Half Year Report 2017

Directors' Report

FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

Steel & Tube's increased results for the six months to December 2016 is against a volatile global steel environment and an intensely competitive domestic trading landscape. The company continues the momentum from the delivery of the One Company initiatives coupled with planning for the refreshed strategy.

Results

Trading for the 6 months to 31 December 2016 saw net profit lift by 7 per cent to $10.6 million, excluding the proceeds of the Bowden Road property sale from the 2015 comparative period.

Revenue decreased by 4 per cent to $254 million, reflecting the focus of increasing margins, which improved by almost 3 per cent to 25.4 per cent.

These results represent a full half year for both MSL and S&T Plastics, both acquired part way through the first half of 2015, and two months of trading from Composite Floor Decks Limited (CFDL).

S&T Stainless, MSL and CFDL all continue to perform well and in line with expectations. S&T Plastics took the opportunity to complete extensive work to improve plant performance and reliability in preparation for already secured major project activity through 2017 and into 2018. This improvement programme impacted the first half net profit result by $1.2 million, but the business is expected to make improved contributions through the second half and into the next financial year.

Net operating cash remained strong and improved by $4.6 million or 50 per cent to $14.0 million, while net tangible assets per share reduced by 10 cents to $1.49 cents.

Dividend

The Directors have declared a fully imputed dividend consistent with the first half last year at 9 cents per share, and to be paid on 31 March 2017 to shareholders of fully paid shares registered as at 17 March 2017. The total amount payable is $8.1 million and a supplementary dividend of 1.58 cents will be paid to non-resident shareholders.

Board Refresh

As announced at the annual meeting in November 2016, Sir John Anderson signalled his intention to step down in the first half of 2017 once a new Chairman had been selected by the Board.

As part of the Board refresh, professional director Susan Paterson joined the Board on January 16 2017 as Chairman – elect. The Board is also progressing a search for another director to join the Board in the first part of 2017.

Performance

The drive to continue to modernise the business capabilities continues.

S&T Stainless implemented the new ERP system as the pilot for the entire business during the half year. In line with expectations, this has provided great feedback to the project team and preparations for the main roll-out in 2017.

Progress continues on new facilities. Our new purpose designed and built facility in Dunedin is completed, and the business took occupancy in early February 2017.

Project planning for a new Processing facility in Christchurch are in their final stages along with the refurbishment plans for the Distribution facility along Blenheim Road. These facilities are expected to be completed late in 2017 and early 2018 respectively.

S&T Plastics took the opportunity of a lull in major project activity to prepare the plant for the next tranche of irrigation investments. Pleasingly, the business has received commitments to supply three major irrigation schemes that will be executed throughout the 2017 calendar year, which begin to demonstrate the potential for this business.

In line with the new strategy, enhancing capabilities across Steel & Tube continued with the acquisition of CFDL. This business compliments the existing ComFlor® manufacturing capability and provides a service from specification, manufacture and distribution to installation.

Facilitated in part by the new systems, some parts of the business realigned their costs, reducing total headcount by more than 30 across the business. The costs associated with this were taken in the first half, and the benefit will flow into the second half and beyond. This will be an ongoing focus for the business.

Globally the steel environment remains volatile, with China continuing to dominate the global scene. Despite the raw materials and finished steel fundamentals, prices increased rapidly through the early part of 2016, reaching the domestic market by mid-2016 calendar year. Steel & Tube focussed on price increases which has seen a welcome lift to margins. While Steel & Tube maintained its price leadership position, some others took the opportunity to take volume, particularly in the more commoditised distribution products and within reinforcing. Surprisingly, reinforcing prices are now at multi-year lows despite the current construction activity.

While this focus has impacted short term volume, and consequently revenue and market shares in some products, the total market share is tracking in line with longer term expectations.

Seismic Mesh

We remain disappointed by the Commerce Commission's decision to prosecute Steel & Tube along with others around the seismic mesh.

The Commission's decision for Steel & Tube relates to the inadvertent use of a testing laboratory's logo on test certificates, and the application of testing methodologies. As indicated at the annual meeting, there was always the possibility that the Commission would have a different perspective on the testing issues. The expected costs in relation to this prosecution have been accrued for, as have any proceeds that will be recovered under the Group's insurance policies.

Outlook

As reported at the annual meeting, multiple factors, not limited to coal production, steel capacity reduction, increased consumption driven by Chinese infrastructure and increased derivatives trading for both raw and finished steel products have all led to significant volatility in the global steel pricing scene. Coking coal peaked above US$300 per tonne from US$90 per tonne in the last quarter of 2016, while iron ore (62%Fe) is currently in excess of US$80 per tonne, the highest for three years.

This has led to a significant increase in finished steel prices that is working its way into product landing in New Zealand in the first quarter of calendar year 2017. Consequently, a further round of price increases have been signalled for this quarter.

From a domestic perspective, the outlook for the New Zealand economy looks positive, with the key downside risk remaining an external global shock.

Domestically, many economists are more confident about 2017, with growth supported by low interest rates, strong construction demand, and booming tourism.

Despite the positive outlook and current construction activity, the domestic steel demand is approximately 860 thousand tonnes; a slight reduction on the prior year and a 12-15% reduction from 980 tonnes during the last construction peak in 2004/5. Consequently, we expect the industry to remain intensely competitive.

Construction continues to underpin much of the volume, and while the transfer of activity from Christchurch to Auckland remains evident, albeit it somewhat 'lumpy', other parts of the country are experiencing good activity.

The international dairy auction price has improved over the past several months which has prompted Fonterra to increase their pay-out forecast to $6.55/kg of milk solid for the current year.

We are encouraged by several announcements from the industry to recommence investments into processing plant, which hopefully signals the commencement of further investment in the broader rural sector, in addition to viticulture which has remained strong.

Pleasingly the manufacturing sector's resilience continues despite the elevated dollar. As a result, we expect the second half will be stronger than the first half, reflecting the pricing opportunity. The changes made during the first half in relation to costs, the project commitments to S&T Plastics and CFDL's performance through the next six months will also deliver improved earnings.

Sir John Anderson
Chairman

Dave Taylor
Chief Executive Officer

16 February 2017

Consolidated Interim Statement Of Profit Or Loss And Other Comprehensive Income

FOR THE HALF YEAR ENDED 31 DECEMBER 2016

	Notes	Unaudited December 2016 $000	Unaudited December 2015 $000
Sales revenue		**254,470**	265,737
Other operating income		**1,444**	163
Cost of sales		**(189,730)**	(205,403)
Selling expenses		**(20,963)**	(19,888)
Administration expenses		**(15,487)**	(12,040)
Other operating expenses		**(13,675)**	(12,814)
Operating earnings before financing costs		**16,059**	15,755
Gain on property sale		**-**	6,267
Interest income		**48**	49
Interest expense		**(1,521)**	(2,026)
Profit before tax		**14,586**	20,045
Tax expense		**(4,002)**	(4,166)
Profit for the year attributable to owners of the parent		**10,584**	15,879
Items that may be reclassified to profit or loss			
Other comprehensive income/(loss) - hedging reserve		**713**	(1,266)
Total comprehensive income		**11,297**	14,613
Basic earnings per share (cents)		**11.8**	**17.8**
Diluted earnings per share (cents)		**11.8**	**17.8**

The accompanying notes form part of these financial statements.

Consolidated Interim Statement Of Changes In Equity

FOR THE HALF YEAR ENDED 31 DECEMBER 2016

	Share capital $000	Retained earnings $000	Hedging reserve $000	Treasury shares $000	Share-based payments $000	Total equity $000
Balance at 1 July 2016	**77,756**	**105,657**	**(431)**	**(3,500)**	**763**	**180,245**
Comprehensive income						
Profit after tax	**-**	**10,584**	**-**	**-**	**-**	**10,584**
Items that may be reclassified to profit or loss						
Other comprehensive income – hedging reserve (net of tax)	**-**	**-**	**713**	**-**	**-**	**713**
Total comprehensive income	**-**	**10,584**	**713**	**-**	**-**	**11,297**
Transactions with owners						
Dividends paid	**-**	**(12,088)**	**-**	**-**	**-**	**(12,088)**
Proceeds from partly paid shares	**48**	**-**	**-**	**-**	**-**	**48**
Granted/vested during the period – net	**-**	**-**	**-**	**-**	**(78)**	**(78)**
Purchase of own shares – net of transaction costs	**-**	**-**	**-**	**(175)**	**-**	**(175)**
Unaudited balance at 31 December 2016	**77,804**	**104,153**	**282**	**(3,675)**	**685**	**179,249**
Balance at 1 July 2015	71,717	96,858	863	(3,100)	671	167,009
Comprehensive income						
Profit after tax	-	15,879	-	-	-	15,879
Items that may be reclassified to profit or loss						
Other comprehensive loss – hedging reserve (net of tax)	-	-	(1,266)	-	-	(1,266)
Total comprehensive income	-	15,879	(1,266)	-	-	14,613
Transactions with owners						
Dividends paid	-	(8,987)	-	-	-	(8,987)
Proceeds from partly paid shares	44	-	-	-	-	44
Granted/vested during the period – net	-	-	-	-	(238)	(238)
Purchase of own shares – net of transactions costs	-	-	-	(407)	-	(407)
Issue of ordinary shares related to business combination	6,000	-	-	-	-	6,000
Unaudited balance at 31 December 2015	**77,761**	**103,750**	**(403)**	**(3,507)**	**433**	**178,034**

The accompanying notes form part of these financial statements.

Consolidated Interim Balance Sheet

AS AT 31 DECEMBER 2016

	Notes	Unaudited December 2016 $000	Audited June 2016 $000
Current assets			
Cash and cash equivalents		**3,025**	2,287
Trade and other receivables		**80,671**	89,842
Inventories		**134,944**	129,377
Income tax receivable		**195**	-
Derivative financial instruments		**481**	33
		219,316	221,539
Non-current assets			
Property, plant and equipment		**62,496**	61,557
Intangibles		**62,310**	47,344
		124,806	108,901
Total assets		**344,122**	330,440
Current liabilities			
Trade and other payables		**42,334**	45,133
Borrowings	4	**53,200**	-
Provisions		**1,923**	3,104
Derivative financial instruments		**145**	854
Income tax payable		**-**	808
		97,602	49,899
Non-current liabilities			
Trade and other payables		**1,242**	1,229
Borrowings	4	**64,606**	97,900
Deferred tax		**291**	160
Provisions long term		**1,132**	1,007
		67,271	100,296
Equity			
Share capital		**77,804**	77,756
Retained earnings		**104,153**	105,657
Other reserves		**(2,708)**	(3,168)
		179,249	180,245
Total equity and liabilities		**344,122**	330,440

These consolidated interim financial statements and accompanying notes were authorised by the Board on 16 February 2017.

For the Board

Sir John Anderson, Chairman

Dave Taylor, Chief Executive Officer

The accompanying notes form part of these financial statements.

Consolidated Interim Statement Of Cash Flows

FOR THE HALF YEAR ENDED 31 DECEMBER 2016

	Unaudited December 2016 $000	Unaudited December 2015 $000
Cash flows from operating activities		
Customers receipts	268,566	270,541
Interest receipts	48	49
Payments to suppliers and employees	(248,174)	(253,550)
Income tax payments	(4,874)	(5,646)
Interest payments	(1,521)	(2,026)
Net cash inflow from operating activities	14,045	9,368
Cash flows from investing activities		
Property, plant and equipment disposals	-	8,252
Payment for new business purchase (net of cash acquired)	(12,911)	(33,966)
Property, plant and equipment and intangible asset purchases	(8,086)	(3,978)
Net cash outflow from investing activities	(20,997)	(29,692)
Cash flows from financing activities		
Share capital	48	44
Treasury shares – net of transaction costs	(176)	(407)
Borrowings	19,906	45,360
Dividends paid	(12,088)	(8,987)
Net cash inflow from financing activities	7,690	36,010
Net increase in cash and cash equivalents	738	15,686
Cash and cash equivalents at beginning of the period	2,287	4,090
Cash and cash equivalents at end of the period	3,025	19,776
Represented by:		
Cash and cash equivalents	3,025	19,776

The accompanying notes form part of these financial statements.

Notes To The Consolidated Interim Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2016

1. Basis of preparation and accounting policies

Steel & Tube Holdings Limited (the Company) is registered under the Companies Act 1993 and is a FMC Reporting Entity under the Financial Markets Conduct Act 2013. The Company is a limited liability company incorporated and domiciled in New Zealand. The Group comprises Steel & Tube Holdings Limited and its subsidiaries. The Group's principal activities relate to the distribution, processing and fabrication of steel, plastic and allied products.

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

These interim financial statements have been reviewed, not audited, and were approved for issue on 16 February 2017.

Basis of preparation

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

These financial statements do not include all the information required for full financial statements, and consequently should be read in conjunction with the full financial statements of the Group for the year ended 30 June 2016, which have been prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards and with International Financial Reporting Standards.

These interim financial statements have been prepared using the same accounting policies and methods of computation as the financial statements for the year ended 30 June 2016.

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

Disclosures

2. Business combinations

On 31 October 2016 the Group through its subsidiary Composite Floor Decks Limited (CFDL) acquired all of the assets and business undertakings of Metal Decking Limited (formerly known as Composite Floor Decks Limited) for an initial consideration of $13.8 million in cash and a further $3 million contingent on certain conditions being met over the next two years. CFDL is a market leader in the supply and installation of composite metal floor decking in New Zealand.

The contingent consideration assesment as well as the determination of the fair value of the assets and liabilities acquired is in the process of being finalised and will be completed before the financial year end.

	$000
Consideration paid at 31 October 2016	
Consideration paid (cash)	13,812
Less: Cash on acquisition	(901)
Net cash consideration	12,911
Contingent consideration (provisional amount)	3,000
Total net fair value of consideration paid	**15,911**
Recognised fair value amounts of identifiable assets acquired and liabilities assumed at acquisition date	
Trade and other receivables	3,753
Other current assets	493
Property, plant and equipment	708
Trade and other payables	(2,492)
Total identifiable net tangible assets	**2,462**
Intangible assets	13,449
Total	**15,911**

Acquisition related costs of $0.4 million have been charged to administration expenses for the period ended 31 December 2016.

During the period ended 31 December 2016 CFDL contributed revenue of $3.7 million, and after tax profit of $0.9 million. Had CFDL been consolidated from 1 July 2016 the Group Statement of Profit or Loss and Other Comprehensive Income would show revenue of $261.8 million and after tax profit of $12.2 million.

3. Related parties

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

There have been no material changes in the nature or amount of related party transactions for the Group since 30 June 2016.

4. Borrowings

The Group has committed bank borrowing facilities, of which $78.5 million has an expiry date of October 2017, and $78.5 million has an expiry date of June 2018. There has been no other material changes in the management of risk or in any risk management policies in the current period. On 20 January 2017 the Group signed a variation to the bank borrowing facilities which has amended the expiry date on $78.5 million from October 2017 to October 2019.

5. Operating segments

There have been no material changes in the nature of operating segments since 30 June 2016.
The Group has one reportable segment.

6. Litigation

In March 2016, the Commerce Commission announced an investigation into grade 500E ductile steel mesh. In December 2016 the Commerce 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 expected costs in relation to this prosecution have been accrued for, as have any proceeds that will be recovered under the Group's insurance policies.

The Commission's intended prosecution of Steel & Tube relates to the inadvertent use of a testing laboratory's logo on test certificates, and the application of testing methodologies.

7. Subsequent events

On 16 February 2017 the Board declared a fully-imputed dividend of 9.0 cents per share ($8.15 million) and a supplementary dividend to non-resident shareholders of 1.58 cents per share. The dividends will be paid to shareholders on 31 March 2017.

Independent Review Report

FOR THE HALF YEAR ENDED 31 DECEMBER 2016

pwc

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TO THE SHAREHOLDERS OF STEEL & TUBE HOLDINGS LIMITED

Report on the Interim Financial Statements

We have reviewed the accompanying financial statements of Steel & Tube Holdings Limited ("the Company") and the entities it controlled, together the Group, on pages 6 to 12, which comprise the condensed balance sheet as at 31 December 2016, and the condensed statement of profit or loss and other comprehensive income, the condensed statement of changes in equity and the condensed statement of cash flows for the six month period ended on that date, and selected explanatory notes.

Directors' Responsibility for the Financial Statements

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

Our Responsibility

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

A review of financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditors perform procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on these financial statements.

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

Conclusion

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

Restriction on Distribution or Use

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
Wellington
16 February 2017

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Auditors

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steel&tube