



CONSOLIDATED
STEEL INDUSTRIES

6 July 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 31 May 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 31 May 2021 ("**7th 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
- **4th Monthly Report** – for the month ended 28 February 2021
- **5th Monthly Report** – for the month ended 31 March 2021
- **6th Monthly Report** – for the month ended 30 April 2021

TRADING AND SALES MARGINS

Sales Revenues

	R'000		
	<u>Actual</u>	<u>Forecast</u>	<u>Planned</u>
Sales revenues for May 2021:			
- GRS	101,004	95,500	89,613
- Stalcor	n/a **	n/a **	n/a **
- CSI (total)	101,004	95,500	89,613

***; No sales revenues for Stalcor as this business has completely wound-down down its operations*

Percentage %

Percentage of Actual vs Forecast achieved for the month of May 2021 105,8%

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

Consolidated Steel Industries (Pty) Limited (Reg No. 2006/031549/07)

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Comment on Sales Revenues:

GRS:

During the past four months, GRS emerged from the effects of the protracted general shortages of galvanised and painted steel coil which had plagued South Africa during both the 4th Quarter of 2020 and the First Quarter of 2021. These shortages profoundly impacted numerous companies and industries in South Africa during this challenging period. This systemic steel shortage is first referred to in the 1st Monthly Report.

As referred to in the 6th Monthly Report, it is encouraging to note that both locally and internationally procured raw material, as ordered by the Company, is now being received by GRS in required quantities. This availability of raw material has resulted in yet another month where the Company has exceeded both its forecast and Planned sales revenues.

GRS exceeded its Planned sales revenues by 12,7% in May 2021 (+1% in April 2021; +3,8% in March 2021; +5,3% in February 2021). As at the date of this report, gross sales revenues for the month of June 2021 are expected to exceed the Planned sales for that month by a factor of more than 3%. Both the BRP's and management are encouraged by the performances and trends recorded by GRS over the abovementioned months. GRS's forward sales order book remains healthy *vis-à-vis* the BR Plan's Planned sales revenues for the first quarter of the 2022 fiscal year, which commences 1 July 2021.

GRS continues to actively manage and expedite the recovery of its debtors' book, which at month end totalled *circa* R109 million, representing just over one month's total sales and less than 43 days of credit sales.

ArcelorMittal SA's ("AMSA") supply of galvanised and pre-painted coil to the Company has, for all intents and purposes, now been restored to sustainable levels, with the constraints previously referred to in the 4th Monthly Report having been substantially resolved.

As referred to in the 6th Monthly Report, AMSA's downstream production processes continue to generate sufficient levels of galvanised and pre-painted coil to enable GRS to maintain its minimum stocking levels of raw materials thereby ensuring a 'return to normality' for the GRS business.

Sales margins

GRS's actual gross profit margins for May 2021 were 0.6 percentage points below forecast for the month but 0.8 percentage points higher than Planned per the BR Plan. This negative variance resulted from coil credits for mobile mill production and sale of aging and damaged stock. Notably, notwithstanding month-to-month margin anomalies, GRS continues to achieve gross margin percentages in excess of those Planned in the BR Plan

Encouragingly, sales margins in the near term are expected to exceed Planned gross profit margins as a result of continued rising steel prices, both locally and internationally.

THE STALCOR WIND-DOWN

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. The Company has now sold all of its remaining Stalcor inventories within the above '78% of book' price range. At 31 May 2021, only *circa* R5 million of

the residual Stalcor accounts receivable remained outstanding. No further provisions for doubtful debts are considered necessary by the BRP and Management.

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 May 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* R68,8 million) together with the payment, within terms, of all trade payables arising post business rescue.

Despite the ongoing sale process of sale of the GRS business, 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 note the following:

- The businesses of GRS Botswana and GRS Roofing in Namibia are being considered for sale to the current parties finalizing the acquisition of GRS South Africa, but remain as ongoing trading agents at this point.
- There is also an outstanding amount of R2 million for GRS Zimbabwe, which was due for settlement in April 2021, but which is realistically expected to be received within a three to four month timeframe. Both Management and the BRP's continue to pursue this claim, mindful though of protecting the Zimbabwe distributorship of GRS products.
- Refer to the 4th Monthly Report for details of non-core business disposals that have been successfully sold/discontinued.

SALE OF GRS

The sale of GRS as a going concern remains ongoing, with a sale agreement having been signed and the purchaser's due diligence process successfully completed. At the date of this report, all conditions precedent to this sale agreement had been fulfilled or waived, including regulatory consent by the Competition Authorities.

At this stage, it is anticipated that the sale process will be completed and the sale made effective from 1 July 2021.

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 in previous Monthly Reports.

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 its 2022 fiscal.

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.



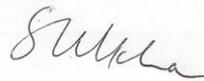
Chris Ransome
Executive Chairman



Andrew Winter
Chief Executive Officer



Ian Fleming
Business Rescue Practitioner



Sello Mkhondo
Business Rescue Practitioner