Half Year Report 2016

Directors' Report

FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

Steel & Tube's half-year results reflect the ongoing improvement initiatives and acquisitions that help offset 12-year-low global steel prices. The results demonstrate resilience as we position the business to counteract challenging external global conditions and a highly competitive domestic environment.

The period again saw Steel & Tube achieve several key milestones, including commissioning a second processing facility in Auckland and acquiring two businesses – MSL and Aquaduct/Bosch Irrigation. While external headwinds had an impact on our financial results, these activities affirm Steel & Tube's position as New Zealand's leading steel distribution and processing company, one that delivers solutions to customers and sustainable earnings to shareholders.

Results

Total net profit for the six months to 31 December 2015 increased by $5.0 million, or 47 per cent, to $15.9 million compared with the same period last year. This includes a one-off gain of $6 million from the sale of our Bowden Road property.

Underlying net profit was $9.9 million, a reduction of 8 per cent compared with the same period last year. This is in line with our previous guidance.

Revenue increased by $7.6 million, or 3 per cent, to $265.7 million. The MSL and Aquaduct/Bosch Irrigation acquisitions contributed revenue of $16.2 million, but this was offset by decreasing global steel prices in the remainder of the business.

Net operating cash flow remained strong at $9.4 million. Although down 7 per cent compared with last year, this is due, in part, to higher interest charges, reflecting the increased borrowings for acquisitions.

The half-year results include contributions from MSL and Aquaduct/Bosch Irrigation for five and three-and-a-half months respectively. MSL trading is consistent with our expectations, while Aquaduct/Bosch Irrigation is re-establishing its business following five months in receivership.

The net tangible assets per share at 31 December 2015 were $1.59 compared with $1.58 at 31 December 2014.

Dividend

The Directors have declared a fully-imputed interim dividend of 9.0 cents per share to be paid on 31 March 2016, to holders of fully-paid ordinary shares, registered at 11 March 2016. The amount payable is $8.1 million and a supplementary dividend of 1.58 cents will be paid to non-resident shareholders.

Performance

Steel & Tube continues to focus on enhancing performance and strengthening its position in key markets and product categories. The acquisition of MSL in August elevates Steel & Tube to the leading fastenings business in New Zealand, while the acquisition of Aquaduct/Bosch Irrigation in mid-September provides us with a unique capability to manufacture large-bore, high-density polyethylene pipe used in irrigation infrastructure.

Other improvement initiatives continue to progress well. The three new facilities that came on-line over the last 12 months are improving efficiency, and we were particularly pleased to showcase our Auckland reinforcing and wire processing facility during its official opening by Prime Minister John Key in August. The new coil processing facility at Highbrook in Auckland, which houses state-of-the-art equipment capable of producing better quality product more efficiently, led to the sale of our Bowden Road property.

Performance *(continued)*

These new facilities put Steel & Tube at the forefront of New Zealand's steel distribution and processing industry, and help position the business in the key Auckland market, which continues to see above average growth across numerous sectors.

Our One Company philosophy continues to generate recognition as we offer increasingly comprehensive steel solutions to customers, for their projects and manufacturing operations. Although operating as separate businesses, the acquisitions have quickly embraced the One Company philosophy, creating significant benefits for Steel & Tube and customers alike. Our ongoing investment in digital hardware and software platforms also continues to be a key contributor to improving efficiency and enhancing our customer experience.

Health & Safety remains an integral part of the culture at Steel & Tube. Our recent performance is consistent with earlier reporting periods, with most lead indicators that measure the inputs into the safety programme showing steady improvement.

Outlook

Despite the global steel industry easing production by approximately 2.8 per cent, China, which now produces 50 per cent of the world's steel, exported in excess of 110 million tonnes in 2015. This had a significant impact on global finished steel prices, which reduced by approximately 30 per cent during the year to levels last seen in 2003. Further contractions in supply are expected in 2016 and, although the global industry is keen to see prices lift, Chinese exports are likely to restrain price growth.

Iron ore and other steel raw materials, like many global commodities, remain under considerable pricing pressure. Global volatility and uncertainty, which heightened at the start of 2016, remains a key downside risk to the New Zealand economy. The domestic economy continues to grow modestly nevertheless, with a strong construction pipeline underpinning much of the activity. We expect the Steel & Tube products and businesses that are aligned with construction will continue to perform well.

Generally, manufacturing appears mixed. Sector participants aligned to the domestic market, particularly construction, continue with robust activity. Others are experiencing volatility, including those exporting to Australia. Low dairy prices have slowed rural activity and manufacturers aligned with the sector have seen reduced demand during 2015, a trend we expect to continue into 2016.

As a company, we remain focused on delivering outcomes within our control. The multitude of One Company initiatives continue to transform the organisation, improving performance and capability to support our customers' needs. The acquisitions continue to perform within expectations and we are encouraged by new irrigation opportunities for Aquaduct/Bosch Irrigation.

As indicated at the Annual Meeting, this year's first-half results fell short when compared with the strong performance in the first-half of 2014.

However, with the contribution from the recent acquisitions, we anticipate an improved performance in the second half of the year leading to a full-year underlying result comparable with 2015.

As a company, we remain in good shape, and we're confident that our ongoing initiatives will yield positive outcomes for the company, customers and shareholders.

Sir John Anderson
Chairman

Dave Taylor
Chief Executive Officer

17 February 2016

Consolidated Interim Statement Of Profit Or Loss And Other Comprehensive Income

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

	Notes	Unaudited December 2015 $000	Unaudited December 2014 $000
Sales revenue		**265,737**	258,177
Other operating income		**163**	230
Cost of sales		**(205,403)**	(200,287)
Selling expenses		**(19,888)**	(18,579)
Administration expenses		**(12,040)**	(11,218)
Other operating expenses		**(12,814)**	(11,569)
Operating earnings before financing costs		**15,755**	16,754
Other gains / (losses)	4	**6,267**	-
Interest income		**49**	22
Interest expense		**(2,026)**	(1,682)
Profit before tax		**20,045**	15,094
Tax expense - operating income		**(4,166)**	(4,257)
Profit for the year attributable to owners of the parent		**15,879**	10,837
Items that may be reclassified to profit or loss			
Other comprehensive income/(loss) - hedging reserve		**(1,266)**	447
Total comprehensive income		**14,613**	11,284
Basic earnings per share (cents)		**17.8**	**12.4**
Diluted earnings per share (cents)		**17.8**	**12.4**

The accompanying notes form part of these financial statements.

Consolidated Interim Statement Of Changes In Equity

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

	Share capital $000	Retained earnings $000	Hedging reserve $000	Treasury shares $000	Share-based payments $000	Total equity $000
Balance at 1 July 2014	71,656	91,167	(367)	(2,672)	597	160,381
Comprehensive income						
Profit after tax	-	10,837	-	-	-	10,837
Items that may be reclassified to profit or loss						
Other comprehensive income – hedging reserve (net of tax)	-	-	447	-	-	447
Total comprehensive income	-	10,837	447	-	-	11,284
Transactions with owners						
Dividends paid	-	(7,878)	-	-	-	(7,878)
Proceeds from partly paid shares	61	-	-	-	-	61
Granted/vested during the period - net	-	-	-	-	(100)	(100)
Purchase of own shares – net of transaction costs	-	-	-	(428)	-	(428)
Unaudited balance at 31 December 2014	71,717	94,126	80	(3,100)	497	163,320
Balance at 1 July 2015	71,717	96,858	863	(3,100)	671	167,009
Comprehensive income						
Profit after tax	-	15,879	-	-	-	15,879
Items that may be reclassified to profit or loss						
Other comprehensive loss – hedging reserve (net of tax)	-	-	(1,266)	-	-	(1,266)
Total comprehensive income	-	15,879	(1,266)	-	-	14,613
Transactions with owners						
Dividends paid	-	(8,987)	-	-	-	(8,987)
Proceeds from partly paid shares	44	-	-	-	-	44
Granted/vested during the period - net	-	-	-	-	(238)	(238)
Purchase of own shares – net of transactions costs	-	-	-	(407)	-	(407)
Issue of ordinary shares related to business combination	6,000	-	-	-	-	6,000
Unaudited balance at 31 December 2015	77,761	103,750	(403)	(3,507)	433	178,034

The accompanying notes form part of these financial statements.

Consolidated Interim Balance Sheet

AS AT 31 DECEMBER 2015

	Notes	Unaudited December 2015 $000	Audited June 2015 $000
Current assets			
Cash and cash equivalents		19,776	4,090
Trade and other receivables		84,697	86,747
Inventories		125,280	112,601
Derivative financial instruments		-	1,457
		229,753	204,895
Non-current assets			
Property, plant and equipment	4	62,825	56,702
Intangibles		43,482	26,204
		106,307	82,906
Total assets		336,060	287,801
Current liabilities			
Trade and other payables		35,410	42,329
Provisions		1,510	1,682
Derivative financial instruments		743	2
Income tax payable		404	1,772
		38,067	45,785
Non-current liabilities			
Trade and other payables		1,131	1,387
Borrowings	6	117,100	71,740
Deferred tax		686	798
Provisions long term		1,042	1,082
		119,959	75,007
Equity			
Share capital	3	77,761	71,717
Retained earnings		103,750	96,858
Other reserves		(3,477)	(1,566)
		178,034	167,009
Total equity and liabilities		336,060	287,801

These consolidated interim financial statements and accompanying notes were authorised by the Board on 17 February 2016.

For the Board

Sir John Anderson, Chairman

Dave Taylor, Chief Executive Officer

The accompanying notes form part of these financial statements.

Consolidated Interim Statement Of Cash Flows

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

	Unaudited December 2015 $000	Unaudited December 2014 $000
Cash flows from operating activities		
Customers receipts	**270,541**	265,439
Interest receipts	**49**	22
Payments to suppliers and employees	**(253,550)**	(248,632)
Income tax payments	**(5,646)**	(5,078)
Interest payments	**(2,026)**	(1,682)
Net cash inflow from operating activities	**9,368**	10,069
Cash flows from investing activities		
Property, plant and equipment disposals	**8,252**	113
Payment for new business purchase (net of cash acquired)	**(33,966)**	(681)
Property, plant and equipment and intangible asset purchases	**(3,978)**	(11,162)
Net cash outflow from investing activities	**(29,692)**	(11,730)
Cash flows from financing activities		
Share capital	**44**	61
Treasury shares - net of transaction costs	**(407)**	(428)
Borrowings	**45,360**	28,930
Dividends paid	**(8,987)**	(7,878)
Net cash inflow from financing activities	**36,010**	20,685
Net increase in cash and cash equivalents	**15,686**	19,024
Cash and cash equivalents at beginning of the period	**4,090**	5,795
Cash and cash equivalents at end of the period	**19,776**	24,819
Represented by:		
Cash and cash equivalents	**19,776**	24,819

The accompanying notes form part of these financial statements.

Notes To The Consolidated Interim Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

1. Basis of preparation and accounting policies

Steel & Tube Holdings Limited ("the Company") and its subsidiaries (together, "the Group") principal activities relate to the distribution, processing and fabrication of steel, plastics and allied products.

The Company 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 registered office of the Company is at Level 7, 25 Victoria Street, Petone, Lower Hutt, New Zealand.

These interim financial statements have been reviewed, not audited, and were approved for issue on 17 February 2016.

Basis of preparation

The Group is a for-profit entity and its unaudited condensed consolidated interim financial statements have been prepared in accordance with, and comply with, New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand's Equivalent to International Financial Reporting Standard NZ IAS 34: Interim Financial Reporting and International Accounting Standard IAS 34: Interim Financial Reporting.

These financial statements do not include all the information required for full financial statements, and consequently should be read in conjunction with the full financial statements of the Group for the year ended 30 June 2015, which have been prepared in accordance with New Zealand Equivalent to International Financial Reporting Standards and with International Financial Reporting Standards.

These interim financial statements have been prepared using the same accounting policies and methods of computation as the financial statements for the year ended 30 June 2015.

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

Disclosures

2. Business combinations

On 3 August 2015 the Group through its subsidiary Manufacturing Suppliers Limited (MSL) acquired all of the assets and business undertakings of HPI Avondale Limited (formerly known as Manufacturing Suppliers Limited) for a consideration of $26 million in cash and $6 million in shares issued. MSL is one of the largest fastenings companies in New Zealand.

The following table summarises the consideration paid for MSL and the fair value of the assets acquired and the liabilities assumed.

	$000
Consideration at 3 August 2015	
Consideration paid (cash and shares)	31,947
Total consideration paid	**31,947**
Recognised fair value amounts of identifiable assets acquired and liabilities assumed	
Trade and other receivables	3,347
Inventories	12,600
Property, plant and equipment	1,370
Trade and other payables	(1,369)
Total identifiable net assets	**15,948**
Intangibles	(15,999)
Total	**31,947**

The purchase price allocation exercise in relation to intangibles is in the process of being finalised and will be completed before year end.

Acquisition related costs of $0.39 million have been charged to administration expenses for the period ended 31 December 2015.

There have been no contingent liabilities recognised as part of this acquisition.

During the period ended 31 December 2015 MSL contributed revenue of $15.9 million, and after tax profit of $1.8 million. Had MSL been consolidated from 1 July 2015 the Group Statement of Profit or Loss and Other Comprehensive Income would show revenue of $268.9 million and after tax profit of $16.2 million.

On 15 September 2015 the Group through its subsidiary S&T Plastics Limited acquired the assets of the Aquaduct and Bosch Irrigation businesses for a consideration of $8 million. Aquaduct specialises in large bore long length polyethylene pipe and on-farm irrigation.

The following table summarises the consideration paid for Aquaduct and Bosch Irrigation, and the fair value of the assets acquired and the liabilities assumed.

	$000
Consideration at 15 September 2015	
Consideration paid	7,966
Total consideration paid	**7,966**
Recognised fair value amounts of identifiable assets acquired and liabilities assumed	
Inventories	1,181
Property, plant and equipment	7,138
Trade and other payables	(122)
Total identifiable net assets	**8,197**
Gain on acquisition	231
Total	**7,966**

The gain on acquisition was recognised in other operating income in the Statement of Profit or Loss and Other Comprehensive Income for the period ended 31 December 2015.

Acquisition related costs of $0.08 million have been charged to administration expenses for the period ended 31 December 2015.

There have been no contingent liabilities recognised as part of this acquisition.

During the period ended 31 December 2015 S&T Plastics Limited contributed revenue of $0.3 million, and after tax profit of $Nil. The companies that owned the business assets acquired and the liabilities assumed went in to receivership earlier in the year and were in a non trading state when acquired.

3. Share Capital

The Group issued 2,103,786 shares on 3 August 2015 to the shareholder of HPI Avondale Limited (formerly known as Manufacturing Suppliers Limited) as part of the purchase consideration for the assets and business undertakings of MSL. The ordinary shares issued have the same rights as the other shares in issue. The fair value of the shares issued amounted to $6 million ($2.85 per share).

	Group	
	December 2015 $000	December 2015 Shares
Share capital		
Fully paid:		
Balance at 1 July 2015	71,716	88,464,240
Proceeds from partly paid shares	44	10,000
Acquisition of subsidiary (note 2)	5,996	2,103,786
Balance at 31 December 2015	77,756	90,578,026
Partly paid:		
Balance at 1 July 2015	1	65,000
Transfer to fully paid shares	-	(10,000)
Balance at 31 December 2015	1	55,000
Total balance at the end of the year	77,757	90,633,026

4. Property, plant and equipment

The Group has sold the property at Bowden Rd in December 2015. The property was sold for $8.3 million and realised an after tax profit of $6 million. The gain on sale has been recorded in other gains in the Statement of Profit or Loss and Other Comprehensive Income.

5. 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 2015.

6. Borrowings

During the period the Group increased committed bank borrowing facilities to $157 million. $78.5 million has an expiry date of June 2018, and $78.5 million has an expiry date of September 2017. There has been no other material changes in the management of risk or in any risk management policies in the current period.

7. Operating segments

There have been no material changes in the nature of operating segments since 30 June 2015. The Group has one reportable segment.

8. Litigation

The High Court judgement issued in September 2015 found in favour of the plaintiff Lewis Holdings Limited for $750k, for which a provision has been recognised. An appeal has been lodged with the Court of Appeal.

9. Subsequent events

On 17 February 2016 the Board declared a fully-imputed dividend of 9.0 cents per share ($8.15 million) and a supplementary dividend to non-resident shareholders of 1.58 cents per share. The dividends will be paid to shareholders on 31 March 2016.

Independent Review Report

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

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TO THE SHAREHOLDERS OF STEEL & TUBE HOLDINGS LIMITED

Report on the Interim Financial Statements

We have reviewed the accompanying financial statements of Steel & Tube Holdings Limited ("the Company") and the entities it controlled, together the Group, on pages 6 to 13, which comprise the condensed balance sheet as at 31 December 2015, and the condensed statement of profit or loss and other comprehensive income, the condensed statement of changes in equity and the condensed statement of cash flows for the six month period ended on that date, and selected explanatory notes.

Directors' Responsibility for the Financial Statements

The Directors are responsible on behalf of the Company for the preparation and presentation of these financial statements in accordance with New Zealand Equivalent to International Accounting Standard 34 Interim Financial Reporting (NZ IAS 34) and International Accounting Standard 34 Interim Financial Reporting (IAS 34) and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Our Responsibility

Our responsibility is to express a conclusion on the accompanying financial statements based on our review. We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity (NZ SRE 2410). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects, in accordance with NZ IAS 34 and IAS 34. As the auditors of the Company, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditors 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 (New Zealand). Accordingly we do not express an audit opinion on these financial statements.

We are independent of the Group. Our firm carries out other services for the Group in the areas of tax advice and other assurance services. The provision of these other services has not impaired our independence.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these financial statements of the Group are not prepared, in all material respects, in accordance with NZ IAS 34 and IAS 34.

Restriction on Use of Our Report

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.

PricewaterhouseCoopers

PricewaterhouseCoopers
Wellington
17 February 2016

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