Steel & Tube Holdings Limited
Financial Review 2018

Financial Review

CONTENTS

Financial Statements 2018

The financial report for Steel & Tube includes these sections:

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Significant matters in the financial year:

The Group has been impacted by a number of items, considered to be non-trading in nature, during the financial year ended 30 June 2018.

Enterprise Resource Planning System

The implementation of a new Enterprise Resource Planning (ERP) system went live on 2 October 2017. While the new ERP system is now operational, issues with its implementation across the Group hampered business operations and resulted in lost business. The Group worked closely with its IT suppliers to rectify issues and, while the Board and Management are disappointed in the execution of this project, they are confident that this new platform is the right one to take the Group forward. Refer to note C2.

The roll-forming business within the Infrastructure operating segment and the core Distribution businesses, in particular, were impacted by the ERP implementation issues. Refer to note A4.

S & T Plastics Closure

During the year, the Group carried out an extensive review of the S & T Plastics business resulting in a decision to exit the business. The Board considered that the narrow market segment the business operates in, further capital investment required in the business and a less favourable outlook for the irrigation market to be key factors in the decision to exit the business. The Board, having regard to optimising value for shareholders, considered that the Group would realise better value for shareholders by exiting the plastics business. The business and/or its assets are currently being marketed for sale. The assets related to S & T Plastics have been presented as held for sale following the decision to dispose of the business. The sale and close-down of the business is expected to be completed by December 2018. Costs associated with the impairment of assets to fair value less costs to sell and the exit of the plastics business totalled $10.8m in the 2018 financial year. Refer to note C4.

Business Reorganisation

Management also commissioned an independent consultant to undertake reviews of the operations of the Distribution and Infrastructure businesses in 2018. This led to decisions to restructure and re-organise certain parts of these businesses. These changes resulted in the Group incurring approximately $6m of expenditure. The Board considers these costs to be non-trading as they relate to business reorganisation activities and will not be repeated in future years.

Intangible Asset Impairment

The Group undertook value-in-use calculations for each Cash Generating Unit (CGU) that recognised Goodwill for the year ended 30 June 2018. A decline in performance over recent years in the Hurricane Wire and Distribution CGU's resulted in the value-in-use calculations showing a lower value than the recoverable amount of assets within those CGU's. This led to an impairment of Goodwill of $10.1 million. Management has commenced a business transformation project and consider that the financial performance of both CGU's can be improved.

The Group also reviewed capital spend associated with the implementation of the ERP system and assessed that costs totalling $2 million no longer provided economic benefit to the Group and were therefore impaired. Refer to note C2.

Inventory Impairment

During the year ended 30 June 2018, Management completed a detailed review of inventory holdings, aided by the implementation of the new ERP system. The new system assisted Management with improved visibility of inventory and the Group also completed detailed stock counts during May & June 2018. Following this detailed review and stock counts, Management identified that the carrying value of certain inventory items exceeded the net realisable value. This was primarily for stock items greater than twelve months old. Together with other aged stock impairments and valuation write-downs, the Group impaired approximately $15.3m of inventory value during the year. Following completion of detailed stock counts, the Group wrote-off approximately $8.7m of inventory which was no longer on hand. Management believe that the new IT system, together with improved stock count controls will ensure there is no further material write-downs of inventory. Refer to note B1.

Significant accounting policies which are relevant to the understanding of the financial statements are provided throughout the report in boxes outlined in red.

KEY POLICY

Critical accounting estimates and judgements

Preparation of these 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.

Estimates and judgements are continually evaluated, based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions about the future. Actual results may differ from these estimates.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying value of assets and liabilities within the next financial year are highlighted throughout the report in boxes shaded in red.

KEY JUDGEMENT

General information

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, plastic and related products.

The registered office of the Company is Level 7, 25 Victoria Street, Petone, Lower Hutt 5012, New Zealand.

These financial statements have been prepared:

- In accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP), for which Steel & Tube is a for-profit entity
- To comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and with International Financial Reporting Standards (IFRS)
- In accordance with the requirements of Part 7 of the Financial Markets Conduct Act 2013 and the NZX Main Board Listing Rules
- In New Zealand dollars (which is the Company's and subsidiaries' functional currency and the Group's presentation currency) and rounded to the nearest thousand dollars
- Under the historical cost convention, as modified by the revaluation of certain assets as identified in specific accounting policies.
- Following the implementation of a new ERP system during the period, certain comparative information has been reclassified to align with current year presentation. The changes to the comparatives are shown below:

	As previously stated $000s	Adjustments* $000s	Revised Financial statements $000s
Cost of sales	(380,226)	(4,674)	(384,900)
Interest expense	(3,091)	(537)	(3,628)
Operating expenses	(101,758)	5,211	(96,547)

*Adjustments

1 $4.67m adjustment from operating expenses to cost of sales to restate the salaries & wages payments that are directly associated with delivering revenue.

2 $0.54m in line fees for the Company's term loans were reclassified from operating expenses to interest expenses to better reflect the nature of the expense.

3. Intangibles - Software has been combined with licenses and comparatives changed in note C2.

The accompanying notes form part of these financial statements.

Statement of Profit or Loss and Other Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2018

	Notes	Group 2018 $000	Group 2017 $000
Sales revenue		**495,806**	511,400
Other operating income		**994**	1,676
Cost of sales	A3	**(398,399)**	(384,900)
Operating expenses	A3	**(115,924)**	(96,547)
Operating (loss) / earnings before other gains and financing costs		**(17,523)**	31,629
Impairment of property, plant and equipment and intangibles	C1/C2	**(20,100)**	-
Other gains		**1,436**	-
(Loss) / Earnings before interest and tax		**(36,187)**	31,629
Interest income		**53**	51
Interest expense		**(4,684)**	(3,628)
(Loss) / Profit before tax		**(40,818)**	28,052
Tax credit / (expense)	A5	**8,768**	(8,012)
(Loss) / Profit for the year attributable to owners of the Company		**(32,050)**	20,040
Items that may subsequently be reclassified to profit or loss			
Other comprehensive income / (loss) - hedging reserve		**2,136**	(762)
Items that may not subsequently be reclassified to profit or loss			
Other comprehensive income - revaluation reserve		**960**	35,713
Other comprehensive income / (loss) - deferred tax on revaluation reserve		**1,922**	(2,908)
Total comprehensive (loss) / income		**(27,032)**	52,083
Basic (loss) / earnings per share (cents)	A2	**(35.8)**	22.4
Diluted (loss) / earnings per share (cents)	A2	**(35.8)**	22.3

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2018

	Notes	Share capital $000	Retained earnings $000	Hedging reserve $000	Revaluation reserve $000	Treasury shares $000	Share-based payments $000	Total equity $000
Group								
Balance at 1 July 2016		77,756	105,657	(431)	-	(3,500)	763	180,245
Comprehensive income								
Profit after tax		-	20,040	-	-	-	-	20,040
Other comprehensive (loss) / income								
Hedging reserve (net of tax)		-	-	(762)	-	-	-	(762)
Asset revaluation (gross)		-	-	-	35,713	-	-	35,713
Deferred tax on above		-	-	-	(2,908)	-	-	(2,908)
Total comprehensive income		-	20,040	(762)	32,805	-	-	52,083
Transactions with owners								
Dividends paid	A2	-	(20,145)	-	-	-	-	(20,145)
Proceeds from partly paid shares	D3	48	-	-	-	-	-	48
Options vested during the year		-	-	-	-	-	(170)	(170)
Issue / (purchase) of own shares - net of transaction costs	D3	-	-	-	-	69	-	69
Balance at 30 June 2017		77,804	105,552	(1,193)	32,805	(3,431)	593	212,130
Comprehensive income								
(Loss) after tax		-	(32,050)	-	-	-	-	(32,050)
Other comprehensive (loss) / income								
Hedging reserve (net of tax)		-	-	2,136	-	-	-	2,136
Deferred tax on asset sale		-	-	-	2,191	-	-	2,191
Asset revaluation (gross)		-	-	-	960	-	-	960
Deferred tax on asset revaluation		-	-	-	(269)	-	-	(269)
Total comprehensive income		-	(32,050)	2,136	2,882	-	-	(27,032)
Transfer on sale of property		-	29,178	-	(29,178)	-	-	-
Transactions with owners								
Dividends paid	A2	-	(12,662)	-	-	-	-	(12,662)
Proceeds from partly paid shares	D3	41	-	-	-	-	-	41
Options vested during the year		-	-	-	-	-	(400)	(400)
Issue / (purchase) of own shares - net of transaction costs	D3	-	-	-	-	535	-	535
Balance at 30 June 2018		77,845	90,018	943	6,509	(2,896)	193	172,612

The accompanying notes form part of these financial statements.

Balance Sheet

AS AT 30 JUNE 2018

		Group	
		2018	2017
	Notes	**$000**	$000
Current assets			
Cash and cash equivalents	E6	**5,584**	6,517
Trade and other receivables	B2	**99,181**	93,489
Inventories	B1	**116,047**	143,064
Income tax refund		**5,165**	218
Derivative financial instruments	E6	**1,271**	2
Assets held for sale	C4	**1,639**	-
		228,887	243,290
Non-current assets			
Deferred tax	A5	**6,488**	-
Property, plant and equipment	C1	**52,739**	102,589
Intangibles	C2	**57,423**	66,848
		116,650	169,437
Total assets		**345,537**	412,727
Current liabilities			
Trade and other payables	B3	**49,867**	54,361
Provisions	E2	**9,215**	3,534
Derivative financial instruments	E6	**17**	1,714
		59,099	59,609
Non-current liabilities			
Trade and other payables	B3	**2,108**	2,212
Borrowings	D1	**109,935**	133,374
Deferred tax	A5	**-**	4,157
Provisions	E2	**1,783**	1,245
		113,826	140,988
Equity			
Share capital	D3	**77,845**	77,804
Retained earnings		**90,018**	105,552
Other reserves		**4,749**	28,774
		172,612	212,130
Total equity and liabilities		**345,537**	412,727

These financial statements and the accompanying notes were authorised by the Board on 28 August 2018.

For the Board

Susan Paterson
Chair

Anne Urlwin
Director

The accompanying notes form part of these financial statements.

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2018

	Notes	Group 2018 $000	2017 $000
Cash flows from operating activities			
Customer receipts		**489,686**	512,979
Interest receipts		**53**	51
Payments to suppliers and employees		**(478,601)**	(480,329)
Income tax payments		**(5,620)**	(8,231)
Interest payments		**(4,195)**	(3,628)
Net cash inflow from operating activities		**1,323**	20,842
Cash flows from / (to) investing activities			
Property, plant and equipment disposal proceeds		**52,768**	221
Payment for new business purchase (net of cash acquired)		**-**	(13,761)
Property, plant and equipment and intangible asset purchases		**(18,964)**	(18,518)
Net cash inflow / (outflow) from investing activities		**33,804**	(32,058)
Cash flows (to) / from financing activities			
Proceeds from partly paid shares	D3	**41**	48
Issue / (purchase) of Treasury shares		**-**	69
Net proceeds from / (repayment of) borrowings	D2	**(23,439)**	35,474
Dividends paid	A2	**(12,662)**	(20,145)
Net cash (outflow) / inflow from financing activities		**(36,060)**	15,446
Net (decrease) / increase in cash and cash equivalents	D2	**(933)**	4,230
Cash and cash equivalents at the beginning of the year		**6,517**	2,287
Cash and cash equivalents at the end of the year		**5,584**	6,517
Represented by:			
Cash and cash equivalents		**5,584**	6,517
		5,584	6,517
Reconciliation of (loss) / profit after tax to cash flows from operating activities			
(Loss) / profit after tax		**(32,050)**	20,040
Non-cash adjustments:			
Depreciation and amortisation		**8,060**	7,681
Deferred tax		**(9,572)**	905
Impairment of property, plant, equipment and intangibles		**20,100**	-
Other		**(400)**	-
Gain on items classified as investing activities:			
(Gain)/Loss on property, plant and equipment disposals		**(1,436)**	-
		(15,298)	28,626
Movements in working capital:			
Income tax		**(4,947)**	(808)
Inventories		**27,017**	(13,194)
Trade and other receivables		**(5,692)**	(111)
Trade and other payables		**243**	6,329
Net cash inflow from operating activities		**1,323**	20,842

The accompanying notes form part of these financial statements.

Section A - Performance

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

This section focuses on the Group's financial performance and returns provided to Shareholders.

A1: Business Performance

During 2018, Steel & Tube introduced a comprehensive change programme targeting improved business performance and also carried out an extensive review of business operations. The review resulted in a decision to exit S & T Plastics business, a write-down of inventory values, impairment of intangible assets, rationalisation of Distribution and Reinforcing operations and completion of further organisational restructuring.

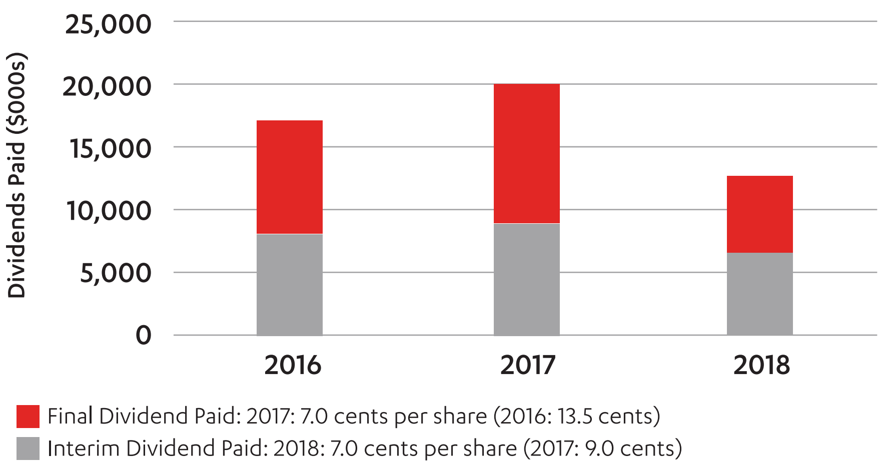
The non-trading costs associated with the review, offset by some upside from the sale of two properties were $53.8m and these have directly impacted EBIT performance in 2018.

The Group was also impacted by issues related to the implementation of the new ERP system that went live on 2nd October. The implementation issues hampered business operations, mainly in the roll-forming and core distribution businesses, and resulted in lost business. The Group worked closely with its IT suppliers to rectify the issues and are confident that this new platform is the right one to take the Company forward.

A2: Dividends and Earnings per Share

On 7 August 2018 the Board announced a capital raising and declared that, as a result, a final, full year dividend would not be declared (2017: 7.0 cents per share or $6.34m).

Dividends Paid and Earnings per Share



Dividends paid are fully imputed. The Group is entitled to a tax credit for supplementary dividends paid to overseas shareholders of $0.25m (2017: $0.34m).

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of fully paid shares less treasury shares.

Diluted earnings per share includes partly paid shares (refer Note D3) and represents the Company's earnings per share if convertible shares were exercised. The weighted average number of shares is adjusted by the number of outstanding rights to executive shares that are deemed to vest at their future vesting dates.

(Loss) / Earnings per share (EPS)

	2018 $000	2017 $000
(Loss) / profit after tax	**(32,050)**	20,040
Weighted average number of shares for basic EPS	**89,596**	89,427
Weighted average number of shares for diluted EPS	**N/A**	90,028
Basic (loss) / earnings per share (cents)	**(35.8)**	22.4
Diluted (loss) / earnings per share (cents)	**(35.8)**	22.3

The impact of unvested share options on the Group's diluted EPS is anti-dilutive. As a result, basic and diluted EPS are the same for 2018.

A3: Expenses

Included in operating activities:	2018 $000	2017 $000
Inventories expensed in cost of sales	**349,973**	358,665
Inventory written down / impairment	**24,005**	25
Bad and doubtful debts	**2,855**	1,061
Depreciation and amortisation	**8,060**	7,681
Directors' fees	**478**	349
Donations	**8**	29
Employee benefits	**76,646**	67,067
Defined contribution plans	**1,625**	1,495
Information Technology Expenses	**6,058**	3,542
Foreign exchange gains	**(2,105)**	(1,781)
Operating leases	**17,109**	15,190
Onerous leases	**1,999**	-
Other expenses	**27,612**	28,124
Total cost of sales and operating expenses	**514,323**	481,447

Inventory as sold is expensed as cost of sales. Adjustments between Inventory cost and net realisable value are included in cost of sales. Adjustments to receivables are included in other operating expenses.

Depreciation related to equipment used to manufacture products is included in cost of sales. Other depreciation is included in operating expenses.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight-line basis over the term of the lease.

A4: Operating Segments

Following a change to the operating structure of the Group during the reporting period, the reportable operating segments have been revised to align with the new structure. Previously the Group had one reportable segment. The Group has realigned its operating structure whereby there are now two clear Operating Divisions. The Group's internal financial reporting has changed to align with this new structure. The CEO, assessed to be the Group's Chief Operating Decision Maker (CODM), now receives separate financial reports for the two Operating Divisions. As a result it has been determined that the Group has two reportable segments being the Distribution and Infrastructure Divisions. The Group has made the decision that the seven operating segments that form part of the reporting to the CEO can be aggregated into the two reporting segments. 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. Within each segment there are the same customers and similar sales channels.

The Group derives its revenue from the distribution and processing of steel, plastics and allied products. Within the Distribution business the majority of product is traded and sales staff are tasked to know the full range of products. Within the infrastructure business product is predominantly 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 CODM for the year ended 30 June 2018 is as follows:

	Distribution $000	Infrastructure* $000	Other/ Elimination $000	Reconciled to Group $000
2018				
Revenue from external customers	288,299	207,507	-	**495,806**
Amortisation and depreciation	1,943	3,776	2,341	**8,060**
Impairment of property, plant, equipment and intangibles	(4,391)	(13,682)	(2,027)	**(20,100)**
Segment EBIT	(12,752)	(6,112)	(17,323)	**(36,187)**
Interest (net)				**(4,631)**
Reconciled to Group Loss Before Tax				**(40,818)**
Total assets	195,101	111,942	38,494	**345,537**
Total liabilities	30,150	38,926	103,849	**172,925**
2017				
Revenue from external customers	305,675	205,725	-	511,400
Amortisation and depreciation	1,998	3,335	2,348	7,681
Segment EBIT	17,041	18,767	(4,179)	31,629
Interest (net)				(3,577)
Reconciled to Group Profit Before Tax				28,052
Total assets	190,969	125,274	96,484	412,727
Total liabilities	22,702	33,340	144,555	200,597

* Included in Infrastructure division is S & T Plastics. Following the Board approved decision in May 2018 to exit the Plastics business the sale process is underway. Management has undertaken an evaluation of the expected realisable value and costs associated with closing down the business as disclosed in note C4.

Interest income and expense are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the Group.

Sales between segments are eliminated on consolidation. The amounts provided to the CODM with respect to segment revenue and segment assets are measured in a manner consistent with that of the financial statements. Segment assets are allocated based on the operations of the segment and the physical location of the asset.

Following the change in operating structure it is the intent of Management to record certain supplier transactions in applicable operating segments and in the information presented to the CEO. This change has been implemented from 1 July 2018. The Group's internal reporting provided to the CODM is aligned with this change.

A5: Income and Deferred Tax

Income tax comprises both current and deferred tax.

All entities in the Group are part of the same income tax group.

Current tax is the expected tax payable on the taxable income for the period, using current tax rates, and any adjustment required to tax payable in respect of prior periods.

Deferred tax is recognised in respect of temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets are only recognised to the extent that it is probable future taxable profits will offset temporary differences. Tax rates used are those that have been enacted or substantially enacted at balance date and which are expected to apply when the deferred tax asset or liability crystalises.

Deferred tax is not provided if it arises from the following differences:

- **goodwill not deductible for tax purposes**
- **initial recognition of assets and liabilities in a transaction other than a business combination that affects neither accounting or taxable profit and**
- **investment in subsidiaries where the timing of the reversal of the temporary difference is controlled by the Group to the extent that they will probably not reverse in the foreseeable future.**

KEY POLICY

Income and deferred tax

	2018 $000	2017 $000
(Loss) / profit before tax	(40,818)	28,052
Non-assessable income	(2,076)	(425)
Non-deductible expenditure	11,581	988
	(31,313)	28,615
Tax (credit) / expense at 28%	(8,768)	8,012
Represented by:		
Current tax	804	7,107
Deferred tax	(9,572)	905
	(8,768)	8,012

Tax Losses

Steel & Tube has recognised tax losses available to carry forward of $4.9m (2017: Nil). A deferred tax asset has been recognised for these losses as they are expected to be realised within the foreseeable future.

Deferred tax assets and liabilities

The table below shows the movement in the deferred tax balances that are recognised at the beginning and end of the period.

	Opening balance $000	Acquired in business combination $000	Recognised in income $000	Recognised in equity $000	Closing balance $000
Group 2018					
Property, plant and equipment	**(7,852)**	**-**	**4,185**	**1,922**	**(1,745)**
Employee benefits	**1,872**	**-**	**(679)**	**-**	**1,193**
Provisions	**1,740**	**-**	**4,269**	**-**	**6,009**
Cash flow hedging reserve	**499**	**-**	**-**	**(849)**	**(350)**
Customer relationship	**(113)**	**-**	**113**	**-**	**-**
Customer contracts	**(225)**	**-**	**225**	**-**	**-**
Licenses	**(78)**	**-**	**78**	**-**	**-**
Net tax loss to carry forward	**-**	**-**	**1,381**	**-**	**1,381**
	(4,157)	**-**	**9,572**	**1,073**	**6,488**
Group 2017					
Property, plant and equipment	(3,485)	-	(1,459)	(2,908)	(7,852)
Employee benefits	1,670	-	202	-	1,872
Provisions	1,612	-	128	-	1,740
Cash flow hedging reserve	183	-	-	316	499
Customer relationship	(140)	-	27	-	(113)
Customer contracts	-	(414)	189	-	(225)
Licenses	-	(86)	8	-	(78)
	(160)	**(500)**	**(905)**	**(2,592)**	**(4,157)**

	2018 $000	2017 $000
The analysis of deferred tax assets and deferred tax liabilities is as follows:		
Deferred tax liabilities	**(2,095)**	(9,339)
Deferred tax assets	**8,583**	5,182
Deferred tax asset / (liabilities) (net)	**6,488**	(4,157)

Imputation credits available at year end were $2.6m (2017: $9.6m).

Section B - Working Capital

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

This section contains details of the short term operating assets and liabilities required to service the Group's Distribution branches and Processing sites.

B1: Inventories

Inventories are stated at the lower of cost and net realisable value, with cost determined on a moving average cost basis or standard cost basis. Costs include expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion, and selling expenses. The cost of manufactured/fabricated finished inventories includes a share of overheads based on normal operating capacity.

KEY POLICY

Key judgement

Inventory impairment

The Group undertook an assessment of its inventory holdings to identify slow moving and aged inventory. Inventory was considered aged if it had not had a sale for more than 12 months. Inventory was considered slow moving if the Group held greater than 12 months' worth of sales of the stock. Upon identification of this inventory the Group conducted an assessment to determine whether the net realisable value (NRV) of the inventory was greater than the inventory cost. NRV is mostly based on scrap value and a reasonable change in NRV of impaired inventory wouldn't have a material impact on the provision. At 30 June 2018, for $8.8m (at cost value) of inventory, the Group determined that NRV was lower than cost. An impairment provision of $8.4m was recognised in cost of sales to reduce the carrying value of this inventory. This is in addition to the impairment expense of $6.9m recognised earlier in the year. Judgement was required in the determination if the aged inventory can sell and hence whether inventory should be impaired.

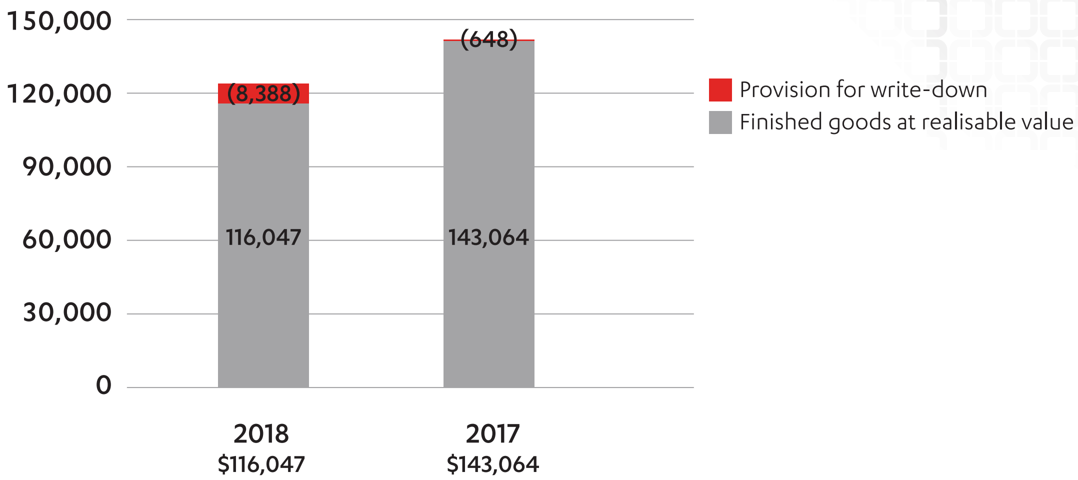
Inventory Existence

The Group implemented a new ERP system during the year. While the system is now operational, issues with its implementation across the Group were greater than anticipated. Following implementation, and to gain greater confidence in the financial position of the Group, Management decided that a full wall-to-wall inventory count should be conducted for the parts of the Group impacted by the ERP implementation. This was a departure from the Group's inventory count policy which requires inventory be counted on a cycle count basis. The counts were conducted prior to balance date. Due to the number of locations and volume of inventory Stock Keeping Units (SKUs) to be counted, the inventory counts were not all conducted at the same date. The count programme was conducted in May and June 2018. While significant judgement was not involved in conducting the inventory counts it did require significant levels of effort. The counts also identified that $8.7 million of inventory did not exist. The Group recognised an inventory write off within costs of sales for this inventory.

KEY JUDGEMENT

The Group holds inventories valued at $116.0 million (2017: $143.1 million).

Inventories ($000s)



The Group is exposed to foreign exchange risk arising mainly from overseas purchases of inventory. In accordance with its Treasury Policy, all confirmed overseas purchase orders are fully hedged using forward foreign exchange contracts where payment is made in a foreign currency. The Group qualifies for hedge accounting. The effective portion of the changes in fair value is recognised in other comprehensive income and accumulated in reserves in equity as described in section E10.

As at balance date foreign exchange contracts recorded as assets were $1.27m (2017: $0.002m) and as liabilities were $0.017m (2017: $1.7m). The notional value of foreign exchange contracts in place as at 30 June 2018 totalled $37.7m (2017: $40.6m). The fair value of the foreign currency forward exchange contracts is as shown on the Balance Sheet. Refer to section E6 for fair value hierarchy determination.

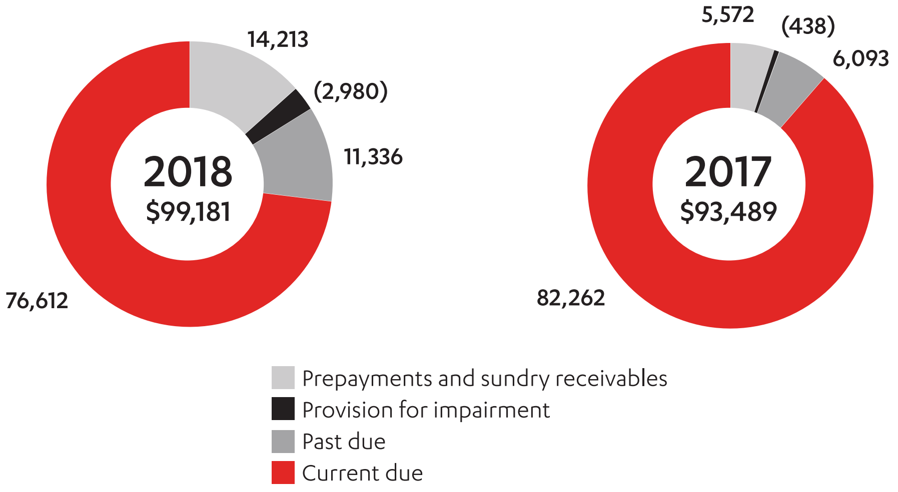
If the NZ dollar had weakened/strengthened by 5% against foreign currencies (primarily US dollar) at balance date, there would be no impact on profit or loss, as the Group qualifies for hedge accounting and all hedges are 100% effective at balance date. The effect would be to equity + $1.9m if NZ dollar strengthened by 5% and - $2.1m if the NZ dollar weakened by 5% (2017: + $1.8m /- $2.1m respectively).

B2: Trade and Other Receivables

Trade receivables at 30 June 2018 are $87.9m (2017: $88.4m) and are recognised initially at fair value and subsequently at amortised cost less any provision for impairment. The carrying value of trade and other receivables are equivalent to their fair value.

Trade receivables past due were revised to include aged debts greater than 60 days to align with the Group's payment terms. Comparative balances have been restated on the same basis.

Trade and Other Receivables ($000s)

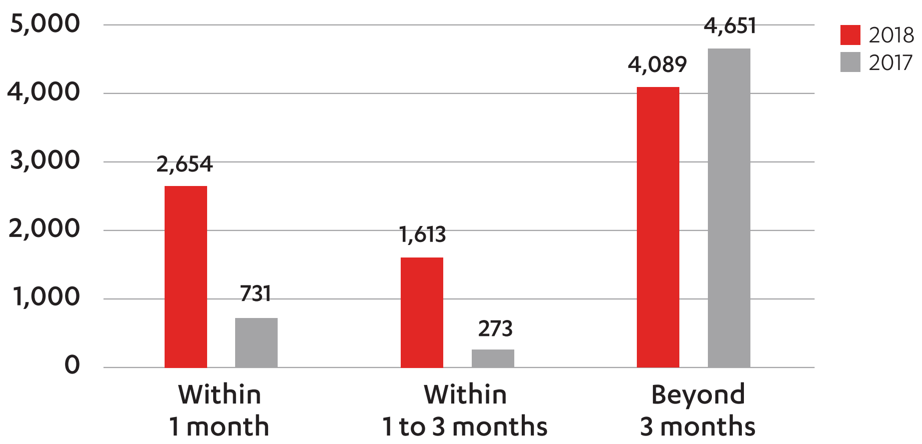


No one customer accounts for more than 2% of trade receivables at 30 June 2018 and 30 June 2017.

At 30 June 2018 trade receivables of $11.3m (2017: $6.1m) were over 60 days due. These relate to a number of independent customers for whom there is no recent history of default.

The aging profile of these customers is shown below.

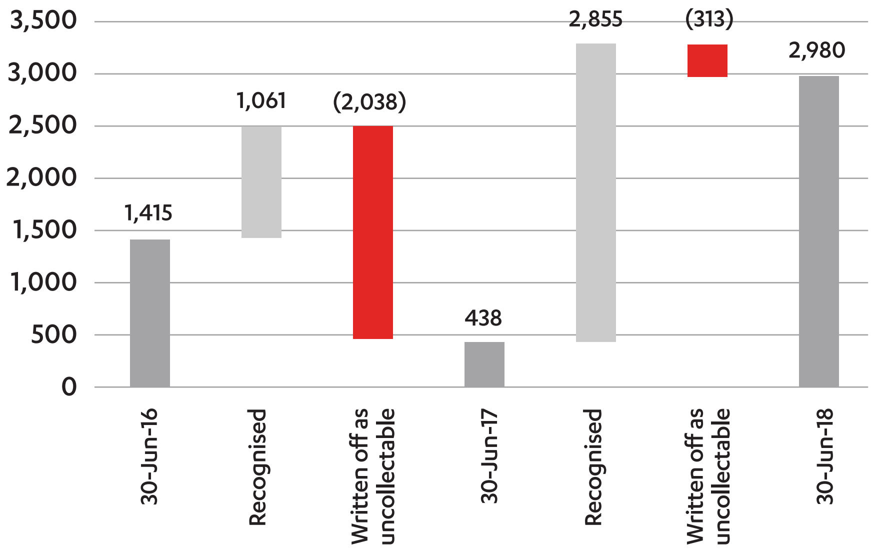
Past due but not impaired ($000s)



Provision for impairment

At 30 June 2018 an impairment provision of $3.0m (2017: $0.4m) was held. The impairment provision comprised assessment of recovery across a number of customers. The provision is based on objective evidence that indicates that the customers will not be able to pay their debts when due, these include significant financial difficulties of customers and the probability of entering receivership or bankruptcy.

Provision for impairment ($000s)



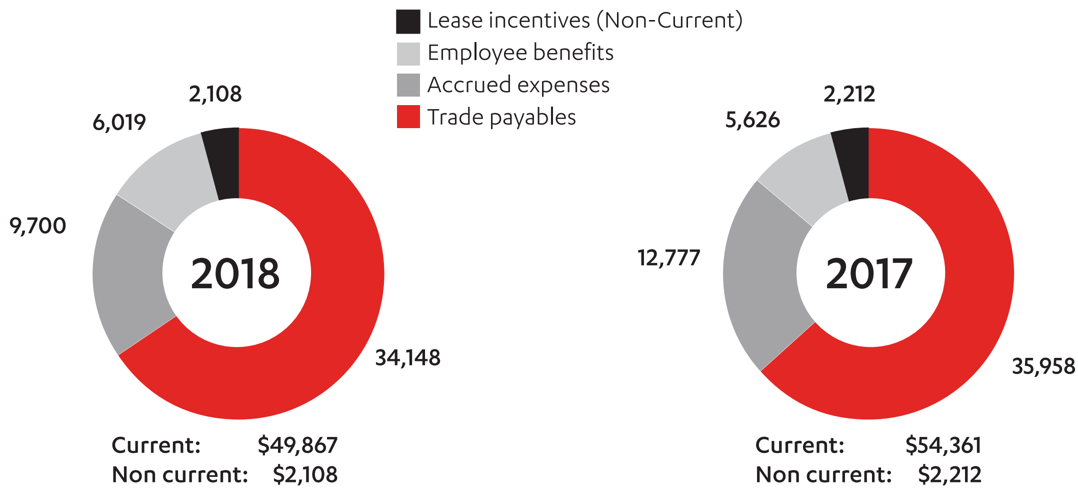
The Group is exposed to the risk of customers being unable to pay their debts as they fall due. The maximum exposure is the total value of these balances. Customers who trade on credit terms are subject to credit verification procedures and credit limits are set for each customer. The Group's credit policy is monitored regularly. In some circumstances security over assets may be obtained from trade debtors to mitigate the risk of default. There are no significant concentrations of credit risk in the current or prior years. Due to their short maturities the carrying value of trade and other receivables is considered to approximate their fair values.

The Group also has credit risk in respect of financial institutions that hold the Group's cash. These institutions have credit rating of AA-.

B3: Trade and Other Payables

Trade and other payables comprise $49.9m (2017: $54.4m) payable within a year and $2.1m (2017: $2.2m) payable beyond 12 months.

Trade and other payables ($000s)



The carrying amounts of the above items are equivalent to their fair values. Trade payables denominated in a foreign currency are not material in the current or comparative year.

Included in the prior year's balance was a contingent consideration liability recognised on acquisition of CFDL. The contingent consideration was payable if financial milestones were met in the 2018 and 2019 financial years. A full and final settlement agreement was reached with the previous owners of CFDL in 2018, resulting in $0.7m of the remaining provision being released to the profit or loss.

Section C - Fixed Capital

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

This section includes details of the Group's long term assets including tangible and intangible assets and related capital commitments.

During the year the Group sold its properties at Stonedon Drive, Auckland and Blenheim Road, Christchurch. The properties were sold for $32.6m and $21.1m respectively. The Group recognised a gain on sale of $1.5m within Other Income in the Statement of Profit or Loss and Other Comprehensive Income. The gain on sale is after the recognition of a make good aggregate provision of $1.5m and associated costs to sell. $29.2m was transferred from the Asset Revaluation Reserve to Retained Earnings associated with the sold buildings.

C1: Property, Plant and Equipment

Plant and equipment are stated at cost less accumulated depreciation with the exception of land and buildings and capital work in progress. Land and buildings are stated at fair value, and capital work in progress is stated at cost less impairment. Assets are tested annually for indicators of impairment and adjusted if required.

Depreciation is charged on a straight-line basis over the estimated useful lives of the assets, with the exception of land and capital work in progress, which are not depreciated. This allocates the cost or fair value amount of an asset, less any residual value, over its estimated remaining useful life. The residual values and useful lives are reviewed annually.

The estimated useful lives are as follows:

Buildings	50 years
Plant and machinery and motor vehicles	3 - 20 years
Furniture, fittings and equipment	2 - 10 years

Land and buildings are recognised at fair value based on valuations by external independent valuers, less subsequent depreciation for buildings. Valuations are undertaken when there is evidence that the carrying value of the property is materially different to fair value. A revaluation surplus is credited to other reserves in shareholder's equity.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in profit or loss. When revalued assets are sold, it is the Group's policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

KEY POLICY

	Land & buildings at fair value $000	Plant, machinery & vehicles at cost $000	Furniture, fittings & equipment at cost $000	Total $000
2018				
Opening cost	57,519	102,853	24,440	184,812
Opening accumulated depreciation	-	(61,776)	(20,447)	(82,223)
Opening net book value	57,519	41,077	3,993	102,589
Additions	7,170	6,361	1,731	15,262
Land and building revaluations:				
Increase to revaluation reserve	960	-	-	960
Disposals	(49,915)	(471)	(22)	(50,408)
Impairments*	-	(7,802)	(171)	(7,973)
Transfer to assets held for sale *	-	(1,300)	(339)	(1,639)
Depreciation	(359)	(3,818)	(1,875)	(6,052)
Closing net book value	15,375	34,047	3,317	52,739
Comprised of:				
Cost or fair value	15,375	85,885	18,301	119,561
Accumulated depreciation	-	(51,838)	(14,984)	(66,822)
Property, plant and equipment	15,375	34,047	3,317	52,739
2017				
Opening cost	28,897	94,554	23,427	146,878
Opening accumulated depreciation	(8,454)	(58,361)	(18,506)	(85,321)
Opening net book value	20,443	36,193	4,921	61,557
Net additions through business combinations	-	661	47	708
Additions	1,762	7,807	1,025	10,594
Disposals	-	(169)	(59)	(228)
Land and building revaluations:				
Increase to revaluation reserve	35,713	-	-	35,713
Decrease to income statement	-	-	-	-
Depreciation	(399)	(3,415)	(1,941)	(5,755)
Closing net book value	57,519	41,077	3,993	102,589
Comprised of:				
Cost or fair value	57,519	102,853	24,440	184,812
Accumulated depreciation	-	(61,776)	(20,447)	(82,223)
	57,519	41,077	3,993	102,589

Included within the plant, property and equipment categories is capital work in progress totalling $5.2m (2017: $3.3m). Capital work in progress was tested for indicators of impairment. No impairment indicators were identified.

At 30 June 2018 had land and buildings been carried at historical cost less accumulated depreciation their carrying amount would have been approximately $8.7m (2017: $21.8m).

*Refer note C4

Valuation of land and buildings:

The Group undertook a fair value assessment of land and buildings owned by the Group at 30 June 2018. The fair value of these land and buildings was determined based on the market comparable approach that reflects transaction prices for similar properties adjusted for identifiable differences including land use, economic conditions, zoning and location, quality and condition. They are categorised as Level 3 of the fair value hierarchy as unobservable inputs (as described in NZ IFRS 13). The valuations were prepared by independent and qualified registered valuers and are based on:

– Land and buildings - relevant general and economic factors such as recent sales, leasing transactions of comparable properties, and seismic strengthening costs.

The significant unobservable inputs are described in section E8.

The previous independent valuation of these land and buildings was performed in June 2017.

C2: Intangibles

	Goodwill $000	Software & Licences $000	Other $000	Total $000
2018				
Opening cost	**47,171**	**24,464**	**2,522**	**74,157**
Opening accumulated amortisation	**-**	**(6,406)**	**(903)**	**(7,309)**
Opening net book value	**47,171**	**18,058**	**1,619**	**66,848**
Additions	**-**	**4,710**	**-**	**4,710**
Amortisation charge	**-**	**(1,198)**	**(810)**	**(2,008)**
Impairment	**(10,100)**	**(2,027)**	**-**	**(12,127)**
Closing net book value	**37,071**	**19,543**	**809**	**57,423**
Comprised of:				
Cost	**47,171**	**24,832**	**2,522**	**74,525**
Accumulated amortisation	**-**	**(3,262)**	**(1,713)**	**(4,975)**
Impairment	**(10,100)**	**(2,027)**	**-**	**(12,127)**
Closing net book value	**37,071**	**19,543**	**809**	**57,423**
2017				
Opening cost	35,458	16,533	736	52,727
Opening accumulated amortisation	-	(5,251)	(132)	(5,383)
Opening net book value	35,458	11,282	604	47,344
Net additions through business combinations	11,713	-	1,786	13,499
Additions	-	7,931	-	7,931
Amortisation charge	-	(1,155)	(771)	(1,926)
Closing net book value	47,171	18,058	1,619	66,848
Comprised of:				
Cost	47,171	24,464	2,522	74,157
Accumulated amortisation	-	(6,406)	(903)	(7,309)
	47,171	18,058	1,619	66,848

Included within the intangibles categories is work in progress totalling $2.7m (2017: $15.1m). Other intangibles comprises customer relationships and customer contracts arising from business combinations.

Included within the software and licence category is the Group's ERP system, Microsoft Dynamics AX. This asset accounts for $18.3m (2017: $11.8m) of the intangible asset balance and includes internally generated costs of $4.4m. Following initial go-live on 2 October 2017, the Group experienced significant issues that severely impacted on business performance. Substantial additional work was required to deliver a functional system that was fit for purpose and met business needs. The Group considered these additional costs, together with the delays in project delivery and associated budget overspend, and concluded that the carrying value required impairment. The Group reviewed all capitalised project spend and assessed that costs totalling $2.0m no longer provided ongoing economic benefit to the Group and should be impaired. An impairment expense of $2.0m was recognised in the Statement of Profit or Loss and Other Comprehensive Income within impairment of fixed and intangible assets.

Due to the issues that had to be rectified, the commencement date for amortisation of the ERP intangible was delayed to 1 June 2018. The software will be amortised over the next 10 years to 2028.

KEY POLICY

Goodwill is recognised on a business combination and represents the excess of the acquisition cost over the fair value of the acquired net assets. Goodwill is allocated to cash-generating units, tested annually for impairment, or more frequently if events or circumstances indicate it may be impaired, and is carried at cost less accumulated impairment losses.

Computer software and licences are capitalised on the basis of costs incurred to acquire and use the specific licences and are amortised on a straight-line basis over their estimated useful lives of 3 to 10 years. Computer software and licence amortisation charges are included in other operating expenses.

Customer relationships and customer contracts are capitalised at fair value on acquisition date and are amortised on a straight-line basis over their estimated useful lives of 10 and 2 years respectively. Amortisation charges are included in other operating expenses.

Costs associated with maintaining software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets when the following criteria are met:

- **it is technically feasible to complete the software so that it will be available for use**
- **management intends to complete the software and use or sell it**
- **there is an ability to use or sell the software**
- **it can be demonstrated how the software will generate probable future economic benefits**
- **adequate technical, financial and other resources to complete the development and to use or sell the software are available, and**
- **the expenditure attributable to the software during its development can be reliably measured.**

Directly attributable costs that are capitalised as part of the software include employee costs and an appropriate portion of relevant overheads.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

Key judgement - Impairment test on CGUs:

The Group has undertaken value-in-use calculations for each cash generating unit (CGU) that recognises goodwill. A value-in-use (VIU) calculation is a valuation based on forecast cash flows. These cash flows are discounted back to present value to estimate a value for the CGU. If the VIU exceeds the carrying value of the assets within the CGU no impairment is recognised.

A number of judgements have been made in respect to the assumptions used in the valuations. The key assumptions are summarised below:

ASSUMPTION	2018	2017	
Discount Rate (post tax)	8.5% - 10.4%	7.1% - 10.3%	The Group engaged an independent expert to assess the Group's post-tax weighted average cost of capital. A premium was applied to smaller CGU's. These post-tax discount rates were applied to post-tax cash flows. Through back solving the pre-tax WACC was calculated.
Discount Rate (pre tax)	11.3% - 13.9%	9.9% - 14.3%	
Terminal Growth Rate	1.50%	1.50%	
Forecast Period	5 Years	5 Years	Board approved budget used for 2019
Forecast Period Cash Flow Growth Rate	3.4% - 4.0%	2.50%	

In addition to the above growth rate the Group included cash flows expected from performance improvement projects. Cash flows expected from these projects have been included as part of the Board approved FY19 budget, upon which the VIU calculations were based. However, for the Distribution and Wire CGU's, expected performance improvement has also been estimated for the remaining forecast period. The Group is committed to these performance projects and has already commenced implementation as supported by the recognition of restructuring initiatives. See note E2.

A summary of the impairment recognised is included below:

CGU	IMPAIRMENT RECOGNISED	RECOVERABLE AMOUNT	RELATED SEGMENT
Hurricane Wire Products	$5.7m	$13.1m	Infrastructure
Distribution	$4.4m	$102.4m	Distribution

The table below illustrates the sensitivity of the impairment assessment to adverse changes in key assumptions:

		ADDITIONAL GOODWILL IMPAIRMENT				
ASSUMPTION	CHANGE	HURRICANE WIRE PRODUCTS	DISTRIBUTION (1)	MSL	CFDL	ROOFING
Discount Rate	1%	$1.4m	Nil	Nil	Nil	Nil
Terminal Growth Rate	(1%)	$1.0m	Nil	Nil	Nil	Nil
Decrease in forecast cash flows	(10%)	$0.7m	Nil	Nil	Nil	Nil

(1) The Group is of the opinion should adverse changes in key assumptions occur, the Distribution CGU carrying value would be supported by its fair value less cost to dispose.

Any impairment of Goodwill allocated to a Cash Generating Unit (CGU) is determined based on the present value of future CGU cash flows.

The Board exercises judgement in confirming the carrying value of Goodwill, considering a wide range of inputs including the state of the steel sector and market movements.

KEY JUDGEMENT

Intangible assets with indefinite useful lives and intangibles not yet available for use are not subject to amortisation. This applies to both goodwill and software under development.

The Group tests annually for impairment of these intangibles, or when events or circumstances indicate the carrying value may not be recoverable.

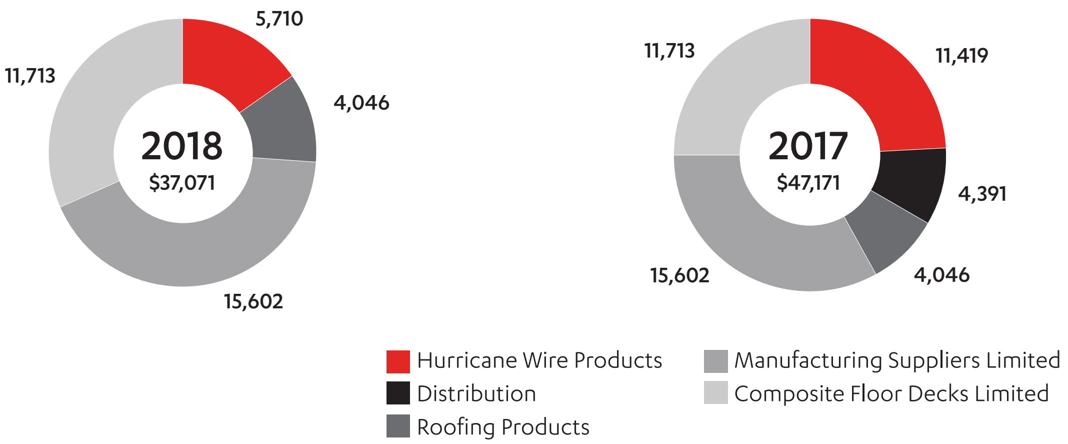
An impairment loss is recognised for the excess of the carrying value of an asset or cash-generating unit over its recoverable amount and is charged to profit or loss.

The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

KEY POLICY

Based on the calculations completed, the impacts of impairment as at 30 June 2018 are as follows:

Carrying Value of Goodwill ($000s)



Following recent under-performance in certain parts of the Group, the Board has determined that the carrying value of goodwill associated with the Distribution and Wire CGU's is impaired.

Hurricane Wire Products

The Hurricane Wire brand is a long standing brand in the New Zealand wire market. The financial performance of this CGU has however declined in recent years. Management considers this to be attributable to a lack of focus on brand management and marketing. Management has commenced a business transformation project and consider that the financial performance of this CGU can be improved and that the Hurricane wire brand can continue to be a leading market provider of wire products. In assessing the value in use of this CGU, Management has taken a prudent assessment of expected future financial performance. Applying a pre-tax discount rate of 13.9%, the value in use is lower than the carrying value of the CGU's assets, including goodwill by $5.7 million. Accordingly Management has written down the carrying value of goodwill for this CGU by $5.7 million.

Distribution

The financial performance of the Distribution CGU has declined in recent years and in 2018 was impacted by the poor implementation of the Company's new ERP system, which has contributed to the financial loss this year. During the 2018 financial year Management has implemented a business transformation programme, which is expected to result in improved financial performance. However, as a number of these initiatives are in their early stages of implementation the Group has not yet realised the full financial improvement benefits from them. As a result, Management has taken a prudent approach to forecast cash flows for this CGU. Applying a pre tax discount rate of 13.0%, the value in use is lower than the carrying amount of assets in this CGU (including goodwill) by approximately $4.4m. Management has therefore written down the carrying value of the CGU assets by impairing the goodwill of $4.4m associated with this CGU.

The goodwill in Distribution previously reported as $4.9m is made up of acquisition of various businesses over time including DJ Agencies ($0.5m) which has now been reclassified to Roofing products to align with the new reporting segment structure.

Roofing Products, Manufacturing Suppliers Limited, and Composite Floor Decks Limited

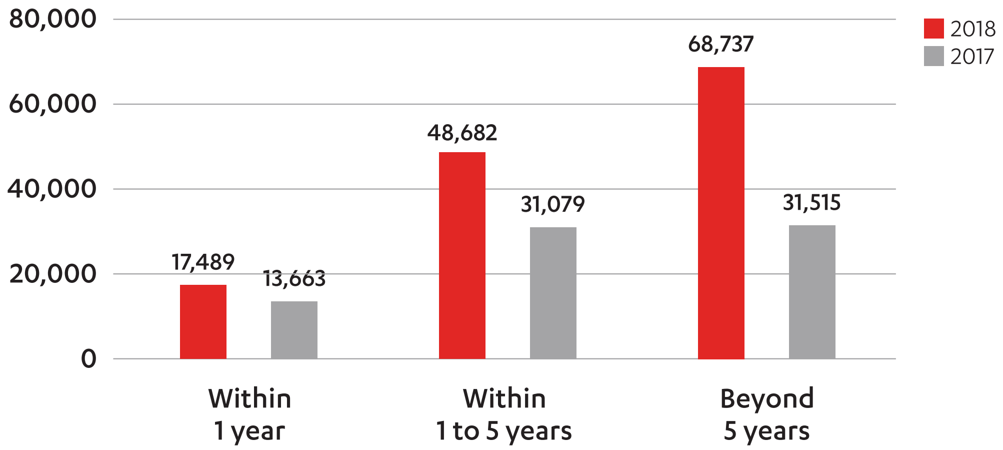
Based on the calculation and pre-tax discount rate sensitivity analysis, there is no indication of impairment for the CGUs as at 30 June 2018.

Assessment of CGUs without goodwill

In assessing the CGUs without goodwill indicators of impairment such as the CGU's current and future performance, asset make up of the CGU and market condiditons were taken into consideration. Through the assessment, it was determined there is no impairment of the CGUs without Goodwill as at 30 June 2018.

C3: Commitments

Lease commitments on non-cancellable leases ($000s)



The Group occupies a number of warehouse and office premises under operating leases. The leases have varying terms and renewal rights.

The Group has an operating lease agreement for the majority of its vehicle fleet. The lease agreement has varying terms and renewal rights for each vehicle.

Capital commitments

The Group has contractual commitments of $2.6m (2017: $7.4m) for property fitout and purchase of plant and equipment.

C4: Assets Held for Sale

During the year, the Group carried out an extensive review of S & T Plastics business resulting in a decision by the Board to exit the business. The business and/or its assets are currently being marketed for sale. Management consider the likely outcome to be a sale of individual assets, therefore has been classified as assets held for sale and not a discontinued operation. The property, plant and equipment related to S & T Plastics have been impaired to their fair value less costs to sell (FVLCTS) and presented as held for sale.

	Carrying value at 30 June 2018 $000	Impairment 30 June 2018 $000	FVLCTS 30 June 2018 $000
Property, plant and equipment held for sale	9,612	(7,973)	1,639
Total	**9,612**	**(7,973)**	**1,639**

In addition to the impairment of assets, the Group has recognised the following provisions within the Infrastructure operating segment to exit S & T Plastics.

Provision for Business Rationalisation	30 June 2018 $000
Onerous Lease	814
Closedown and Site Remediation	2,062
Total	**2,876**
Current	2,248
Non-Current	628

Key judgements:

In accordance with IFRS 5: Non-current Assets Held for Sale and Discontinued Operations, the assets and liabilities held for sale were written down to their fair value less costs to sell.

The FVLCTS is based on Management's judgement of expected realisable values from disposing and/or selling the assets. Considering the circumstances associated with the sale process management has assumed a forced sale scenario in determining the FVLCTS. This judgement is supported by an assessment from an independent plant and machinery valuer who undertook a site visit and review of the assets. He concluded that the assets could be sold for between $1.5m and $1.7m, consistent with Management's estimate. Management has also taken into consideration offers to purchase certain assets received post balance date. Judgements in determining the FVLCTS have been made based on unobservable inputs (as described by IFRS 13) and are therefore classified as level 3 in the fair value hierarchy.

The Provision for Onerous Leases for the remaining lease term on the main factory site and the laboratory was partially offset by Management's assessment that a future sub-lease may be possible. The provision was discounted back to net present value.

The Closedown and Remediation provision includes Management's assessment of the cost of disposing of inventory, removing equipment and general close-down activities. It also includes an estimate of the cost for site remediation of the main factory site which is based on an independent estimate of the likely cost to return the site to paddock conditions.

KEY JUDGEMENT

Non-current assets are classified as assets held for sale and carried at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use. The assets are not depreciated or amortised while they are classified as held for sale. Any impairment loss on initial classification and subsequent measurement is recognised as an expense. Any subsequent increase in fair value less costs to sell (not exceeding the accumulated impairment loss that has been previously recognised) is recognised in profit or loss.

KEY POLICY

Section D – Funding

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

This section includes details of the Group's cash, borrowings and capital reserves which provide funds for current and future activities.

D1: Borrowings

	2018 $000	2017 $000
Term loans - non current	**109,935**	133,374

KEY POLICY

Borrowings are recognised initially at fair value and net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between the net proceeds and redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. The movement in borrowings shown in the Statement of Cash Flows is the net of repayments and drawdowns of borrowings. Borrowings are classified as current liabilities if settlement is within 12 months.

Waiver for Expected Breach of Bank Facility Covenant

The Group is required to comply with a number of covenants and undertakings under the General Security Arrangement for the credit facilities. The Group expected it would breach one of these requirements, being the earnings before interest and tax ("EBIT") to interest cover ratio as at 30 June 2018. The Group is required to maintain EBIT of at least 2.25x its interest costs on an annual basis, measured as at 31 December and 30 June. Due to the non-trading costs impacting on the reported financial results for 2018, the Group expected it would not be in compliance with this covenant at 30 June 2018. The Group obtained a waiver from the facility providers for this expected breach as at 30 June 2018 through to 30 June 2019. Other than the expected breach of the EBIT to interest cover ratio as at 30 June 2018, for which a waiver was provided, the Group has fully complied with credit facility covenants and undertakings during the year (2017: fully complied).

The Group is required to comply with certain financial covenants that relate to asset cover, gearing, earnings before interest and tax and tangible net worth. Management has completed a detailed assessment of compliance with these covenants and expects to comply fully. In addition and subsequent to Balance Date, the Group has recently announced a capital raise, which will result in significantly lower gearing and substantial additional covenant headroom.

Credit facilities arranged with the banks can be drawn at any time, subject to meeting the Group's General Security Arrangement conditions over the assets of the Group.

The Group is exposed to interest rate risk through its term loans which are drawn down under the Group's bank debt facilities at variable interest rates.

At balance date, if bank interest rates had been 100 basis points higher/lower with all other variables held constant, it would change post-tax profit/equity for the year by $0.8m lower/higher (2017: $0.9m).

The Group has committed bank borrowing facilities at balance date of $147m (2017: $157m). The total available facilities were reduced by $10m following the settlement from the sale of the Group's Blenheim Road property for $21.1m in June 2018. These credit facilities were refinanced in June 2018 and all facilities have an expiry date of 31 October 2019 (30 June 2017: $78.5m, 31 October 2019 and $78.5m, 31 October 2021). The refinanced agreements were treated as a modification of the liability.

The Group manages its liquidity risk by maintaining availability of sufficient cash and funding via an adequate amount of committed credit facilities. Owing to the nature of the underlying business, the Group aims to maintain funding flexibility through committed credit lines. The Group monitors actual and forecast cash flows on a regular basis and rearranges credit facilities where appropriate.

The table below analyses the Group's financial liabilities and derivative financial instruments into maturity groupings based on the remaining period from balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

	Average Interest rate	6 months or less $000	6 to 12 months $000	1 to 3 years $000	Total $000	Carrying Value $000
Group 2018						
Borrowings	**3.77%**	**2,114**	**2,031**	**110,992**	**115,137**	**109,935**
Trade payables & accruals		**48,922**	**-**	**-**	**48,922**	**48,922**
Cash flow hedging of derivatives:						
Outflow		**36,027**	**1,676**	**-**	**37,703**	
Inflow		**(37,262)**	**(1,695)**	**-**	**(38,957)**	
Group 2017						
Borrowings	2.86%	2,001	1,923	133,264	137,188	133,374
Trade payables & accruals		50,616	-	-	50,616	50,616
Cash flow hedging of derivatives:						
Outflow		40,608	29	-	40,637	
Inflow		(38,898)	(27)	-	(38,925)	

D2: Net debt reconciliation

	Cash and cash equivalents $000	Borrowings repayable after one year $000	Total $000
Net debt as at 1 July 2017	**6,517**	**(133,374)**	**(126,857)**
Cash flows	**(933)**	**23,439**	**22,506**
Net debt as at 30 June 2018	**5,584**	**(109,935)**	**(104,351)**
Net debt as at 1 July 2016	2,287	(97,900)	(95,613)
Cash flows	4,230	(35,474)	(31,244)
Net debt as at 30 June 2017	6,517	(133,374)	(126,857)

The Group's current bank loans are based on variable rates.

D3: Share Capital

The Group's capital includes share capital, treasury shares, debt, reserves and retained earnings. The objectives for managing capital are to safeguard the Group's ability to continue as a going concern, to provide returns and benefits for Shareholders and other stakeholders and to maintain a strong capital base for investor, creditor and market confidence. The Group may adjust the dividends paid to Shareholders, return capital to Shareholders, issue new shares or sell assets to maintain or adjust its capital structure.

Capital Structure Policy Targets

During the year ended 30 June 2018, the Group adopted formal capital structure targets as follows:

1. **Net Debt:EBITDA less than 2.75x**

   The Group is targeting net debt to be less than 2.75x EBITDA. The Group has set this target to be achieved but as at 30 June 2018 has not met the target. Net Debt:EBITDA excluding non-trading items as at 30 June 2018 is 4.3x. This ratio is higher than target as the Group has increased borrowings to fund acquisitive growth since 2014. However EBITDA has not grown, resulting in a higher than target ratio. The Board considers the current ratio to be higher than it should be. Post balance date the Group announced a fully underwritten placement and pro-rata rights offer to raise $80.9 million. Following the successful execution of this capital raise the Board will revise that target Net Debt : EBITDA ratio down to 2.0x and expects full compliance with the revised ratio.

2. **Gearing ratio less than 30 – 35%**

   The target ratio is to be at or less than 30% and never more than 35%. The Group's gearing ratio is calculated as net debt divided by the sum of total equity and net debt, where net debt is total borrowings less cash and cash equivalent assets. The policies in respect of capital management and allocation are reviewed regularly by the Board. The gearing ratio for this year is 38% (2017: 43%) and is below the benchmark of 55% in the Group's General Security Agreement. Whilst the Group is operating well within the General Security Arrangement requirements, the Board consider this level of gearing to be higher than it should be. The Group expects to be in line with the target ratio following completion of the post balance date capital raise.

3. **Dividend pay-out of between 60% - 80% of Net Earnings (NPAT) adjusted for any significant non-trading items**

   There has been no material change in the management of capital during the year.

	2018 $000	2017 $000	2018 Shares	2017 Shares
Fully paid:				
Balance at the beginning of the year	**77,803**	77,755	**90,588,026**	90,578,026
Proceeds from partly paid shares	**41**	48	**20,000**	10,000
Balance at the end of the year	**77,844**	77,803	**90,608,026**	90,588,026
Partly paid:				
Balance at the beginning of the year	**1**	1	**45,000**	55,000
Transfer to fully paid shares	**-**	-	**(20,000)**	(10,000)
Balance at the end of the year	**1**	1	**25,000**	45,000
Total balance at the end of the year	**77,845**	77,804	**90,633,026**	90,633,026

The holders of ordinary shares are entitled to receive dividends declared from time to time and to one vote per share at meetings of the Company. Ordinary shares issued and partly paid to one cent shares in the Senior Executives' Share Scheme 1993 do not have dividend or voting entitlements until the shares are paid in full but qualify for bonus and cash issues.

Ordinary shares are classified as equity. Where any controlled entities purchase Company shares that have not been allocated, the consideration paid and directly attributable costs are deducted from equity and classified as treasury shares.

Treasury shares

	2018 $000	2017 $000	**2018 Shares**	2017 Shares
Balance at the beginning of the year	**3,431**	3,500	**1,150,787**	1,109,721
Purchases	**-**	592	**-**	270,000
Used in share schemes	**(535)**	(661)	**(177,938)**	(228,934)
Balance at the end of the year	**2,896**	3,431	**972,849**	1,150,787

Treasury shares are unallocated Company shares held by the Trustees of share-based schemes and are recognised as a reduction in shareholders' funds of the Group. There were no Treasury shares purchased during the year (2017: Weighted Average price of shares purchased $2.19).

Section E – Other

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

This section contains additional notes and disclosures which do not form part of the primary sections but which are required to comply with financial reporting standards.

- Financial risk management
- Provisions
- Contingent liabilities
- Auditor remuneration
- Related party and share based plans
- Financial instruments
- Financial assets
- Land and buildings
- Subsequent events
- Other accounting policies

E1: Financial Risk Management

The Group is exposed to financial risk: market risk, credit risk and liquidity risk.
The Group's Treasury Policy is approved by the Board and is reviewed annually. The Treasury Policy establishes principles and risk tolerance levels to guide management in carrying out risk management activities to minimise potential adverse effects on the financial performance of the Group. Compliance with policy is monitored and reviewed on a monthly basis.

Detail relevant to the following risks are covered in relevant sections:

Foreign exchange risk (a market risk)	Inventories	B1
Interest rate risk (a market risk)	Borrowings	D1
Credit risk	Trade & other receivables	B2
Liquidity risk	Borrowings	D1

E2: Provisions

	Restructure provision $000	Onerous Contract and Contract Dispute Provision $000	Onerous Lease and Make Good Provision $000	Commerce Commission Provision $000	Total $000
Opening balance	-	2,634	1,245	900	4,779
Additions	4,740	844	3,371	300	9,255
Used	-	(2,344)	(692)	-	(3,036)
Closing balance	**4,740**	**1,134**	**3,924**	**1,200**	**10,998**
Current	4,112	1,134	2,769	1,200	9,215
Non Current	628	-	1,155	-	1,783

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event. This occurs when it is probable that a cost will be incurred to settle the obligation and a reliable estimate can be made of that obligation. Where material, provisions are determined by discounting the expected cash flows at a pre-tax rate that reflects current market assessments of the time value of money. Where discounting is used, the increase in the provision due to the passage of time is recognised as an expense.

KEY POLICY

Key judgements:

- The Provision for Onerous Leases is for the remaining lease term on the properties that have been vacated as part of the Group's change programme. The provision is partially offset by Management's assessment that a future sub-lease may be possible on some of the properties with longer than 12 month lease terms remaining. If the Group's assumptions on time required to sub-let the properties increased by three months and the expected sub-lease rentals were 10% less, the provisions would increase by $0.1m.

KEY JUDGEMENT

- Make-good obligations on existing tenanted properties, including Stonedon Drive remediation work agreed as part of the sale and purchase agreement, estimated at $1.5m. Actual payment dates and costs will be known once each lease reaches its expiry date.
- Onerous Contract and Contract Dispute Provision is an estimate of the costs of customer claims for faulty or defective products supplied and an assessment of the shortfall between costs and future revenue on certain projects where the Group is committed to providing a service within the next 12 months for which the costs will exceed the revenue.
- Restructure and Rationalisation Provision. The Group has undertaken a review of the business and commenced a restructure in a number of areas. A provision has been recognised where staff have been notified of redundancy or where a valid expectation of redundancy has been created. Included within this provision are costs associated with the closure of S & T Plastics including onerous lease provision. Refer note C4 for details.
- Provision for Commerce Commission Fine

  In December 2016 the Commence Commission announced that it had completed its investigation in relation to several companies, and that it intended to prosecute three companies under the Fair Trading Act, including Steel & Tube. The Commission's prosecution of Steel & Tube relates to the inadvertent use of a testing laboratory's logo on test certificates, and application of testing methodologies. Following a Group wide review, quality resources have been strengthened and quality management processes have been and continue to be enhanced.

  In August 2017 Steel & Tube pleaded guilty to those charges. On 25th May 2018, the sentencing hearing occurred in the Auckland District Court. The judge has reserved his decision and therefore a sentence was not given.

  A provision for estimated fines, penalties and costs in relation to this prosecution and their expected recovery under the Group's insurance policies has been provided for in the Group's financial statements. It is expected that the sentencing will occur within the next 12 months.

E3: Contingent Liabilities

Indemnities given to the Company's trading banks in respect of performance bonds were $2.7m (2017: $2.5m) at balance date and were transacted in the ordinary course of business.

E4: Auditor Remuneration

	2018 $000	2017 $000
Fees paid to PwC		
– annual audit & half year review	**337**	304
– direct expenses associated with performance of the audit (eg. reimbursement of travel and accommodation costs)	**18**	5
– tax compliance: annual tax return	**25**	24
– other assurance services related to the Company's ERP system	**10**	106
– other	**3**	2
– tax advisory services in relation to the Company's Executive Share Scheme	**41**	-
– facilitation of an IFRS 15 workshop	**7**	-
	441	441

E5: Related Party and Share Based Plans

The Group has related party relationships with its controlled entities and with key management personnel.

The subsidiaries in the Group are:

Subsidiaries	Principal Activity	2018 Holding	2017 Holding
Steel & Tube New Zealand Limited	Non-trading	**100%**	100%
Composite Floor Decks Holdings Limited	Non-trading	**100%**	100%
Studwelders Limited	Non-trading	**100%**	100%
S&T Stainless Limited	Stainless Distributor	**100%**	100%
Manufacturing Suppliers Limited	Fastenings Distributor	**100%**	100%
S & T Plastics Limited	Pipe Manufacturer	**100%**	100%
Composite Floor Decks Limited	Floor Decking Installer	**100%**	100%

Transactions with Key Management Personnel

	2018 $000	2018 for Comparison $000	2017 $000
Short-term benefits	**2,591**	**3,544**	3,717
Termination Benefits	**972**	**1,087**	-
Share-based benefits	**270**	**312**	688
	3,833	**4,943**	4,405

Following a change to the operating structure of the Group during the reporting period, there are now two clear Operating Divisions. As a result the executive leadership structure has also changed. The 2018 Key Management Personnel numbers have been prepared based on the new executive structure with a comparison provided based on the previous executive structure.

The Key Management Personnel are the Non Executive Directors and Executive Management. Included in short-term benefits are Directors' fees of $477,500 (2017: $349,125).

Executive Share Plan 2003

The Executive Share Plan offered key personnel an opportunity to subscribe for rights to Company shares, as directed by the Board. Vesting of the rights occurs upon achieving Board-approved targets, based on total shareholder returns, after a minimum of three years to a maximum of five years from grant date and vest as equity. The rights to shares are equity settled.

Whilst no further Rights will be issued relative to the Executive Share Plan 2003, it will continue to operate until such time as the prior years' Rights that have been granted are either vested and exercised, forfeited or lapse, in accordance with that plans rules.

Executive Share Plan 2017

In February 2018 a new Executive share plan was approved by the Board. The performance period for the new scheme runs for 3 years and comprises two performance conditions (50% each) as follows:

a) The Benchmark Comparator (BC) ranks the Company's Total Shareholder Return (TSR) relative to the TSR of the NZX 50 Index securities.
   - Where the Company TSR equals the 50th percentile TSR of the Index Companies over the Performance Period, 50% of (BC) Performance Rights will vest.
   - Where the Company TSR equals or exceeds the 75th percentile TSR of the Index Companies over the Performance Period, 100% of (BC) Performance Rights will vest.
   - Where the Company's TSR over the Performance Period exceeds the 50th percentile TSR of the Index Companies but does not reach the 75th percentile, then between 50% and 100% of the (BC) Performance Rights, will vest as determined on a linear pro rata basis.

b) The Absolute Comparator (AC) ranks the Company's TSR relative to the Company's Cost of Equity (CoE) plus a premium of 2% annualised and compounding.
   - Where the Company TSR is less than or equal CoE no (AC) Performance Rights will be vested
   - Where the Company TSR is greater than CoE but less than (CoE) + 2%, 50% of (AC) Performance Rights will vest
   - Where the Company TSR is equal to or greater than CoE + 2%, 100% of (AC) Performance Rights will vest

Performance Rights are only able to be exercised after completion of the three year performance period, providing and only to the extent that the performance conditions have been satisfied. Any Benchmark and Absolute Comparator Performance Rights that do not vest at the Measurement Date will lapse.

At July 2017 1,102,558 rights to shares were outstanding. Rights outstanding, granted or forfeited carry no exercise price. During the year the following movements of rights to shares occurred in accordance with the rules of the share plan:

	No. of Rights Available 2018	No. of Rights Available 2017
Opening Balance	1,102,558	1,074,218
New Shares Granted	371,366	483,624
Rights Forfeited	(728,765)	(226,347)
Rights Exercised	(177,938)	(228,937)
Total	567,221	1,102,558

Rights Performance Conditions Start Dates	Expiry date	Issue date fair value	Total Rights Issued	Rights available 30 June 2018	Rights available 30 June 2017
1 July 2013 - Tranche 11	30/06/2018	$3.10	303,740	5,355	118,946
1 July 2014 - Tranche 12	30/06/2019	$2.85	288,711	10,623	236,926
1 July 2015 - Tranche 13	30/06/2020	$2.66	343,441	40,200	287,303
1 July 2016 - Tranche 14	30/06/2021	$2.21	475,596	139,677	459,383
1 September 2017 - Tranche 1	1/09/2020	$2.09	371,366	371,366	-
Total			1,782,854	567,221	1,102,558

The fair value of rights is determined using a Monte Carlo share price simulation model. The significant inputs into the model for shares granted during the period were the market share price at grant date, an exercise price of zero (as shares are issued to the employees at nil consideration on vesting), volatility of 26.3%, expected option life of between 1 and 3 years and an annual risk free interest rate of 1.95%. Volatility has been calculated based on the annualised volatility for the three years prior to the rights issue.

The Board appoints a Trustee to administer the 2003 plan. Any rights not vested after the expiry of five years are cancelled. The cost associated with this plan is measured at fair value at grant date and is recognised as an expense in profit or loss over the vesting period, with a corresponding entry to the reserve in equity. Shares purchased in this plan are recognised as treasury shares until they are distributed.

KEY POLICY

E6: Financial Instruments

	Loans and receivables	Derivatives for hedging	Liabilities at amortised cost
Group 2018			
Cash and cash equivalents	**5,584**	**-**	**-**
Trade and other receivables excluding prepayments	**88,235**	**-**	**-**
Derivative financial instruments (1)	**-**	**1,271**	**-**
Total financial assets	**93,819**	**1,271**	**-**
Borrowings	**-**	**-**	**109,935**
Trade and other payables	**-**	**-**	**44,615**
Derivative financial instruments (1)	**-**	**17**	**-**
Total financial liabilities	**-**	**17**	**154,550**
Group 2017			
Cash and cash equivalents	6,517	-	-
Trade and other receivables excluding prepayments	87,917	-	-
Derivative financial instruments (1)	-	2	-
Total financial assets	94,434	2	-
Borrowings	-	-	133,374
Trade and other payables	-	-	52,580
Derivative financial instruments (1)	-	1,714	-
Total financial liabilities	-	1,714	185,954

(1) Derivative financial instruments are measured at fair value calculated using forward exchange rates that are quoted in an active market (Level 2 of the fair value hierarchy).

E7: Financial Assets

The Group classifies its financial assets as loans and receivables and at fair value through profit or loss (derivatives). Adjustments to fair value are recognised through profit or loss, which includes derivatives held for hedging. The classification within profit or loss depends on the purpose for which the assets were acquired. Management determines the classification of the assets at the initial recognition and re-evaluates the designation at each reporting date.

Purchases and sales of financial assets are recognised on the date the Group has committed to the transaction. De-recognition of financial assets occurs when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period, these are classified as non-current assets. The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents. They are recognised initially at fair value and subsequently at amortised cost less any impairment.

E8: Land and Buildings

This note provides information on the key inputs used in determining the fair value of land & buildings. The Group has measured its land & buildings at fair value. These are Level 3 on the fair value hierarchy.

The Group's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the reporting period. There were no transfers between any levels during the year.

The movements in level 3 items during the period are shown in the table in section C1.

The following table summarises the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements. The relationship of all these unobservable inputs to fair value is that the higher they are, the lower the fair value.

Description	Unobservable inputs	Range of inputs [from valuation reports] 2018	Range of inputs [from valuation reports] 2017
Owned land & buildings	Discount rate	**7.25% – 9.84%**	7.13% - 9.69%
	Terminal yield	**7.50% – 9.0%**	6.25% - 9.25%
	Capitalisation rate	**7.0% – 8.50%**	6.0% - 8.75%

E9: Subsequent events

On 7 August 2018 the Board announced a fully underwritten capital raise of $80.9m by way of an upfront placement of $20.8m to eligible institutional investors and a pro-rata Rights Offer to eligible shareholders for $60.1m. This will allow the Group to execute its business transformation initiatives and achieve its longer term strategic objectives. On 10 August 2018, the upfront placement was successfully transacted.

E10: Other Accounting Policies

Basis of consolidation

The Group applies the acquisition method to account for business combinations. The Group financial statements comprise the financial statements of Steel & Tube Holdings Limited and its controlled entities (subsidiaries) (ref Note E5). The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

The Group controls an entity when the Group is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group and deconsolidated from the date control ceases.

Consideration transferred is the fair value of assets transferred, liabilities incurred to the former owners of the acquiree and equity interests issued by the Group. Consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities (including contingent liabilities) assumed in a business combination are measured initially at their fair values at acquisition date.

All inter-company transactions and balances between Group companies are eliminated.

Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from translation of monetary assets and liabilities at balance date are recognised in profit or loss except when deferred in equity as qualifying cash flow hedges.

Revenue recognition

Revenue comprises the fair value of sales of goods net of Goods and Services Tax, and discounts and after elimination of sales within the Group. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer or when the services have been performed.

Accounts payable policy

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Derivatives - Cash flow hedge

The Group uses derivative financial instruments to hedge its exposure to foreign exchange risks and interest risk arising from operational, financing and investing activities. In accordance with its Treasury Policy, the Group does not hold or issue derivative financial instruments for trading purposes. Derivative financial instruments are recognised initially at fair value on the date a derivative contract is entered into. Subsequent to initial recognition, derivatives are re-measured at fair value.

The Group designates certain derivatives as hedges of a highly probable forecast transaction (cash flow hedge). The effective portion of changes in the fair value of derivatives designated as cash flow hedges is recognised in equity. The gain or loss on the ineffective portion is recognised in profit or loss in other gains/(losses).

When the hedged item is a non-financial asset (for example, inventory or property, plant and equipment) the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to profit or loss in the same period the hedged item is recognised in the Statement of Profit or Loss and Other Comprehensive Income. If the hedging instrument no longer meets the criteria for hedge accounting, expires, is sold, terminated or is exercised, any cumulative gain or loss previously recognised in equity remains in equity until the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss reported in equity is immediately transferred to profit or loss within other gains/(losses).

Derivative financial instruments are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

Impairment of non-financial assets:

Assets that have indefinite useful lives that are not subject to amortisation and intangible assets not yet available for use are tested annually for impairment. Assets (including intangibles and property, plant and equipment) subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value, less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Adoption status of relevant new financial reporting standards and interpretations

There are no new standards or amendments to standards applicable to the Group for the year ended 30 June 2018 other than the adoption of the amendments to IAS 7, see note D2.

Certain new accounting standards, amendments and interpretations of existing standards have been published that are not mandatory for the year ended 30 June 2018 and have not been early adopted by the Group. These will be applied by the Group in the mandatory periods listed below. The key items applicable to the Group are:

NZ IFRS 9: Financial Instruments (Effective date: periods beginning on or after 1 January 2018)

NZ IFRS 9: Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

This standard takes effect from 1 July 2018 and the expected impact relates largely to financial assets and the expected credit loss associated with those assets. The main impact for Steel and Tube will be on the impairment calculation for trade receivables. The Group is currently using a provision matrix where trade receivables are grouped based on past-due basis.

The new impairment model per the standard requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under NZ IAS 39. This requires receivables to be grouped based on different customer attributes and different historical loss patterns. The model is then updated with current and forward looking estimates. The Group is still in the process of analysing historical credit loss information and forward-looking information in order to assess the impact, if any, on the impairment provisions in the year of adoption.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have such liabilities. The derecognition rules have been transferred from NZ IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new hedging accounting rules will align the accounting for hedging instruments more closely with the Group's practices. The Group's hedging is restricted to cash flow hedges for purchases of inventory. The Group's current practice is to recognise the accumulated gains or losses on the hedged transaction against the carrying value of the inventory which is the prescribed practice under NZ IFRS 9.

NZ IFRS 15: Revenue from Contracts with Customers (Effective date: periods beginning on or after 1 January 2018)

This standard addresses recognition of revenue. It replaces the current revenue recognition guidance in NZ IAS 18 Revenue and NZ IAS 11 Construction Contracts. The new standard is based on the principal that revenue is recognised when control of a good and service transfers to a customer. The standards permits either a full retrospective or a modified retrospective approach for the adoption.

During the current financial period, the Group began the assessment of the potential impact of NZ IFRS 15. Work focused on segregating the different revenue streams that exist within the business. The majority of revenue is made up of product sales with some contract revenue (approximately 16% of total revenue) through the Reinforcing and CFDL divisions.

The following matters are relevant to the Group under NZ IFRS 15:

- Treatment of contract modifications for CFDL and Reinforcing division in determining whether to combine the contract.
- For contracts which involve the supply and installation of materials in the CFDL and Reinforcing divisions, whether the supply is a separate performance obligation as it may impact the timing, measurement and classification of revenue recognised.
- A customers' right of return in determining revenue to be recognised and how this should be accounted for.
- The treatment of volume rebates provided to customers.

Further work is required to assess the impact of contract modifications on revenue recognition.

The Group will take the modified retrospective approach for the transition.

NZ IFRS 16: Leases (Effective date: periods beginning on or after 1 January 2019)

NZ IFRS 16: Leases replaces the current guidance in NZ IAS 17. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under NZ IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The income statement will also be impacted by the recognition of an interest expense and a depreciation expense and the removal of the current rental expense.

This standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of $134.9m (refer to note C3). On adoption, NZ IFRS 16 will have a significant impact on the Group's balance sheet and on specific line items on the income statement.

Management's process to date highlights that the potential impact based on current lease arrangements is expected to be material, with impacts on the following line items:

Balance sheet:

- Recognition of a right to use asset;
- Recognition of a lease liability; and
- Adjustment in opening retained earnings.

Income statement:

- Decrease in operating leases expense;
- Increase in depreciation and amortisation expense; and
- Increase in finance costs (interest expense).

The impact on each of these line items is expected to be significant. The accounting standard change will not impact the cash flow of the Group.

The Group is currently undertaking a restructure of the business, including the rationalisation of the Group's lease portfolio. Until the outcome of this rationalisation is clear, it is not possible to provide a reliable indicative impact of the new standard on the Group's financial statements.

The standard is effective for the Group for the year ending 30 June 2020. Early adoption is permitted however the Group intends to adopt NZ IFRS 16 on its effective date. The Group intends to adopt the simplified transition approach under NZ IFRS 16 in the year ending 30 June 2020 and will not restate comparative amounts for the period prior to first adoption.

Independent Auditors' Report

to the shareholders of Steel & Tube Holdings Limited

The financial statements comprise:

- the balance sheet as at 30 June 2018;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies.

Our opinion

In our opinion, the financial statements of Steel & Tube Holdings Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 30 June 2018, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the areas of tax compliance services, other assurance services related to the Company's ERP replacement project, tax advisory services in relation to the Company's Executive Share Scheme and the facilitation of an IFRS 15 workshop. The provision of these other services has not impaired our independence as auditor of the Group.

PricewaterhouseCoopers, PwC Centre, 10 Waterloo Quay, PO Box 243, Wellington 6140, New Zealand
T: +64 4 462 7000, F: , pwc.co.nz

Our audit approach

Overview

An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall Group materiality: $1.1 million, which represents 5% of average profit before tax in the current year and previous two years (adjusted for non-ordinary items including, asset impairments, gain on asset sales and restructuring costs).

We chose average profit before tax (adjusted for non-ordinary items) as the benchmark because, in our view, it is a more representative benchmark of the performance of the Group for the period.

The following have been determined as key audit matters:

- Impairment testing of the Group's assets
- Closure of S&T Plastics
- Existence of inventory at business units affected by the new Enterprise Resource Planning (ERP) system implementation
- Assessment of the net realisable value (NRV) of inventory
- Forecast compliance with banking covenants.

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Audit scope

We designed our audit by assessing the risks of material misstatement in the financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key audit matter	How our audit addressed the key audit matter

Key audit matter

Impairment testing of the Group's assets

The risk that the Group's assets may be materially impaired is considered a Key Audit Matter, due to:

- the existence of indicators of impairment
- the high level of management judgment required to:
  - determine the Cash Generating Units (CGUs) to test for impairment, and
  - estimate the future results of the business and the discount rate used to determine the value-in-use (VIU) of the CGUs.

To assess whether an impairment of the Group's assets exists, the Group has:

- determined the lowest grouping of assets that generate independent cash flows, known as a CGU
- allocated the Group's assets to the CGUs, and
- considered for each CGU whether indicators of impairment exist.

Where an indicator of impairment exists, or where the CGU contained goodwill, the Group has prepared discounted cash flow valuations on a VIU basis. A Group wide VIU impairment test was also performed.

The Group included forecast cash flow improvements from implemented performance improvement projects in both the S&T Distribution and S&T Wire CGU VIU calculations.

The Group concluded that:

- goodwill associated with the S&T Distribution and Wire CGUs was impaired by $10.1 million in total, and
- the calculations performed supported the carrying value of all other assets.

Disclosure of the Group's impairment assessment is contained in note C2.

How our audit addressed the key audit matter

Determination of CGUs and allocation of assets to CGUs

We performed procedures to evaluate and challenge the Group's determination of CGUs. This included:

- reviewing internal management reporting to assess the level at which the Group monitors performance
- comparing CGUs to our knowledge and understanding of the Group's operations
- ensuring that CGUs were no larger than operating segments, and
- reconciling assets allocated to CGUs to those totals within the general ledger.

Assessment of indicators of impairment

For CGUs not containing goodwill, we considered and challenged the Group's assessment of whether indicators of impairment existed. This included assessing internal and external information, including factors such as the performance of the CGU against budget and prior year.

Calculating the recoverable amount

For each CGU that contained goodwill, or had an indicator of impairment we assessed the appropriateness of the VIU calculation. We:

- tested the mathematical accuracy of the valuation model
- assessed forecast cash flows by comparing them to historical information, available industry information, and agreeing cash flows to Board approved budgets
- considered the reasonableness of the Group's discount rate by comparison to a discount rate developed by our internal valuation expert, and
- assessed the Group's forecasting accuracy by comparing historical forecasts to actual results.

For two CGUs, the Group included cash flows attributable to performance improvement initiatives. We confirmed that management were committed to the implementation of these plans through:

- obtaining external consultants' reports identifying improvement opportunities
- reviewing project management and reporting tools to track the status and benefits realised from the initiatives, and
- testing transactions associated with the improvement initiatives, including restructuring provisions.

Because of the subjectivity involved in valuing CGUs, there is a range of values, which can be considered reasonable when evaluating the carrying value of a CGU. Based on the above procedures there were no matters to report.

Key audit matter	How our audit addressed the key audit matter
Closure of S&T Plastics Significant management judgment was involved in the estimation of the fair value less cost to sell (FVLCTS or net realisable value) of S&T Plastics' assets. For this reason, and considering the significance of the impairment, we determined the valuation of S&T Plastics' assets to be a Key Audit Matter. The Group decided to close the S&T Plastics CGU. The Group recognised an impairment expense of $8.0 million to bring the assets of the CGU to their net realisable value. In determining the extent of impairment, the Group has made judgments in respect of: • the likely method of asset disposal, for instance through a managed sales process or scrapping, and • estimating the net realisable value of the assets. The Group has engaged a broker to pursue a sale of S&T Plastics' assets. The Group used its knowledge of the plastics market, and offers received to purchase certain assets, to assess the estimated net realisable value of the assets. In addition, the Group obtained an independent appraisal of the valuation of S&T Plastics' assets to compare with their assessment. Refer to note C4 for further disclosure.	To assess the appropriateness of the Group's judgment as to the method of disposal we have: • inquired of management, inside and outside of the finance function, to understand and corroborate management's assumptions, and • reviewed management's assessment of the likely sale method. In considering the reasonableness of management's estimate of net realisable value we have: • obtained the independent appraiser's report and compared it to management's estimated net realisable value • compared asset values to purchase offers received post balance date, and • discussed indicative offers received for S&T Plastics' assets with the Group appointed sales broker. Because of the subjectivity involved in determining the likely method of disposal and estimating the net realisable value, there is a range of values that can be considered reasonable. Based on the above procedures there were no matters to report.
Existence of inventory at business units affected by the new Enterprise Resource Planning (ERP) system implementation As explained in note B1, in October 2017 the Group implemented an ERP solution across the core Distribution and Roll-forming business units (the 'Business Units') and encountered a number of implementation issues. These issues have affected business operations. In response, the Group sought increased confidence over the existence of its inventory holdings by conducting wall-to-wall inventory counts at the Business Units. The counts occurred at all sites at different times in May and June 2018. This represented a change from the Group's policy of conducting cycle counts across the year.	We performed a number of procedures to address the heightened risk that inventory did not exist. These procedures included attending inventory counts at an increased number of locations to assess the appropriateness of the Group's count procedures, the accuracy of counting, and the accuracy of recording of adjustments. We determined which count locations to attend based on our assessment of risk, including: • the volume and value of inventory held at locations, and • the extent of past compliance with the Group's cycle count programme. We also tested the reconciliation of the inventory counted to the quantity recorded in the inventory sub-ledger.

Key audit matter	How our audit addressed the key audit matter
Existence of inventory at business units affected by the new Enterprise Resource Planning (ERP) system implementation (continued) We assessed there is an increased risk over existence of inventory and identified this as a Key Audit Matter. The factors which lead us to this assessment included: • the implementation of a new ERP system across the Business Units • the high volume and value of inventory held by the Business Units, and • the large number of inventory locations.	To assess whether materially all inventory had been counted during the year, we compared reports detailing inventory counted to the inventory listing at 30 June 2018. We tested a sample of inventory movements between the inventory counts dates in May and June 2018 and the 30 June 2018 balance date to supporting documentation. Based on the above procedures there were no matters to report.
Assessment of the net realisable value (NRV) of inventory The Group has inventory of $116 million as at 30 June 2018, with $8.8 million held at NRV. The Group is required to hold inventory at the lower of cost and NRV. This is a Key Audit Matter as significant management judgment is required to determine the NRV of aged and slow moving inventory, given its limited sales history. The Group identified the following inventory categories for which an adjustment to the carrying value was required, comprising inventory: • with no or limited sales transactions within the previous 12 months (slow moving) • where current holdings exceed 12 months sales (excessive), and • for which there is no longer demand due to changes in customer requirements (obsolete). The Group's estimate of NRV considered: • the most recent achieved sales price for each Stock Keeping Unit (SKU) • current scrap metal recovery rates. These were based on quotes obtained from scrap merchants which indicated the scrap value was not material, and • internal sales manager's judgment of the current realisable value for each SKU. As described in section B1 of the financial statements, the Group's consideration of inventory valuation resulted in an $8.4 million inventory impairment provision.	We assessed the completeness and accuracy of the inventory categories that management had identified for impairment consideration. This included undertaking procedures to assess the accuracy of reports used by management, including recalculating the aging of inventory on a sample basis. We assessed the reasonableness of the Group's estimate of NRV by performing the following procedures: • inspected the scrap value quotations obtained by management • inquired of supply chain personnel to understand and corroborate the assumptions applied in estimating inventory provisions, and • assessed the accuracy of previous NRV estimates by comparing the Group's estimate of NRV to the actual realised sales price. Where the Group assessed that a provision was not required for the inventory included in the slow moving, obsolete and excessive categories, we obtained, on a sample basis, evidence to support or challenge this assessment. Evidence obtained included: • invoices detailing recent sales transaction prices, and / or • inquiry of supply chain and sales personnel to understand the demand for the inventory SKU. Based on the above procedures there were no matters to report.

Key audit matter	How our audit addressed the key audit matter
Forecast compliance with banking covenants As detailed in note D1, the Group expected to breach one of its financial banking covenants in the year. The Group received a waiver from the banks and the parties also agreed to amend their banking arrangements. We have therefore deemed forecast compliance with amended banking covenants to be a key audit matter. The Group has assessed forecast compliance with these covenants by: • preparing a phased budget for Fy19. This budget has been approved by the Board • using the budget to calculate covenant compliance at each forecast compliance date, and • assessing forecasting risk by considering the headroom available for each covenant at each compliance date. The Group has determined that it expects to comply with all covenants. In addition, the Group has recently announced a capital raise, which will result in significantly lower gearing and substantial additional covenant headroom available.	We obtained an understanding of the relevant covenants and any conditions included in the amended banking facility agreements. We obtained the Group's forecast compliance assessment and: • agreed the FY19 phased budget to that approved by the Board • recalculated compliance with financial covenants at each compliance date, and • performed sensitivity analysis to assess the level of forecasting risk. Separately, we considered the status of the capital raise and its positive impact on available headroom. We have no matters to report.

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not, express any form of assurance conclusion on the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial statements

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

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's 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 Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Kevin Brown.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
28 August 2018

Wellington

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