steel&tube

Half Year Report 2018

Providing Strength to New Zealand

Steel & Tube is New Zealand's leading steel solutions provider, helping customers build what the country needs.

Our aspiration is to be a supply chain participant of scale, delivering superior value to our customers.

On behalf of the Board and management of Steel & Tube Holdings Limited, we are pleased to present the FY18 Interim Report for the six months to 31 December 2017.

Susan Paterson
Chair

Mark Malpass
Chief Executive Officer

22 February 2018

Contents

Our Business

BECOMING A MODERN AND INNOVATIVE COMPANY

Steel & Tube is New Zealand's leading steel solutions provider, with a nationwide network of businesses providing customers with steel and building products and infrastructure solutions to meet their needs.

DISTRIBUTION

Products are sourced from preferred steel mills and distributed through our national network of branches to customers

Businesses/Product Lines

- Steel
- Piping Systems
- Chain & Rigging
- Rural Products
- Fastenings
- Stainless and Engineering Steels

HY18:

Total revenue **$155.9m**

Normalised EBIT* **$5.8m**

INFRASTRUCTURE

Products are processed before sale and typically on a contract or project basis, including onsite installation services

Businesses/Product Lines

- Reinforcing and Wire
- Roofing
- Coil Processing
- Purlins
- ComFlor
- Composite Floor Decks Limited
- S&T Plastics

HY18:

Total revenue **$112.0m**

Normalised EBIT* **$10.7m**

* Divisional EBIT results only. Refer Note 5 of interim financial statements

Half Year Key Events

- **Refreshed Board** with appointment of two new directors - Steve Reindler and Chris Ellis – and the retirement of Dean Pritchard

- **Mark Malpass** stepped down from the Board and initially took up the role of interim CEO, following the departure of Dave Taylor in September 2017*

- **Greg Smith** appointed as Chief Financial Officer from end-October 2017

- **Change programme initiated** and progressing well. Whilst having an unavoidable impact on short term EBIT (impairments and restructuring), improved earnings are expected to flow into FY19 and FY20

- **Balance sheet strengthened** following the sale and leaseback of Stonedon Drive property in November 2017, with proceeds used to repay debt

- **New organisational structure** with company formally aligned into two divisions – Distribution and Infrastructure –under the new leadership of Marc Hainen and Ross Pickworth, respectively

- **New ERP System** (Microsoft AX) deployed across the majority of the Group

- **Continued focus** on Health, Safety & Environment and Quality Management

- **Quality programme further enhanced** following charges from Commerce Commission in regards to historical logo and application of testing methodologies of seismic mesh only (not the performance characteristics of the seismic mesh) to which the company has pleaded guilty

- In line with previous guidance, the Company currently expects FY18 EBIT to be materially consistent with FY17 EBIT, excluding non trading costs.

* Mark was appointed CEO on 22 February 2018

From the Chair

SUSAN PATERSON, CHAIR

The first half of the 2018 financial year has been one of review and change for Steel & Tube as we focus on delivery excellence, look to right size and reset the organisation and drive long term sustainable improvements in the company's earnings and performance.

We remain committed to improving the way Steel & Tube operates across all areas of its business, from sourcing and supplying quality products to delivering a high-quality customer experience. The change programme reflects this with the formal alignment of the business into two distinct divisions with new leadership teams, a stronger IT platform and improved inventory management.

This programme is ongoing and while there may be some further downside potential as the company transitions through a period of significant change and rebuilding, early benefits are beginning to be seen.

With any change, comes some disruption. On behalf of the Board, I would like to thank all the people across the Steel & Tube group who are working hard to make changes as seamless as possible and deliver a superior service to our customers.

The change programme and the development of our future strategy is being led by CEO Mark Malpass, who stepped down from the Board in September last year to take on the interim role following the departure of Dave Taylor. Mark is doing a great job and we are delighted that following a robust external appointment process, Mark has accepted the role on a permanent basis, effective from 22 February 2018. In addition, we have welcomed Greg Smith as Steel & Tube's new Chief Financial Officer, as part of a strong executive team now leading our company.

During the first half year we farewelled long standing director Dean Pritchard and welcomed two new directors, Chris Ellis and Steve Reindler. Their appointments provide additional industry expertise and fresh insights, and are part of a Board refresh that has seen three of the current five directors appointed in 2017.

Our long term capital development programme is now nearly at an end, with the new Christchurch coil processing facility opened in December 2017 and the final project, a purpose built Distribution centre in Christchurch, expected to be completed in May 2018. Our investment in technology reached a key milestone during the period, with the deployment of a new computer system that will help drive all critical parts of our business.

With this investment programme now behind us, the Board is focussed on strengthening and optimising the company's balance sheet to ensure Steel & Tube is well placed to profitably grow. To support this focus, last year the Board agreed a number of capital structure targets:

- Net debt to net debt + equity to be within the target range of 30-35%
- Net debt to EBITDA to be less than 2.75 times
- A dividend pay-out ratio target, of between 60% and 80% of 'normalised' net earnings, being net earnings adjusted for any material non-ordinary items, and subject to relevant factors at the time including working capital and opportunities for growth.

Pleasingly, we are on track to achieve these in FY18, on a normalised basis. Net debt has been reduced by 25% to $95.5m, mainly due to the divestment of the Stonedon Drive property and an ongoing focus on improving the Group's working capital position. Steel & Tube has a strong relationship with its banking partners and facilities were recently renegotiated with extended tenure.

In line with the dividend policy, the Board was pleased to confirm an interim dividend of 7 cents per share.

We remain focused on our two key goals – to provide superior value to customers and to simplify the business. I am very confident that the changes underway will also deliver value to our shareholders.

Susan Paterson
Chair

Half Year Review

CHIEF EXECUTIVE OFFICER, MARK MALPASS

The key focus for the first half of the 2018 financial year has been the significant change programme which we have underway. Our objective is to reinvigorate our focus on the customer, improve our supply chain and delivery performance, reduce steel sourcing costs, remove duplication and improve site productivity. These initiatives are expected to improve customer service and lower costs to serve.

We are progressing well, with a number of initiatives underway.

Our company is now formally aligned into two divisions – Distribution and Infrastructure – recognising the different products, sales models and processing functions of each division. New leadership teams have been put in place, through both internal and external appointments, and we are now well positioned to take our company forward.

We have been right sizing the organisation, ensuring we have the right capability and mix of skills in each of our businesses. This has seen an initial reduction in our head count which will deliver cost efficiencies going forward.

The new Microsoft AX ERP planning system has recently been deployed across the majority of the Group and is starting to provide us with better and more detailed business insights. As with the implementation of any new technology, there have been some teething problems and I wish to acknowledge our staff and customers who have supported us through this journey.

With improved access to key information, we have been able to complete a detailed review of our inventory, resulting in a $5.5m write-down of aged inventory in the half year financial statements. This, along with $2.6m in expenses relating to the impact of organisational changes completed in the period ended 31 December 2017, were the major factors in the year-on-year decrease in earnings to $6.7m.

Excluding the provision for write-down, inventories have reduced by approximately $9.6m since June 2017 and further inventory reductions are expected. This reflects a continued focus on supply chain and logistics efficiencies as we target improving the delivery of products to meet customer needs.

MARKET CONDITIONS

Market conditions remained fairly constant during the period, with some softening around election time and a slowing of construction activity in Christchurch.

Global demand for steel remains high and reduced capacity in China combined with Chinese domestic demand has seen steel exports reduce and increasing steel prices. These increases had a significant impact on Steel & Tubes margins in September and October 2017 as the highly competitive New Zealand market was slow to respond to these input cost increases. However, most local participants, including Steel & Tube, increased prices in November 2017. While the increased global steel prices impacted on margin in the first half, pleasingly, Steel & Tube remains the number one or two provider in most segments in the steel market.

DISTRIBUTION

This division focuses on products which are sourced from preferred steel mills and distributed through our national network of branches to customers. For the six months, Distribution division revenue was $155.9m with EBIT of $5.8m excluding an adjustment of $3.7m for the impairment of inventory.

As part of the change programme, a major review of the supply chain has commenced with the objective of improving the value we add to our customers and reducing our overall delivered cost.

Our specialist businesses of Stainless and Fastenings are performing well and undergoing significant change as we integrate acquired businesses with S&T heritage businesses.

Inventory management has been a key focus with a pleasing fall in stock levels. This has primarily been led by reductions in distribution. Further reductions are targeted with the aggregation of storage facilities which will also result in lower lease, freight and operating costs.

We are focused on improving the availability of our more popular core lines, whilst better managing slow-moving items, and this should benefit sales going forward.

As supply chain performance improves, the division is also focussing on delivering more value and support for our customers, which should lead to improved sales.

Whilst the market remains highly competitive, in line with increases in global steel prices, we increased prices in most categories in November 2017, with further increases expected in March 2018. These are expected to have a positive impact on margins in the second half.

INFRASTRUCTURE

This division focuses on products which are processed by Steel & Tube before sale and typically on a contract or project basis, including onsite installation services. Infrastructure revenue was $112m with EBIT of $10.7m, excluding an adjustment of $1.8m for the impairment of inventory.

Rollforming products such as Roofing and Purlins have been impacted by the recent ERP system change, which led to a significant process change and impacted customer service in the short term.

A number of significant construction projects are underway in Newmarket, Auckland as well as apartment and reinforcing jobs. Management have also been successful in tendering for piling projects.

CFDL is performing well and leading the composite metal decking market, with a healthy order book and a range of projects in the pipeline. Following a significant investment, Comflor will also be launching its new low profile flooring system later in the year.

While margin compression and unsustainable low bidding are still issues in the reinforcing sector in particular, management remain focused on improving quality standards and disciplined project management. Significant efforts have gone into limiting the impact of the two onerous contracts previously identified, with double shifting installation crews and onsite management allowing us to clawback some of the delays. These contracts are now expected to complete in March and April 2018 and are not expected to exceed the provisions taken in FY17.

S&T Plastics has also had a good first half performance with wastage and scrap rates significantly reduced, and the team achieving ISO watermark accreditation. Management is actively pursuing several large projects.

LICENCE TO OPERATE

Our licence to operate is underpinned by our focus on Health, Safety & Environment; and Quality Management.

Safety performance has improved further compared to the same period last year. A number of safety initiatives are being progressed to ensure we work towards our goal of zero harm and we also strengthened back to work procedures following the summer holidays, a traditionally high risk period for the business.

Quality continues to be an area of focus for Steel & Tube. In January 2018, a company-wide update of ISO 9001 processes was launched and is expected to be completed by December 2018. We also continue to strengthen our international supplier quality audit processes, including consideration of international audit partners to help perform offshore inspections.

In August last year, Steel & Tube pleaded guilty to Commerce Commission charges relating to the historical inadvertent use of a testing laboratory's logo and the application of testing methodologies in the applicable standard. These charges do not relate to the performance characteristics of the mesh which we continue to stand behind, and we have had external accredited laboratories testing the seismic mesh since April 2016.

We take quality and compliance seriously and have taken significant steps to enhance our quality and product assurance systems.

Steel & Tube is a proud and long-standing New Zealand company with significant opportunities. We remain focused on creating a platform for the future, and delivering great value and service for our customers.

Mark Malpass
Chief Executive Officer

Business Performance

Stainless: Performing well, combined with benefits from integrating heritage Tata business with S&T heritage Stainless; secured several major projects with unique branded/specified products

Fastenings: Performance continues to strengthen, combined with benefits from integrating MSL business with S&T heritage Fasteners; several new product offerings being launched

Traditional distribution: Volumes were softer, however customer focussed supply chain improvements are well underway to assist growth in second half

Chain & Rigging: Continued strong performance and investments in capacity to drive growth

Rollforming: Volumes down due to system process changes, focus now on customer service

CFDL/Comflor: CFDL celebrated one year as part of the Steel & Tube group and is performing well with a healthy order book in excess of $20m

S&T Plastics: Completion of Downers CPW2 project in February 2018. Focus on successfully bidding for further large projects

Reinforcing: Contract pricing remains unsustainably low, with contractors looking to push low margins down the supply chain to sub-contractors such as Steel & Tube

Half Year Financial Performance

For the six months to 31 December 2017 (HY18), Steel & Tube reported a short term decrease in operating earnings as expected, as a change programme is undertaken to drive long term sustainable improvements in the Company's performance and earnings.

Steel & Tube's operating earnings are consistent with the guidance provided to the market at the Annual Shareholder Meeting in November 2017. Operating earnings (EBIT) for the six months was $6.7m (HY17: $16.1m). Revenue was up 5% on the prior comparative half year to $267.9m, reflecting the benefit of additional revenue from the acquisition of Composite Floor Decks Limited (CFDL) in 2016 and improved performance by S&T Plastics, partially offset by lower volumes and margin pressures in core distribution and reinforcing businesses.

The half year result includes significant non-trading costs relating to a working capital review and restructuring activities, as previously advised.

Including these non-trading costs, Steel & Tube reported a Net Profit After Tax (NPAT) of $3.8m (HY16: $10.6m). Whilst impairments and restructuring costs are having an unavoidable impact on short term EBIT, improved earnings from the change programme are expected to flow into FY19 and FY20.

Over half of the year on year decrease is related to a $5.5m write down of aged inventory to net realisable value following a substantial review of inventory holdings; with an additional $2.6m in expenses relating to the impact of organisational changes completed in the period ended 31 December 2017. These costs were partially offset by an additional four months of earnings (compared to the prior first half year), totalling $1.9m, from the acquisition of CFDL in 2016.

Excluding these major items, normalised EBIT was $12.9m, compared to $15.6m in the previous year.

HY18 earnings also include the impact of increased depreciation and amortisation costs of $1.1m through the recent capital investment programme and acquisitions.

The board is focussed on optimising the balance sheet to ensure that Steel & Tube is well placed to profitably grow and confirms that the company is on track to meet its capital structure targets, on a normalised basis.

Excluding the provision for write-down, inventories have reduced by approximately $9.6m since June 2017 and further reductions are targeted.

Net debt has been reduced by 25% to $95.5m, mainly due to the divestment of the Stonedon Drive property and an ongoing focus on improving the Group's working capital position.

Consistent with its dividend policy of a payout ratio of between 60% and 80% of net earnings adjusted for any material non-ordinary items and subject to relevant factors at the time, the Board declared an interim dividend of 7 cents per share to be paid on 29 March 2018.

Highlights

REVENUE

$267.9m

EBIT*

$6.7m

NORMALISED EBIT

$12.9m

GEARING RATIO

31%

NPAT

$3.8m

INTERIM DIVIDEND

7cps

* OPERATING EARNINGS BEFORE OTHER GAINS AND FINANCING COSTS

Interim Financial Statements

Consolidated Interim Statement Of Profit Or Loss And Other Comprehensive Income

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

	Notes	Unaudited December 2017 $000	Unaudited December 2016 $000
Sales revenue		**267,852**	254,470
Other operating income		**894**	1,640
Cost of sales		**(207,381)**	(189,927)
Selling expenses		**(21,223)**	(21,743)
Administration expenses		**(18,307)**	(14,137)
Other operating expenses		**(15,150)**	(14,244)
Operating earnings before other gains and financing costs		**6,685**	16,059
Gain on property sale	4	**413**	-
Interest income		**6**	48
Interest expense		**(1,831)**	(1,521)
Profit before tax		**5,273**	14,586
Tax expense		**(1,507)**	(4,002)
Profit for the year attributable to owners of the parent		**3,766**	10,584
Items that may subsequently be reclassified to profit or loss			
Other comprehensive income / (loss) – hedging reserve		**1,175**	713
Items that may not subsequently be reclassified to profit or loss			
Other comprehensive income / (loss) – deferred tax on revaluation reserve		**1,878**	-
Total comprehensive income		**6,819**	11,297
Basic earnings per share (cents)		**4.2**	**11.8**
Diluted earnings per share (cents)		**4.2**	**11.8**

The accompanying notes form part of these financial statements.

Consolidated Interim Statement Of Changes In Equity

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

	Share capital $000	Retained earnings $000	Hedging reserve $000	Reval-uation Reserve $000	Treasury shares $000	Share-based payments $000	Total equity $000
Balance at 1 July 2017	**77,804**	**105,552**	**(1,193)**	**32,805**	**(3,431)**	**593**	**212,130**
Comprehensive income							
Profit after tax	**-**	**3,766**	**-**	**-**	**-**	**-**	**3,766**
Other comprehensive income							
Hedging reserve (net of tax)	**-**	**-**	**1,175**	**-**	**-**	**-**	**1,175**
Deferred tax on asset sale	**-**	**-**	**-**	**1,878**	**-**	**-**	**1,878**
Total comprehensive income	**-**	**3,766**	**1,175**	**1,878**	**-**	**-**	**6,819**
Transfer on sale of property	**-**	**21,689**	**-**	**(21,689)**	**-**	**-**	**-**
Transactions with owners							
Dividends paid	**-**	**(6,331)**	**-**	**-**	**-**	**-**	**(6,331)**
Proceeds from partly paid shares	**41**	**-**	**-**	**-**	**-**	**-**	**41**
Options vested during the year	**-**	**-**	**-**	**-**	**-**	**235**	**235**
Purchase of own shares – net of transaction costs	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Unaudited balance at 31 December 2017	**77,845**	**124,676**	**(18)**	**12,994**	**(3,431)**	**828**	**212,894**
Balance at 1 July 2016	77,756	105,657	(431)	-	(3,500)	763	180,245
Comprehensive income							
Profit after tax	-	10,584	-	-	-	-	10,584
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
Options vested during the year	-	-	-	-	-	(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**

The accompanying notes form part of these financial statements.

Consolidated Interim Balance Sheet

AS AT 31 DECEMBER 2017

	Notes	Unaudited December 2017 $000	Audited June 2017 $000
Current assets			
Cash and cash equivalents		**1,147**	6,517
Trade and other receivables		**88,834**	93,489
Inventories	2	**127,891**	143,064
Income tax receivable		**-**	218
Derivative financial instruments		**114**	2
		217,986	243,290
Non-current assets			
Property, plant and equipment	4	**78,093**	102,589
Intangibles	3	**67,837**	66,848
		145,930	169,437
Total assets	3	**363,916**	412,727
Current liabilities			
Trade and other payables		**47,259**	54,361
Provisions		**2,977**	3,534
Derivative financial instruments		**194**	1,714
Income tax payable		**797**	-
		51,227	59,609
Non-current liabilities			
Trade and other payables		**2,201**	2,212
Borrowings	6	**96,693**	133,374
Deferred tax		**(4)**	4,157
Provisions long term		**905**	1,245
		99,795	140,988
Equity			
Share capital		**77,845**	77,804
Retained earnings		**124,676**	105,552
Other reserves		**10,373**	28,774
		212,894	212,130
Total equity and liabilities		**363,916**	412,727

These consolidated interim financial statements and accompanying notes were authorised by the Board on 22 February 2018.

For the Board

Susan Paterson
Chair

Anne Urlwin
Director

The accompanying notes form part of these financial statements.

Consolidated Interim Statement Of Cash Flows

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

	Unaudited December 2017 $000	Unaudited December 2016 $000
Cash flows from operating activities		
Customers receipts	272,794	268,566
Interest receipts	6	48
Payments to suppliers and employees	(250,100)	(248,174)
Income tax payments	(3,120)	(4,874)
Interest payments	(1,831)	(1,521)
Net cash inflow from operating activities	17,749	14,045
Cash flows from investing activities		
Property, plant and equipment disposals	31,460	-
Payment for new business purchase (net of cash acquired)	-	(12,911)
Property, plant and equipment and intangible asset purchases	(11,608)	(8,086)
Net cash inflow / (outflow) from investing activities	19,852	(20,997)
Cash flows from financing activities		
Share capital	41	48
Treasury shares - net of transaction costs	-	(176)
Borrowings	(36,681)	19,906
Dividends paid	(6,331)	(12,088)
Net cash (outflow) / inflow from financing activities	(42,971)	7,690
Net (decrease) / increase in cash and cash equivalents	(5,370)	738
Cash and cash equivalents at beginning of the period	6,517	2,287
Cash and cash equivalents at end of the period	1,147	3,025
Represented by:		
Cash and cash equivalents	1,147	3,025

The accompanying notes form part of these financial statements.

Notes To The Consolidated Interim Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

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 related products.

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

These interim financial statements have been reviewed, not audited, and were approved for issue on 22 February 2018.

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 2017, 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 2017.

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

Prior Year Comparatives

Following the implementation of a new information technology system during the period, certain comparative information has been reclassified to align with current year presentation. The most significant change being approximately $1 million of subsidiary expenses classified as administration expenses in the prior year which have been reclassified to selling expenses. There have been no other material changes to the presentation of financial information.

DISCLOSURES

2. INVENTORIES

In accordance with the Group's policy it has reviewed its inventory holdings and identified some slow moving and aged inventory whose net realisable value is estimated to be less than carrying value. The assessment considered the likely sales channels and market pricing for disposal of the inventory. The Group has recognised within cost of sales an impairment of $5.5 million to measure this inventory at its estimated net realisable value in the six months ended 31 December 2017 (31 December 2016: $ nil). The assessment requires management to exercise judgement as to the method of disposal.

3. IMPAIRMENT TESTING AND INTANGIBLES

Impairment

Included in Intangibles is $47.2m of Goodwill. NZIAS 36 requires Management to regularly assess for any indicators of impairment and at least annually test the recoverable amount of goodwill against its carrying value. As at 31 December 2017 management identified an indicator of impairment and therefore, as part of preparing these interim financial statements, Management undertook an internal valuation to assess the carrying value of the Group's assets including goodwill. Based on the calculations completed, there is no impairment as at 31 December 2017.

For the purpose of assessing impairment of goodwill, assets are grouped at the lowest levels for which there are separately identifiable cash generating units (CGU level). As at 31 December 2017 the recoverable amount of the Group's CGU's exceeded their carrying values and there is no impairment of Goodwill. The forecast cash flows used to assess for impairment were based on the latest Group forecast as approved by the Board.

Intangibles

Included in Intangibles is a software implementation asset of $17 million. This asset commenced amortisation in the period following go-live in October 2017.

4. NON-CURRENT ASSETS: PROPERTY, PLANT AND EQUIPMENT

During the period the Group sold its property at Stonedon Drive, Auckland. The property was sold for $32.5 million. The Group recognised a gain on sale of $0.4 million 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 cost provision of $1.1 million.

5. 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 with General Managers responsible for each. 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 in to 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 same customers and similar sales channels.

The Group derives its revenue from the distribution, processing and fabrication 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 CEO for the half year ended 31 December 2017 is as follows:

December 2017	Distribution $000	Infrastructure $000	Other/ Elimination $000	**Reconciled to Group $000**
Revenue from external customers	155,852	112,000	-	**267,852**
Intersegment revenue	3,567	11,875	(15,442)	**-**
Segment EBIT Before Adjustment *	5,827	10,683	(1,702)	**14,808**
One off adjustment *	(3,736)	(1,782)	(2,605)	**(8,123)**
Adjusted Segment EBIT *	2,091	8,901	(4,307)	**6,685**
Gain on property sale				**413**
Interest (net)				**(1,825)**
Reconciled to Group Profit Before Tax				**5,273**
Total assets	172,085	134,504	57,328	**363,917**
Total liabilities	18,536	33,270	100,398	**152,204**

* The results for the half year include a non-trading adjustment for impairment of inventory and restructuring and reorganisation costs.

December 2016	Distribution $000	Infrastructure $000	Other/ Elimination $000	**Reconciled to Group $000**
Revenue from external customers	156,997	97,473	-	**254,470**
Intersegment revenue	3,527	11,741	(15,268)	**-**
Segment EBIT	8,986	10,085	(3,012)	**16,059**
Interest (net)				**(1,473)**
Reconciled to Group Profit Before Tax				**14,586**
Total assets	180,179	105,719	58,224	**344,122**
Total liabilities	57,985	38,264	68,624	**164,873**

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. Due to the close proximity of balance date following the change to segment reporting this change has yet to be implemented. However Management believe allocation provides more relevant information to the users of the financial statements and as such have allocated these transactions into their respective segments for the period ended 31 December 2017. The Group intends to align its internal reporting provided to the CODM with this change going forward.

6. BORROWINGS

The Group has committed bank borrowing facilities, of which $78.5 million has an expiry date of October 2021, and $78.5 million has an expiry date of October 2019. During the period the Group had a temporary extended facility in place which has been repaid and cancelled as at 31 December 2017.

7. RELATED PARTIES

The Company has related party relationships with its subsidiaries and with key management personnel. During the year there have been significant changes to key management personnel at Board and Executive Management level.

Included in the half year results is $1.5 million of contractual payments made to departing management personnel.

There have been no other material changes in the nature or amount of related party transactions for the Group since 30 June 2017.

8. LITIGATION

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 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. A sentencing date has been set for March 2018.

A provision for fines, penalties and costs in relation to this prosecution and their full recovery under the Group's insurance policies has been provided for in the Group's financial statements.

9. SUBSEQUENT EVENTS

On 22 February 2018 the Board declared a fully-imputed dividend of 7 cents per share ($6.34 million) and a supplementary dividend to non-resident shareholders of 1.23 cents per share. The dividends will be paid to shareholders on 29 March 2018.

The accompanying notes form part of these financial statements.

NON-GAAP FINANCIAL INFORMATION

Steel & Tube uses several non-GAAP measures when discussing financial performance. These include Earnings Before Interest and Tax (EBIT), normalised EBIT and working capital. Management believes that these measures provide useful information on the underlying performance of Steel & Tube's business. Non-GAAP financial measures should not be viewed in isolation nor considered as a substitute for measures reported in accordance with NZ IFRS. Reconciliations of the non-GAAP measures to GAAP measures is shown below.

Reconciliation of GAAP to Non GAAP Measures	Unaudited December 2017 $000	Unaudited December 2016 $000
GAAP: Operating earnings before other gains and financing costs (EBIT)	**6,685**	16,059
Add/(Deduct) back unusual transactions:		
Inventory write-down	**5,518**	-
Reorganisation and restructuring costs	**2,605**	-
Segment EBIT Before Adjustment (as per note 5)	**14,808**	16,059
Additional acquisition earnings - CFDL	**(1,867)**	-
One-off payment by subsidiary vendor	**-**	(442)
Normalised EBIT	**12,941**	15,617

Definitions:

- EBIT: This means operating earnings before interest and tax and is calculated as profit for the period before other non-operating gains/losses, net finance costs and tax.
- Normalised EBIT: This means EBIT after normalisation adjustments.
- Working Capital: This means the net position after current liabilities are deducted from current assets. The major individual components of working capital for the Group are Inventories, Trade and other receivables and Trade and other payables. How the Group manages these has an impact on operating cashflow and borrowings.
- Normalisation adjustments: These are transactions that are unusual by size or nature in a particular accounting period. Excluding these transactions can assist users in forming a view of the underlying performance of the Group. Unusual transactions can be as a result of specific events or circumstances or major acquisitions, disposals or divestments that are not expected to occur frequently.

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Independent review report

To the shareholders of Steel & Tube Holdings Limited

Report on the Consolidated Interim Financial Statements

We have reviewed the accompanying consolidated interim financial statements of Steel & Tube Holdings Limited ("the Company") and the entities it controlled, together the Group, on pages 13 to 21, which comprise the consolidated interim balance sheet as at 31 December 2017, and the consolidated interim statement of profit or loss and other comprehensive income, the consolidated interim statement of changes in equity and the consolidated interim statement of cash flows for the six month period ended on that date, and selected explanatory notes.

Directors' Responsibility for the Consolidated Interim Financial Statements

The Directors are responsible on behalf of the Company for the preparation and presentation of these interim financial statements in accordance with International Accounting Standard 34 Interim Financial Reporting (IAS 34) and New Zealand Equivalent to International Accounting Standard 34 Interim Financial Reporting (NZ IAS 34) and for such internal controls as the Directors determine are necessary to enable the preparation of the consolidated interim 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 consolidated interim 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 consolidated interim financial statements, taken as a whole, are not prepared in all material respects, in accordance with IAS 34 and NZ 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 consolidated interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs 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 consolidated interim financial statements.

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

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Conclusion

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

Who we report to

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
22 February 2018

Wellington

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AUDITORS

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steel&tube

STRONGER IN EVERYWAY