2021 HALF YEAR REPORT

STEEL & TUBE HOLDINGS LIMITED

INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2020

Contents

These interim financial statements do not include all the notes and information normally included in the annual financial statements. Accordingly, they should be read in conjunction with the annual financial statements for the year ended 30 June 2020.


steel&tube
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Statement Of Profit Or Loss And Other Comprehensive Income

FOR THE PERIOD ENDED 31 DECEMBER 2020

	Notes	Unaudited December 2020 $000	Unaudited[1] December 2019 $000
Sales revenue		**226,315**	231,965
Other operating income		**183**	269
Cost of sales		**(180,486)**	(182,630)
Operating expenses	2	**(38,921)**	(46,125)
Earnings before interest, tax other gains and losses and impairment		**7,091**	3,479
Other gains and losses	7	**1,765**	222
Earnings before interest, tax and impairment		**8,856**	3,701
Impairment of property, plant and equipment and intangibles	5	**-**	(37,071)
Earnings / (loss) before interest and tax		**8,856**	(33,370)
Interest income		**11**	23
Interest expense		**(3,026)**	(3,537)
Profit / (loss) before tax		**5,841**	(36,884)
Tax expense		**(1,529)**	(81)
Profit / (loss) for the period attributable to owners of the Company		**4,312**	(36,965)
Items that may subsequently be reclassified to profit or loss			
Other comprehensive loss - hedging reserve		**(821)**	(518)
Items that may not subsequently be reclassified to profit or loss			
Other comprehensive loss - revaluation reserve		**-**	(1,622)
Other comprehensive income - deferred tax on revaluation reserve		**-**	454
Total comprehensive income / (loss)		**3,491**	(38,651)
Basic earnings per share (cents)		**2.6**	(22.3)
Diluted earnings per share (cents)		**2.6**	(22.3)

1. The Group has reclassified the prior period balances between Cost of sales and Operating expenses to align with the presentation at 31 December 2020. Refer to Note 1 for details.

The accompanying notes form part of these financial statements.

Statement Of Changes In Equity

FOR THE PERIOD ENDED 31 DECEMBER 2020

	Notes	Share capital $000	Retained earnings $000	Hedging reserve $000	Revaluation Reserve $000	Treasury shares $000	Share -based payments $000	Total equity $000
Balance at 1 July 2020		**156,669**	**22,541**	**(85)**	**4,552**	**(2,896)**	**509**	**181,290**
Comprehensive income								
Profit after tax		**-**	**4,312**	**-**	**-**	**-**	**-**	**4,312**
Other comprehensive (loss) / income								
Hedging reserve (net of tax)		**-**	**-**	**(821)**	**-**	**-**	**-**	**(821)**
Release of revaluation to retained earnings (net of tax)		**-**	**766**	**-**	**(766)**	**-**	**-**	**-**
Total comprehensive income		**-**	**5,078**	**(821)**	**(766)**	**-**	**-**	**3,491**
Transactions with owners								
Employee share schemes		**-**	**174**	**-**	**-**	**-**	**32**	**206**
Unaudited balance at 31 December 2020		**156,669**	**27,793**	**(906)**	**3,786**	**(2,896)**	**541**	**184,987**
Balance at 1 July 2019		156,669	94,142	(102)	5,832	(2,896)	256	253,901
Adoption of NZ IFRS 16 (net of tax)		-	(9,762)	-	-	-	-	(9,762)
Restated total equity at the beginning of the financial year		156,669	84,380	(102)	5,832	(2,896)	256	244,139
Comprehensive income								
Loss after tax		-	(36,965)	-	-	-	-	(36,965)
Other comprehensive (loss) / income								
Hedging reserve (net of tax)		-	-	(518)	-	-	-	(518)
Asset revaluation (gross)		-	-	-	(1,622)	-	-	(1,622)
Deferred tax on above		-	-	-	454	-	-	454
Total comprehensive income		-	(36,965)	(518)	(1,168)	-	-	(38,651)
Transactions with owners								
Dividends paid		-	(2,518)	-	-	-	-	(2,518)
Employee share schemes		-	66	-	-	-	48	114
Unaudited balance at 31 December 2019		156,669	44,963	(620)	4,664	(2,896)	304	203,084

Balance Sheet

AS AT 31 DECEMBER 2020

	Notes	Unaudited December 2020 $000	Audited June 2020 $000
Current assets			
Cash and cash equivalents		**23,880**	17,418
Trade and other receivables		**65,849**	73,797
Inventories		**98,271**	101,061
Income tax refund		**-**	432
Derivative assets		**178**	103
Assets held for sale	6	**6,035**	950
		194,213	193,761
Non-current assets			
Deferred tax		**10,385**	11,595
Income tax refund		**1,341**	908
Property, plant and equipment		**33,513**	41,009
Intangibles	5	**12,678**	11,886
Right-of-use assets	7	**86,805**	87,086
		144,722	152,484
Total assets		**338,935**	346,245
Current liabilities			
Trade and other payables		**42,777**	39,105
Provisions	9	**3,188**	6,896
Derivative liabilities		**1,436**	223
Short term lease liabilities	7	**12,065**	12,647
		59,466	58,871
Non-current liabilities			
Borrowings	4	**-**	10,000
Provisions		**781**	1,024
Long term lease liabilities	7	**93,701**	95,060
		94,482	106,084
Equity			
Share capital		**156,669**	156,669
Retained earnings		**27,793**	22,541
Other reserves		**525**	2,080
		184,987	181,290
Total equity and liabilities		**338,935**	346,245

These financial statements and the accompanying notes were authorised by the Board on 25 February 2021.

For the Board

Susan Paterson
Chair

Karen Jordan
Director

The accompanying notes form part of these financial statements.

Statement Of Cash Flows

FOR THE PERIOD ENDED 31 DECEMBER 2020

	Notes	Unaudited December 2020 $000	Unaudited December 2019 $000
Cash flows from operating activities			
Customer receipts		234,698	244,616
Interest receipts		11	23
Payments to suppliers and employees		(207,910)	(224,211)
Payments for interest on leases		(2,540)	(2,868)
Interest payments		(259)	(509)
Payment for litigation settlement	9	(1,563)	-
Insurance proceeds received	9	1,563	-
Net cash inflow from operating activities		24,000	17,051
Cash flows from / (to) investing activities			
Property, plant and equipment disposal proceeds		1,839	64
Property, plant and equipment and intangible asset purchases		(2,840)	(3,945)
Net cash inflow / (outflow) from investing activities		(1,001)	(3,881)
Cash flows (to) / from financing activities			
Repayment of borrowings		(10,000)	-
Dividends paid		-	(2,518)
Payment for leases		(6,537)	(6,597)
Net cash (outflow) / inflow from financing activities		(16,537)	(9,115)
Increase in cash and cash equivalents		6,462	4,055
Cash and cash equivalents at the beginning of the year		17,418	9,010
Cash and cash equivalents at the end of the year		23,880	13,065
Represented by:			
Cash and cash equivalents		23,880	13,065
		23,880	13,065

The accompanying notes form part of these financial statements.

Notes To The Interim Financial Statements

FOR THE PERIOD ENDED 31 DECEMBER 2020

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Steel & Tube Holdings Limited (the Company or Steel & Tube) is registered under the Companies Act 1993 and is a FMC Reporting Entity under the Financial Markets Conduct Act 2013. The Company is a limited liability company incorporated and domiciled in New Zealand. The Group comprises Steel & Tube Holdings Limited and its subsidiaries.

The Group's principal activities relate to the distribution and processing of steel products, fastenings and metal floor decking.

The registered office of the Company is 7 Bruce Roderick Drive, East Tamaki, Auckland 2013, New Zealand.

These financial statements have been reviewed, not audited, and were approved for issue on 25 February 2021.

These financial statements are presented in New Zealand dollars and rounded to the nearest thousand.

Basis of preparation

The Group is a for-profit entity. Its unaudited interim financial statements have been prepared in accordance with, and comply with, New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with NZ IAS 34: Interim Financial Reporting, IAS 34: Interim Financial Reporting, and the NZX Main Board Listing Rules (issued 1 January 2019).

These financial statements do not include all the information required for an annual financial report and consequently should be read in conjunction with the audited financial statements of the Group for the year ended 30 June 2020. Non-GAAP measures shown in the interim financial statements are defined in the 2020 Annual Report.

These financial statements have been prepared using the same accounting policies and methods of computation as the financial statements for the year ended 30 June 2020.

The preparation of the interim financial statements requires the exercise of judgements that affect the application of accounting policies, the reported amounts of assets and liabilities, and income and expenses. Where applicable and based on information available at the time of preparing the interim financial statements, the Group has updated its judgements, estimates and assumptions adopted since the audited financial statements of the Group for the year ended 30 June 2020.

The Group has reclassified $2.27m from operating expenses to costs of sales in the prior reporting period ended 31 December 2019 to better reflect the nature of labour costs that are directly associated with deriving revenue following a review of business activities during the current reporting period. This reclassification has been made to align with the current year presentation in the Statement of Profit or Loss and Other Comprehensive Income. The Group has also amended comparative figures in Note 3 Operating Segments in relation to depreciation and interest recognised under NZ IFRS 16 to align with financial reports received by the CEO in the current year.

2. COVID-19

The World Health Organisation declared a global pandemic on 11 March 2020 due to the outbreak and spread of COVID-19. During the reporting period, the New Zealand Government announced changes in COVID-19 Alert Levels across the periods of August to October 2020. The recovery from COVID-19 alert level shutdowns and the return to level 3 in Auckland has had an impact on the Group's revenues during the reporting period. Overall trading activity has been stronger than expected with revenues progressively returning to prior year levels over the reporting period. The Group's restructuring and site consolidation actions undertaken during 2020 in response to the impacts of COVID-19 and improved trading conditions have led to a reduction in operating expenditure with lower labour costs and bad and doubtful debts.

An assessment of the impact of COVID-19 on the Group's interim financial statements as at 31 December 2020 is set out below, based on information available at the time of preparing the interim financial statements. The Group has also undertaken an internal valuation to compare the current carrying value of the Group's assets against their recoverable amount at the Group level, as well as for each cash generating unit (CGU) identified as at 31 December 2020. Further information on this assessment is outlined in Note 5. The Group has also assessed the recoverability of its deferred tax assets as part of the assessment outlined in Note 5. The Group continues to have an unrecognised deferred tax asset of $15.5m (gross) in relation to tax losses that remain available for the Group to use in future years.

BALANCE SHEET ITEM	COVID-19 ASSESSMENT
Trade receivables	The Group has undertaken a review to ensure that the provision for expected credit losses reflects the current estimated exposure of defaults, applying a consistent approach with 30 June 2020. With the improvement in ageing of trade receivables balance and increasing collection rates, the Group has reduced the provision for doubtful debts to $2.2m as at 31 December 2020 (30 June 2020: $2.4m).
Property, plant and Equipment	Plant and equipment are stated at historical cost less depreciation and impairment. Following the completion of site exits as planned, the Group has not identified any indicator of impairment of its plant and equipment in this reporting period. The Group has therefore concluded no impairment is required as at 31 December 2020.
Right-of-use assets/Lease liabilities	Following the impairment recognised on the Group's right-of-use leased assets as at 30 June 2020, the Group has subsequently recognised gains upon surrendering some of these leases and exercising a termination of a lease earlier than expected. This has resulted in a total gain of $0.78m being recognised which is a partial recovery of the total impairment charge recorded as at 30 June 2020. Based on the current market outlook, the Group has assessed that sub-lease assumptions previously applied remain unchanged from 30 June 2020. The Group has therefore concluded no further impairment is required as at 31 December 2020.
Borrowings	There have been no changes to the covenants and waivers granted by the Group's banking partners since 30 June 2020. The Group continues to meet its covenant requirements of the current facility and is still under the relief period in relation to waivers granted by the Group's banking partners.
Inventories	The Group has undertaken a review of its inventory holdings to identify any inventory of higher risk particularly slow moving and aged inventory, applying a consistent approach with 30 June 2020. Based on the assessment performed, the Group continues to recognise a provision for write-downs of $1.0m as at 31 December 2020 (30 June 2020:$1.0m).
Provisions	The Group has reduced its provisions by $1.9m in line with the completion of the associated site exits and restructuring activities during the reporting period.

3. OPERATING SEGMENTS

The Group has identified two reporting segments as at 31 December 2020 having regard for the criteria outlined in NZ IFRS 8 Operating Segments (NZ IFRS 8). The Group's Chief Operating Decision Maker (being the CEO) receives financial reports which aggregate the activities of the Group's various operating segments into two distinct divisions, being Distribution and Infrastructure.

These reportable segments have been determined by having regard to the nature of products, services and processes the various business units undertake to service customers. The Group has a diverse range of customers from various industries, with no single customer contributing more than 10% of the Group's revenue.

The Group derives its revenue from the distribution and processing of steel and associated products. Within the Distribution business, the primary focus is on the distribution of steel products and fasteners, servicing similar customer groups, sharing similar business models and trading skills, and using similar sales channels. The majority of product is traded and sales staff are tasked to know the full range of products. Within the Infrastructure business, product is predominately steel product which is bought and processed/manufactured in warehouse facilities for project/contract customers.

The CEO uses EBIT as a measure to assess the performance of segments. The segment information provided to the CEO for the period ended 31 December 2020 is as follows:

December 2020	Distribution $000	Infrastructure $000	Other/ Elimination $000	**Reconciled to Group $000**
Timing of revenue recognition				
At a point in time	131,852	47,391	9	**179,252**
Over time	-	47,063	-	**47,063**
Revenue from external customers	131,852	94,454	9	**226,315**
Depreciation and amortisation	(4,698)	(3,195)	(1,332)	**(9,225)**
Segment EBIT	5,310	3,546	-	**8,856**
Interest on leases	(1,466)	(1,054)	(20)	**(2,540)**
Interest - others (net)				**(475)**
Reconciled to Group Profit Before Tax				**5,841**

December 2019	Distribution $000	Infrastructure $000	Other/ Elimination $000	**Reconciled to Group $000**
Timing of revenue recognition				
At a point in time	135,405	52,616	9	**188,030**
Over time	-	43,935	-	**43,935**
Revenue from external customers	135,405	96,551	9	**231,965**
Depreciation and amortisation	(5,228)	(3,415)	(1,689)	**(10,332)**
Impairment of intangibles	(15,602)	(21,469)	-	**(37,071)**
Segment EBIT	(14,230)	(19,140)	-	**(33,370)**
Interest on leases	(1,647)	(1,185)	(36)	**(2,868)**
Interest - others (net)				**(646)**
Reconciled to Group Loss Before Tax				**(36,884)**

Depreciation and amortisation recognised as at December 2020 is inclusive of depreciation recognised under NZ IFRS 16 Leases, which is in line with the financial reports received by the CEO. Comparative figures have been amended to include depreciation recognised under NZ 1FRS 16 Leases to allow comparison on a like-for-like basis in line with the financial reports received by the CEO in the current year.

Interest recognised under NZ IFRS 16 Leases is shown separately in the financial reports provided to the CEO. Comparative figures have been amended to separately disclose interest recognised under NZ IFRS 16 Leases to allow comparison on a like-for-like basis in line with the financial reports received by the CEO in the current year. Other interest income and expense are not allocated to segments as these are driven by the central treasury function, which manages the cash position of the Group.

Assets and liabilities are provided to the CEO on a Group basis, and are not separately reported with respect to the individual operating segments.

Sales between segments are eliminated on consolidation. The amounts provided to the CEO with respect to segment revenue are measured in a manner consistent with that of the financial statements.

4. BORROWINGS

The Group has syndicated committed bank borrowing facilities of $70m, comprising a $25m Working Capital facility with a maturity date of 30 November 2021 (31 December 2019 and 31 December 2020: $nil drawn), and a $45m Revolving Facility with a maturity date of 30 November 2021 (31 December 2019: $24m drawn and 31 December 2020: $nil drawn).

As at 31 December 2020, the Group had successfully negotiated an amendment to its current banking facility for a revised three year term and a $50m Revolving Cash Advance Facility.

5. IMPAIRMENT TESTING AND INTANGIBLES

NZ IAS 36 Impairment of Assets ("NZ IAS 36") requires the Group to assess for any indicators of impairment at the end of each reporting period and also to test the recoverable amount of the Group's assets against its carrying value to assess whether there is any indication that an asset may be impaired. The recoverable amount is the higher of an asset's fair value less costs of disposal ("FVLCD") and value-in-use ("VIU").

As at 31 December 2020, the Group's net assets is valued higher than its market capitalisation value which is assessed to be an indicator of impairment. However since 30 June 2020 the gap between these values has decreased due to the Group's improved trading performance in the current period. As a result of this indicator, the Group has undertaken an internal valuation to compare the current carrying value of each cash generating unit (CGU) against their recoverable amount.

The Group has completed FVLCD calculations for each CGU and the recoverable amounts for each CGU has increased from the calculations performed at 30 June 2020. Key assumptions used are broadly consistent with previous impairment testing performed at June 2020. In particular the Group has applied the same terminal growth rate, updated the Weighted Average Cost of Capital for current market conditions and considered the most recently available market information for financial forecasts. With improved trading performance across the Group, there remains sufficient headroom in all CGUs based on the FVLCD calculations to support the carrying value of each CGU's assets. The Group has therefore concluded that no impairment is required as at 31 December 2020. The Group has also confirmed that no reversal of the previous impairment of intangible assets should be made.

For the period ended 31 December 2019, the Group concluded that the carrying value of goodwill was fully impaired and as a result, the Group recognised a goodwill impairment charge of $37.1m in the Statement of Profit or Loss and Other Comprehensive Income.

6. ASSETS HELD FOR SALE

On 22 December 2020, the Group signed an unconditional agreement to sell its property at 26 -32 Hautonga St, Petone, Lower Hutt for $7.0m on a sale and lease back basis. The sale is expected to be completed on 22 March 2021. The property, plant and equipment related to the Hautonga site have been measured at a carrying value of $6.0m and presented as held for sale.

7. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

During the six months ended 31 December 2020, the Group had lease additions and modifications of $6.1m with a corresponding gain recognised upon reassessment of $0.34m. The surrender and early termination of leases have resulted in a reduction of $0.3m to the right-of-use assets and a gain of $1.1m recognised. The Group's lease liabilities have also been adjusted for these changes.

8. RELATED PARTIES

The Company has related party relationships with its subsidiaries and with key management personnel.

There have been no material changes in the nature or amount of related party transactions for the Group since 30 June 2020.

9. LITIGATION

In December 2016 the Commerce Commission (the Commission) announced that it had completed its investigation in relation to several steel companies, and that it intended to prosecute multiple companies under the Fair Trading Act, including Steel & Tube. The Commission's prosecution of Steel & Tube related to the inadvertent use of a testing laboratories logo on test certificates, and application of testing methodologies.

In October 2018 the Auckland District Court imposed a fine of $1.885m, which was subsequently increased by the High Court to $2.009m in August 2019. Both Steel & Tube and the Commission appealed the decision. The Court of Appeal hearing was held on 12 August 2020. In November 2020, the Court of Appeal ruled that the fine be reduced to $1.56m.

As a result of the court judgement, the Group subsequently paid the $1.56m fine in December 2020. The provision previously held in relation to this prosecution has been released as at 31 December 2020 and the insurance claim was received. There was no net impact on the reported profit for the period.

10. SUBSEQUENT EVENTS

As outlined in Note 4, the Group has executed an agreement on 15 February 2021 with ANZ for a revised three year $50m Revolving Cash Advance Facility.

On 25 February 2021 the Board declared an unimputed interim dividend of 1.21 cents per share ($2.0m) to be paid on 26 March 2021.

Independent auditor's review report

To the shareholders of Steel & Tube Holdings Limited

Report on the interim financial statements

Our conclusion

We have reviewed the interim financial statements of Steel & Tube Holdings Limited (the Company) and its controlled entities (the Group), which comprise the balance sheet as at 31 December 2020, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the six month period ended on that date, and selected explanatory notes and other information.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 31 December 2020, and its financial performance and cash flows for the six month period then ended, in accordance with International Accounting Standard 34 *Interim Financial Reporting* (IAS 34) and New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting* (NZ IAS 34).

Basis for conclusion

We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 (Revised) *Review of Financial Statements Performed by the Independent Auditor of the Entity* (NZ SRE 2410 (Revised)). Our responsibility is further described in the *Auditor's responsibility for the review of the interim financial statements* section of our report.

We are independent of the Group in accordance with the relevant ethical requirements in New Zealand relating to the audit of the annual financial statements, and we have fulfilled our other ethical responsibilities in accordance with these ethical requirements. Other than in our capacity as auditor we have no relationship with, or interests in, the Group.

Directors' responsibility for the interim financial statements

The Directors of the Company are responsible on behalf of the Company for the preparation and fair presentation of these interim financial statements in accordance with IAS 34 and NZ IAS 34 and for such internal control as the Directors determine is necessary to enable the preparation and fair presentation of interim financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the interim financial statements

Our responsibility is to express a conclusion on the interim financial statements based on our review. NZ SRE 2410 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements, taken as a whole, are not prepared in all material respects, in accordance with IAS 34 and NZ IAS 34. A review of interim financial statements in accordance with NZ SRE 2410 (Revised) is a limited assurance engagement. We perform procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing and International Standards on Auditing (New Zealand) and consequently does not enable us to obtain assurance that we might identify in an audit. Accordingly, we do not express an audit opinion on these interim financial statements.

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Who we report to

This report is made solely to the Company's shareholders, as a body. Our review work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in our review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders, as a body, for our review procedures, for this report, or for the conclusion we have formed.

The engagement partner on the review resulting in this independent auditor's review report is Christopher Barber.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
25 February 2021

Auckland

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AUDITORS

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