Companies and Intellectual Property Commission
Republic of South Africa

Form CoR 125.1

About this Form

- This form is issued in terms of section 132 and 141 of the companies Act, 2008, and Regulation 125 of the Companies Regulations, 2011.
- This Notice and the attached report must be published to every affected person, and to-
  - a) The Commission, if the business rescue proceedings were started by the company; or
  - b) The court, if the proceedings were ordered by the court.
- A report and Notice must be issued at the end of the first three months of the business rescue proceedings, and at regular monthly intervals after that

Contacting the Commission

The Companies and Intellectual Property Commission of South Africa

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Business Rescue Status Report

Date: 31 December 2020

Customer Code: IAN B03

Concerning

(Name and Registration Number of Company)

Name: Consolidated Steel Industries (Pty) Ltd

Registration No: 2006/031549/07

The above named company commenced business rescue proceedings on 13 July 2020.

Because the business rescue proceedings have not concluded within three months, the appointed business rescue practitioner provides the attached report in terms of section 132 (3).

Please refer to attached report.

Name and Title of person signing on behalf of the Practitioner:

Ian Bryce Fleming

Authorised Signature:

This form is prescribed by the Minister of Trade and Industry in terms of section 223 of the Companies Act, 2008 (Act No. 71 of 2008).

CONSOLIDATED
STEEL INDUSTRIES

11 February 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 December 2020

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 December 2020 ("**2nd Monthly Report**").

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, 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 Company's Report to Affected Persons at 30 November 2020, 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 ongoing business is that of GRS.

TRADING

Sales Revenues

	R'000		
	Actual	Forecast	Planned
Sales revenues for December 2020:			
- GRS	37,263	44,400	51,078
- Stalcor	33,307	27,000	34,873
- CSI (total)	**70,570**	**71,400**	**85,951**

	Percentage %
Percentage of Actual vs Forecast achieved for the month of December 2020	98.8%

The Company's high percentage performance against its forecast is mainly due to the sale of Stalcor stock to a trade buyer, and the subsequent winding down of the business as explained below.

Comment on Sales Revenues:

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 December 2020 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.

'Planned' sales revenues for CSI represent those projected sales as reflected in the BR Plan for both GRS and Stalcor as ongoing trading businesses. With the winding-down of the Stalcor business, future Monthly Reports will include only the 'Planned' sales revenues for GRS.

The 'Forecast' sales revenues included adjustments for the Stalcor winding-down together with the effects of the general steel shortages plaguing the South African economy (refer below) for the month of December 2020.

During December 2020, GRS continued to suffer the effects of the general steel shortages in South Africa, which shortages affected numerous companies and industries in South Africa. ArcelorMittal SA ("AMSA") have since, however, issued notices that it expects to have restored full production of steel during January 2021, which will significantly alleviate GRS's trading position during the first quarter of 2021. This systemic steel shortage is referred to in the 1st Monthly Report for November 2020 ("**1st Monthly Report**").

The achievement of 98.8% against Forecast sales revenues during the month of December 2020 was pleasing under the circumstances.

Sales margins

The general steel shortages described above compelled GRS to buy parcels of steel offered on the open market at premium prices thus resulting in ~40% of its December 2020 sales transactions yielding only two thirds of normal sales margins. This temporary anomaly lead to a drop in GRS's GP%.

Notwithstanding the sale by Stalcor of its inventories to a trade buyer in November 2020, this division earned positive gross profit margins by trading its outstanding purchase orders to its loyal customer base. In so doing, the aggregate sales margin earned by Stalcor was only 2,5 percentage points below that historically achieved. We thank both Stalcor's suppliers and customers for assisting the Company in this regard.

Sales Order Book

The GRS forward sales order book remains buoyant with over 3,600 tons on formal customer orders for January 2021 delivery. In addition to these formal customer orders, GRS expects its 'intra month' sales demand to continue to significantly augment monthly sales revenues.

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

As referred to in the 1st Monthly Report, management and the BRP's instituted additional initiatives and control mechanisms to mitigate the risk of short 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 garnered the support of CSI's funders with whom management and the BRP's are in constant contact.

In this regard, it is pleasing to note that all import raw material ordered by the Company is being timeously received and will contribute significantly to the forecast January 2021 sales.

Purchase Order Book

At 31 December 2020, the Company had over R315 million of raw materials on purchase order for delivery during the first three months of 2021. Notably R57,2 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. Notably, on 15 January 2021, in line with international trends, AMSA announced a significant price increase in both galvanized and painted coil. Importantly, the vast majority of the Company's purchase orders are at 'old prices' which bodes well for sales during the coming months.

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 piecemeal basis, including all slow moving and redundant stock, to another trader in the market effective 1 November 2020.

These piecemeal sales of Stalcor inventories continue to progress as planned/agreed.

All affected Stalcor employees accepted the retrenchment terms as negotiated and agreed under a Section 189 consultation process. All retrenchment obligations to affected Stalcor employees were paid by 31 December 2020.

STEEL INDUSTRY CHALLENGES

AMSA supply shortages

Towards the end of October, 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, which – as referred to above - did in fact occur.

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 R20 million in the month of December 2020. Most of GRS's customers have been negatively impacted but have been kept abreast of the situation. The delays/backlogs have also had an effect on payments due to creditors according the BR Plan.

During early January 2021, AMSA announced that it had restarted its second blast furnace at its Vanderbijlpark Works in late December 2020 and will be in a position to address South Africa's prevailing steel shortages during the coming months of 2021. Latest information available is that AMSA's production of hot-rolled coil has in fact resumed, however, their downstream galvanizing and painting lines have yet to reach required production levels.

CSI response to the shortages

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 expected to increasingly manifest from about the middle of Q3. Forecasts have been updated to reflect the stock shortage challenges and new strategy around imports.

Notably, in response to the worldwide steel shortages, the international price of hot rolled coil, has over recent months, increased considerably. 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.

The progressive winding down of the Stalcor business was substantially completed by 31 December 2020, however full payroll costs and retrenchment costs were paid during the month of December 2020 as agreed during the Section 189 consultation processes. From January 2021 onwards, the Stalcor related payroll costs will materially decrease as minimal staffing is required to conclude the sale and transfer of the remaining inventories to the trading company referred to above.

Planned total cost base of the Company for the month of December 2020 amounted to R16,5 million – a saving of R14 million compared to the same month in the prior year. The actual total costs (excluding retrenchment and abnormal business rescue, restructuring and corporate finance related costs) approximated the Planned total costs for December 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 December 2020 was R1.2 million less than that originally budgeted and was only R75,000 higher than the forecast of R15,3 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 December 2020, the Company continued to achieve close to a +95% accuracy in terms of its budgeted/forecast cash flows and remains confident and committed to the settlement of all remaining 'ring-fenced' historical creditor obligations (amounting to *circa* R117 million) together with the payment, within terms, of all trade payables arising post business rescue.

In this regard, it is pleasing to report that cash balances, together with available banking facilities at 31 December 2020 were R10 million higher than forecast.

Regrettably, the impact of below 'Planned' sales, 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. Consequently, a decision was made to delay ring-fenced creditor payments by five months, to only commence in April 2021. This delayed payment process was communicated to creditors in late 2020.

However, due to the improved situation, made possible by AMSA's resumption of full production from January 2021 as explained above, it is now possible to move the ring-fenced creditor payments forward to commence as originally planned being the end of January 2021 (instead of April 2021), albeit at reduced amounts. The target for completion of the ring-fenced payments remains end of June 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:

- Met the conditions precedent to the signed agreements for the sale of Stalcor's Botswana-based subsidiary;
- Signed agreement, subject to fulfilment of regulatory conditions, for the disposal of GRS's Zimbabwean-based operation. It is envisaged that this operation, Global Roofing Solutions Zimbabwe (Pvt) Limited, will continue to exclusively serve the Zimbabwean market with GRS products and services. The Company awaits formal exchange control approval from the SA Reserve Bank for this transaction;
- Concluded an agreement for the disposal of GRS's Robertson Ventilation Industries (RVI) which in tin the process of being wound-down 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 in the ownership of GRS.

SALE OF GRS

Plans to sell GRS as a going concern, or to sell the Company remain ongoing. In accordance with the sales process, the BRP's, with Deloitte's guidance, are currently actively engaging with potential buyers on 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 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