BSI Steel Limited
(Incorporated in the Republic of South Africa)
(Registration number 2001/023164/06)
(JSE code: BSS ISIN: ZAE000125134)
("BSI" or "the company" or "the group")

Salient features

- Revenue down 6%
- HEPS decreased 73.6 % to 1.4 cents
- EPS increased 72.3% to 8.1 cents
- NAV per share down to 102.7 cents
- R16 m Profit after tax from continued operations

REVIEWED CONDENSED CONSOLIDATED FINANCIAL RESULTS FOR THE YEAR ENDED 31 MARCH 2017

Condensed consolidated statement of profit and loss

	Reviewed year ended 31 March 2017 R`000	Audited year ended 31 March 2016 R`000 Restated
Revenue	2 376 821	2 528 687
Gross profit	271 372	302 285
Other costs	(212 802)	(189 677)
Earnings before interest, taxation, depreciation and amortisation ("EBITDA")	58 570	112 608
Depreciation and amortisation	(17 443)	(22 885)
Operating profit	41 127	89 723
Income from equity accounted investments		(36)
Interest received	24 314	35 797
Interest paid	(33 849)	(51 476)
Impairment of iron ore (*)	(13 083)	(39 952)
Profit before taxation	18 509	34 056
Taxation	(2 223)	(19 301)
Profit for the year from Continuing operations	16 286	14 755
Profit from discontinued operations(**)	39 926	18 530
Profit for the year	56 212	33 285
Profit attributable to ordinary shareholders	56 212	33 285

Basic and diluted earnings per share (cents)- continued operations	2.4	2.1
Basic and diluted earnings per share (cents) – discontinued operations	5.7	2.6
Total basic and diluted earnings per Share	8.1	4.7

Reconciliation of headline earnings:		
Profit attributable to ordinary shareholders	56 212	33 285
Loss on disposal of property, plant and equipment	(2)	1 428
Impairment of intangible and financial assets	6 480	-
Impairment of plant and machinery	3 767	-
Impairment of goodwill	5 716	
Tax impact on adjustments	(4 469)	(400)
Profit on sale of subsidiaries	(10 127)	-
Realisation of foreign currency translation reserve on discontinued operations	(47 681)	2 781
Headline earnings attributable to ordinary shareholders(basic and diluted)	9 896	37 094
Weighted average shares inissue on which earnings are based ('000)	695 653	700 336
Headline earnings per share (cents) (basic and diluted)	1.4	5.3

(*) This represents the final impairment loss provided for on the iron ore held by Sentinel Bridge
(**) This represents the result of the discontinuation of The Democratic Republic of Congo operations (2016: Mozambique operation) during the year and includes R47.7 million gain (2016: R2.8 million loss) related to the realisation of the foreign currency translation reserve

Condensed consolidated statement of comprehensive income

	Reviewed 31 March 2017 R`000	Audited 31 March 2016 R`000
Profit for the year	56 212	33 285

Other comprehensive income - items that may not be reclassified to profit or loss		
Foreign currency translation Reserve	(83 506)	72 254
Cash flow hedge	5 200	(12 342)
Total comprehensive income	(22 094)	93 197
Attributable to ordinary shareholders	(22 094)	93 197

Condensed consolidated statement of financial position

	Reviewed 31 March 2017 R`000	Audited 31 March 2016 R`000
ASSETS		
Non-Current Assets		
Property, plant and equipment	299 547	331 644
Goodwill	8 990	14 706
Intangible assets	4 095	10 452
Investment in joint ventures	11 912	13 165
Loans to group companies	195 257	182 165
Other financial assets	-	5 795
Deferred taxation	16 164	17 172
	535 965	575 099
Current Assets		
Inventories	333 659	377 998
Loans to group companies	24 368	14 290
Other financial assets	9 000	827
Trade and other receivables	520 106	528 618
Current tax receivable	10 077	6 658
Cash and cash equivalents	31 072	53 131
	928 282	981 522
Non-current assets held for sale	29 195	28 698
Total assets	1 493 442	1 585 319
EQUITY AND LIABILITIES		
Equity		
Total shareholders` equity	699 875	743 062
Non-controlling interest	(143)	(143)
	699 732	742 919
Non-Current Liabilities		
Other financial liabilities	19 120	38 630
Deferred taxation	21 081	21 641
Other liabilities	155 612	85 821
	195 813	146 092

Current Liabilities		
Trade and other payables	339 932	428 467
Current tax payable	469	3 472
Other financial liabilities	25 370	43 967
Bank overdraft	228 214	214 502
	593 985	690 408
Liabilities of disposal group	3 912	5 900
Total Liabilities	793 710	842 400
Total equity and liabilities	1 493 442	1 585 319
Capital commitments	-	13 786
Number of shares in issue (000)	681 495	696 871
Net asset value per share (cents)	102.7	106.6
Net tangible asset value per share (cents)	100.8	103.0

Condensed consolidated statement of changes in equity

	Reviewed 31 March 2017 R`000	Audited 31 March 2016 R`000
Balance at beginning of year	743 062	665 549
Share based payment	(1 079)	418
Dividends paid	(14 006)	(14 090)
Purchase of treasury shares	(6 008)	(2 012)
Total comprehensive income	(22 094)	93 197
Profit for the year	56 212	33 285
Foreign currency translation reserve	(83 506)	72 254
Cash flow hedge	5 200	(12 342)
Attributable to ordinary shareholders at end of year	699 875	743 062
Attributable to non-controlling interest	(143)	(143)
Total equity	699 732	742 919

Condensed consolidated statement of cash flows

	Reviewed 31 March 2017 R`000	Audited 31 March 2016 R`000

Operating activity cash flows	(24 900)	252 456
Cash flows from operations	7 560	304 842
Interest and taxation	(32 460)	(52 386)
Investing activity cash flows	(33 378)	(65 180)
Financing activity cash flows	24 795	(23 242)
Total cash movement for the year	(33 483)	164 034
Cash at beginning of year	(161 371)	(329 724)
Effect of exchange rate movement on cash balances	(2 288)	4 319
Total cash at end of year	(197 142)	(161 371)

Condensed consolidated segment report

	Reviewed 31 March 2017 R`000	Audited 31 March 2016 R`000
Net revenue		
SA Trading	1 573 065	1 608 050
Exporting	626 490	881 054
Other	177 266	39 583
	2 376 821	2 528 687
Operating profit		
SA Trading	33 841	46 549
Exporting	9 856	(457)
Other	1 790	26 528
	45 487	72 620
Net interest		
SA Trading	(27 062)	(23 253)
Exporting	6 487	13 462
Other	11 040	(5 888)
	(9 535)	(15 679)
Depreciation and amortisation		
SA Trading	(707)	(2 439)
Exporting	(5 303)	(7 425)
Other	(11 433)	(13 021)
	(17 443)	(22 885)

Taxation		
SA Trading	(4 163)	(1 690)
Exporting	(1 341)	(10 543)
Other	3 281	(7 068)
	(2 223)	(19 301)
Total assets		
SA Trading	398 810	425 411
Exporting	609 732	662 843
Other	491 434	518 308
Eliminations	(6 534)	(21 243)
	1 493 442	1 585 319

OVERVIEW

The directors of BSI present the financial results for the year ended 31 March 2017 ("the 2017 year").
The group operates in the steel and associated industries with strategically located operations in South Africa, Mauritius and Zambia. BSI markets through two distinct channels, being SA Trading and Exports; these divisions are supported by a steel distribution and processing centre in Gauteng.

It has been a challenging year; we experienced many unforeseen events. The decision was taken to close the roofing and tubing processing lines. Certain roofing lines remain specifically to compliment the product mix for the Namibian market.

Markets have changed substantially and we do believe that BSI has been ahead of the curve in effecting change compared to a great many of our peers, although we still have some way to go.

FINANCIAL RESULTS

Whilst the 2017 financial year started off on a positive trend gross margins came under threat during the second half of the year seeing the gross profit for the year drop to 10.2% below that of 2016. An exchange loss of R1.2 million in our Exports segment contributed to this.

Overall revenue dropped by 6% in comparison to 2016 whilst operating expenses increased by 8%. Included in operating expenses are certain restructure costs related to the closure of the tube processing line, being R3.8 million in the form of an impairment on plant and machinery and R3.5 million attributable to retrenchments. Other once off impairments such as R2.9 million on computer software and R3.6 million on a write off related to assets sold in a prior year contributed to the increase in costs.

It was decided to impair R5.7 million in goodwill, related to the ex Stockists segment held, in light of the recent move in the market on margins to those associated with the Bulk sales segment.

Investment income includes a gain of R10.1 million related to the sale of the Pro Steel subsidiary in the Democratic Republic of the Congo. The group will continue to supply the Pro Steel business as dictated by a franchise agreement.

A final impairment was made on the iron ore held as many offers were received but none were delivered upon. The directors are pursuing legal action against the quantity surveying company responsible for the loss.

The strengthening in the SA Rand to the US Dollar at R13.46 at year end resulted in a decrease of R83.5 million in equity during the year, inclusive of a reserve realisation gain of R47.7 million allocated to discontinued operations. The reallocation relates to the disposal of the shares held in the Pro Steel business.

A significant decrease in interest rates afforded on US Dollar borrowings contributed to the 34% drop in finance costs compared to 2016, along with less borrowing required due to lower inventory levels and continued focus on collections.

Non-current assets held for sale comprise of the business property held in Richards Bay previously occupied by the BSI Plate Solutions which was closed down during 2015. The disposal liability consists of the associated Nedbank bond and Hire Purchase agreement balances.

Our minority shareholding in Qinisa Steel Solutions was sold on 31 March 2017 and the payment settlement is expected to occur on 31 March 2018.

A significant amount of attention was devoted to the recoverability of the Tower Trade Group (TTG) loan of R219 million given both the materiality thereof and the level of uncertainty as to the probability and timing of capital repayments as anticipated in the loan agreement. This is by far the most significant judgement call in relation to the financial statements. TTG significantly underperformed against budget for the year to March 2017 and the budget for the next 3 years were perused properly, which are based on significant revisions to its business model, including reduced reliance on any one business partner. The audit committee noted that although TTG was in breach of the loan agreement in respect of interest payments at year end, this situation was subsequently remedied by the receipt of US$1.8 million in June 2017, representing settlement of arrear interest and a prepayment of interest to 31 December 2017. The directors concluded that, notwithstanding some uncertainty as to the timing of recoverability, the TTG loan should not be impaired.

RESTATEMENT
The prior year figures were restated due to the reclassification of losses incurred due to discontinued operations in terms of IFRS5.

DIVIDEND
A dividend of 2 cents per share (1.7 cents per share net of dividends tax) was paid on 15 August 2016.

Shareholders are advised that the board has assessed the financial results for the year ended 31 March 2017 and other key drivers with regard to declaring a dividend for the year ended 31 March 2017. The board has resolved, following such assessment, that no dividend will be declared for the year ended 31 March 2017.

BASIS OF PREPARATION
The condensed consolidated financial statements have been prepared in accordance with the JSE Limited Listings Requirements ("Listings Requirements") for provisional reports and the requirements of the Companies Act of South Africa applicable to financial statements. In terms of the Listings Requirements the condensed consolidated financial statements are to be prepared in accordance with the conceptual framework and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, and also, as a minimum, to contain the information required by IAS 34 Interim Financial Reporting. The accounting policies applied in the preparation of the condensed consolidated financial statements are in terms of IFRS and are consistent with the accounting policies applied in the preparation of the previous consolidated annual financial statements. The condensed consolidated financial results have been prepared by JB McGrath (CA(SA)) under the supervision of E Vermaak (CA(SA)), the group Financial Director.

FINANCIAL INSTRUMENTS

The fair values of financial instruments are determined by using quoted prices in active markets for identical assets or liabilities and therefore fall into the level 2 fair value category as per IFRS 13.

	2017 Level 2	2016 Level 2
Financial liabilities, fair value through profit and loss	834	11 511

The values were calculated by way of a market to market valuation at year end. There have been no transfers between levels during the financial year. The fair values approximate their carrying values.

CHANGES TO THE BOARD

K Paxton stepped down on 19 June 2017 as Chief Operations Officer however remains on the board as an executive director.

SUBSEQUENT EVENTS

No material change has taken place in the affairs of the group between the end of the financial year and the date of this report.

PROSPECTS

The year has been difficult, and certainly the latter half exceptionally so. The group however remains steadfast in the drive to reduce costs and close non-contributing operations. We achieved what we set out to in getting costs down from R27 million to R22 million per month.

Improved efficiencies across the group are front of mind, as can be seen from the drop in costs. We remain committed to bringing our costs down even further in the coming months.

Margins across the industry remain stubbornly low, hence the need to operate in the lowest quartile of cost per ton amongst our peers whilst stock management has received considerable focus and we are pleased with the results and will continue to exert the necessary pressure in order to achieve excellence in this critical area of our business.

The possibility of a strike in the coming weeks looms and we have taken all possible steps to mitigate the effects of the stoppage to our business.

The policy of 'steady as she goes' remains for the coming year and along with ensuring that we have a lean operating structure.

STATEMENT ON GOING CONCERN

The condensed consolidated financial statements have been prepared on the going-concern basis since the directors have every reason to believe that the company has adequate resources in place to continue in operation for the foreseeable future.

QUALIFIED REVIEW OPINION

The auditors, Deloitte & Touche, have issued their qualified review opinion on the condensed financial results for the year ended 31 March 2017. The review was conducted in accordance with International Standards on Review Engagements 2410. A copy of their ISRE 2410 review report is available for inspection at the company's registered office. Any reference to future financial performance included in this announcement, has not been reviewed or reported on by the company's auditors.

BASIS FOR QUALIFIED OPINION

An extract from the "Basis for Qualified Opinion" section of the review opinion is set out below.

"The condensed consolidated statement of financial position reflects a loan receivables of R219.6 million (non-current R195.3 million and current R24.4 million) from an associate company, Tower Trade Group, for the year ended 31 March 2017. Subsequent to year end an amount of R24.4 million was received, relating to both arrear interest and prepayment of future interest to 31 December 2017.
Management were unable to provide sufficient appropriate evidence regarding the recoverability of the non-current portion of this loan receivable as at 31 March 2017 and therefore we were unable to independently corroborate the assumptions and estimates used by management in their recoverability assessment. Consequently, we are unable to conclude whether any impairment to the non-current portion of this loan receivable is necessary."

By order of the Board
14 July 2017

C Parry
Chief Executive Officer

E Vermaak
Financial Director

CORPORATE INFORMATION

Chairman W L Battershill

Non executive directors: B M Khoza (Alternate - N M Anderson), N G Payne; R G Lewis
Executive directors: C Parry, K Paxton, E Vermaak
Registered address: 46 Eden Park Drive, Mkondeni, Pietermaritzburg 3201
Postal address: P O Box 101096, Scottsville, 3209
Company secretary: S J Hackett
Telephone: (033) 846 2208
Facsimile: (033) 846 2233
Transfer secretaries: Computershare Investor Services (Pty) Limited

Pietermaritzburg
14 July 2017

Designated Advisor

Sasfin Capital (A division of Sasfin Bank Limited)