Half Year Report 2020

INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

Contents

These interim financial statements do not include all the notes and information normally included in the annual financial statements. Accordingly, they should be read in conjunction with the annual financial statements for the year ended 30 June 2019.

Statement Of Profit Or Loss And Other Comprehensive Income

FOR THE PERIOD ENDED 31 DECEMBER 2019

	Notes	Unaudited December 2019 $000	Unaudited December 2018 $000
Sales revenue		**231,965**	258,234
Other operating income		**269**	799
Cost of sales		**(180,361)**	(200,719)
Operating expenses		**(48,394)**	(48,889)
Operating earnings before impairment, other gains and financing costs		**3,479**	9,425
Impairment of intangibles	4	**(37,071)**	-
Other gains		**222**	394
(Loss) / earnings before interest and tax		**(33,370)**	9,819
Interest income		**23**	72
Interest expense		**(3,537)**	(2,036)
(Loss) / profit before tax		**(36,884)**	7,855
Tax expense		**(81)**	(2,254)
(Loss) / profit for the period attributable to owners of the Company		**(36,965)**	5,601
Items that may subsequently be reclassified to profit or loss			
Other comprehensive (loss) / income - hedging reserve		**(518)**	(753)
Items that may not subsequently be reclassified to profit or loss			
Other comprehensive loss - revaluation reserve		**(1,622)**	-
Other comprehensive income - deferred tax on revaluation reserve		**454**	-
Total comprehensive (loss) / income		**(38,651)**	4,848
Basic earnings per share (cents)		**(22.3)**	**4.0**
Diluted earnings per share (cents)		**(22.3)**	**4.0**

The accompanying notes form part of these financial statements.

Statement Of Changes In Equity

FOR THE PERIOD ENDED 31 DECEMBER 2019

	Notes	Share capital $000	Retained earnings $000	Hedging reserve $000	Revaluation Reserve $000	Treasury shares $000	Share-based payments Reserve $000	Total equity $000
Balance at 1 July 2019		**156,669**	**94,142**	**(102)**	**5,832**	**(2,896)**	**256**	**253,901**
Impact of adoption of new accounting standard (net of tax)	8	-	(9,762)	-	-	-	-	(9,762)
Restated total equity at the beginning of the financial year		**156,669**	**84,380**	**(102)**	**5,832**	**(2,896)**	**256**	**244,139**
Comprehensive income								
Loss after tax		-	(36,965)	-	-	-	-	(36,965)
Other comprehensive income								
Hedging reserve (net of tax)		-	-	(518)	-	-	-	(518)
Asset revaluation (gross)	7	-	-	-	(1,622)	-	-	(1,622)
Deferred tax on asset revaluation		-	-	-	454	-	-	454
Total comprehensive income		-	(36,965)	(518)	(1,168)	-	-	(38,651)
Transactions with owners								
Dividends paid		-	(2,518)	-	-	-	-	(2,518)
Employee share schemes		-	66	-	-	-	48	114
Unaudited balance at 31 December 2019		**156,669**	**44,963**	**(620)**	**4,664**	**(2,896)**	**304**	**203,084**

	Notes	Share capital $000	Retained earnings $000	Hedging reserve $000	Revaluation Reserve $000	Treasury shares $000	Share-based payments Reserve $000	Total equity $000
Balance at 1 July 2018		77,845	90,018	943	6,509	(2,896)	193	172,612
Impact of adoption of new accounting standard (net of tax)		-	(617)	-	-	-	-	(617)
Restated total equity at the beginning of the financial year		77,845	89,401	943	6,509	(2,896)	193	171,995
Comprehensive income								
Profit after tax		-	5,601	-	-	-	-	5,601
Other comprehensive income								
Hedging reserve (net of tax)		-	-	(753)	-	-	-	(753)
Total comprehensive income		-	5,601	(753)	-	-	-	4,848
Transactions with owners								
Issue of share capital (net of issue costs)		78,866	-	-	-	-	-	78,866
Employee share schemes		-	-	-	-	-	70	70
Unaudited balance at 31 December 2018		156,711	95,002	190	6,509	(2,896)	263	255,779

The accompanying notes form part of these financial statements.

Balance Sheet

AS AT 31 DECEMBER 2019

	Notes	Unaudited December 2019 $000	Audited June 2019 $000
Current assets			
Cash and cash equivalents		**13,065**	9,010
Trade and other receivables		**74,054**	90,734
Inventories		**120,038**	113,962
Income tax receivable		**1**	1
Derivative assets		**54**	120
		207,212	213,827
Non-current assets			
Property, plant and equipment		**51,277**	52,034
Right-of-use assets	8	**98,780**	-
Intangibles	4	**19,536**	56,922
Deferred tax assets		**7,751**	3,380
		177,344	112,336
Total assets		**384,556**	326,163
Current liabilities			
Trade and other payables		**36,724**	41,079
Provisions		**3,648**	4,221
Short term lease liabilities	8	**12,617**	-
Derivative liabilities		**917**	263
		53,906	45,563
Non-current liabilities			
Trade and other payables		**-**	1,835
Long term lease liabilities	8	**102,841**	-
Borrowings	3	**24,000**	24,000
Provisions	6	**725**	864
		127,566	26,699
Equity			
Share capital		**156,669**	156,669
Retained earnings		**44,963**	94,142
Other reserves		**1,452**	3,090
		203,084	253,901
Total equity and liabilities		**384,556**	326,163

These financial statements and the accompanying notes were authorised by the Board on 21 February 2020.

For the Board

Susan Paterson
Chair

Anne Urlwin
Director

The accompanying notes form part of these financial statements.

Statement Of Cash Flows

FOR THE PERIOD ENDED 31 DECEMBER 2019

	Notes	Unaudited December 2019 $000	Unaudited December 2018 $000
Cash flows from operating activities			
Customer receipts		**244,616**	274,579
Interest receipts		**23**	72
Payments to suppliers and employees		**(224,211)**	(266,728)
Income tax refunds / (payments)		**-**	5,603
Interest payments on debt		**(509)**	(2,436)
Interest payments on leases	8	**(2,868)**	-
Net cash inflow from operating activities		**17,051**	11,090
Cash flows from investing activities			
Property, plant and equipment disposal net proceeds		**64**	1,275
Property, plant and equipment and intangible asset purchases		**(3,945)**	(2,886)
Net cash outflow from investing activities		**(3,881)**	(1,611)
Cash flows from financing activities			
Issue of share capital (net of issue costs)		**-**	78,866
Repayment of borrowings		**-**	(85,935)
Dividends paid		**(2,518)**	-
Payments for leases	8	**(6,597)**	-
Net cash outflow from financing activities		**(9,115)**	(7,069)
Net increase / (decrease) in cash and cash equivalents		**4,055**	2,410
Cash and cash equivalents at beginning of the period		**9,010**	5,584
Cash and cash equivalents at end of the period		**13,065**	7,994
Represented by:			
Cash and cash equivalents		**13,065**	7,994

The accompanying notes form part of these financial statements.

Notes To The Interim Financial Statements

FOR THE PERIOD ENDED 31 DECEMBER 2019

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

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

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

These financial statements have been reviewed, not audited, and were approved for issue on 21 February 2020.

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

Basis of preparation

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

These financial statements do not include all the information required for an annual financial report and consequently should be read in conjunction with the audited financial statements of the Group for the year ended 30 June 2019.

These financial statements have been prepared using the same accounting policies and methods of computation as the financial statements for the year ended 30 June 2019, with the exception of the adoption of NZ IFRS 16 Leases (NZ IFRS 16).

The preparation of the interim financial statements requires the exercise of judgements that affect the application of accounting policies, the reported amounts of assets and liabilities, and income and expenses. The Group has been consistent in applying the judgements, estimates and assumptions adopted in the audited financial statements of the Group for the year ended 30 June 2019, except for the Assessment of Impairment of Goodwill as outlined in Note 4, and also as amended by the adoption of NZ IFRS 16 as outlined in Note 8.

The changes to the Group's accounting policies resulting from the adoption of NZ IFRS 16 are outlined in Note 8.

2. OPERATING SEGMENTS

The Group has identified two reporting segments as at 31 December 2019 having regard for the criteria outlined in NZ IFRS 8 Operating Segments (NZ IFRS 8). The Group's Chief Operating Decision Maker (being the CEO) receives financial reports which aggregate the activities of the Group's six operating segments into two distinct divisions, being Distribution and Infrastructure.

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

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

The CEO uses EBIT as a measure to assess the performance of segments. The segment information provided to the CEO for the period ended 31 December 2019 is as follows:

December 2019	Distribution $000	Infrastructure $000	Other/ Elimination $000	**Reconciled to Group $000**
Timing of revenue recognition				
At a point in time	135,405	52,616	9	**188,030**
Over time	-	43,935	-	**43,935**
Total revenue from external customers	135,405	96,551	9	**231,965**
Depreciation and amortisation	(952)	(1,133)	(1,468)	**(3,553)**
Impairment of intangibles	(15,602)	(21,469)	-	**(37,071)**
Segment EBIT	(14,230)	(19,140)	-	**(33,370)**
Interest (net)				**(3,514)**
Reconciled to Group Loss Before Tax				**(36,884)**

December 2018	Distribution $000	Infrastructure $000	Other/ Elimination $000	**Reconciled to Group $000**
Timing of revenue recognition				
At a point in time	149,838	57,686	1,047	**208,571**
Over time	-	49,663	-	**49,663**
Total revenue from external customers	149,838	107,349	1,047	**258,234**
Depreciation and amortisation	(844)	(1,192)	(1,635)	**(3,671)**
Segment EBIT	2,327	7,347	145	**9,819**
Interest (net)				**(1,964)**
Reconciled to Group Profit Before Tax				**7,855**

Depreciation and amortisation is shown on a pre-NZ IFRS 16 basis, which is in line with the financial reports received by the CEO.

Interest income and expenses are not allocated to segments, as decisions are made on a pre-NZ IFRS 16 basis and other interest income and expense related activities are driven by the central treasury function, which manages the cash position of the Group.

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

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

3. BORROWINGS

The Group has syndicated committed bank borrowing facilities of $70m, comprising a $25m Working Capital facility with a maturity date of 31 October 2020 (31 December 2018 and 31 December 2019: $nil drawn), and a $45m Revolving Facility with a maturity date of 30 November 2021 (31 December 2018 and 31 December 2019: $24m drawn). The Working Capital facility is expected to be renewed on an annual basis, with the most recent renewal completed on 1 November 2019.

4. IMPAIRMENT TESTING AND INTANGIBLES

NZ IAS 36 Impairment of Assets requires the Group to regularly assess for any indicators of impairment and test the recoverable amount of Goodwill against its carrying value at least annually. As at 31 December 2019 the Group identified an indicator of impairment and as part of preparing these interim financial statements, undertook an internal valuation to compare the current carrying value of the Group's assets including Goodwill against their recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs of disposal ("FVLCD") and value-in-use ("VIU"). For the purpose of assessing impairment, assets are grouped in the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets ("cash generating unit" or "CGU").

The Group has considered the VIU and FVLCD for each cash generating unit (CGU). 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. The Group has first considered the recoverable amount of each

CGU, using the higher of its FVLCD and VIU. If the recoverable amount exceeds the carrying value of the assets within the CGU no impairment is recognised. An impairment loss is recognised for any excess of the carrying value of an asset or cash-generating unit over its recoverable amount and is charged to profit or loss. In addition to the assessments performed at the CGU level, the Group has also considered the VIU and FVLCD for the Group as a whole as there is an identified indicator of impairment at the Group .

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

	Unaudited December 2019	Audited June 2019
Assumption		
Discount Rate (post tax)*	**7.8%-9.6%**	7.9%-9.6%
Discount Rate (pre tax)	**10.1%-13.4%**	11.0%-13.4%
Terminal Growth Rate	**2.00%**	1.50%
Forecast Period	**5 Years**	5 Years
Forecast Period Cash Flow Growth Rate	**1.9%-2.3%**	2.6%-2.9%

*The Group engaged an independent expert to assess the Group's post-tax weighted average cost of capital. A premium of 2%-4% applied to smaller CGUs. These post-tax discount rates were applied to post-tax cash flows. Through back solving the pre-tax WACC was calculated.

A range of forecast cash flow scenarios were considered by Management for the VIU calculations, first at the CGU level and then subsequently on a Group wide basis, utilising the latest Group forecast. In addition to the above forecast period cash flow growth rate, the Group has included cash flows from ongoing network consolidation and other performance improvement projects, and has allocated these to the individual CGUs where applicable. The Group is committed to these projects and has already commenced implementation as at 31 December 2019. However the forecast cash flows exclude certain other expected benefits from projects not deemed to be sufficiently progressed as at 31 December 2019.

Management has considered the most likely outcome within the range of scenarios prepared for the VIU calculations at the CGU level when assessing whether any impairment exists at the CGU level. The Group has also considered whether the fair value less costs of disposal of the non-Goodwill assets in CGUs without Goodwill would be greater than their carrying value. The majority of the remaining assets at 31 December 2019 relate to Trade Receivables, Inventories and Property, Plant and Equipment and the carrying value of these assets was specifically assessed for impairment at 31 December 2019. The remaining assets are considered to be readily marketable assets for which the recoverable amount was unlikely to be materially different from the carrying value.

The Group has also considered the recoverable amount at the Group level based on the higher of its calculated VIU and FVLCD. In the six month period ended 31 December 2019 the Group has experienced adverse trading conditions, including reduced vertical construction work and a contraction in the stainless steel market. Whilst the Board does not consider these adverse trading conditions to be indicative of the medium to long term trading expectations, the reduced profitability in the six months ended 31 December 2019 has had an impact on the assessment of the most likely outcome within the range of VIU scenarios prepared and the Group's calculation of FVLCD.

After assessing a range of scenarios, the Board has concluded that the recoverable amount is lower than its carrying value and the carrying value of Goodwill is impaired as at 31 December 2019. The Goodwill impairment allocated to each CGU is as follows:

	Manufacturing Suppliers Limited $000	Hurricane Wire Products $000	Roofing Products $000	Composite Floor Decks Limited $000	**Total $000**
Carrying Value of Goodwill at 30 June 2019	15,602	5,710	4,046	11,713	**37,071**
Impairment recognised in Profit & Loss	(15,602)	(5,710)	(4,046)	(11,713)	**(37,071)**
Carrying Value of Goodwill at 31 December 2019	-	-	-	-	**-**

This has resulted in a Goodwill impairment charge of $37.1m being recognised in the Impairment of intangibles line in the Statement of Profit and Loss and Other Comprehensive Income as at 31 December 2019.

In respect of the Group's right-of-use assets, the cash flows generated on a Group wide basis from its nationwide property footprint, in addition to the ability of the Group to recover value via sub-lease arrangements, supports the carrying value of these assets at 31 December 2019.

The following summarises the effect of a change in the key assumptions for the Group with all other assumptions remaining constant:

- A 0.5% reduction in the terminal growth rate would decrease the recoverable amount by $11.5m;
- Incorporating a 5% reduction in the expected level of terminal free cash flows in the forecast cash flows would result in a reduction in the recoverable amount by $7.8m;
- Increasing the discount rate (pre-tax) by 50bps would decrease the recoverable amount by $14.6m.

5. RELATED PARTIES

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

There have been no material changes in the nature or amount of related party transactions for the Group since 30 June 2019.

6. LITIGATION

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

In October 2018 the Auckland District Court imposed a fine of $1.885m, which was subsequently increased by the High Court to $2.009m in August 2019. Both Steel & Tube and the Commission have appealed the decision. A date for the appeal has been set for the week beginning 24 February 2020.

A provision for fines, penalties, costs and expected recoveries in relation to this prosecution has been provided for in the Group's financial statements at 31 December 2019.

7. SUBSEQUENT EVENTS

On 30 January 2020, the Group unconditionally agreed to sell the property at Braeburn Drive, Christchurch, for approximately $5.8m net of expected sale costs, with settlement expected on 28 February 2020. The carrying value of the property and related assets as at 31 December 2019 was $5.8m.

On 21 February 2020 the Board declared a fully-imputed dividend of 1.5 cents per share ($2.49m) and a supplementary dividend to non-resident shareholders of 0.26 cents per share. The dividends will be paid to shareholders on 27 March 2020.

8. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

NZ IFRS 16 Leases - impact of adoption

NZ IFRS 16, 'Leases', replaces the current guidance in NZ IAS 17. 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 all lease contracts (subject to the application of allowable practical exemptions), similar to how finance leases are accounted for currently under NZ IAS 17.

The Statement of Profit or Loss and Other Comprehensive Income is also impacted by the recognition of an interest expense and a depreciation expense, as well as the removal of the current operating lease expense. The impact on net profit before tax of an individual lease over its term remains the same, however the application of NZ IFRS 16 results in a higher total depreciation and interest expense in the early years of a lease, and a lower expense in later years when compared with the current straight-line operating lease expense.

The Group has applied NZ IFRS 16 from 1 July 2019. The Group has adopted the simplified transition approach and has therefore not restated comparative amounts for the period prior to first adoption. The Group's Property leases were recognised in accordance with the 'cumulative catch-up' transition method, with the cumulative effect of initially applying NZ IFRS 16 recognised at the date of initial application. For all other leases the right-of-use asset was measured at an amount equal to the lease liability on transition. The Group has undertaken a significant project to facilitate the adoption of NZ IFRS 16. This has included the implementation of a lease management and accounting system to maintain all of the Group's lease data and to calculate the value of right-of-use assets, lease liabilities, depreciation expenses and finance expenses based on this data.

The Group has significant lease obligations and therefore adoption of NZ IFRS 16 has had a material impact on the Balance Sheet and Statement of Profit or Loss and Other Comprehensive Income. Adoption has impacted the following line items in the Balance Sheet and Statement of Profit or Loss and Other Comprehensive Income:

Balance Sheet

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

Statement of Profit or Loss and Other Comprehensive Income

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

The Group has a number of categories of operating leases, including:

- **Property leases** - The Group has a variety of property leases across its national network of branches and processing facilities. The majority of the impact from the adoption of NZ IFRS 16 is the result of these property leases given their high value and comparative length of the leases (which under NZ IFRS 16 includes rights of renewal that are reasonably certain to be exercised). Where the Group has entered into sub-leases in respect of its property leases, each sub-lease is assessed under the new standard to determine if it qualifies as a finance lease or an operating lease under NZ IFRS 16;
- **Motor vehicle leases** - The Group leases motor vehicles for staff use in sales and day-to-day operations;
- **Equipment leases** - The Group leases certain equipment for use in its distribution, manufacturing and warehousing activities. This includes material handling equipment such as forklifts and pallet trucks; and
- **Other leases** - Other leases includes the lease of assets such as IT equipment, photocopiers and other plant or office equipment.

The Group has utilised the recognition practical expedients specified in NZ IFRS 16 in respect of short-term and low value leases where appropriate, as well as the use of a single discount rate to a portfolio of leases with reasonably similar characteristics and also relying on the Group's assessment of whether leases are onerous applying IAS 37 immediately before the date of initial application. The amount of the asset and liability that the Group has recognised upon adoption of NZ IFRS 16 has been determined by the lease commitments at the time of adoption, subject to the application of these practical exemptions.

Key Judgements and Assumptions

On adoption of NZ IFRS 16 there are a number of key judgements required. These include:

- Assessing whether a contract conveys the right to control the use of an identified asset;
- Determining the lease term, including when any rights of renewal or termination are reasonably certain to be exercised;
- The calculation of minimum contractual lease payments; and
- The calculation of the discount rate applicable to each lease.

The assessment of the lease term is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the Group.

Right-of-use assets

To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset;
- whether the Group has the right to obtain substantially all of the economic benefits from use of the asset over the contract term;
- whether the Group has the right to direct the use of the asset.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any direct costs incurred or lease payments made at or before the commencement date, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically assessed for impairment losses and adjusted for certain re-measurements of the lease liability.

Lease liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate, with adjustments for the term of the lease.

Lease payments included in the measurement of the lease liability comprise:

- Fixed payments;
- Variable lease payments that depend on an index or rate measured using the index or rate as at the commencement date;
- Lease payments in an optional renewal period if the Group is reasonably certain to exercise the renewal option.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a rent review or the change in an index or rate, or if the Group changes its assessment of whether it will exercise a purchase or extension option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Financial Impact on Adoption of NZ IFRS 16

On transition as at 1 July 2019, the impact on the Balance Sheet is:

- an increase in total assets of $109m;
- an increase in total liabilities of $119m; and
- a decrease in retained earnings of $10m.

The weighted average discount rate applied to the lease liabilities on 1 July 2019 was 4.93%.

Additionally, the impact on the Statement of Profit or Loss and Other Comprehensive Income for the period ended 31 December 2019 is:

- a decrease in operating expenses of $2.65m, which represents a decrease in operating lease expenses of $9.26m partially offset by an increase in depreciation on right-of-use assets of $6.61m; and
- an increase in lease interest expense of $2.87m.

This results in an increase in EBIT of $2.65m but a decrease in profit before tax of $0.22m. This is primarily because of the size and long-term nature of the Group's property leases, with depreciation and interest expense being higher in the earlier years of these leases and therefore exceeding the current operating lease expense for these leases.

The above has no net impact on the cash flows of the Group and the change is for financial reporting purposes only. However, as illustrated in the Statement of Cash flows, the adoption of NZ IFRS 16 has resulted in the reclassification of cash flows from lease arrangements.

Payments for operating leases under NZ IAS 17 were included within 'Payments to suppliers and employees' in operating cash flows. Payments for leases are now split between payments for interest, included in operating cash flows, and payments which reduce the principal balance of a lease liability, which are included in cash flows from financing activities.

The recognised right-of-use assets relate to the following types of assets:

	31 December 2019 $000	1 July 2019 $000
Properties	**94,699**	100,262
Motor Vehicles	**4,081**	4,694
Total right-of-use assets	**98,780**	104,956

	2019 $000
Operating lease commitments disclosed as at 30 June 2019	138,523
Discounted at the date of initial application	100,847
Add: Value of future lease options expected to be exercised at the date of initial application	20,262
Lease liability recognised as at 1 July 2019	121,109

The impact of the adoption of NZ IFRS 16 on the Balance Sheet as at 1 July 2019 is set out below:

	Reported 30 June 2019 $000	Adoption of NZ IFRS 16 $000	Restated 1 July 2019 $000
Current assets			
Cash and cash equivalents	9,010	-	9,010
Trade and other receivables	90,734	-	90,734
Inventories	113,962	-	113,962
Income tax receivable	1	-	1
Derivative assets	120	-	120
	213,827	-	213,827
Non-current assets			
Deferred tax assets	3,380	3,796	7,176
Property, plant and equipment	52,034	-	52,034
Right-of-use assets	-	104,956	104,956
Intangibles	56,922	-	56,922
	112,336	108,752	221,088
Total assets	326,163	108,752	434,915
Current liabilities			
Trade and other payables	41,079	(179)	40,900
Provisions	4,221	(274)	3,947
Short term lease liabilities	-	13,013	13,013
Derivative liabilities	263	-	263
	45,563	12,560	58,123
Non-current liabilities			
Trade and other payables	1,835	(1,835)	-
Long term lease liabilities	-	108,096	108,096
Borrowings	24,000	-	24,000
Provisions	864	(307)	557
	26,699	105,954	132,653
Equity			
Share capital	156,669	-	156,669
Retained earnings	94,142	(9,762)	84,380
Other reserves	3,090	-	3,090
	253,901	(9,762)	244,139
Total equity and liabilities	326,163	108,752	434,915

Independent review report

To the shareholders of Steel & Tube Holdings Limited

Report on the interim financial statements

We have reviewed the accompanying interim financial statements of Steel & Tube Holdings Limited ("the Company") and its controlled entities ("the Group") on pages 3 to 16, which comprise the balance sheet as at 31 December 2019, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the six month period ended on that date, and selected explanatory notes.

Directors' responsibility for the interim financial statements

The Directors are responsible on behalf of the Company for the preparation and fair 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 control as the Directors determine is necessary to enable the preparation of 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 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 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 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) and International Standards on Auditing. Accordingly, we do not express an audit opinion on these interim financial statements.

We are independent of the Group. Other than in our capacity as auditors and providers of other related assurance services we have no relationship with, or interests in, the Group.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these interim financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 31 December 2019, and its financial performance and cash flows for the six month period then ended, in accordance with IAS 34 and NZ IAS 34.

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

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
21 February 2020

Wellington

steel&tube

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AUDITORS

PricewaterhouseCoopers

STRONGER IN EVERYWAY