank creditors for their patience and assistance whilst they navigate the abovementioned challenges.

SALE OF CSI ASSETS

Disposal/discontinuance of non-core operations

The BRP's, with the assistance of Deloitte Corporate Finance ("**Deloitte**") and CSI management have:

- Concluded the sale of Stalcor's Botswana-based subsidiary and collected the sale proceeds;
- Concluded the disposal of GRS's Zimbabwean-based operation. It is envisaged that this operation, Global Roofing Solutions Zimbabwe (Pvt) Limited and part-collected the sale proceeds. At 28 February 2021 a total of R2.4 million of the sale proceeds remained outstanding, all of which is expected to be recovered by the first week in April 2021;
- Concluded the disposal of GRS's Robertson Ventilation Industries (RVI) and progress in winding-down of RVI's South African operations is progressing as planned. It is intended that GRS will continue to manufacture against order, the Orion ventilation systems, the design and intellectual property rights for which remain the ownership of GRS.
- Projected to conclude the sale of the Stalcor inventories during the course of March 2021, with only resultant debtors remaining outstanding together with sales of the residue of Stalcor-related fixed assets.

SALE OF GRS

Plans to sell GRS as a going concern or CSI remain ongoing. In accordance with the sales process, the BRP's, with Deloitte's guidance, are currently actively engaging with potential buyers, assisting in due diligence processes and imminently expecting final offers.

If successful, it is anticipated that the sale process will be completed by end of Quarter 3.

CONCLUSION AND APPRECIATION

The business rescue of CSI is still progressing well. The BRP's and CSI Management remain confident of ultimately achieving the financial projections set out in the BR Plan, albeit it delayed as a consequence of the steel shortages and mitigating import strategies referred to above.

CSI is grateful for the continued support of its valued customers, suppliers, financiers, creditors and landlords. The forward sales order book remains an achievable beacon to take the CSI business forward into 2021.

The BRP's together with CSI management remain committed to maintaining and increasing the momentum of this successful business turnaround so as to maximize the return for all affected persons.

Thank you.

Chris Ransome
Executive Chairman

Andrew Winter
Chief Executive Officer

Ian Fleming
Business Rescue Practitioner

Sello Mkhondo
Business Rescue Practitioner