steel&tube
STRONGER IN EVERYWAY

2019

ANNUAL REPORT

STEEL & TUBE HOLDINGS LIMITED

BUILDING STRENGTH & RESILIENCE

STEEL IS EVERYWHERE – IN OUR HOMES, WORK PLACES, ON FARMS, ROADS, BRIDGES, AND FACTORIES. EVERYWHERE YOU LOOK, STEEL IS BEING USED TO ADD STRENGTH AND DURABILITY. IT IS ONE OF THE MOST COMMON MATERIALS USED AROUND THE WORLD, CHOSEN FOR ITS VERSATILITY, HIGH PERFORMANCE LEVELS AND RELIABILITY.

Steel & Tube is a proud New Zealand company and a leading provider of steel solutions, from nuts and bolts through to roofing, reinforcing and floor decking.

Every day, we are helping to build strength and resilience in some of the most important infrastructure and construction developments nationally, and across many sectors of the economy.

We are building resilience in our own company too, as we focus on creating a business that is fit for the future. With decades of experience and an unrelenting focus on superior customer service, quality and safety, we are positioning Steel & Tube as the preferred choice for steel customers across New Zealand.

ON BEHALF OF THE BOARD AND MANAGEMENT, WE ARE PLEASED TO PRESENT TO YOU THE ANNUAL REPORT FOR STEEL & TUBE HOLDINGS LIMITED FOR THE FINANCIAL YEAR ENDED 30 JUNE 2019.

Susan Paterson
Chair
22 August 2019

Mark Malpass
Chief Executive Officer

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Franklin: The Centre

FY19 AT A GLANCE

STRIVE BUSINESS TURNAROUND programme contributed $10m in FY19, with initiatives strengthening the company and providing longer term value.

GROSS MARGIN PERFORMANCE impacting on results, with Project Strive benefits offset by market contraction in some sectors and competitive price pressures, particularly in 2H19.

STRONG FOCUS ON CUSTOMER needs resulting in increased business from existing and new customers.

DISCIPLINED COST MANAGEMENT leading to reduction in normalised operating costs with underlying structural efficiencies more than offsetting cost increases.

IMPROVED INVENTORY MANAGEMENT and procurement and pricing strategies expected to deliver further benefit in FY20.

PRUDENT CAPITAL MANAGEMENT and strong balance sheet with net debt reduced to $15m, and our gearing ratio down to 5.6%.

CONTINUING OPTIMISATION of Steel & Tube's national network, with sites reduced from 48 in January 2018 to 35 at 30 June 2019.

STRENGTHENED LEADERSHIP TEAM to support earnings drive and project execution focus including digital ambition.

AX ERP SYSTEM enabling more detailed data for better business analysis.

RESPONDED TO UNSOLICITED INDICATIVE OFFER in September 2018 from Fletcher Building Limited – Board considered the indicative price undervalued Steel & Tube and that it was not likely to be executable due to regulatory hurdles.

REPORTED ($M)	FY19	FY18
REVENUE	498.1	495.8
EBIT	16.8	(36.2)
NPAT	10.4	(32.1)

NORMALISED[1] REVENUE

$497.1M

5% normalised revenue increase driven by focus on delivering high levels of customer service.

STRIVE BUSINESS TURNAROUND PROGRAMME

$10.0M

CONTRIBUTION

Work is continuing with further benefits expected in FY20.

NORMALISED[1] EBIT

$16.0M, UP 22%

Gross margin performance below expectations, with Strive benefits offset by market contraction and competitive price pressures.

DISCIPLINED COST MANAGEMENT

4% REDUCTION

in normalised operating costs due to underlying structural efficiencies more than offsetting cost increases.

NET DEBT

$15.0M

Net debt reduced significantly to $15m due to capital raise, improved operating cashflows, tighter working capital management and prudent capital expenditure.

NORMALISED[1] NPAT

$9.9M, UP 74%

TOTAL FY19 DIVIDENDS

5.0 CENTS PER SHARE

FY20 OUTLOOK

Improved performance expected in FY20. Focus on customer service, margin improvement, further cost and supply chain efficiencies and business simplification will enable longer term earnings growth.

[1] See pages 26 and 27 for definitions of financial terms and reconciliation of normalised results

CHAIR AND CEO'S REPORT

THE 2019 FINANCIAL YEAR DID NOT DELIVER THE RESULT WE WERE SEEKING, HOWEVER GOOD PROGRESS ON OUR BUSINESS TURN AROUND PROGRAMME WAS ACHIEVED. WE DELIVERED ON COMMITMENTS SUCH AS REVENUE GROWTH, OPERATING COST EFFICIENCIES AND IMPROVED WORKING CAPITAL MANAGEMENT. WHILE THERE IS MORE TO BE DONE, OUR COMPANY IS NOW STRONGER, MORE EFFICIENT AND DELIVERING A MORE ATTRACTIVE CUSTOMER PROPOSITION.

We went into the FY19 year with a continued focus on strengthening our underlying business units, through our Project Strive initiatives. These were targeted at four areas – safety and quality, our customers, operational and supply chain excellence and our people. The goals were to make our business more efficient, improve the customer service and lift our financial performance, while continuing to deliver a rewarding and safe workplace for our people.

We have made good progress, with Project Strive delivering $10m in benefits and savings. Revenues increased on the back of a stronger focus on customer needs and structural long term efficiencies in operating costs were delivered. Improved inventory management, working capital disciplines, procurement and pricing strategies have also been achieved.

As expected, the benefits from Project Strive continued to flow through in the second half of the year. However, at the same time, we also saw a change in market conditions with a softening in business confidence, contraction in some high value categories and increased competitive pricing pressure which impacted on gross margins. The positive revenue gains and cost efficiencies we were achieving were not enough to offset market contraction and price pressures, and as a result, our FY19 financial performance was below our expectations.

The tighter market conditions and competitive landscape are expected to prevail in FY20. While the work we have already done has better positioned us for this more challenging environment, we are adapting further to ensure our business model is fit for purpose.

Further changes are being undertaken to reduce business and supply chain complexity and we are continuing to identify ways to improve business processes and controls. Our pursuit of customer excellence will help to ensure we remain a relevant and attractive option for customers.

Steel & Tube has a number of strengths, including our national network providing a regional and metropolitan presence, a broad product range, technical capability, operational integrity and high standards of safety and quality.

The underlying value inherent in our business was reflected in last year's non-binding indicative offer (NBIO) to buy the company. While the Board considered the offer did not reflect full value and had advice that regulatory hurdles would be unlikely to be overcome, we had moved to secure an independent valuation, before the NBIO was then withdrawn.

We are very focused on building a business that is fit for the future and, while this is taking longer than originally anticipated, we remain confident in our long-term prospects as a leader in the steel industry in New Zealand.

BUILDING A STRONGER BUSINESS

Following a company-wide review in FY18, we commenced a restructure of our organisation to capture synergies from the business acquisitions in prior years and improve capabilities and efficiencies. We continued this work in FY19, with further gains being made.

The organisational restructuring has seen our property footprint streamlined, with businesses co-located onto the same sites and improved utilisation of existing capacity. Our network has reduced from 48 sites in January 2018 to 35 sites at the end of June 2019, with further network optimisation underway. This is providing operational and supply chain efficiencies as well as improving our ability to offer a more comprehensive customer service while maintaining regional services and presence.

In addition, the exit from the Plastics business was completed during the financial year.

Within our organisation, the AX ERP system is providing more detailed data for better business analysis. This is allowing us to be more flexible and adapt to changing dynamics around pricing, procurement and inventory, as well as measure and monitor key metrics. We are also using this information to develop further customer focused solutions.

Improved service levels and delivery performance across the business has benefited sales, with a number of large projects being won on the back of a growing reputation for quality, customer service, delivery and operational performance. Particular highlights include supplying the Westfield Newmarket project, the New Zealand International Convention Centre, Commercial Bay, the Puhoi to Warkworth and Transmission Gully motorway projects, and the Auckland City Rail Link development.

Product ranges have been reviewed with the customer in mind and new, desirable products have been added, such as the new SR flooring platform for ComFlor which is proving very popular.

We have established more efficient and cost-effective freight and supply chain logistics. As well as the integration and consolidation of existing facilities, we have exited third party warehousing arrangements and rationalised and retendered freight runs.

The manufacturing excellence programmes in Reinforcing are delivering increasing machine efficiency and productivity, and reducing overtime in many locations. We have also invested in our own reinforcing and composite floor decking site installation capability to provide our customers with a service offering that is safe, high quality, reliable and customer service focused.

Quality systems have been further enhanced including achievement of ISO 9001:2015 certification and commencement of independent audits across our international steel mill suppliers by Lloyd's Register.

Safety remains a priority and investment has been made into machine guarding and training across our manufacturing sites. Of note, the Employee Total Recordable Injury Frequency Rate (TRIFR) fell to 1.5, significantly below industry benchmarks.

A new operating structure has been established including a strengthened leadership team to support our focus on earnings and project execution, including our digital ambitions.

We have finished the FY19 year with a stronger and more efficient business. While further work is still to be done to adapt to the more challenging market conditions, the initiatives being undertaken are expected to deliver an improvement in both our Distribution and Infrastructure divisions and position us well for the future.

FY19 FINANCIAL PERFORMANCE

Revenues were $498.1m, earnings before interest and tax (EBIT) were $16.8m and net profit after tax (NPAT) was $10.4m.

On a normalised basis (excluding Plastics and FY18 non-trading adjustments), EBIT improved 22% to $16.0m and NPAT increased 74% to $9.9m.

The Project Strive turnaround programme delivered a $10m benefit in FY19, contributing to a 5% improvement in revenues and a 4% reduction in operating costs (on a normalised basis). Good progress was also made improving safety performance and quality systems.

The 5% normalised revenue gain was a result of new business being won on a combination of improved customer service, delivery and operational performance.

Operating costs were down 4% year on year on a normalised basis, with significant structural efficiencies achieved and more being targeted. Key drivers included benefits from network optimisation, labour and other cost efficiencies.

Some short term cost impacts were absorbed from Strive initiatives which will deliver long term benefits and value.

Gross margin performance was below expectations with revenue gains and cost efficiencies not enough to offset the impact of market contraction and competitive price pressures.

Price competition was significant throughout the second half of FY19, business confidence has softened and some higher value sectors have contracted (stainless market particularly). The impact has mainly been seen in the Distribution businesses.

A disciplined approach to managing working capital resulted in improved inventory availability across the business whilst reducing inventory holdings, and improving debt collection rates led to a reduction in overdue debt balances and improved cash flow.

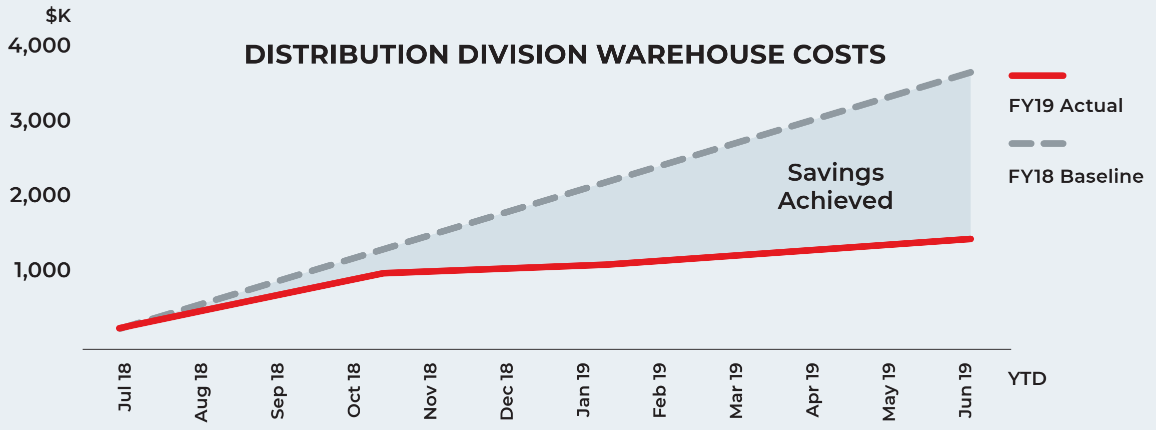
Prudent capital expenditure of $7.2m was slightly below depreciation & amortisation and focused on productivity improvements.

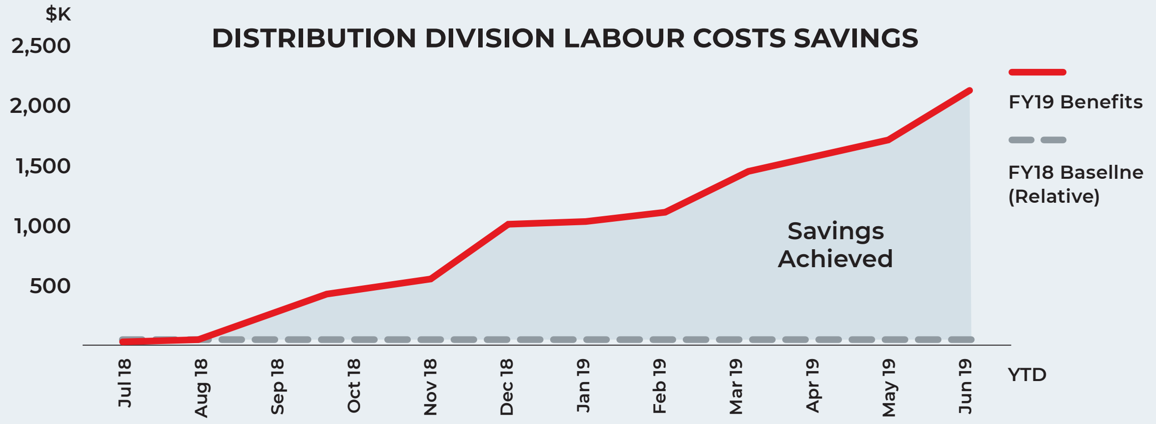
The company significantly improved cash flow generation with net operating cash flow of $21.3m.

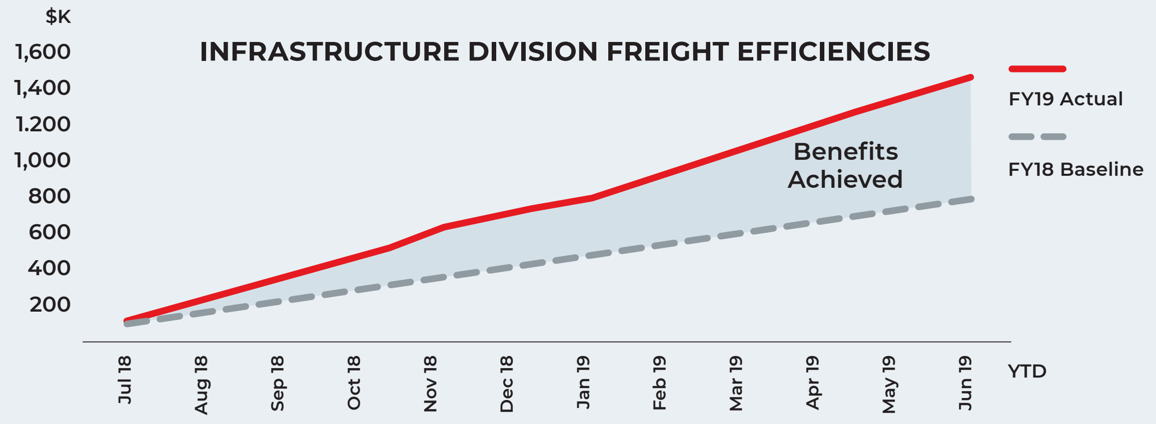
Net debt reduced to $15.0m due to a combination of the capital raise, improved operating cash flows, tighter working capital management and prudent capital expenditure. The company has a strong balance sheet providing the financial strength to execute strategies and manage business trading cycles.

While Directors are cognisant of the work still to be done, the Board remains confident in the company's strategic progress and declared a final FY19 dividend of 1.5 cps, taking total FY19 dividends to 5.0 cps.

STRIVE IN ACTION



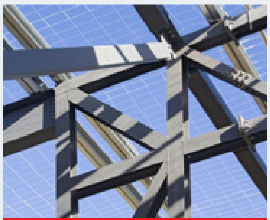




OUR BUSINESS DIVISIONS

DISTRIBUTION

Products are sourced from preferred steel mills and distributed through Steel & Tube's national network of branches.


STEEL


PIPING SYSTEMS


CHAIN & RIGGING


RURAL PRODUCTS

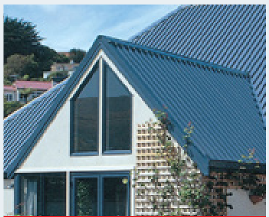

FASTENINGS


STAINLESS STEEL

INFRASTRUCTURE

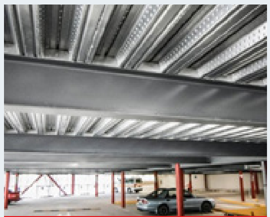
Products are processed by Steel & Tube before sale and are typically sold on a contract or project basis, including onsite installation.

ROLL-FORMING

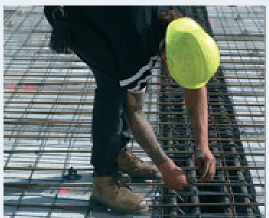

ROOFING

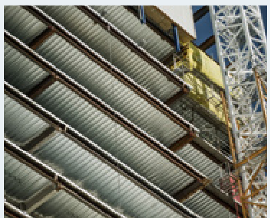

COIL PROCESSING


PURLINS


COMFLOR®

REO/CFDL


REINFORCING


CFDL

Hurricane® BUILT TO LAST

FORTRESS® FASTENERS

ComFlor™

Studwelders

FY19 DIVISION PERFORMANCE

DISTRIBUTION

The Distribution division is a lower margin, high volume business and was the hardest hit by the changing market conditions and competitive pressure, with stainless steels, in particular, suffering from a significant market contraction.

FY19 revenue of $287.7m was in line with last year, while normalised EBIT improved slightly from $2.6m[1] to $2.9m, reflecting a changing product mix and the adverse impact on gross margins. Volumes increased driven by improving product availability, deliveries and sales team focus, and despite aggressive price pressures from several key competitors.

Overall costs reduced significantly with the exit from third party warehousing, site integrations and optimisation of staffing levels. A focus on cash also resulted in improved debtor days and total inventory levels. Attention to sales force excellence saw a number of new key customer account wins, and investment was made into the Chain & Rigging business, including the addition of four new mobile vans.

The focus for FY20 is on further streamlining and simplifying business operations whilst embedding an improved service model and better leveraging cross selling opportunities that ensure customer needs are met.

INFRASTRUCTURE

The Infrastructure division reported pleasing improvements in revenue and EBIT, to $209.4m and $11.9m respectively. Revenue growth and EBIT improvement were driven by strong sales in rollforming and metal floor decking products, project tender success and machine efficiency gains in reinforcing.

Although margins were under pressure, freight savings and improved labour productivity helped drive the improved results. Revenues benefited from building a strong and growing reputation for delivery and investments such as the introduction of a new composite floor decking profile.

The focus for FY20 is on continuing to drive manufacturing efficiencies, growing new product offerings and leveraging our strong quality and safety performance to demonstrate the value customers get when buying from us.

FY19 REVENUE

FY19 EBIT

Distribution Infrastructure

[1] FY18 normalised EBIT has been adjusted to be consistent with the divisional allocation of costs in FY19.

STRATEGY, GOALS AND OUTLOOK

Our four pillars remain the foundation of our strategy. These are the areas which we believe are essential to creating a great business – safety & quality, operational & supply chain excellence, a strong customer focus, and our people.

Improving margin performance and delivering profitable growth are the priorities for management this year. We have identified three key goals which are of primary importance and have a range of initiatives planned for each.

Project Strive initiatives will continue to focus on additional cost efficiencies by reducing business complexity and streamlining the supply chain.

Competitive advantage is expected to be built through maximising cross-selling opportunities, continued focus on margin improvement and leveraging the AX ERP system to support customers with digital solutions. Benefits will include improved product availability, service and delivery times for customers, and lower inventory and logistics costs for the business.

The product and asset footprint will continue to be improved and we are reviewing options for the sale of remaining owned properties which are surplus to requirements. Costs associated with Strive initiatives will be realised in the first half results, however, will benefit the full year results.

Steel & Tube remains an important part of New Zealand's economy, providing customers with choice and access to specialised products and technical knowledge. We remain absolutely focused on improving the return on investment and delivering value to our shareholders.

We expect to see a continuing improvement of performance in FY20, as we focus on delivering a stronger, sustainable, long term future for our business.

The Annual Shareholders' Meeting will be held in Christchurch on 25 September 2019. We would like to extend our thanks to Rosemary Warnock, who has notified her intention to retire from the Board at the Meeting. Rosemary has been a valued member of the Board and has provided excellent guidance through her role as Chair of the Health, Safety and Environment Committee. Steel & Tube's health and safety performance has improved significantly under her stewardship. As announced on 15 August 2019, John Beveridge has been appointed as an independent director and will stand for election at the Meeting.

We look forward to welcoming shareholders and updating you on our progress at that time.

Susan Paterson
Chair

Mark Malpass
Chief Executive Officer

OUR GOAL IS TO BE THE LEADER IN BUYING, SELLING, PROCESSING AND PLACING STEEL PRODUCTS IN NZ

BUSINESS GOALS

DELIVER ON OUR CUSTOMER SERVICE PROMISE - ON TIME EVERY TIME

- Refine customer segmentation to better support our customers needs
- Improve sales effectiveness through solution bundling and identification of cross category opportunities
- Continue business-wide focus on delivering products in full, on time and in spec

FURTHER RESTRUCTURE OUR BUSINESS MODEL TO REDUCE SUPPLY CHAIN AND BUSINESS COMPLEXITY

- Continue SKU rationalisation, including repricing and removing products that don't meet required returns
- Realign supply chain capability to the business units to ensure decision making is closest to the customer
- Optimise property footprint and freight network to both deliver on our customer service promise and minimise cost
- Fine tune demand forecast and sales and operation planning processes to maximise inventory availability
- Ensure products are handled efficiently and held for the minimum amount of time – from mills, shipping, freight to warehouse, warehousing and freight to customer

IMPROVE BUSINESS PROCESS AND CONTROLS

- Improve price management by incorporating analytics
- Increase product margin through point of sale controls and training, and ongoing production efficiency initiatives
- Active weekly monitoring of gross margin performance by senior management
- Continue automation of financial processes
- Capture benefits from our IT investments

STRATEGIC PILLARS

COMMITMENT TO SAFETY & QUALITY

- SAFE AND HEALTHY WORK ENVIRONMENT
- QUALITY PROCESSES
- QUALITY PRODUCTS
- CONTINUAL IMPROVEMENT

PUTTING THE CUSTOMER AT THE HEART OF OUR BUSINESS

- PRODUCTS AND SERVICES TO MEET CUSTOMER NEEDS
- LEVERAGE OUR TECHNICAL EXPERTISE
- DELIVERY ON TIME AND ON SPEC

OPERATIONAL AND SUPPLY CHAIN EXCELLENCE

- LEVERAGE OUR PROCUREMENT AND SUPPLY CHAIN SCALE
- EXCELLENT INVENTORY MANAGEMENT
- EMPLOY DATA ANALYTICS TO BETTER SERVICE OUR CUSTOMERS
- DRIVE EFFICIENCIES

SUPPORTING A WINNING TEAM

- DEVELOP LEADERS
- EVERYONE MATTERS
- RECOGNISE PERSONAL AND TEAM CONTRIBUTIONS
- PROVIDE A REWARDING WORKPLACE

COMMITMENT TO SAFETY & QUALITY

ISO 9001 CERTIFICATION

We know quality products and practices are critical for our customers. Having ISO 9001 certification demonstrates our commitment to meeting our customer and stakeholders' needs and expectations through quality and continual improvement.

The updated 2015 standard is the best practice quality management framework. Steel & Tube has achieved ISO 9001 certification for the majority of its businesses, with the remainder planned in the FY20 year.

INDEPENDENT SUPPLIER AUDITING

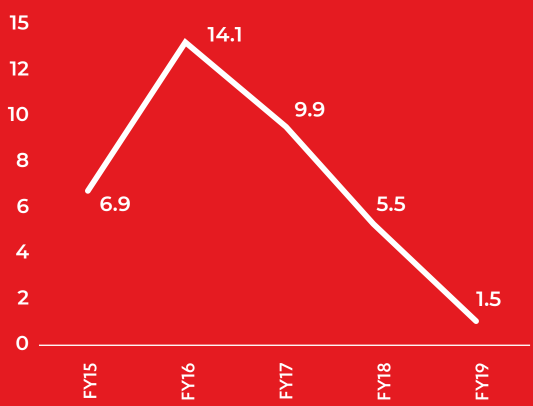
As part of our strategy to place quality at the fore and introduce ground breaking initiatives that will set the benchmark for our quality systems, Lloyd's Register has been contracted to perform assessments of Steel & Tube's key international and domestic suppliers. Assessments commenced in October 2018 and these provide assurance that steel supply mills meet local requirements and gives our customers further independent quality assurance of the products we supply.

INVESTMENT IN SAFE WORKPLACES

People are at the centre of our organisation and we consider health and safety to be of fundamental importance. Our key deliverable is to ensure that all Steel & Tube employees perform their shift in a safe and efficient manner and return home safely to their families at the end of the day. Ensuring a safe working environment is key to this.
A national machinery safeguarding assessment and optimisation programme has recently been completed, using AS/NZS 4024 as a benchmark for compliance along with relevant machine specific standards and WorkSafe best practice guidelines. This has seen a significant investment of a further $1.3m in machinery guarding during the financial year.

EMPLOYEE TOTAL RECORDABLE INJURY FREQUENCY RATE (TRIFR)

Continued safety focus and discipline has contributed to a recordable injury frequency rate well below industry average.



PUTTING THE CUSTOMER AT THE HEART OF OUR BUSINESS

INNOVATIVE THINKING

Putting the customer at the heart of our business means putting ourselves in our customers' shoes and continually looking for ways in which we can add further value. The launch of the Building Information Modelling specifications portal – BIM-spec – is a case in point.

There continues to be the need for good quality manufacturers BIM objects, for use by designers and specifiers, in the development and creation of information-rich Building Information Models. Within the industry at present, there are few manufacturers who have delved into the development of BIM content for use by designers.

Steel & Tube has been quick to adapt to the world of BIM content, developing our suite of objects in collaboration with designers and specifiers, ensuring what was being developed would meet the varied needs across the industry. The content is hosted within an accessible platform on Steel & Tube's recently refreshed website, providing technical users with access to a large library of 2D and 3D content and building models across a wide range of our products.

This is an outstanding advancement and allows us to support architects at the leading edge of design, as well as our more traditional clients. Feedback from the architectural community is that Steel & Tube is a market leader in Building Information Modelling.

WINNING NEW BUSINESS

We have a number of strengths, including our national network, a broad product range, technical capability, and high standards of safety and quality. As experts in our field, we pride ourselves on being able to offer customers with a consistent end to end experience, advising, sourcing and supplying them with their steel requirements.

Our specialist technical knowledge and growing reputation for being able to meet the specifications and timing of crucial jobs are key advantages in winning new business.

Steel & Tube was recently selected to work on the City Rail Link project, providing and installing epoxy-coated reinforcing bars to provide electrical isolation between sections of the tunnel.

The City Rail Link project is the largest single transport infrastructure project in New Zealand's history. Currently underway is stage 1, which encompasses the stretch of tunnel between Britomart and Queen St station, with 16 tunnel sections.

Throughout the course of this project, Steel & Tube will supply 1,500 tonnes of reinforcing, with a team of up to 43 people working on the job including a specialised CAD draughtsman, two construction managers and 30 to 40 steel fixers.

OPERATIONAL AND SUPPLY CHAIN EXCELLENCE

BETTER BUSINESS

A number of big supply chain projects were undertaken during the year including the move from an external warehousing supplier to managing it in-house; the optimisation of freight logistics; and a focus on manufacturing efficiencies in reinforcing. All of these initiatives are delivering customer and business benefits, from improved product availability, service and delivery times through to cost efficiencies and better inventory management.

IN-HOUSING THE WAREHOUSING FUNCTION

Warehouse costs have been reduced significantly, thanks to Steel & Tube's move away from an external warehouse supplier. We are now utilising the capacity in our own assets and employees to warehouse stock in four distribution centres on existing Steel & Tube sites. Over 12,000 product lines, stored on 4,800 pallets were moved into the 'mother centres' over seven months last year, with additional racking installed and temporary labour bought in to receipt the large amount of product as it was transferred. The move will allow product to be moved quickly to customers, on spec and on time. Total cost savings in FY19 were $2.2m, with further gains expected in future years now that the internal warehousing function has been established.

DRIVING EFFICIENCIES THROUGH FREIGHT

With more than 7,500 products delivered to customers every month, ranging from boxes of nuts and bolts through to multi-tonne steel deliveries, freight is a big part of our supply chain cost. Our requirements were put out to tender in FY19, and a detailed review of freight runs and costs was undertaken. We have now renegotiated contracts, resulting in significant savings, and are better utilising freight runs, saving on costs and benefitting the environment with less trucks on the road.

MANUFACTURING EFFICIENCIES IN REINFORCING

Every day we are measuring and better understanding our manufacturing efficiency. During FY19, we introduced new management processes to help drive further machine efficiencies. We also further consolidated manufacturing sites to improve machine utilisation. These changes resulted in FY19 direct labour costs/tonne reducing by 31% compared to FY18, improvements in our performance and better engagement with our machine operators.

SUPPORTING A WINNING TEAM

IMPROVING CONVERSATIONS ACROSS OUR COMPANY

Having a great culture and strong employee engagement are essential to our success. Following the recent employee engagement survey, volunteers from across the business banded together to identify opportunities to improve the quality and frequency of interactions between employees and their managers.

The team developed MyChat - short fortnightly check-ins between employees and their leaders. Following a nationwide roadshow, we have now adopted this initiative across the company.

As part of this, the team also developed a series of interactive tools to help demonstrate an effective conversation, including videos of role plays (with the employees as actors).

Supporting this has been Courageous Conversations training for leaders across the organisation. These one-day workshops are helping our leaders be effective and confident holding conversations about challenging topics. Together with the MyChat conversations, this focus is driving an increase in the frequency and quality of performance conversations and feedback between employees and their leaders.

IN OUR COMMUNITIES

Steel & Tube has long been a supporter of the First Foundation with Scholarships awarded this year to two family members of Steel & Tube employees. The Scholarships will help these academically talented students achieve their potential through tertiary education and prepare them to positively influence and benefit their communities.

In a new community initiative, Steel & Tube is proud to be taking a lead role in the Manukau Sector Workforce Engagement Programme (SWEP). The programme aims to enable students from low decile South Auckland schools gain 12 months' work experience at Steel & Tube and ongoing employment at the completion of the programme.

We are working collaboratively with MBIE and other government agencies to support construction skills development, with a member of the SWEP Manukau Establishment Committee overseeing the programme. The objectives are to build a pipeline of future talent in each business area, make a contribution to supporting local communities and invest in building construction skill.

Leaders from each of our business units are working with SWEP to promote the construction industry and Steel & Tube to students. The programme has recently been launched to schools and the inaugural students will commence work experience in 2020.

Steel & Tube is also proud to be an inaugural sponsor of the Mates in Construction programme, supporting the mental health and wellbeing of the industry.

LEADERSHIP TEAM

MARK MALPASS

Chief Executive Officer

MARC HAINEN

General Manager Distribution

GREG SMITH

Chief Financial Officer

ANNA MORRIS

General Manager People & Culture

DAVID MCGREGOR

General Manager Reinforcing & Wire

DARRYN ROSS

General Manager Roll-Forming

CLAIRE RADLEY

General Manager Strategy

DAMIAN MILLER

General Manager Quality, Health, Safety and Environment

MIKE HENDRY

Chief Digital Officer

FOR MANAGEMENT PROFILES GO TO:

https://steelandtube.co.nz/corporate/senior-management

BOARD

SUSAN PATERSON

ONZM, CFINSTD, MBA (LDN), BPHARM

CHAIR AND INDEPENDENT DIRECTOR

Susan became a Director on 16 January 2017 and was appointed Chair on 16 February 2017. A professional Director since 1996, in 2015 Susan was appointed an Officer of the Order of New Zealand (ONZM) for her services to corporate governance. Having trained and practiced as a pharmacist, Susan completed her MBA at London Business School, then worked in strategy and IT consulting and management roles in New Zealand, Europe and USA. She worked in the steel sector at Fletcher Challenge and was General Manager of Wiremakers. Susan's directorships also include Sky Network TV, Goodman NZ, Arvida Group, Theta Systems (Chair), Les Mills NZ, Electricity Authority, the Reserve Bank and ERoad.

ANNE URLWIN

BCOM, FCA, CFINSTD, FNZIM, ACIS, MAICD

INDEPENDENT DIRECTOR

A chartered accountant, business consultant and professional director, with more than 20 years' directorship experience. She was appointed a Director on 1 June 2013. She commenced her professional career with KPMG before undertaking senior management roles in the corporate sector including in the IT and meat industries. Anne has considerable governance experience as director, chairman and deputy chairman with a range of organisations in the private and publicly listed sectors, as well as Crown and local government and not-for-profit entities. Anne's directorships also include Chorus, Southern Response Earthquake Services, One Path Life (NZ), Summerset Group Holdings, City Rail Link and Tilt Renewables.

ROSEMARY WARNOCK

BA DIST, MAICD

INDEPENDENT DIRECTOR

Appointed a Director on 22 September 2010, Rosemary has held senior leadership positions in the BP Group including sales, marketing & distribution in ANZ, global manufacturing and supply chain based out of London and was Chief Executive Castrol Asia Pacific based out of Singapore. Rosemary is a founding partner of the Adelante Group, a partnership that provides executive leadership development services, and has governance experience in both Australia and New Zealand. Rosemary's directorships also include The Adelante Group and The Buttery.

STEVE REINDLER

BE MECH HONS, AMP, FIPENZ, CHFIOD

INDEPENDENT DIRECTOR

Appointed a Director on 1 October 2017, Steve is an engineer with a background in large-scale infrastructure and heavy industry. He was GM Engineering at Auckland International Airport for 11 years, and prior employment included 22 years with BHP-New Zealand Steel where he held various roles including GM Engineering and Environment. Steve was inaugural chairman of the Chartered Professional Engineers Council, and President of the New Zealand Institution of Professional Engineers in 2013. His directorships include Z Energy, Broome International Airport Group, WorkSafe NZ, Yachting New Zealand, Waste Disposal Services Unincorp JV, Whitford Community Charitable Trust, and chairman of D&H Steel Construction and Clearwater Construction.

CHRIS ELLIS

BE, MS

INDEPENDENT DIRECTOR

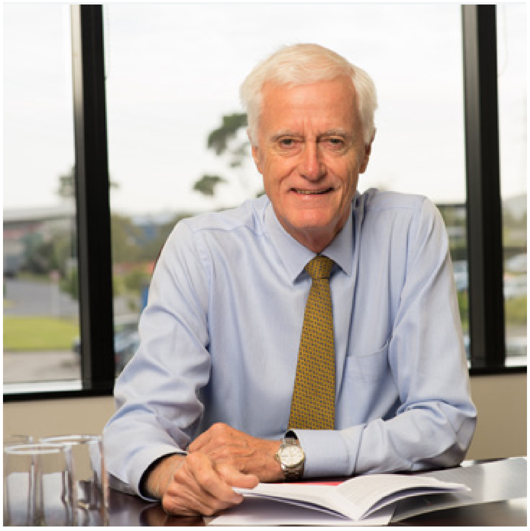
Appointed a Director on 1 October 2017, Chris' background spans the manufacturing, heavy construction and engineering sectors. He is an experienced, strategy-focused director with an extensive career in the Australasian building industry. He has held CEO roles with Brightwater Group and at Fletcher Building where he was Chief Executive of the Building Products Division. Chris's directorships also include HiWay Group, WorkSafe NZ, Horizon Energy Group, and Steelpipe.

SUSAN PATERSON

CHRIS ELLIS

ANNE URLWIN

ROSEMARY WARNOCK



STEVE REINDLER

FY19 FINANCIAL MEASURES EXPLAINED

An overview of the financial results for the year ended 30 June 2019 can be found in the Chair's and CEO's commentary on pages 06 to 12 with more detailed disclosure included in the Financial Statements and accompanying notes on pages 30 to 71.

NON-TRADING ADJUSTMENTS / UNUSUAL TRANSACTIONS:

The financial results for FY18 included a number of unusual transactions, considered to be non-trading in either their nature or size. These transactions were excluded from normalised earnings. The following reconciliation is intended to assist readers to understand how the earnings reported in the Financial Statements for the years ended 30 June 2019 and 30 June 2018 reconcile to normalised earnings. Non-trading adjustments of $0.8 million and $(49.3) million were included in the FY19 and FY18 results respectively.

NON-GAAP FINANCIAL INFORMATION:

Steel & Tube uses several non-GAAP measures when discussing financial performance. These include Normalised EBIT and Working Capital. Management believes that these measures provide useful information on the underlying performance of Steel & Tube's business. They may be used internally to evaluate performance, analyse trends and allocate resources. Non-GAAP financial measures should not be viewed in isolation nor considered as a substitute for measures reported in accordance with NZ IFRS.

Steel & Tube's unaudited reconciliation of non-GAAP measures to GAAP measures for the financial years ended 30 June 2019 and 30 June 2018 is detailed below.

RECONCILIATION OF GAAP TO NON GAAP MEASURES

Year ended 30 June 2019

	June 2019 $000	**June 2018 $000**
GAAP: Earnings/(Loss) before interest and tax (EBIT)	**16,795**	(36,187)
Add back unusual transactions (non-trading adjustments):		
Inventory write-downs and write-offs*	-	20,056
Costs of exit from S & T Plastics	-	10,849
Impairment of Intangible assets (Note C2)	-	12,127
Business Rationalisation (Note E2)	-	2,727
Organisational Restructuring (Note E2)	-	3,317
Other unusual costs	-	762
S & T Plastics EBIT (no longer contributing to trading EBIT)	**(773)**	(558)
Normalised EBIT – non-GAAP	**16,022**	13,093

* FY18 Inventory write-downs and write-offs have been reduced by approximately $3.9m following further information becoming available during FY19, which identified that $3.9m of the FY18 write-off related to that year's production process. Further detail is contained in Steel & Tube's updated trading guidance for FY19 as notified to the NZX on 20 May 2019.

BUSINESS RATIONALISATION includes business change costs incurred to rationalise Steel & Tube's property footprint including onerous leases, rationalisation and re-organisation of manufacturing operations and delivery logistics operations, and costs incurred in reviewing and streamlining operations. These costs are included in Note E2 to the Financial Statements.

ORGANISATIONAL RESTRUCTURING includes the costs incurred to improve capabilities, remove duplication and inefficiencies and capture synergies from acquisitions. These costs are included in Note E2 to the Financial Statements.

OTHER UNUSUAL COSTS include significant doubtful debt and contract disputes provisions.

EBIT: This means Earnings / (Loss) before the deduction of interest and tax and is calculated as profit for the year before net interest costs and tax. FY18 EBIT was impacted by a number of non-trading adjustments totalling $(49.3m) million, as shown in the table above.

NORMALISED EBIT: This means EBIT after Normalisation adjustments.

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.

Steel & Tube reports its Normalised EBIT as $16.0 million for FY19. This is directly comparable to the earnings guidance issued on 20 May 2019, which forecast Normalised EBIT of between $15.5 million to $17.5 million.

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 cash flow and borrowings.

FIVE YEAR FINANCIAL PERFORMANCE

	2019 $000	2018 $000	2017 $000	2016 $000	2015 $000
Financial Performance					
Sales	**498,110**	495,806	511,400	515,947	501,795
EBITDA	**24,085**	(28,127)	39,310	43,160	38,267
Depreciation and amortisation	**(7,290)**	(8,060)	(7,681)	(6,354)	(4,945)
EBIT	**16,795**	(36,187)	31,629	36,806	33,322
Net Interest expense	**(2,828)**	(4,631)	(3,577)	(3,638)	(3,496)
Profit before tax	**13,967**	(40,818)	28,052	33,168	29,826
Tax (expense) / benefit	**(3,552)**	8,768	(8,012)	(7,342)	(8,379)
Profit after tax	**10,415**	(32,050)	20,040	25,826	21,447
Funds Employed					
Equity	**253,901**	172,612	212,130	180,245	167,009
Non-current liabilities	**26,699**	113,826	140,988	100,296	75,007
	280,600	286,438	353,118	280,541	242,016
Comprises:					
Current assets	**213,827**	228,887	243,290	221,539	204,895
Current liabilities	**(45,563)**	(59,099)	(59,609)	(49,899)	(45,785)
Working capital	**168,264**	169,788	183,681	171,640	159,110
Non-current assets	**112,336**	116,650	169,437	108,901	82,906
	280,600	286,438	353,118	280,541	242,016
Statistics					
Dividends per share (cents)[1]	**5.0**	3.8	8.7	12.3	10.4
Basic Earnings per share (cents)[1]	**6.8**	(20.9)	13.1	16.8	14.0
Return on sales	**2.1%**	(6.5%)	3.9%	5.0%	4.3%
Return on equity	**4.1%**	(18.6%)	9.4%	14.3%	12.8%
Working capital (times)	**4.7**	3.9	4.1	4.4	4.5
Net tangible assets per share	**$1.19**	$1.27	$1.60	$1.47	$1.59
Equity to total assets	**77.8%**	50.0%	51.4%	54.5%	58.0%
Gearing (debt to debt plus equity)	**5.6%**	37.7%	37.4%	34.7%	28.8%
Net interest cover (times)	**5.9**	(7.8)	8.8	10.1	9.5
Ordinary shareholders	**8,310**	8,163	8,404	8,506	8,299
Employees	**1,003**	1,015	972	918	781
- Female	**214**	203	193	193	154
- Male	**789**	812	779	725	627
Directors & Officers					
- Female	**6**	4	4	3	4
- Male	**9**	8	10	10	9

EBITDA - Earnings before interest, tax, depreciation and amortisation.
EBIT - Earnings before interest and tax.

[1] For comparability the comparative "per share" figures for FY15 to FY18 have been adjusted to reflect the revised number of ordinary shares on issue following the capital raise concluded in September 2018 (see Note D3).

FINANCIAL REVIEW

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FINANCIAL STATEMENTS 2019

THE FINANCIAL REPORT FOR STEEL & TUBE INCLUDES THESE SECTIONS:

Financial Statements

Performance

Working Capital

Fixed Capital

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Other

SIGNIFICANT MATTERS IN THE FINANCIAL YEAR:

During the financial year ended 30 June 2019 the Group was impacted by the following significant transactions:

- $80.9m capital raise completed in September 2018 (see Note D3); and
- the successful refinancing of the Group's banking facilities in December 2018 (see Note D1).

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

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Preparation of these financial statements requires the exercise of judgements that affect the application of accounting policies, the reported amounts of assets and liabilities, and income and expenses.

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

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

GENERAL INFORMATION

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

The Group's principal activities relate to the distribution and processing of steel 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 prepared:

- In accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP), for which Steel & Tube is a for-profit entity
- To comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and with International Financial Reporting Standards (IFRS)
- In accordance with the requirements of Part 7 of the Financial Markets Conduct Act 2013 and the NZX Main Board Listing Rules (issued 1 January 2019)
- In New Zealand dollars (which is the Company's and subsidiaries' functional currency and the Group's presentation currency) and rounded to the nearest thousand dollars
- Under the historical cost convention, as modified by the revaluation of certain assets as identified in specific accounting policies.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2019

	Notes	**2019 $000**	2018 $000
Sales revenue		**498,110**	495,806
Other operating income		**972**	994
Cost of sales	A2	**(387,140)**	(398,399)
Operating expenses	A2	**(95,599)**	(115,924)
Operating earnings / (loss) before impairment, other gains and financing costs		**16,343**	(17,523)
Impairment of property, plant and equipment and intangibles	C1/C2	**-**	(20,100)
Other gains		**452**	1,436
Earnings / (Loss) before interest and tax		**16,795**	(36,187)
Interest income		**109**	53
Interest expense		**(2,937)**	(4,684)
Profit / (Loss) before tax		**13,967**	(40,818)
Tax (expense) / credit	A4	**(3,552)**	8,768
Profit / (Loss) for the year attributable to owners of the Company		**10,415**	(32,050)
Items that may subsequently be reclassified to profit or loss			
Other comprehensive (loss) / income - hedging reserve		**(1,045)**	2,136
Items that may not subsequently be reclassified to profit or loss			
Other comprehensive (loss) / income - revaluation reserve		**(940)**	960
Other comprehensive income - deferred tax on revaluation reserve		**263**	1,922
Total comprehensive income / (loss)		**8,693**	(27,032)
Basic earnings / (loss) per share (cents)	A1	**6.8**	(33.9)
Diluted earnings / (loss) per share (cents)	A1	**6.8**	(33.9)

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2019

	Notes	Share capital $000	Retained earnings $000	Hedging reserve $000	Revaluation 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								
(Loss) after tax		-	(32,050)	-	-	-	-	(32,050)
Other comprehensive (loss) / income								
Hedging reserve (net of tax)		-	-	2,136	-	-	-	2,136
Deferred tax on asset sale		-	-	-	2,191	-	-	2,191
Asset revaluation (gross)					960			960
Deferred tax on asset revaluation		-	-	-	(269)	-	-	(269)
Total comprehensive income		**-**	**(32,050)**	**2,136**	**2,882**	**-**	**-**	**(27,032)**
Transfer on sale of property		-	29,178	-	(29,178)	-	-	-
Transactions with owners								
Dividends paid	A1	-	(12,662)	-	-	-	-	(12,662)
Proceeds from partly paid shares	D3	41	-	-	-	-	-	41
Employee share schemes		-	-	-	-	-	(400)	(400)
Issue / (purchase) of own shares - net of transaction costs	D3	-	-	-	-	535	-	535
Balance at 30 June 2018		**77,845**	**90,018**	**943**	**6,509**	**(2,896)**	**193**	**172,612**
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)	E10	**-**	**(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		**-**	**10,415**	**-**	**-**	**-**	**-**	**10,415**
Other comprehensive (loss) / income								
Hedging reserve (net of tax)		**-**	**-**	**(1,045)**	**-**	**-**	**-**	**(1,045)**
Asset revaluation (gross)		**-**	**-**	**-**	**(940)**	**-**	**-**	**(940)**
Deferred tax on asset revaluation		**-**	**-**	**-**	**263**	**-**	**-**	**263**
Total comprehensive income		**-**	**10,415**	**(1,045)**	**(677)**	**-**	**-**	**8,693**
Transactions with owners								
Dividends paid	A1	**-**	**(5,877)**	**-**	**-**	**-**	**-**	**(5,877)**
Employee share schemes		**-**	**203**	**-**	**-**	**-**	**63**	**266**
Issue of share capital (net of issue costs)	D3	**78,824**	**-**	**-**	**-**	**-**	**-**	**78,824**
Balance at 30 June 2019		**156,669**	**94,142**	**(102)**	**5,832**	**(2,896)**	**256**	**253,901**

The accompanying notes form part of these financial statements.

BALANCE SHEET

AS AT 30 JUNE 2019

	Notes	2019 $000	2018 $000
Current assets			
Cash and cash equivalents	E6	**9,010**	5,584
Trade and other receivables	B2	**90,734**	99,181
Inventories	B1	**113,962**	116,047
Income tax receivable		**1**	5,165
Derivative assets	E6	**120**	1,271
Assets held for sale	C4	**-**	1,639
		213,827	228,887
Non-current assets			
Deferred tax assets	A4	**3,380**	6,488
Property, plant and equipment	C1	**52,034**	52,739
Intangibles	C2	**56,922**	57,423
		112,336	116,650
Total assets		**326,163**	345,537
Current liabilities			
Trade and other payables	B3	**41,079**	49,867
Provisions	E2	**4,221**	9,215
Derivative liabilities	E6	**263**	17
		45,563	59,099
Non-current liabilities			
Trade and other payables	B3	**1,835**	2,108
Borrowings	D1	**24,000**	109,935
Provisions	E2	**864**	1,783
		26,699	113,826
Equity			
Share capital	D3	**156,669**	77,845
Retained earnings		**94,142**	90,018
Other reserves		**3,090**	4,749
		253,901	172,612
Total equity and liabilities		**326,163**	345,537

These financial statements and the accompanying notes were authorised by the Board on 22 August 2019.

For the Board

Susan Paterson
Chair

Anne Urlwin
Director

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2019

		Group	
	Notes	**2019 $000**	2018 $000
Cash flows from operating activities			
Customer receipts		**505,591**	489,686
Interest receipts		**109**	53
Payments to suppliers and employees		**(486,576)**	(478,601)
Income tax refunds/(payments)		**5,614**	(5,620)
Interest payments		**(3,434)**	(4,195)
Net cash inflow from operating activities		**21,304**	1,323
Cash flows (to) / from investing activities			
Property, plant and equipment disposal net proceeds		**2,264**	52,768
Property, plant and equipment and intangible asset purchases		**(7,154)**	(18,964)
Net cash (outflow) / inflow from investing activities		**(4,890)**	33,084
Cash flows to financing activities			
Issue of share capital (net of issue costs)	D3	**78,824**	-
Proceeds from partly paid shares	D3	**-**	41
Repayment of borrowings	D2	**(85,935)**	(23,439)
Dividends paid	A1	**(5,877)**	(12,662)
Net cash outflow from financing activities		**(12,988)**	(36,060)
Net increase / (decrease) in cash and cash equivalents	D2	**3,426**	(933)
Cash and cash equivalents at the beginning of the year		**5,584**	6,517
Cash and cash equivalents at the end of the year		**9,010**	5,584
Represented by:			
Cash and cash equivalents		**9,010**	5,584

Reconciliation of profit / (loss) after tax to net cash inflow from operating activities

Profit / (loss) after tax		**10,415**	(32,050)
Non-cash adjustments:			
Depreciation and amortisation		**7,290**	8,060
Deferred tax expense		**4,002**	(9,572)
Impairment of property, plant, equipment and intangibles		**-**	20,100
Other		**253**	(400)
Gain on items classified as investing activities:			
Net gains on property, plant and equipment disposals		**(452)**	(1,436)
		21,508	(15,298)
Movements in working capital:			
Income tax receivable		**5,165**	(4,947)
Inventories		**2,085**	27,017
Trade and other receivables		**7,590**	(5,692)
Trade and other payables		**(15,044)**	243
Net cash inflow from operating activities		**21,304**	1,323

The accompanying notes form part of these financial statements.

SECTION A - PERFORMANCE

NOTES TO THE FINANCIAL STATEMENTS

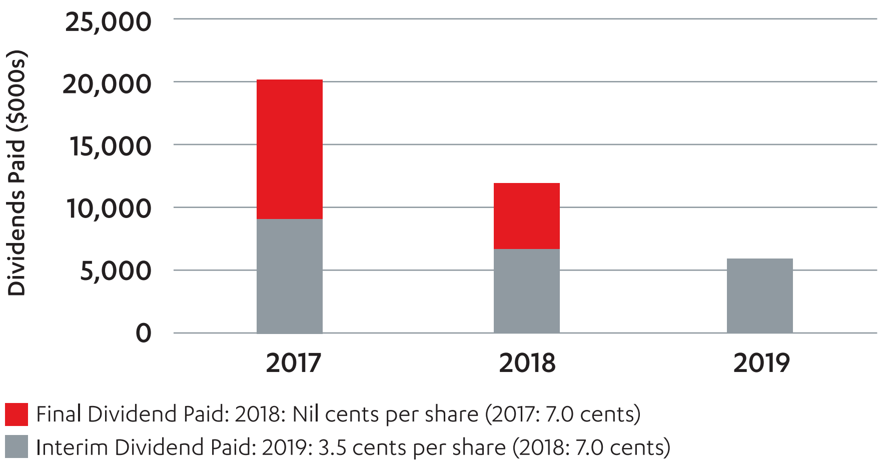
FOR THE YEAR ENDED 30 JUNE 2019

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

A1: DIVIDENDS AND EARNINGS PER SHARE

On 22 August 2019 the Board declared a fully imputed final dividend of 1.5 cents per share (2018: Nil) or $2.49m (2018: Nil) and a supplementary dividend to non-resident shareholders of 0.26 cents per share.

Dividends Paid



Dividends paid are fully imputed. The Group is entitled to a tax credit for supplementary dividends paid to overseas shareholders of $0.10m (2018: $0.25m).

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

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

Earnings / (Loss) per share (EPS)

	2019 $000	2018 $000
Profit / (Loss) after tax	**10,415**	(32,050)
Weighted average number of shares for basic EPS	**153,176**	94,595
Weighted average number of shares for diluted EPS	**153,176**	94,595
Basic earnings / (loss) per share (cents)	**6.8**	(33.9)
Diluted earnings / (loss) per share (cents)	**6.8**	(33.9)

A2: EXPENSES

Included in operating activities:	Notes	2019 $000	2018* $000
Inventories expensed in cost of sales		**354,496**	352,745
Inventory written down / impairment	B1	**-**	20,056
Bad and doubtful debts		**91**	2,855
Depreciation and amortisation	C1/C2	**7,290**	8,060
Directors' fees		**504**	478
Donations		**15**	8
Employee benefits		**76,206**	76,646
Defined contribution plans		**1,565**	1,625
Information technology expenses		**5,463**	6,058
Foreign exchange gains		**(630)**	(2,105)
Operating leases	C3/E2	**17,900**	19,108
Other expenses		**19,839**	28,789
Total cost of sales and operating expenses		**482,739**	514,323

* The group has reclassified the prior period balances to align with the presentation at 30 June 2019.

Inventory sold during the period is expensed as cost of sales. Inventory write-downs including scrap incurred in the ordinary course of business are included within Inventories expensed in cost of sales.

Depreciation of $1.6 million (2018: $1.7 million) related to equipment used to manufacture products is included in cost of sales. Other depreciation is included in operating expenses.

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

A3: OPERATING SEGMENTS

The Group has identified two reporting segments as at 30 June 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.

As outlined in Note E10, the Group has adopted NZ IFRS 15 Revenue from Contracts with Customers in the current financial year, which requires the disaggregation of revenue to provide clear and meaningful information. For the Group, Management concluded that presentation of revenue in terms of the method of revenue recognition was most appropriate. Therefore, revenue is disaggregated below between the operating segments as amounts recognised at a point in time and over time. The Group applied the modified retrospective approach for the transition to NZ IFRS 15 and as such no comparative information has been restated.

The CEO uses EBIT as a measure to assess the performance of segments. The segment information provided to the CEO for the year ended 30 June 2019 is as follows:

	Distribution $000	Infrastructure* $000	Other/ Elimination* $000	Reconciled to Group $000
2019				
Timing of revenue recognition				
At a point in time[1]	287,678	107,329	1,033	**396,040**
Over time[1]	-	102,070	-	**102,070**
Revenue from external customers	287,678	209,399	1,033	**498,110**
Amortisation and depreciation	(1,766)	(2,342)	(3,182)	**(7,290)**
Segment EBIT	2,869	11,865	2,061	**16,795**
Interest (net)				**(2,828)**
Reconciled to Group Profit Before Tax				**13,967**
2018				
Revenue from external customers	288,299	185,191	22,316	495,806
Amortisation and depreciation	(1,943)	(2,746)	(3,371)	(8,060)
Impairment of property, plant, equipment and intangibles	(4,391)	(2,833)	(12,876)	(20,100)
Segment EBIT	(12,752)	5,029	(28,464)	(36,187)
Interest (net)				(4,631)
Reconciled to Group Loss Before Tax				(40,818)

* The Group has reclassified the S & T Plastics business from the Infrastructure segment to the Other/ Elimination column as the business and/or its assets are held for sale and are no longer contributing to the Group's trading EBIT. The comparative period has been adjusted to be consistent with the current presentation.

[1] Refer to Note E10 for further details.

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.

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 assets are measured in a manner consistent with that of the financial statements.

A4: INCOME AND DEFERRED TAX

Income tax comprises both current and deferred tax.

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

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

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

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

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

KEY POLICY

Income and deferred tax

Income tax expense The income tax expense is determined as follows:	**2019** **$000**	2018 $000
Profit or loss		
Current income tax		
Current year income tax expense	**-**	804
Adjustments in respect of prior periods	**(450)**	-
Deferred income tax		
Depreciation, provisions, accruals, tax losses and other	**4,002**	(9,572)
Adjustments in respect of prior periods	**-**	-
Income tax expense recognised in profit or loss	**3,552**	(8,768)

Tax Losses

Steel & Tube has recognised tax losses available to carry forward of $16.1m (2018: $4.9m). A deferred tax asset has been recognised for these losses as they are expected to be realised within the foreseeable future.

Reconciliation of income tax expense / (credit)	2019 $000	2018 $000
Profit / (Loss) before tax	**13,967**	(40,818)
Non-assessable income	**(2)**	(2,076)
Non-deductible expenditure	**328**	11,581
	14,293	(31,313)
Tax at current rate of 28% (2018: 28%)	**4,002**	(8,768)
Prior period adjustment	**(450)**	-
Total income tax expense / (credit)	**3,552**	(8,768)
Represented by:		
Current tax	**(450)**	804
Deferred tax	**4,002**	(9,572)
	3,552	(8,768)

Deferred tax assets and liabilities

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

	Opening balance $000	Prior period adjustments $000	NZ IFRS 9 Transition tax impact $000	Recognised in income $000	Recognised in equity $000	Closing balance $000
2019						
Property, plant and equipment	**(1,745)**	**(545)**	**-**	**(2,444)**	**263**	**(4,471)**
Employee benefits	**1,193**	**298**	**-**	**(108)**	**-**	**1,383**
Provisions	**6,009**	**(37)**	**240**	**(4,285)**	**-**	**1,927**
Cash flow hedging reserve	**(350)**	**-**	**-**	**-**	**391**	**41**
Net tax loss to carry forward	**1,381**	**284**	**-**	**2,835**	**-**	**4,500**
	6,488	**-**	**240**	**(4,002)**	**654**	**3,380**
2018						
Property, plant and equipment	(7,852)	-	-	4,185	1,922	(1,745)
Employee benefits	1,872	-	-	(679)	-	1,193
Provisions	1,740	-	-	4,269	-	6,009
Cash flow hedging reserve	499	-	-	-	(849)	(350)
Customer relationship	(113)	-	-	113	-	-
Customer contracts	(225)	-	-	225	-	-
Licenses	(78)	-	-	78	-	-
Net tax loss to carry forward	-	-	-	1,381	-	1,381
	(4,157)	-	-	9,572	1,073	6,488

	2019 $000	2018 $000
The analysis of deferred tax assets and deferred tax liabilities is as follows:		
Deferred tax liabilities	**(4,471)**	(2,095)
Deferred tax assets	**7,851**	8,583
	3,380	6,488

Imputation credits available at 30 June 2019 were $0.7m (2018: $2.6m).

SECTION B - WORKING CAPITAL

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

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

B1: INVENTORIES

KEY POLICY

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

KEY JUDGEMENT

Key judgement

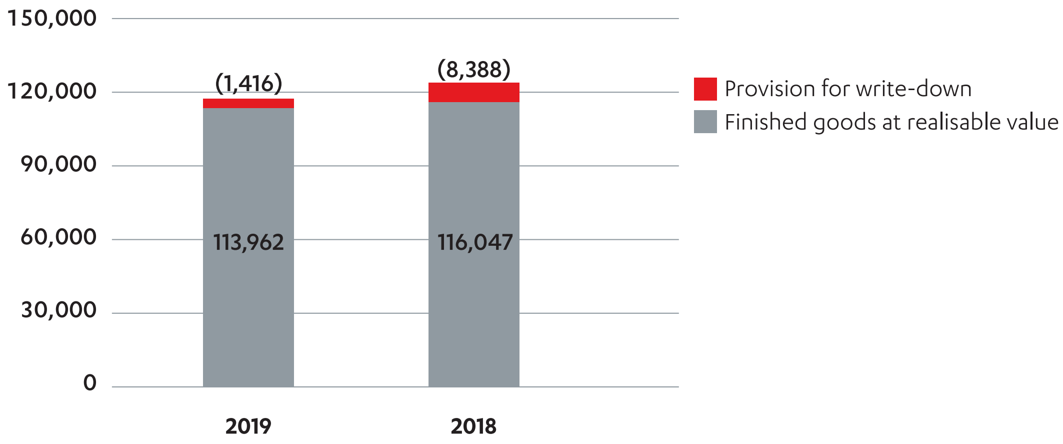
Inventory Valuation

The Group undertook an assessment of its inventory holdings at 30 June 2019, including a review of slow moving and aged inventory. The Group conducted an assessment to determine whether the net realisable value (NRV) of inventory was greater than the inventory cost. At 30 June 2019 an impairment provision of $1.4m (2018: $8.4m) was recognised to reduce the carrying value of inventory to its NRV. Judgement was required in determining if the aged inventory can be sold and hence whether inventory should be impaired.

To further support the valuation of inventory the Group operates a regular stock count programme which requires inventory to be counted on a cycle count basis, and through a full wall-to-wall count to ensure the accuracy of the Group's Inventory records.

The Group holds inventories valued at $114.0 million (2018: $116.0 million).

Inventories ($000s)



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

As at balance date foreign exchange contracts recorded as assets were $0.12m (2018: $1.27m) and as liabilities were $0.26m (2018: $0.02m). The notional value of foreign exchange contracts in place as at 30 June 2019 totaled $27.18m (2018: $37.70m). The fair value of the foreign currency forward exchange contracts is as shown on the Balance Sheet. Refer to section E6 for the fair value hierarchy determination.

If the NZ dollar had weakened/strengthened by 5% against foreign currencies (primarily US dollar) at balance date, there would be no impact on profit or loss, as the Group qualifies for hedge accounting and all hedges are 100% effective at balance date. The effect would be to equity +$1.27m if NZ dollar strengthened by 5% and -$1.44m if the NZ dollar weakened by 5% (2018: + $1.85m /- $2.05m respectively).

B2: TRADE AND OTHER RECEIVABLES

Key judgement

Provision for impairment

The Group has applied the simplified approach to providing for expected credit losses, which requires the recognition of a lifetime expected loss provision for Trade and other receivables. This has resulted in an increase in provisioning for expected credit losses on adoption of NZ IFRS 9, as potential losses are recognised earlier. Previously, allowances for credit losses were only recognised when a loss event occurred.

The expected credit loss (ECL) allowances for financial assets are based on assumptions about the risk of default and expected credit loss rates. The Group uses its judgement in making these assumptions and selecting the inputs to the impairment calculation, which is based on the Group's historical experience, the aging profile of the financial assets, existing market conditions as well as external economic forecasts at each reporting date. Details of key considerations and judgements are set out below.

The Group considers the lifetime expected credit losses associated with its receivables upon initial recognition, and on an ongoing basis at the end of each reporting period. To assess whether there is a specific increase in credit risk, the Group compares the risk of default occurring on these receivables at the reporting date with the risk of default at the date of initial recognition. Available forward looking information is considered, including actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customer or counterparty's ability to meet their obligations. This also incorporates any objective evidence that indicates that the customers will not be able to pay their debts when due, these include significant financial difficulties of customers and the probability of entering receivership or bankruptcy.

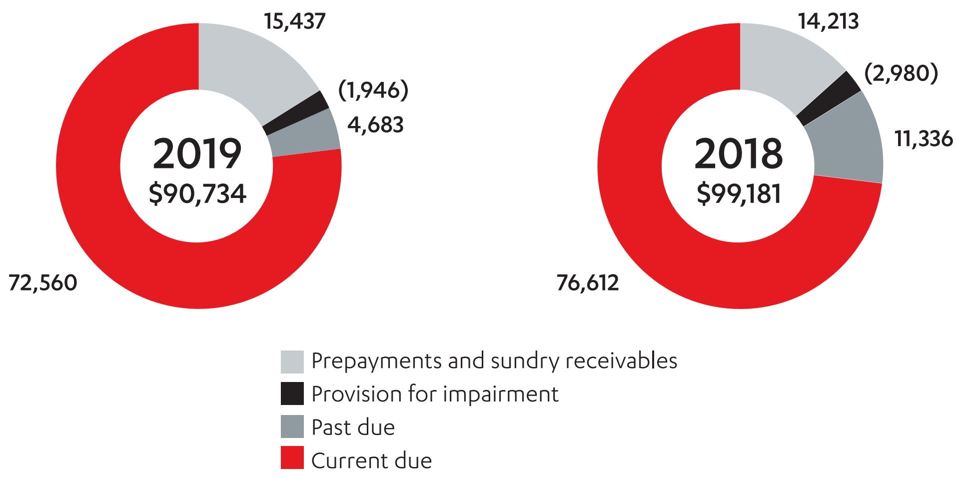
The Group has analysed its Trade receivables balances using three different characteristics and calculated the ECL allowance by considering the impact of each:

	Consideration/Judgements
Baseline/Aging	The Group's "baseline" expectation for credit loss is informed by past experience and the aging profile of the balances, applying an increasing expected credit loss estimate as the balance ages incorporating forward looking information, such as forecasted economic conditions. This expectation incorporates any available objective evidence that the customers will not be able to pay their debts when due, including significant financial difficulties of customers and the probability of entering receivership, administration or liquidation.
Sector	The Group has considered the credit risk related to the market sector that the customers operate in and has made an adjustment to the ECL allowance base on assessment of the respective financial strength of each industry sector.
Region	The Group has considered the credit risk of its trade receivables portfolio based on the respective financial strength of each geographic region, and has made an adjustment to the baseline ECL allowance to reflect this.

KEY JUDGEMENT

Trade receivables at 30 June 2019 are $77.2m (2018: $87.9m) and are recognised initially at fair value and subsequently at amortised cost less any provision for impairment. The carrying value of Trade and other receivables are equivalent to their fair value.

Trade and Other Receivables ($000s)

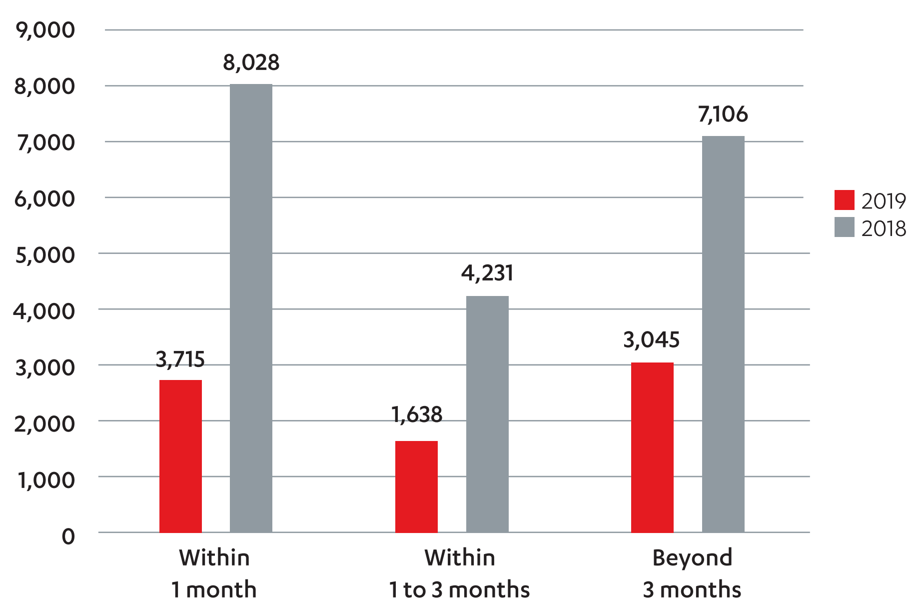


No one customer accounts for more than 5% of Trade receivables at 30 June 2019 (30 June 2018: 2%).

At 30 June 2019 trade receivables of $3.6m (2018: $8.3m) were greater than 60 days overdue. These relate to a number of independent customers for whom there is no recent history of default. The Group's credit terms are in line with industry peers. The Group does not have any customers with payment terms exceeding one year. As a result the Group does not adjust transaction prices for the time value of money.

The aging profile of these customers is shown below.

Trade receivables excluding current at 30 June 2019 ($000s)



NOTES – SECTION B
WORKING CAPITAL

Provision for impairment

As outlined in Note E10, the Group has adopted NZ IFRS 9 in the current financial year, which includes the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as was the case under NZ IAS 39. The ECL provision was restated applying the new NZ IFRS 9 model as at 1 July 2018 and the cumulative impact of the change has been adjusted through retained earnings and as such no comparative information has been restated.

At 30 June 2019 an impairment provision of $1.9m (2018: $3.0m) was held.

The expected credit loss allowance provision has been determined as follows:

	Current $000	Within 1 Month $000	1 - 2 Months $000	2-3 Months $000	Beyond 3 Months $000	Total $000
Gross carrying amount	68,845	3,715	1,053	585	3,045	77,243
Baseline/Aging	238	63	51	18	1,565	1,935
Region	2	-	-	-	2	4
Sector	3	1	1	-	2	7
Expected credit loss allowance	243	64	52	18	1,569	1,946

Movements in the provision for impairment during the year ended 30 June 2019, including the adjustment on transition to NZ IFRS 9, are as follows:

Provision for impairment	Notes	2019 $000	2018 $000
Provision as at 1 July		**2,980**	438
Adjustment on adoption of NZ IFRS 9	E10	**857**	-
Restated as at 1 July		**3,837**	438
Recognised		**872**	2,855
Utilisation of provision / bad debts recovered		**(2,763)**	(313)
Provision as at 30 June		**1,946**	2,980

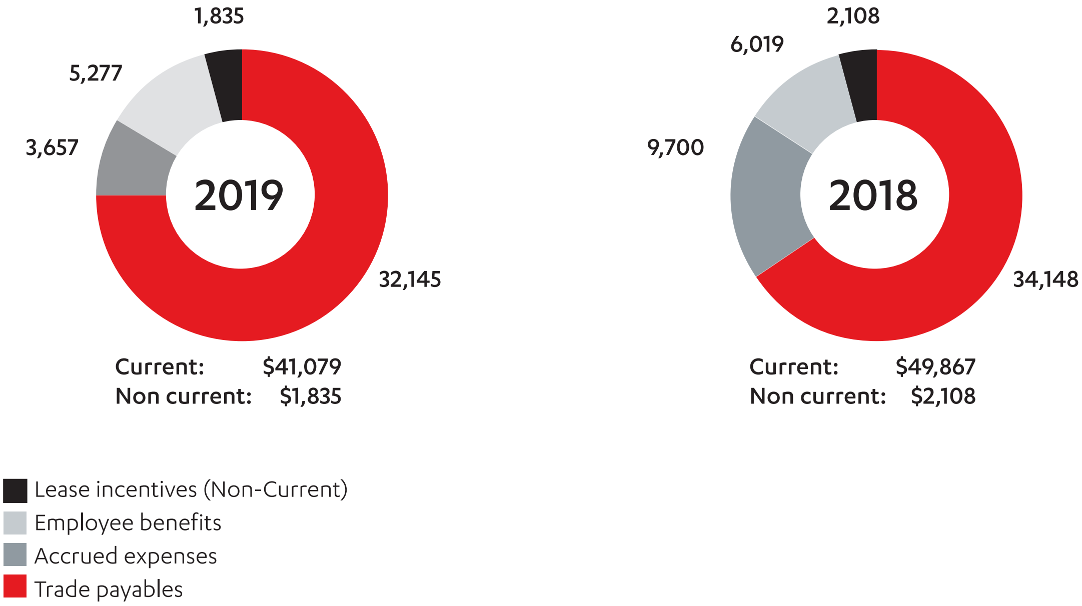
The Group is exposed to the risk of customers being unable to pay their debts as they fall due. The maximum exposure is the total value of these balances. Customers who trade on credit terms are subject to credit verification procedures and credit limits are set for each customer. The Group's credit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

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

B3: TRADE AND OTHER PAYABLES

Trade and other payables comprise $41.1m (2018: $49.9m) payable within a year and $1.8m (2018: $2.1m) payable beyond 12 months.

Trade and other payables ($000s)



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

SECTION C - FIXED CAPITAL

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

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

C1: PROPERTY, PLANT AND EQUIPMENT

KEY POLICY

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

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

The estimated useful lives are as follows:

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

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

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

	Land & buildings at fair value $000	Plant, machinery & vehicles at cost $000	Furniture, fittings & equipment at cost $000	Total $000
2019				
Opening cost	**15,375**	**85,885**	**18,301**	**119,561**
Opening accumulated depreciation	**-**	**(51,838)**	**(14,984)**	**(66,822)**
Opening net book value	**15,375**	**34,047**	**3,317**	**52,739**
Additions	**-**	**4,359**	**663**	**5,022**
Land and building revaluations:				
Decrease to revaluation reserve	**(940)**	**-**	**-**	**(940)**
Disposals	**-**	**(97)**	**(26)**	**(123)**
Depreciation	**(176)**	**(3,150)**	**(1,338)**	**(4,664)**
Closing net book value	**14,259**	**35,159**	**2,616**	**52,034**
Comprised of:				
Cost or fair value	**14,273**	**88,804**	**18,454**	**121,531**
Accumulated depreciation	**(14)**	**(53,645)**	**(15,838)**	**(69,497)**
Closing net book value	**14,259**	**35,159**	**2,616**	**52,034**
2018				
Opening cost	57,519	102,853	24,440	184,812
Opening accumulated depreciation	-	(61,776)	(20,447)	(82,223)
Opening net book value	57,519	41,077	3,993	102,589
Additions	7,170	6,361	1,731	15,262
Land and building revaluations:				
Increase to revaluation reserve	960	-	-	960
Disposals	(49,915)	(471)	(22)	(50,408)
Impairments	-	(7,802)	(171)	(7,973)
Transfer to assets held for sale	-	(1,300)	(339)	(1,639)
Depreciation	(359)	(3,818)	(1,875)	(6,052)
Closing net book value	15,375	34,047	3,317	52,739
Comprised of:				
Cost or fair value	15,375	85,885	18,301	119,561
Accumulated depreciation	-	(51,838)	(14,984)	(66,822)
Closing net book value	15,375	34,047	3,317	52,739

Included within the plant, property and equipment categories is capital work in progress totaling $2.1m (2018: $5.2m). Capital work in progress was tested for indicators of impairment. No impairment indicators were identified.

At 30 June 2019 had land and buildings been carried at historical cost less accumulated depreciation their carrying amount would have been approximately $8.5m (2018: $8.7m).

Valuation of land and buildings:

The Group undertook a fair value assessment of land and buildings owned by the Group at 30 June 2019. The fair value of these land and buildings was determined based on the market comparable approach that reflects transaction prices for similar properties adjusted for identifiable differences. The valuations were prepared by independent and qualified registered valuers and are based on relevant general and economic factors such as land use, economic conditions, zoning and location, quality and condition, recent sales, leasing transactions of comparable properties, and seismic strengthening costs. They are categorised as Level 3 of the fair value hierarchy as unobservable inputs (as described in NZ IFRS 13).

The significant unobservable inputs to these valuations are described in section E8.

The previous independent valuation of these land and buildings was performed in June 2018.

C2: INTANGIBLES

	Goodwill $000	Software & Licences $000	Other $000	Total $000
2019				
Opening cost	47,171	24,832	2,522	74,525
Opening accumulated amortisation	-	(3,262)	(1,713)	(4,975)
Opening accumulated impairment	(10,100)	(2,027)	-	(12,127)
Opening net book value	37,071	19,543	809	57,423
Additions	-	2,125	-	2,125
Amortisation charge	-	(2,420)	(206)	(2,626)
Closing net book value	37,071	19,248	603	56,922
Comprised of:				
Cost	47,171	26,778	2,522	76,650
Accumulated amortisation	-	(5,503)	(1,919)	(7,601)
Accumulated impairment	(10,100)	(2,027)	-	(12,127)
Closing net book value	**37,071**	**19,248**	**603**	**56,922**
2018				
Opening cost	47,171	24,464	2,522	74,157
Opening accumulated amortisation	-	(6,406)	(903)	(7,309)
Opening net book value	47,171	18,058	1,619	66,848
Additions	-	4,710	-	4,710
Amortisation charge	-	(1,198)	(810)	(2,008)
Impairment	(10,100)	(2,027)	-	(12,127)
Closing net book value	37,071	19,543	809	57,423
Comprised of:				
Cost	47,171	24,832	2,522	74,525
Accumulated amortisation	-	(3,262)	(1,713)	(4,975)
Accumulated impairment	(10,100)	(2,027)	-	(12,127)
Closing net book value	37,071	19,543	809	57,423

Included within the intangibles categories is work in progress totalling $2.6m (2018: $2.7m). Capital work in progress was assessed for impairment as part of the value-in-use (VIU) calculations performed for Goodwill impairment testing. Other intangibles comprises customer relationships and customer contracts arising from business combinations.

KEY POLICY

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

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

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

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

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

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

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

Key judgement – Goodwill Impairment testing:

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

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

ASSUMPTION	2019	2018	
Discount Rate (post tax)	7.9% - 9.6%	8.5% - 10.4%	The Group engaged an independent expert to assess the Group's post-tax weighted average cost of capital. A premium was applied to smaller CGU's. These post-tax discount rates were applied to post-tax cash flows. Through back solving the pre-tax WACC was calculated.
Discount Rate (pre tax)	11.0% - 13.4%	11.3% - 13.9%	
Terminal Growth Rate	1.50%	1.50%	
Forecast Period	5 Years	5 Years	Board approved budget used for FY20
Forecast Period Cash Flow Growth Rate	2.6% - 2.9%	3.4% - 4.0%	

In addition to the above forecast period cash flow growth rate the Group has included cash flows expected from network consolidation and other performance improvement projects. The Group is committed to these projects and has already commenced implementation as at 30 June 2019. Forecast cash flows from these projects have been included as part of the Board approved FY20 budget, upon which the VIU calculations were based. The forecast cash flows exclude certain other expected benefits from projects not deemed to be sufficiently progressed as at 30 June 2019. The cash flows also make allowances for a return over the forecast period to long-term achievable financial performance.

All forecast cash flows included in the VIU calculations as at 30 June 2019 were considered to meet the requirements of NZ IAS 36 Impairment of Assets (NZ IAS 36).

A range of forecast cash flow scenarios were considered by Management for the VIU calculation. In assessing the VIU of the Group, Management has considered the most likely outcome within the range of scenarios prepared, and concluded that a mid-point scenario is most appropriate. This scenario applies a pre-tax discount rate of 12.2%.

The VIU calculation indicated that the VIU was greater than the carrying amount of the Group (including Goodwill) by approximately $11m.

The projected cash flows over the forecast period incorporate forward looking assumptions around the market and the timing and execution of business strategy which could be affected by other factors not currently foreseeable by the Group or beyond its control. Should this occur, a further evaluation of goodwill may be required.

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

- Applying a 2.0% terminal growth rate, in line with long-term New Zealand inflation forecasts, would increase the available headroom by approximately $15.3m;
- Incorporating a 6.5% reduction in the expected level of terminal EBIT in the forecast cash flows would result in the elimination of the excess of the recoverable amount over the carrying amount;
- Increasing the Discount Rate (pre-tax) by 50 basis points would result in the elimination of the excess of the recoverable amount over the carrying amount.

The Group also compared the net book value of assets with its market capitalisation value at 30 June 2019. This market capitalisation value excludes any control premium and may not reflect the value of 100% of the Group's net assets. Management considered the reasons for any difference at 30 June 2019 and whether all relevant factors had been allowed for in the VIU model.

Based on the calculations and assumptions outlined above, the Group has not identified any impairment as at 30 June 2019.

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

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

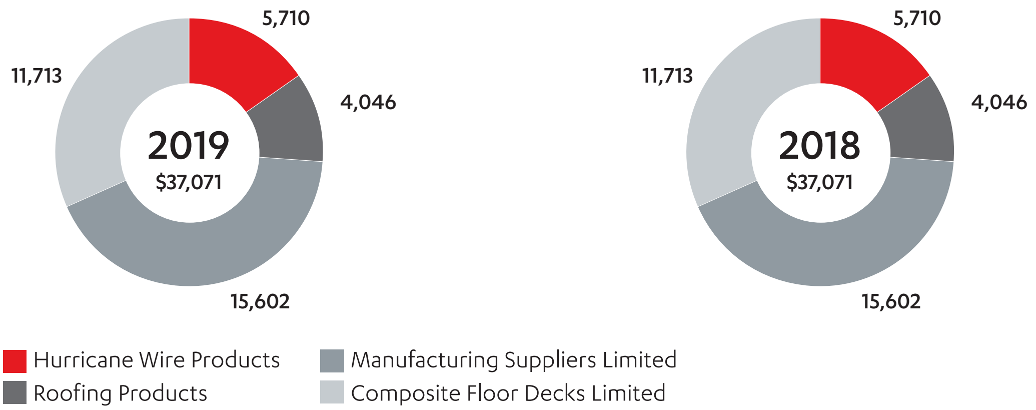
An impairment loss is recognised for the excess of the carrying value of an asset or cash-generating unit over its recoverable amount and is charged to profit or loss.

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

KEY POLICY

Based on the calculations completed, the carrying value of Goodwill as at 30 June 2019 are as follows:

Carrying Value of Goodwill ($000s)



Hurricane Wire Products / Roofing Products / Manufacturing Suppliers Limited / Composite Floor Decks Limited

A number of VIU scenarios were analysed for CGUs with Goodwill at 30 June 2019 to ensure a broad range of possible outcomes were considered. Among the variables considered were sensitivity analysis on discount rates, and the allocation of corporate shared costs. All cash flows included in the VIU calculations for these CGUs at 30 June 2019 were considered to meet the requirements of NZ IAS 36.

Based on the calculations and pre-tax discount rate sensitivity analysis, there is no impairment of these CGUs with Goodwill as at 30 June 2019.

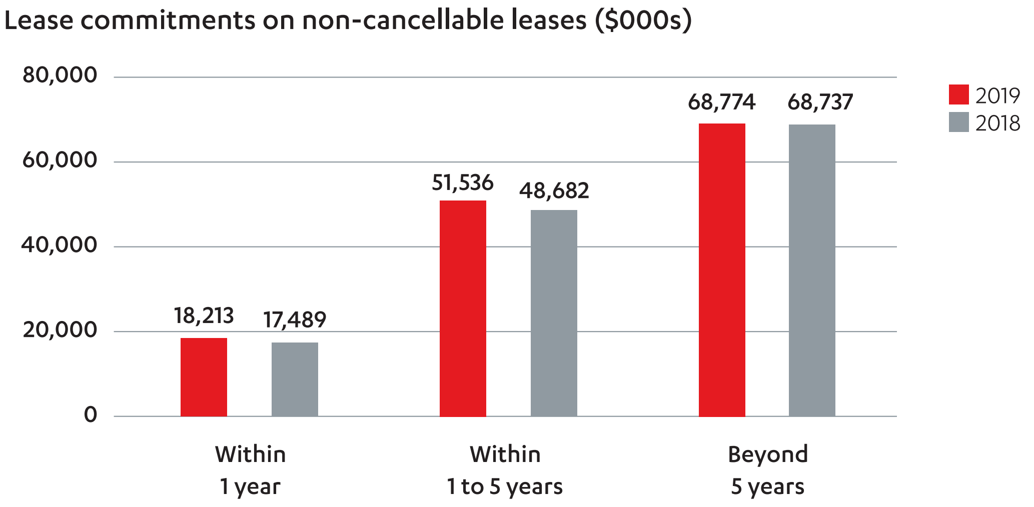
Assessment of CGUs without Goodwill

In assessing the CGUs without Goodwill indicators of impairment such as the CGU's current and future performance, asset make-up of the CGU and market conditions were taken into consideration.

The Group considered whether the fair value less costs to sell of the assets held by these CGUs would be greater than their carrying value. The majority of the remaining assets in these CGUs at 30 June 2019 related to Trade receivables and Inventories and the carrying value of these assets was specifically assessed for impairment at 30 June 2019. The remaining assets in these CGUs were considered to be readily marketable assets for which the recoverable amount was unlikely to be materially different from the carrying value.

Based on the assessment outlined above, it was determined there is no impairment of the CGUs without Goodwill as at 30 June 2019.

C3: COMMITMENTS



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

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

Capital commitments

The Group has contractual commitments of $0.5m (2018: $2.6m) for purchase of plant and equipment.

C4: ASSETS HELD FOR SALE

In the previous financial year the $9.6m of property, plant and equipment related to S & T Plastics was impaired down to their fair value less costs to sell of $1.6m and presented as held for sale. As at 30 June 2019, the sale and close down of the S & T Plastics business is almost complete, with all significant property, plant & equipment related to S & T Plastics having been sold or fully impaired as at 30 June 2019. In addition to the impairment of assets, the Group has retained $0.4m (2018: $2.9m) of provisions within the Infrastructure operating segment to exit S & T Plastics, being predominately the onerous provision on the related leased property. For the period ended 30 June 2019, S & T Plastics contributed sales revenue of $1.0m and an EBIT contribution of $0.8m arising from activities associated with exiting the business.

KEY POLICY

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

SECTION D – FUNDING

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

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

D1: BORROWINGS

	2019 $000	2018 $000
Bank loans	**24,000**	109,935

KEY POLICY

Borrowings are recognised initially at fair value and net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between the net proceeds and redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. The movement in borrowings shown in the Statement of Cash Flows is the net of repayments and drawdowns of borrowings. Borrowings are classified as current liabilities if there is no unconditional right to defer settlement for greater than 12 months.

The Group is required to comply with certain financial covenants that relate to interest cover, group coverage and leverage. Management has completed a detailed assessment of compliance with these covenants and the Group complies as at 30 June 2019 and was compliant at each test date throughout the year.

The Group successfully refinanced its banking facilities in December 2018 on terms and conditions commercially acceptable to the Group. The Group has in place syndicated committed bank borrowing facilities of $70m, comprising a $25m Working capital facility with a maturity date of 30 November 2019 (30 June 2019: nil drawn), and a $45m Revolving credit facility with a maturity date of 30 November 2021 (30 June 2019: $24m drawn). The Working capital facility is expected to be renewed on an annual basis. The previous bank borrowing facilities were repaid and cancelled during December 2018.

Borrowing facilities arranged with the Group's banking syndicate can be drawn at any time, subject to meeting the terms of the Group's Syndicated Facilities Agreement.

The Group is exposed to interest rate risk through its drawings under the Group's bank borrowing facilities at variable interest rates.

During the year ended 30 June 2019, if bank interest rates had been 100 basis points higher/lower with all other variables held constant, it would change post-tax profit/equity for the year by $0.4m lower/higher (2018: $0.8m).

The Group has committed bank borrowing facilities at balance date of $70m (2018: $147m).

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

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

	Average Interest rate	6 months or less $000	6 to 12 months $000	1 to 3 years $000	Total $000	Carrying Value $000
2019						
Borrowings	4.10%	502	482	25,394	26,378	24,000
Trade payables & accruals		40,818	-	-	40,818	40,818
Cash flow hedging of derivatives:						
Outflow		26,079	1,096	-	27,175	27,175
Inflow		(25,947)	(1,085)	-	(27,032)	(27,032)
		132	11	-	143	143
2018						
Borrowings	3.77%	2,114	2,031	110,992	115,137	109,935
Trade payables & accruals		48,922	-	-	48,922	48,922
Cash flow hedging of derivatives:						
Outflow		36,027	1,676	-	37,703	37,703
Inflow		(37,262)	(1,695)	-	(38,957)	(38,957)
		(1,235)	(19)	-	(1,254)	(1,254)

D2: NET DEBT RECONCILIATION

	Cash and cash equivalents $000	Borrowings repayable after one year $000	Total $000
Net debt as at 1 July 2018	5,584	(109,935)	(104,351)
Cash flows	3,426	85,935	89,361
Net debt as at 30 June 2019	9,010	(24,000)	(14,990)
Net debt as at 1 July 2017	6,517	(133,374)	(126,857)
Cash flows	(933)	23,439	22,506
Net debt as at 30 June 2018	5,584	(109,935)	(104,351)

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

D3: SHARE CAPITAL

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

Capital Structure Policy Targets

The Group's formal capital structure targets are as follows:

1. Net Debt: EBITDA less than 2.0x
2. Gearing ratio less than 30% - 35%
3. Dividend pay-out of between 60% - 80% of Net Earnings (NPAT) adjusted for any significant non-trading items

Issue of share capital

The Group concluded a placement and pro-rata rights offer capital raise ('capital raise') on 6 September 2018, issuing an additional 75,364,514 shares, with net proceeds of $78.8m being received. The capital raise comprised an upfront placement of $20.8m to eligible institutional investors and a pro-rata rights offer to eligible shareholders for $60.1m. Both the upfront placement and pro-rata rights offer were fully subscribed. Incremental directly attributable issue costs of $2.1m were incurred and have been netted off against the proceeds of the capital raising.

With the exception of the capital raise, there has been no other material change in the management of capital during the year.

Movement in the Company's issued ordinary shares were as follows:

	2019 $000	2018 $000	2019 Shares	2018 Shares
Fully paid:				
Balance at the beginning of the year	**77,844**	77,803	**90,608,026**	90,588,026
Proceeds from partly paid shares	**-**	41	**-**	20,000
Issue of share capital	**78,824**	-	**75,364,514**	-
Balance at the end of the year	**156,668**	77,844	**165,972,540**	90,608,026
Partly paid:				
Balance at the beginning of the year	**1**	1	**25,000**	45,000
Transfer to fully paid shares	**-**	-	**-**	(20,000)
Balance at the end of the year	**1**	1	**25,000**	25,000
Total balance at the end of the year	**156,669**	77,845	**165,997,540**	90,633,026

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

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

Treasury shares

	2019 $000	2018 $000	2019 Shares	2018 Shares
Balance at the beginning of the year	**2,896**	3,431	**972,849**	1,150,787
Purchases	**-**	-	**-**	-
Used in share schemes	**-**	(535)	**-**	(177,938)
Balance at the end of the year	**2,896**	2,896	**972,849**	972,849

Treasury shares are unallocated Company shares held by the Trustee of the Executive Share Plan 2003 and are recognised as a reduction in shareholders' funds of the Group. There were no Treasury shares purchased during the year.

SECTION E – OTHER

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

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

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

E1: FINANCIAL RISK MANAGEMENT

The Group is exposed to financial risk: market risk, credit risk and liquidity risk.

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

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

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

E2: PROVISIONS

	Restructure provision $000	Onerous Contract and Contract Dispute Provision $000	Onerous Lease and Make Good Provision $000	Commerce Commission Provision $000	Total $000
Opening balance	4,740	1,134	3,924	1,200	10,998
Additions	-	-	481	685	1,166
Used	(4,695)	(1,134)	(1,250)	-	(7,079)
Closing balance	**45**	**-**	**3,155**	**1,885**	**5,085**
Current	45	-	2,291	1,885	4,221
Non-Current	-	-	864	-	864

KEY POLICY

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

Key judgements:

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

KEY JUDGEMENT

- Make-good obligations on existing tenanted properties, including Stonedon Drive remediation work agreed as part of the sale and purchase agreement, estimated at $1.7m. Actual payment dates and costs will be known once each lease reaches its expiry date.
- Onerous Contract and Contract Dispute Provision is an estimate of the costs of customer claims for faulty or defective products supplied and an assessment of the shortfall between costs and future revenue on certain projects where the Group is committed to providing a service within the next 12 months for which the costs will exceed the revenue.
- Restructure and Rationalisation Provision. The Group undertook a review of the business and commenced a restructure in a number of areas during the year ended 30 June 2018. Although the network consolidation and other performance improvement projects remain ongoing as at 30 June 2019, the activities related to the restructure and rationalisation provision recognised in the preceding year have largely concluded as at 30 June 2019. Included within these provisions were costs associated with the exit from S & T Plastics. Refer Note C4 for details.
- Provision for Commerce Commission Fine

  In December 2016 the Commence Commission announced that it had completed its investigation in relation to several 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 relates to the inadvertent use of a testing laboratory's logo on test certificates, and application of testing methodologies.

  In October 2018 the Auckland District Court imposed a fine of $1.885m. Both Steel & Tube and the Commission have appealed the decision. As at 30 June 2019 a decision on the appeal has not been given.

  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 30 June 2019.

E3: CONTINGENT LIABILITIES

Indemnities given to the Company's trading banks in respect of performance bonds were $2.0m (2018: $2.7m) at balance date and were transacted in the ordinary course of business.

E4: AUDITOR REMUNERATION

	2019 $000	2018 $000
Fees paid to PwC		
– annual audit & half year review	**345**	337
– audit of the transition to NZ IFRS 9 and NZ IFRS 15	**49**	7
– additional fees paid for FY18 annual audit billed in 2019	**75**	-
– direct expenses associated with performance of the audit (eg. reimbursement of travel and accommodation costs)	**5**	18
Total audit and review fees	**474**	362
– tax compliance: annual tax return	**25**	25
– other tax advisory services	**9**	3
– other assurance services related to the Company's ERP system	**-**	10
– tax advisory services in relation to the Company's Executive Share Scheme	**-**	41
– treasury policy review	**24**	-
Total non-audit fees	**58**	79
	532	441

E5: RELATED PARTY AND SHARE BASED PLANS

The Group has related party relationships with its controlled entities and with key management personnel. The subsidiaries in the Group are:

Subsidiaries	Principal Activity	Balance Date	2019 Holding	2018 Holding
Steel & Tube New Zealand Limited	Non-trading	30 June	**100%**	100%
Composite Floor Decks Holdings Limited	Non-trading	30 June	**100%**	100%
Studwelders Limited	Non-trading	30 June	**100%**	100%
S & T Plastics Limited	Non-trading	30 June	**100%**	100%
S & T Stainless Limited	Stainless Distributor	30 June	**100%**	100%
Manufacturing Suppliers Limited	Fastenings Distributor	30 June	**100%**	100%
Composite Floor Decks Limited	Floor Decking Installer	30 June	**100%**	100%

Transactions with Key Management Personnel

	2019 $000	2018 $000
Short-term benefits	**3,308**	2,591
Termination benefits	**282**	972
Share-based benefits	**-**	270
	3,590	3,833

The Key Management Personnel are the Non-Executive Directors and Executive Management. Included in short-term benefits are Directors' fees of $504,375 (2018: $477,500), of which $30,000 relates to additional fees paid to directors in FY19 for attendance at special board meetings and takeover committee meetings held in response to the unsolicited, non-indicative offer from Fletcher Building Limited. Fees paid were scaled back to be within the pool available for additional fees.

Executive Share Plan 2003

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

Whilst no further Rights will be issued relative to the Executive Share Plan 2003, it will continue to operate until such time as the prior years' Rights that have been granted are either vested and exercised, forfeited or lapse, in accordance with that plan's rules. At 30 June 2019 there were two employees remaining with Rights available under the Executive Share Plan 2003.

Performance Rights Plan 2017

In February 2018 a new Executive share plan was approved by the Board, known as the Performance Rights Plan 2017 (PRP). The performance period for this scheme runs for 3 years and comprises two performance conditions (50% each) as follows:

a) The Benchmark Comparator (BC) ranks the Company's Total Shareholder Return (TSR) relative to the TSR of the NZX 50 Index securities.

   – Where the Company TSR equals the 50th percentile TSR of the Index Companies over the Performance Period, 50% of (BC) Performance Rights will vest.

   – Where the Company TSR equals or exceeds the 75th percentile TSR of the Index Companies over the Performance Period, 100% of (BC) Performance Rights will vest.

   – Where the Company's TSR over the Performance Period exceeds the 50th percentile TSR of the Index Companies but does not reach the 75th percentile, then between 50% and 100% of the (BC) Performance Rights, will vest as determined on a linear pro-rata basis.

b) The Absolute Comparator (AC) ranks the Company's TSR relative to the Company's Cost of Equity (CoE) plus a premium of 2% annualised and compounding.

   – Where the Company TSR is less than or equal CoE no (AC) Performance Rights will be vested

   – Where the Company TSR is greater than CoE but less than (CoE) + 2%, 50% of (AC) Performance Rights will vest

   – Where the Company TSR is equal to or greater than CoE + 2%, 100% of (AC) Performance Rights will vest

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

During the year the following movements of rights to shares occurred in accordance with the rules of the share plans:

	No. of Rights Available 2019	No. of Rights Available 2018
Opening Balance	567,221	1,102,558
New Shares Granted	1,123,361	371,366
Rights Forfeited or Lapsed	(411,793)	(728,765)
Rights Exercised	-	(177,938)
Total	1,278,789	567,221

Rights Performance Conditions Start Dates	Expiry date	Issue date fair value	Total Rights Issued	Rights available 30 June 2019	Rights available 30 June 2018
1 July 2013 - 2003 Tranche 11	30/06/2018	$3.10	303,740	-	5,355
1 July 2014 - 2003 Tranche 12	30/06/2019	$2.85	288,711	2,407	10,623
1 July 2015 - 2003 Tranche 13	30/06/2020	$2.66	493,441	6,846	40,200
1 July 2016 - 2003 Tranche 14	30/06/2021	$2.21	445,596	13,248	139,677
1 September 2017 - PRP Tranche 1	1/09/2020	$2.09	371,366	224,662	371,366
12 September 2018 - PRP Tranche 2	12/09/2021	$1.20	1,160,204	1,031,626	-
Total			2,759,318	1,278,789	567,221

The fair value of rights is determined using a Monte Carlo share price simulation model. The significant inputs into the model for shares granted during the period were the market share price at grant date, an exercise price of zero (as shares are issued to the employees at nil consideration on vesting), volatility of 33.1%, expected option life of between 1 and 3 years and an annual risk free interest rate of 1.91%. Volatility has been calculated based on the annualised volatility for the three years prior to the rights issue.

KEY POLICY

Both the Executive Share Plan 2003 and the Performance Rights Plan 2017 are considered to be equity-settled schemes under NZ IFRS 2 and the vesting conditions for both schemes include both service and performance conditions.

Executive Share Plan 2003

The Board appoints a Trustee to administer the 2003 plan. The cost associated with this plan is measured at fair value at grant date and is recognised as an expense in profit or loss over the vesting period, with a corresponding entry to the reserve in equity. The estimate of the number of rights for which the service conditions are expected to be satisfied is revised at each reporting date, with any cumulative catch-up adjustment recognised in profit or loss in the period that the change in estimate occurred. Any rights not vested after the expiry of five years are cancelled. Shares purchased in this plan are recognised as treasury shares until they are distributed.

Performance Rights Plan 2017

The cost associated with this plan is measured at fair value at grant date and is recognised as an expense in profit or loss over the vesting period, with a corresponding entry to the reserve in equity. The estimate of the number of rights for which the service conditions are expected to be satisfied is revised at each reporting date, with any cumulative catch-up adjustment recognised in profit or loss in the period that the change in estimate occurred. Any rights not vested after the expiry of three years are cancelled.

E6: FINANCIAL INSTRUMENTS

	Financial assets at amortised cost*	Derivatives for hedging at fair value	Financial liabilities at amortised cost
2019	$000	$000	$000
Cash and cash equivalents	**9,010**	**-**	**-**
Trade and other receivables excluding prepayments	**88,211**	**-**	**-**
Derivative financial instruments[1]	**-**	**120**	**-**
Total financial assets	**97,221**	**120**	**-**
Borrowings	**-**	**-**	**24,000**
Trade and other payables	**-**	**-**	**42,914**
Derivative financial instruments[1]	**-**	**263**	**-**
Total financial liabilities	**-**	**263**	**66,914**
2018			
Cash and cash equivalents	5,584	-	-
Trade and other receivables excluding prepayments	88,235	-	-
Derivative financial instruments[1]	-	1,271	-
Total financial assets	93,819	1,271	-
Borrowings	-	-	109,935
Trade and other payables	-	-	44,615
Derivative financial instruments[1]	-	17	-
Total financial liabilities	-	17	154,550

* (2018: Loans and receivables)

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

E7: FINANCIAL ASSETS

The Group classifies its non-derivative financial assets as being measured at amortised cost, including any expected credit loss allowance provisions. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period, these are classified as non-current assets. The Group's non-derivative financial assets comprise trade and other receivables and cash and cash equivalents.

Derivatives are measured at fair value. The portion of any fair value movement that is an effective hedge is measured in other comprehensive income, but any ineffective portion is included in profit or loss.

Management determines the classification of the assets at the initial recognition and re-evaluates the designation at each reporting date based on the business model and whether cash flows represent solely payments of principal and interest.

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

E8: LAND AND BUILDINGS

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

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

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

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

Description	Unobservable inputs	Range of inputs (from valuation reports) 2019	Range of inputs (from valuation reports) 2018
Owned land & buildings	Discount rate	**7.50% – 9.75%**	7.25% – 9.84%
	Terminal yield	**6.80% – 9.52%**	7.50% – 9.0%
	Capitalisation rate	**6.60% – 8.50%**	7.0% – 8.50%

E9: SUBSEQUENT EVENTS

On 22 August 2019 the Board declared a fully imputed dividend of 1.5 cents per share (2018: Nil) or $2.49m (2018: Nil) and a supplementary dividend to non-resident shareholders of 0.26 cents per share. The dividends will be paid to shareholders on 27 September 2019.

E10: OTHER ACCOUNTING POLICIES

Basis of consolidation

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

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

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

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

Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from translation of monetary assets and liabilities at balance date are recognised in profit or loss except when deferred in equity as qualifying cash flow hedges. The Group's hedging largely comprises cash flow hedges for future purchases of inventory. The Group's current practice is to recognise the accumulated gains or losses on the hedging instrument / derivative against the carrying value of the inventory when inventory is recognised.

Accounts payable policy

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

Derivatives - Cash flow hedge

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

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

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

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

Impairment of non-financial assets

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

Adoption status of relevant new financial reporting standards and interpretations

There following new standards were adopted by the Group for the year ended 30 June 2019:

- NZ IFRS 9 Financial Instruments
- NZ IFRS 15 Revenue from Contracts with Customers

There are no other new standards or amendments to standards applicable to the Group for the year ended 30 June 2019.

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

Changes in accounting policies

NZ IFRS 9, as it relates to the Group, replaces the provisions of NZ IAS 39 Financial Instruments: Recognition and Measurement (NZ IAS 39) that relate to the recognition, classification, measurement and impairment of financial assets. The adoption of NZ IFRS 9 from 1 July 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in the sections below, along with the impact on the financial statements.

The Group has applied NZ IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policies.

Classification

NZ IFRS 9 impacts the classifications of the following financial assets:

- Cash and cash equivalents
- Trade receivables
- Other receivables

Until 30 June 2018, the Group classified its financial assets as loans and receivables under NZ IAS 39. From 1 July 2018, the Group classifies its financial assets as being measured at amortised cost. There is no change in the measurement of the financial assets as a result of the reclassification. The Group's accounting policy in respect of the classification and measurement of its financial assets is outlined in Notes B2 and E7.

The new hedge accounting rules align the accounting for hedging instruments more closely with the Group's practices. The Group's hedging is restricted to cash flow hedges for future purchases of inventory. The Group's current practice is to recognise the accumulated gains or losses on the hedging instrument / derivative against the carrying value of the inventory when inventory is recognised which is the prescribed practice under NZ IFRS 9. As is permissible under NZ IFRS 9, on transition the Group has elected to continue to apply the hedge accounting requirements of NZ IAS 39 for all its hedging relationships instead of the hedge accounting requirements of NZ IFRS 9.

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

Impairment of Financial Assets

The impact of adoption of NZ IFRS 9 for Steel & Tube relates largely to financial assets and the expected credit loss associated with those assets, with the primary impact being on the impairment calculation for Trade receivables. The Group previously used a provision matrix where Trade receivables were grouped based on past-due basis, and utilised the NZ IAS 39 incurred credit loss model where recognition of credit losses was based on the occurrence of a specific trigger event.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under NZ IAS 39. This requires Trade receivables to be grouped based on different customer attributes and different historical loss patterns. The model is then updated with current and forward looking estimates.

From 1 July 2018, the Group assesses on a forward looking basis the expected credit losses associated with its financial assets carried at amortised cost.

Trade receivables

The Group has analysed its Trade receivables balances using three different characteristics and calculated the ECL allowance by considering the impact of each:

	Consideration/Judgements
Baseline/Aging	The Group's "baseline" expectation for credit loss is informed by past experience and the aging profile of the balances, applying an increasing expected credit loss estimate as the balance ages incorporating forward looking information, such as forecasted economic conditions. This expectation incorporates any available objective evidence that the customers will not be able to pay their debts when due, including significant financial difficulties of customers and the probability of entering receivership, administration or liquidation.
Sector	The Group has considered the credit risk related to the market sector that the customers operate in and has made an adjustment to the ECL allowance base on assessment of the respective financial strength of each industry sector.
Region	The Group has considered the credit risk of its trade receivables portfolio based on the respective financial strength of each geographic region, and has made an adjustment to the baseline ECL allowance to reflect this.

The ECL allowance for Trade receivables as at 1 July 2018 was determined as follows:

	Current	Within 1 Month	1 - 2 Months	Beyond 2 Months	Total
	$000	$000	$000	$000	
Gross carrying amount	68,584	8,028	3,028	8,309	87,949
Baseline/Aging	343	161	226	3,235	3,965
Region	(10)	(5)	(7)	(96)	(118)
Sector	(1)	-	(1)	(8)	(10)
Expected credit loss allowance	**332**	**156**	**218**	**3,131**	**3,837**

The expected credit loss allowance for Trade receivables at 30 June 2018, as reported in the 30 June 2018 financial statements, reconciles to the opening loss allowance on 1 July 2018 as follows:

Loss allowance for Trade receivables:	**$000**
At 30 June 2018 – calculated under NZ IAS 39	2,980
Amounts restated through opening retained earnings (before tax)*	857
Opening loss allowance as at 1 July 2018 – calculated under NZ IFRS 9	3,837

* $617k net of $240k of Deferred Tax (see Note A4)

Cash and Other receivables

While Cash and cash equivalents and other receivables are subject to the impairment requirements of NZ IFRS 9, the identified impairment loss was deemed to be immaterial.

NZ IFRS 15 Revenue from Contracts with Customers – impact of adoption

The new NZ IFRS 15 standard addresses recognition of revenue. It replaces the current revenue recognition guidance in NZ IAS 18 Revenue and NZ IAS 11 Construction Contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

Previously under NZ IAS 18 Revenue and NZ IAS 11 Construction Contracts, revenue was recognised when the significant risks and rewards of ownership had been transferred to the customer or when the services had been performed.

The Group has adopted NZ IFRS 15 from 1 July 2018 which has resulted in changes in accounting policies relating to the recognition of revenue. The Group applied the modified retrospective approach for the transition to NZ IFRS 15 and as such no comparative information has been restated.

Following a detailed review of the Group's various revenue streams using the five-step model outlined in NZ IFRS 15, the Group concluded that the implementation of NZ IFRS 15 has no material impact on revenue recognition. The details of the review process are outlined below. Accounting policies have been amended to ensure that the five-step model, as outlined in NZ IFRS 15, is applied consistently to revenue recognition across the Group.

To assess the impact of NZ IFRS 15 on the Group, the Group has segregated the Group's revenue streams into three portfolios of contracts:

- Cash or credit supply sales;
- Supply and installation sales; and
- Supply only sales.

For each contract portfolio, the five-step method was applied to assess the impact on revenue recognition.

The five-step method for recognising revenue involves consideration of the following:

1. Identifying the contract with the customer
2. Identifying performance obligations
3. Determining the transaction price
4. Allocating the transaction price to distinct performance obligations
5. Recognising revenue

The table below provides further information on the application of NZ IFRS 15 across the Group.

Contract Portfolio	Description	Key judgements	Outcome	Timing of Recognition
Cash or Credit Supply Sales	Any sales from individual orders without a formal written contract	No major judgement required	There is one performance obligation, being the supply of the product	*Point in time* Revenue is recognised at point of sale when the product is delivered
Supply and Installation Sales	Any contracts that contain supply and installation performance obligations	Determining whether or not the supply and installation components are "distinct" within the context of the contract	There are two performance obligations, being supply of the product and installation of the product Installation of the product is considered a distinct performance obligation as supply only contracts are also available on a stand-alone basis	*Point in time* Revenue relating to the supply performance obligation follows the same recognition process as for the 'Supply Only Sales' contract portfolio. *Over time* Installation of the product enhances an asset controlled by the customer as the installation is completed. Revenue relating to the installation performance obligation is recognised on a stage of completion basis based on the input of labour costs, as this is corresponds directly with the value to the customer of the Group's performance completed to date.
Supply Only Sales	Any contracts/sales agreements that only have supply of steel product clauses	Determining whether each act of supply should be treated as a separate performance obligation within the contract.	There is one performance obligation, being the act of the supply. Irrespective of how many supply events occur, the products supplied are all highly interrelated in that they all are required for the same construction project, and therefore represent a series of distinct supply events which are substantially the same and use the same method to measure progress towards completion. They are therefore accounted for as a single performance obligation.	*Over time* The products supplied are required to be modified to a significant extent and do not create an asset with an alternative use to the Group. The Group has a right to consideration from the customer in an amount that corresponds directly with the value to the customer of the Group's performance completed to date. Revenue relating to Supply Only Sales is recognised in the amount to which the Group has a right to invoice under the terms of the contract.

In terms of impact to the presentation of the financial statements, NZ IFRS 15 requires the disaggregation of revenue to provide clear and meaningful information. For the Group, Management concluded that presentation of revenue in terms of the method of revenue recognition was most appropriate. Therefore, revenue is disaggregated between the operating segments as amounts recognised at a point in time and over time. This is as outlined in Note A3.

The Group has also utilised the practical expedients specified in NZ IFRS 15 in respect of the requirement to disclose the transaction price allocated to unsatisfied (or partially unsatisfied) performance obligations, where the contract has an original expected duration of one year or less, or where the Group has applied the practical expedient to recognise revenue at the amount to which it has a right to invoice, which corresponds directly to the value to the customer of the Group's performance completed to date. Any volume-based rebates extended to customers by the Group are recognised as a deduction from revenue, in line with the pattern of transfer of control of the relevant good or service to the customer, where payment is deemed to be highly probable.

New accounting standards not yet adopted

NZ IFRS 16 Leases

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 will also be 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 is expected to result 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 will apply NZ IFRS 16 from 1 July 2019. The Group intends to adopt the simplified transition approach and will not restate comparative amounts for the period prior to first adoption. 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 will have a material impact on the Balance Sheet and Statement of Profit or Loss and Other Comprehensive Income. Adoption will impact 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; 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 will be as a 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 will be 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 intends to utilise the recognition practical expedients specified in NZ IFRS 16 in respect of short-term and low value leases where appropriate. The amount of the asset and liability that the Group will recognise upon adoption of NZ IFRS 16 will be 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:

- 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.

Estimated Financial Impact on Adoption

The Group has performed an assessment on the impact of adoption of NZ IFRS 16 based on the active leases as at 30 June 2019.

On transition as at 1 July 2019, the estimated impact on the statement of financial position is:

- an increase in total assets of $102m;
- an increase in total liabilities of $113m; and
- a decrease in retained earnings of $11m.

Additionally, based on the active leases as at 30 June 2019, the Group has estimated the following impact on the statement of profit or loss and other comprehensive income for the year ended 30 June 2019:

- a decrease in operating expenses of $5.7m, which represents a decrease in operating lease expenses of $18.3m partially offset by an increase in depreciation on right of use assets of $12.6m; and
- an increase in lease interest expense of $7.2m.

This would result in an increase in EBIT of $5.7m but a decrease in profit before tax of $1.5m. 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.

The estimated impact of the adoption of NZ IFRS 16 on the statement of financial position 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	4,332	7,712
Property, plant and equipment	52,034	-	52,034
Right-of-use assets	-	97,718	97,718
Intangibles	56,922	-	56,922
	112,336	102,050	214,386
Total assets	326,163	102,050	428,213
Current liabilities			
Trade and other payables	41,079	(179)	40,900
Provisions	4,221	(274)	3,947
Short term lease liabilities	-	11,613	11,613
Derivative liabilities	263	-	263
	45,563	11,160	56,723
Non-current liabilities			
Trade and other payables	1,835	(1,835)	-
Long term lease liabilities	-	104,172	104,172
Borrowings	24,000	-	24,000
Provisions	864	(307)	557
	26,699	102,030	128,729
Equity			
Share capital	156,669	-	156,669
Retained earnings	94,142	(11,140)	83,002
Other reserves	3,090	-	3,090
	253,901	(11,140)	242,761
Total equity and liabilities	326,163	102,050	428,213

Independent Auditors' Report

to the shareholders of Steel & Tube Holdings Limited

We have audited the financial statements, which comprise:

- the balance sheet as at 30 June 2019;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies.

Our opinion

In our opinion, the financial statements of Steel & Tube Holdings Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 30 June 2019, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

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

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

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

Our firm carries out other services for the Group in the areas of tax compliance services, other tax advisory services and treasury policy review. The provision of these other services has not impaired our independence as auditor of the Group.

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

Our audit approach

Overview

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

Overall Group materiality: $2.49 million, which represents approximately 0.5% of revenue.

We chose revenue as the benchmark for our materiality as we consider this is an appropriate, and more stable measure of performance of the Group than net profit.

The following have been determined as key audit matters:

- Impairment testing of the Group's assets
- Assessment of the net realisable value (NRV) of inventory
- Existence of inventory

Materiality

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

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

Audit scope

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

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates. We have performed testing at a level lower than overall materiality as we have disaggregated overall Group materiality across the Group.

Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
Impairment testing of the Group's assets The risk that the Group's assets may be materially impaired is considered a Key Audit Matter, due to: • the existence of indicators of impairment, and • the high level of management judgment required to estimate the future results of the Group and the discount rate used to determine the value-in-use (VIU) of the cash generating units (CGUs). Where the CGU contained goodwill, the Group has prepared discounted cash flow valuations on a VIU basis. Where an indicator of impairment exists for a CGU without goodwill, the Group has considered the fair value less costs of disposal of assets held by these CGUs. A Group wide VIU impairment test was also performed. The Group included forecast cash flow improvements from implemented performance improvement projects in the Group, the S&T Wire CGU VIU and the S&T Roll forming CGU VIU calculations. The Group concluded that the assessments performed supported the carrying value of the Group's assets. In their sensitivity analysis, management identified that there were assumptions for which a reasonably possible change would cause the carrying amount to exceed the recoverable amount. These assumptions, together with the changes that would be required in order for the recoverable amount to be equal to the carrying amount, have been disclosed in note C2.	*Assessment of indicators of impairment* For CGUs not containing goodwill, we considered and challenged the Group's assessment of whether indicators of impairment existed. This included assessing internal and external information, including factors such as the performance of the CGU against budget and prior year. We assessed the appropriateness of the fair value less costs of disposal of assets held by CGUs without goodwill, where an indicator of impairment existed. We considered the nature of these assets and the marketability of significant property, plant and equipment by obtaining evidence of the nature and age of these assets and historical experience. *Calculating the recoverable amount* In assessing the appropriateness of the VIU calculations, we: • tested the mathematical accuracy of the valuation model • assessed forecast cash flows by comparing them to historical information, and agreeing cash flows to Board approved budgets; • considered the reasonableness of the Group's discount rate by comparison to a discount rate developed by our internal valuation expert; and • assessed the Group's forecasting accuracy by comparing historical forecasts to actual results. In considering the appropriateness of including forecast cash flow improvements from implemented performance improvement projects in the VIU calculations, we considered evidence supporting implementation of these projects and that management are committed to their completion. We: • considered project management and reporting tools to track the status and benefits realised from the initiatives; • assessed the historic results of initiatives to assess expectation for future projects and confirm significant projects had already commenced as at 30 June 2019; • considered communication and decisions made by the Board, including those communicated to the market; and • inquired of management throughout the business. Because of the subjectivity involved in valuing CGUs, there is a range of values, which can be considered reasonable, considering the level of estimation uncertainty inherent in the New Zealand market, when evaluating the carrying value of a CGU. Based on the above procedures there were no matters to report.

Key audit matter	How our audit addressed the key audit matter
Assessment of the net realisable value (NRV) of inventory The Group has inventory of approximately $114 million as at 30 June 2019, with a provision for write-down of $1.4 million. The Group is required to hold inventory at the lower of cost and NRV. This is a Key Audit Matter as significant judgment is required to determine the NRV of slow moving and aged inventory, given its limited sales history. The Group's estimate of NRV considered: • the most recent achieved sales price for each Stock Keeping Unit (SKU), and • management judgment of the current realisable value for each SKU. Disclosure of the Group's inventory valuation assessment is included in note B1.	We assessed management's process for identifying inventory categories for impairment consideration. This included undertaking procedures to assess the accuracy of reports used by management, including recalculating the amount of slow moving inventory as at 30 June 2019. We assessed the reasonableness of the Group's estimate of NRV by performing the following procedures: • inquired of supply chain personnel to understand and corroborate the assumptions applied in estimating inventory provisions; • attended stock counts to assess controls to identify obsolete and damaged stock; and • assessed the accuracy of previous NRV estimates by reviewing the utilisation of the Group's prior year NRV provision. Where the Group assessed that a provision was not required for slow moving and aged inventory, we obtained, on a sample basis, evidence to support or challenge this assessment. Evidence obtained included: • invoices detailing recent sales transaction prices, and / or • inquiry of supply chain personnel to understand the demand for the inventory. Based on the above procedures there were no matters to report.
Existence of inventory The existence of inventory was considered a Key Audit Matter because of the Group's: • high volume and value of inventory; • large number of inventory locations; • significant inventory adjustments in the prior year ended 30 June 2018; and • the significant effort required to complete procedures to obtain sufficient audit evidence of the existence of inventory. Disclosure of the Group's stock count programme is included in note B1.	We performed a number of procedures to address the risk that inventory did not exist. These procedures included attending inventory counts at an increased number of locations to assess the appropriateness of the Group's count procedures, the accuracy of counting, and the accuracy of recording of adjustments. We determined which count locations to attend based on our assessment of risk, including: • the volume and value of inventory held at locations; • the extent of prior year inventory adjustments; and • the extent of past compliance with the Group's cycle count programme. We also tested the reconciliation of the inventory counted to the quantity recorded in the inventory sub-ledger. To assess whether materially all inventory had been counted during the year, we compared reports detailing inventory counted to the inventory listing at 30 June 2019. Based on the above procedures there were no matters to report.

Information other than the financial statements and auditor's report

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

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

Responsibilities of the Directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

This description forms part of our auditor's report.

Who we report to

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

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
22 August 2019

Wellington

GOVERNANCE

Corporate governance at Steel & Tube is predicated on high standards of ethics and performance, and is achieved through robust governance policies, practices and processes to ensure compliance with the NZX Listing Rules.

The Board regularly reviews Steel & Tube's governance structures and processes to identify opportunities for enhancement, ensure they are consistent with best practice and reflect Steel & Tube's operations.

The Board believes that the company's corporate governance framework materially complies with the NZX Corporate Governance Code 2019.

Further work is being undertaken in some areas to ensure full compliance with the Code and our progress is explained below. A summary of Steel & Tube's governance actions and performance against each of the Principles in the Code is detailed on the following pages.

Easy access to information about the company, including financial and operational information and key corporate governance policies and charters, is available through the company's website at https://steelandtube.co.nz.

CODE OF ETHICAL BEHAVIOUR

Steel & Tube expects its Directors and staff to act with integrity and professionalism, and undertake their duties in the best interests of the company and taking into account the interest of shareholders and other stakeholders. The Board has adopted a Code of Ethics, which is available on the company website and staff intranet.

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The company Policy Manual also includes detailed standards of integrity, conduct and behavior required of all employees. This forms part of the new employee induction programme.

Steel & Tube encourages employees to speak out if they have concerns. The avenues for doing so are detailed in the company's Whistle Blowing policy which is on the company website.

Steel & Tube has an Insider Trading Policy which, along with the Financial Markets Conduct Act 2013, imposes limitations and requirements on Directors and employees in dealing in the company's shares. These limitations prohibit dealing in shares while in possession of inside information and impose requirements for seeking consent to trade.

BOARD COMPOSITION AND PERFORMANCE

The Steel & Tube Board comprises five independent Directors, who have significant relevant industry and market experience, skills and expertise that are of value to the company. Profiles of Directors are available on the company website and included in the Annual Report. Directors' interests are disclosed on page 88 of the Annual Report.

Susan Paterson and Anne Urlwin were re-elected to the Board by shareholders at the Annual Meeting in October 2018.

The roles and responsibilities of the Board are detailed in the Board Charter, which is reviewed at least every two years and is available on the company website. The Board's primary objective is to enhance shareholder value and protect the interests of other stakeholders by improving corporate performance and accountability.

The Board has delegated authority for day to day leadership and management of the business to the CEO, who in turn has sub-delegated authority to other company management with specified financial and non-financial limits. A formal Delegations of Authority Policy documents delegated authorities and is reviewed annually by the Board.

The company has written agreements with each Director, outlining the terms of their appointment.

The Board is satisfied that each Director has the necessary time available to devote to the position, broadens the Board's expertise and has a personality that is compatible with the other Directors.

The Board supports the separation of the roles of Chair and CEO and Steel & Tube's Chair is required to be an independent Director. Director independence will be determined by the NZX Listing Rules and with regard to the factors described in the NZX Corporate Governance Code.

Directors are encouraged to undertake appropriate training and education to ensure they remain current on how to best perform their duties. In addition, management provide regular updates on relevant industry and company issues, including briefings from senior executives.

All Directors have access to executives to discuss issues or obtain information on specific areas in relation to matters to be discussed at Board meetings, or other areas as they consider appropriate.

The Board Committees and Directors, subject to the approval of the Board Chair, have the right to seek independent professional advice at the company's expense, to enable them to carry out their responsibilities.

The Board monitors its own performance and from time to time receives external reviews to assess the performance of individual Directors and the Board's effectiveness.

Following a detailed review and the subsequent refresh completed in November 2017, the Board undertook a self-review during FY19.

DIRECTOR APPOINTMENT

Membership, rotation and retirement of Directors is determined in accordance with the Company Constitution and NZX Listing rules. The Nomination Committee has delegated responsibility from the Board to make recommendations on Board composition and nominations, subject to the company Constitution. The Committee has developed a skills matrix and takes into account a number of factors including qualifications, experience and skills. Shareholders may also nominate candidates for election to the Board.

DIVERSITY

Equality and diversity are cornerstones of our organisational culture. We believe that diversity at Steel & Tube is integral to creating a collaborative workplace culture, competitive advantage and, ultimately, sustainable business success.

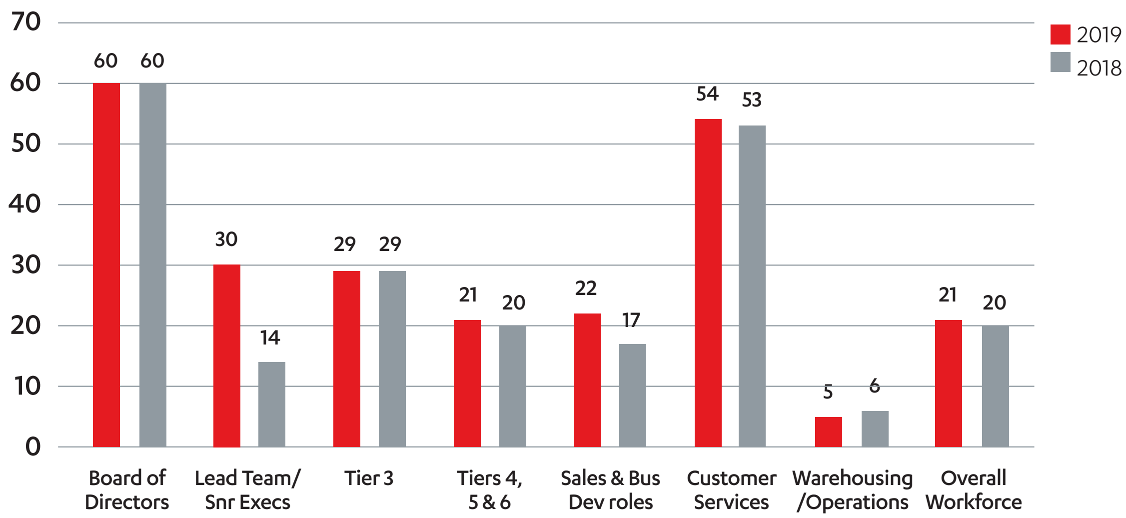
Diversity provides us with a broad range of perspectives and experience that enhance the quality and depth of our decision-making, and helps create a united team approach across all levels of our organisation.

Our approach to diversity is outlined in the Diversity Policy, which is available on the company website. Key areas of focus are:

- Recruitment and retention of a diverse workforce
- Fair and consistent reward and recognition
- Flexible working arrangements
- Employee engagement
- Agreed standards of conduct and behaviour

While the company does not have specific measurable objectives in place, diversity is monitored throughout the year against key areas of focus. A number of initiatives are in place to support diversity and the Board believes the principles in the Policy were adhered to in FY19.

GENDER DIVERSITY AT STEEL & TUBE (% OF FEMALES)



The Board of Directors comprised three females (2018: three) and there were three females (2018: one) on the leadership team as at 30 June 2019.[1]

[1] Subsequent to 30 June 2019 one female member of the leadership team has left the Company.

BOARD COMMITTEES

The Board has established several standing committees, each of which has a Board approved written charter summarising the role, responsibilities, delegations and membership requirements. The Board regularly reviews the charters of each Board committee, the committees' performance against those charters and membership of each committee. The Board believes that committee charters, committee membership and roles of committee members comply with recommendations in the NZX Corporate Governance Code.

Current membership of each of the Board committees is set out on page 80. Board committees assist the Board by focussing on specific responsibilities in greater detail than is possible in Board meetings. However, the Board retains ultimate responsibility for the functions of its committees and determines their responsibilities. The Board appoints the members and chair of each committee, with the committee chair reporting committee recommendations to the Board.

Management attendance at committee meetings is by invite only.

In the case of a takeover offer, Steel & Tube would follow its takeover protocols including forming an Independent Takeover Committee to oversee disclosure and response and engage expert legal and financial advisors to provide advice on procedure. An Independent Takeover Committee was formed in FY19 to assist the Board in considering and responding to the Fletcher Building Limited, unsolicited, non-binding, indicative offer.

REPORTING AND DISCLOSURE

Steel & Tube's Directors are committed to keeping investors and the market informed of all material information about the company and its performance, in a timely manner. In addition to all information required by law, Steel & Tube also seeks to provide sufficient meaningful information to ensure stakeholders and investors are well informed.

Steel & Tube is committed to providing accurate, timely, consistent and reliable disclosure of information to ensure market participants have fair access to information that may impact on its share price. The company's Continuous Disclosure Policy sets out the principles and requirements of this commitment to timely disclosures.

For the financial year ended 30 June 2019, the Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and facilitate compliance of the financial statements with the Financial Markets Conduct Act 2013. The Chief Executive and Chief Financial Officer have confirmed in writing that Steel & Tube's external financial reports are presented fairly in all material aspects.

While Steel & Tube already has policies that support environmental, social and governance concerns, a more detailed framework for managing exposure to environmental, economic, social sustainability and other key risks is in development. The Company has identified four pillars which it believes are essential for the long term sustainability of the company and support Steel & Tube's licence to operate. These are a commitment to safety and quality; putting the customer at the heart of our business; operational and supply chain excellence; and supporting a winning team. Steel & Tube discusses its strategic objectives and its progress against these in the Chair and CEO's commentary in shareholder reports and other communications and at investor events.

REMUNERATION

Remuneration of Directors and senior executives is the key responsibility of the Governance and Remuneration Committee. The framework for the determination and payment of Directors' and senior executives' remuneration is set out in the Remuneration Policy. External advice is sought on a regular basis to ensure remuneration is benchmarked to the market for senior management positions, Directors and Board Committee positions.

Details of Director and Executive Remuneration in FY19 are provided on pages 84 to 87.

Steel & Tube's Board committees as at 30 June 2019 were:

Committee	Role	Independent Director Members
Quality, Health, Safety and Environment	Assist the Board to meet its responsibilities in relation to the company's Quality, Health and Safety (H&S) and Environment policies and procedures, and legislative compliance	Rosemary Warnock (Chair) Susan Paterson Chris Ellis
Audit and Risk	Assist the Board in its oversight of the integrity of financial reporting, financial management and controls, external audit quality and independence, and the risk management framework	Anne Urlwin (Chair) Susan Paterson Steve Reindler
Governance and Remuneration	Assist the Board to establish and maintain a strong governance framework overseeing the management of the company's people, remuneration and diversity policies	Steve Reindler (Chair) Susan Paterson Anne Urlwin
Nominations	Assist the Board in ensuring appropriate Board performance and composition and in appointing directors	Susan Paterson (Chair) Anne Urlwin Rosemary Warnock Steve Reindler Chris Ellis

The table below sets out Director attendance at Board and Committee meetings during FY19. Board meetings are usually held monthly, with other meetings to deal with certain matters arising from time to time being held when necessary. There was an abnormally high number of meetings in FY19, as the Board managed the response to the unsolicited, non-binding, indicative offer from Fletcher Building Limited and undertook due diligence for the capital raising in September 2018. In total, there were an additional five board meetings and four takeover committee meetings held in relation to the takeover offer and capital raise, which were attended by the majority of Directors.

FY19 MEETING ATTENDANCE

	Board	Takeover Committee	Quality, Health, Safety & Environment Committee	Audit & Risk Committee	Governance & Remuneration Committee	Nominations Committee [1]
Total number of Meetings	13	4	3	4	2	2
Susan Paterson	13	4	3	4	2	2
Anne Urlwin	12	3	3	4	2	2
Chris Ellis	12	4	3	3	1	2
Rosemary Warnock	13	3	3	4	2	2
Steve Reindler	13	4	0	4	2	2

[1] Met as part of full Board meeting.

RISK MANAGEMENT

Steel & Tube's ability to deliver appropriate returns to its shareholders requires successful execution of business strategy and plans.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Audit & Risk Committee assists the Board in overseeing and monitoring significant business risks and overseeing management's processes to mitigate the identified risks. Management regularly report to the Audit & Risk Committee and the Board on significant business risks and treatments for those risks.

The Group is exposed to risks from a number of sources, including operational, strategic, economic and financial risks. Steel & Tube's Corporate Risk Management System Framework incorporates policies, procedures and appropriate internal controls to identify, assess and manage areas of significant business and financial risks. The Group applies effective risk management principles across its business units to ensure risk is identified, assessed, categorised and ranked to allow the business to understand its risks.

KEY RISKS

Key risks are assessed on a risk profile identifying the likelihood of occurrence and potential severity of impact. Key risks are managed with a focus on decreasing the risk likelihood, and minimising the risk impact should it occur. Key risk areas include:

- Operational risk: e.g. health & safety, product quality, supply chain, data and systems, business continuity;
- Strategic risk: e.g. Execution of strategic initiatives, competitive environment, technological change;
- Economic risk: e.g. Market risk, sector risk; and
- Financial risk: e.g. Business performance, capital management.

RISK MANAGEMENT PROCESSES

Steel & Tube's Corporate Risk Management System Framework mandates one framework for risk management to:

- Integrate risk management in line with the Board's risk appetite into structures, policies, processes and procedures; and
- Deliver regular key risk reviews, reporting and monitoring.

Key risks are owned by members of the executive leadership team. This promotes integration into operations and planning and a culture of proactive risk management. Key risks are reported to the Audit & Risk Committee four times per year and as required by exception. The Audit & Risk Committee reports to the Board.

Legislative compliance is monitored across each business unit through Quantate compliance management software.

QUALITY, HEALTH, SAFETY AND ENVIRONMENT

The Board is committed to ensuring a safe and healthy environment for all Steel & Tube people and anyone in the company's workplaces. Ensuring Steel & Tube employees and contractors home safely every day is the company's number one priority.

The Board's Quality, Health, Safety and Environment (QHSE) Committee regularly visits the company's sites to review health and safety in the workplace and engage directly with staff on health and safety matters. The Committee receives regular reports on quality processes and compliance with standards. QHSE are discussed at all Board meetings.

Quarterly comprehensive health and safety reports from management are reviewed by the QHSE Committee. The reports cover risk management, lead and lag indicator performance, reviews of Lost Time Incidents (LTIs), and Medical Treatment Incidents (MTIs).

High potential risk incidents are also recorded and investigated through a rigorous dig-deeper process involving the CEO, Line Management and the individual involved in the incident to identify root causes and to eliminate potential risks.

Employee involvement is a key component of the company's risk management framework.

A company-wide health and safety statistics report is published monthly and it is analysed to identify lead and lag indicators trending at group, divisional and area levels. This information enables quality decision making when interventions are required and it signals the high priority placed on the importance of strong safety culture.

The Board of Directors, Management and all staff actively review hazards and complete Behavioural Safety Observations.

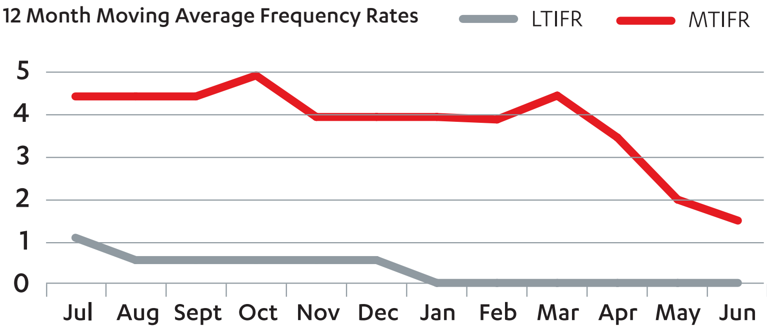
A rigorous training schedule ensures all job specific training requirements are adhered to.

As illustrated in the table below, continued safety focus and discipline has resulted in a 66% reduction in medical treatment incidents and no lost time incidents in FY19.

Product quality remains a critical focus. The company has continued its partnership with Lloyd's Register to provide audits of key steel supply mills. Telarc also completed audits of Steel & Tube's systems and renewed accreditation of its internationally recognized ISO 9001: 2015 quality standards. The company has also continued to complete rigorous internal audits across all plants.

S&T Employee Safety Indicators

12 Month Moving Average Frequency Rates



Role	Responsibilities
Board QHSE Committee	Oversight of the company's adherence to QHSE processes and protocols.
Company QHSE Committee	Chaired by the CEO. Recommends policy and oversees resource allocation and progress against yearly action plans.
Operational QHSE Committee	Comprised of the company's GM QHSE and operational managers throughout the organisation. responsible for validating new health, safety, environment and quality policies, initiatives and actions from a workplace perspective. Additionally, this committee interacts with the businesses and advises the Quality, Health, Safety and Environment Committee on operational issues that have the potential to impact health and safety.
Business QHSE Committees	Representatives from all work groups within an operational facility, including elected representatives. These facility-based Committees have responsibility for ensuring site compliance with the company's QHSE Policies and are responsible for day-to-day health and safety at their facility.

AUDITORS

External audit

Steel & Tube's External Auditor Independence Policy outlines the Company's commitment to ensuring audit independence, both in fact and appearance, so that Steel & Tube's external financial reporting is viewed as being highly objective and without bias.

For the year ended 30 June 2019, PwC was the external auditor for Steel & Tube. PwC was re-appointed under the Companies Act 1993 at the 2018 Annual Meeting. Partner rotation occurred in FY19.

The Audit and Risk Committee monitors the ongoing independence, quality and performance of the external auditors and monitors audit partner rotation. The Committee pre-approves any non-audit work undertaken by PwC. The non-audit services in the year ended 30 June 2019 are set out in the Annual Report. Those services were provided in accordance with the company's External Auditor Independence Policy and were assessed by the Audit and Risk Committee as not affecting PwC's independence. The fees paid for audit and non-audit services in FY19 is identified on page 59 of the Annual Report. The external auditors attend the Annual Shareholders Meeting each year.

Internal Audit

Steel & Tube operates an out-sourced internal audit function, which reports to and is monitored by the Audit and Risk Committee. KPMG were appointed internal auditors during the FY17 year and have continued to provide this service in FY19. The Committee approves the annual internal audit plan, receives internal audit review reports on the adequacy and effectiveness of Steel & Tube's internal controls and monitors the implementation of KPMG's recommendations arising from its review findings.

SHAREHOLDER RIGHTS AND RELATIONS

The Board is committed to open and regular dialogue and engagement with shareholders. Easy access to information about the performance of Steel & Tube is available through the Investor Centre on company's website at https://steelandtube.co.nz/investor-centre.

Steel & Tube's investor relations programme includes semi-annual post-results briefings with investors, analysts and investor meetings, and earnings announcements. The programme is designed to provide shareholders and other market participants the opportunity to obtain information, express views and ask questions.

The company endeavours to make it easy for shareholders to participate in annual meetings, which are held in main centres and also streamed live online. Shareholders are able to ask questions of and express their views to the Board, Management and the external auditors at annual meetings. The Board adopts the one share, one vote principle, conducting voting at shareholder meetings by poll. Shareholders are also able to vote by proxy ahead of meetings without having to physically attend those meetings.

The Board considers that shareholders should be entitled to vote on decisions that would change the essential nature of Steel & Tube's business.

Shareholders are encouraged to communicate with the company and its share registry electronically.

In addition to shareholders, Steel & Tube has a wide range of stakeholders and maintains open channels of communication for all audiences, including brokers, the investing community and the New Zealand Shareholders' Association, as well as its staff, suppliers and customers.

REMUNERATION

DIRECTOR REMUNERATION

Total remuneration available to non-executive directors in the year ended 30 June 2019 was $575,000 as approved by shareholders. This annual fee pool limit was increased following resolutions approved at the 2018 Annual Shareholders Meeting.

The Remuneration and Governance Committee reviews the remuneration of directors annually.

As at 30 June 2019 the standard annual directors' fees per annum were $145,000 for the chair and $75,000 for each non-executive director. Board committee chairs also receive additional fees of between $5,000 - $10,000 for their committee responsibilities.

Directors' fees exclude GST, where applicable. Directors are entitled to be reimbursed for costs directly associated with carrying out their duties, including travel costs.

The total amount of remuneration and other benefits received by the independent directors during the year ended 30 June 2019 was $504,375 as shown in the table below:

Director	Directors Fees	Committee Chair Fees	Other[1]	FY19 Total	Responsibility
Susan Paterson	145,000	-	10,646	155,646	Board Chair
Anne Urlwin	75,000	10,000	4,173	89,173	Audit and Risk Committee Chair
Rosemary Warnock	75,000	10,000	4,899	89,899	QHSE Committee Chair
Steve Reindler	75,000	5,000	5,504	85,504	Governance & Remuneration Committee Chair
Chris Ellis	75,000	-	9,153	84,153	

[1] Other fees relate to additional fees paid to directors in FY19 for attendance at special board meetings and takeover committee meetings held in response to the unsolicited, non-indicative offer from Fletcher Building Limited. Chris Ellis was also paid $4,375 in FY19 for consultancy services.

EXECUTIVE REMUNERATION

Steel & Tube's remuneration policy and practices are designed to attract, retain and motivate high calibre people at all levels of Steel & Tube.

The CEO and executives have the potential to earn a Short Term Incentive (STI) each year. Steel & Tube's STI is based on performance targets and is designed to differentiate performance and reward delivery. STI values for the CEO and executives are set as a percentage of Fixed Annual Remuneration (FAR) based on the scale, complexity and performance expectations of each individual STI participant's role.

The CEO and executives, together with a limited number of non-executive senior managers, also have the potential to earn a Long Term Incentive (LTI). Steel & Tube's LTI is designed to incentivise and retain key personnel, align the interests of executives and shareholders and encourage long-term decision-making. LTI values for the CEO and executives are set as a percentage of FAR.

STI performance targets reflect a mixture of financial, quality & safety, customer services and strategy delivery objectives appropriate for the position held by the individual STI participant.

The STI plan also includes a company based performance hurdle, where no STI is payable to any participant if the YE results are 80% or less of the company's financial target. Additionally, in the event of a fatality or serious injury, where the company is considered culpable by the Board, no STI payment is payable to the Chief Executive, Executives and their direct reports and no payment is payable for the Health, Safety and Environment component to all other STI participants.

The current LTI (referred to as the Performance Rights Plan (PRP)) was developed and approved by the Board in February 2018. The PRP performance period runs for three years and comprises of two performance conditions (50% each) as follows:

a) The Benchmark Comparator (BC) ranks the company's Total Shareholder Return (TSR) relative to the TSR of the NZX 50 Index securities.

   i. Where the company TSR equals the 50th percentile TSR of the Index Companies over the Performance Period, 50% of (BC) Performance Rights will vest.

   ii. Where the company TSR equals or exceeds the 75th percentile TSR of the Index Companies over the Performance Period, 100% of (BC) Performance Rights will vest.

   iii. Where the company's TSR over the Performance Period exceeds the 50th percentile TSR of the Index Companies but does not reach the 75th percentile, then between 50% and 100% of the (BC) Performance Rights, will vest as determined on a linear pro-rata basis.

b) The Absolute Comparator (AC) ranks the company's TSR relative to the company's Cost of Equity (CoE) plus a premium of 2% annualised and compounding.

   i. Where the company TSR is less than or equal to CoE no (AC) Performance Rights will be vested

   ii. Where the company TSR is greater than CoE but less than (CoE) + 2%, 50% of (AC) Performance Rights will vest

   iii. Where the company TSR is equal to or greater than CoE + 2%, 100% of (AC) Performance Rights will vest

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

The company's previous LTI scheme, in place since 2003, will continue to operate until such time as the prior years' Rights that have been granted are either vested and exercised or forfeited, in accordance with that plan's rules.

The STI and LTI are both variable elements of remuneration, with selected employees invited to participate each year as approved by the Board. They are only paid if individual, company and shareholder TSR performance conditions and targets are met

CEO REMUNERATION

The CEO's overall remuneration as at 30 June 2019 consists of a FAR, an STI at 60% of FAR and an LTI of 40% of FAR. This will be reviewed annually by the Boards' Governance and Remuneration Committee and approved by the Board each year.

The CEO has agreed with the Board that his fixed remuneration for 2020 is $714,000, STI remains at 60% and the LTI component at 40%.

The STI performance targets for the CEO for the year ending 30 June 2019 were as follows:

Target KPIs	Weighting
Financial - Return on Funds Employed (ROFE)	70%
Health & Safety – Leading and lagging indicators	10%
Personal KPIs based on strategic and business priorities	20%

The table immediately below sets out CEO FAR and the pay for performance components of the CEO's remuneration package on an annualised basis. This table sets out the pay for performance outcomes for STI and LTI assuming 100% is paid out.

		Fixed Remuneration			Pay for Performance			
	MD/CEO	FAR[1]	Non-taxable benefits[2]	Sub total	Target STI[3]	Target LTI[4]	Sub total	Total target remuneration
2019	Mark Malpass	$700,000	nil	$700,000	$420,000	$392,000	$812,000	$1,512,000
2018	Mark Malpass	$700,000	nil	$700,000	$420,000	$210,000	$630,000	$1,330,000
2017	Dave Taylor	$855,000	$6,214	$861,214	$106,875	$268,316	$375,191	$1,236,405

The financial performance target for the full year to 30 June 2019 fell below the 80% hurdle requirement and accordingly no STI is payable to the CEO in relation to this.

Details of what has been earned and been paid to the CEO/MD in the past five years are outlined below:

	MD/CEO	FAR[1]	Non-taxable benefits[2]	STI earned in FY[5]	Value of LTI vested during FY[6]	Total remuneration earned during FY
FY19	Mark Malpass	$700,000	-	-	-	$700,000
FY18[7]	Mark Malpass	$587,239	-	$128,214	-	$715,453
FY17	Dave Taylor	$855,000	$6,214	$106,875	$268,316	$1,236,405
FY16	Dave Taylor	$824,000	$4,635	$195,700	$563,317	$1,587,652

The total remuneration and benefits received or due and receivable for the MD/CEO in 2015 was $1.339m.

The CEO has personally made an investment in the Company and has acquired 173,784 shares through on-market transactions and the pro-rata rights offer capital raise.

1 FAR includes any KiwiSaver employer contributions
2 There were no costs associated with any other benefits during the year ended 30 June 2019
3 STI target for the full year which is subject to achievement of performance targets as agreed with the Board in each year
4 LTI value of actual Rights granted in each year (which may be exercised after the completion of the three year performance period, providing and only to the extent that the performance conditions have been satisfied)
5 STI payable for the FY following the achievement of performance targets as agreed with the Board
6 LTI value of Rights as at the date vested (including the gross value of the associated dividends paid) in the FY related to Rights granted in the three to five years prior
7 FAR and total remuneration are for the prorated FY from 25 September 2017 to 30 June 2018

PAY GAP

The Pay Gap represents the number of times greater the Chief Executive Officer's remuneration is to the remuneration of an employee paid at the median of all Steel & Tube employees. For the purposes of determining the median paid to all Steel & Tube employees, all permanent full-time, permanent part- time and fixed-term employees are included, with part-time employee remuneration adjusted to a full-time equivalent amount.

At 30 June 2019, the Chief Executive Officer's fixed remuneration of

$700,000 was 12.4 times (2018: 12.6 times) that of the median employee at $56,389 per annum.

Employee Remuneration

The number of employees or former employees who received remuneration and other benefits valued at or exceeding $100,000 during the year to 30 June 2019 are specified in the table.

The remuneration noted includes all monetary payments actually paid during the course of the year ended 30 June 2019, any restructuring and redundancy related compensation and the gross dividends paid to (previous) LTI scheme participants for share performance rights that vested and were exercised in the year ended 30 June 2019.

The remuneration paid to, and other benefits received by, Mark Malpass in his capacity as CEO for the year ended 30 June 2019 are detailed on page 86, and are excluded from the table.

There has been a decrease from 2018 largely due to restructuring and redundancy payments made during 2018.

Remuneration Range $000	No. of Employees
100 - 110	27
110 - 120	18
120 - 130	18
130 - 140	9
140 - 150	7
150 - 160	6
160 - 170	5
170 - 180	3
180 - 190	2
190 - 200	2
200 - 210	-
210 - 220	2
220 - 230	1
230 - 240	1
240 - 250	-
250 - 260	1
260 - 270	-
270 - 280	-
280 - 290	-
290 - 300	-
300 - 310	-
310 - 320	-
320 - 330	1
330 - 340	-
340 - 350	-
350 - 360	-
360 - 370	-
370 - 380	-
380 - 390	1

DISCLOSURES

CHANGES IN DIRECTORS' INTERESTS

Directors made the following entries in the Directors Interests Register pursuant to section 140 of the Companies Act 1993 during the year ended 30 June 2019:

Director	Interests
Susan Paterson	Appointed as a Director of EROAD Limited. Ceased appointments to Tertiary Education Commission and as an External Monetary Policy Advisor to RBNZ Governor.
Anne Urlwin	Appointed as an alternate director of Tararua Wind Power Limited and Waverley Wind Farm Limited.
Steve Reindler	Appointed as a Director of D & H Steel Construction Limited (Chair), Clearwater Construction Limited (Chair) and Lincoln University/AgResearch Joint Facility Board. Ceased to be a Director of Meridian Energy Limited.
Chris Ellis	Ceased to be a Director of NZ Transport Agency.

INFORMATION USED BY DIRECTORS

There were no notices from directors requesting to disclose or use company information received in their capacity as directors that would not otherwise have been available to them.

DIRECTORS' SHAREHOLDINGS

Steel & Tube securities in which each director has a relevant interest as at 30 June 2019 are:

Director	Shares held
Susan Paterson	232,436 beneficially owned
Anne Urlwin	22,894
Rosemary Warnock	3,791
Steve Reindler	26,427
Chris Ellis	10,000

DIRECTORS' SECURITY DEALINGS

During the year ended 30 June 2019 directors disclosed the following securities transactions in respect of section 148(2) of the Companies Act 1993 and sections 297(2) and 298(2) of the Financial Markets Conduct Act 2013.

These transactions took place in accordance with Steel & Tube's Securities Trading Policy:

Director	Date of Transaction	Number of shares acquired / (disposed)	Nature of transaction	Consideration
Chris Ellis	10 September 2018	10,000	On-market acquisition	$12,503
Susan Paterson	7 September 2018	117,436	Rights offer and shortfall Bookbuild	$133,552
Anne Urlwin	7 September 2018	7,894	Rights offer	$8,289
Steve Reindler	7 September 2018	24,027	Rights offer and shortfall Bookbuild	$29,326
Rosemary Warnock	7 September 2018	1,291	Rights offer	$1,356

INDEMNITIES AND INSURANCE

In accordance with section 162 of the Companies Act 1993 and Steel & Tube's Constitution, the company has arranged Directors and Officers Liability insurance covering directors and employees of Steel & Tube, including directors of subsidiary companies, for liability arising from their acts or omissions in their capacity as directors or employees. The insurance policy does not cover dishonest, fraudulent, malicious or wilful acts or omissions.

SUBSIDIARY COMPANIES DIRECTORS

The remuneration of employees appointed as directors of subsidiary companies is disclosed in the relevant banding of remuneration set out under the heading Employee Remuneration. Employees did not receive additional remuneration or benefits for being directors during the year.

Directors of the subsidiary companies as at 30 June 2019 were:

Company	Directors
Steel & Tube New Zealand Limited	Mark Malpass, Greg Smith
Composite Floor Decks Holdings Limited	Mark Malpass, Greg Smith
Studwelders Limited	Mark Malpass, Greg Smith
S & T Stainless Limited	Mark Malpass, Greg Smith
Manufacturing Suppliers Limited	Mark Malpass, Greg Smith
S & T Plastics Limited	Mark Malpass, Greg Smith
Composite Floor Decks Limited	Mark Malpass, Greg Smith

TOP 20 SHAREHOLDERS

AS AT 8 JULY 2019

Twenty largest security holders as at 8 July 2019	Ordinary Shares	% Holding
NEW ZEALAND STEEL LIMITED	26,274,753	15.83%
HSBC NOMINEES (NEW ZEALAND) LIMITED*	6,141,382	3.70%
ACCIDENT COMPENSATION CORPORATION*	5,681,484	3.42%
FNZ CUSTODIANS LIMITED	4,762,903	2.87%
CITIBANK NOMINEES (NEW ZEALAND) LIMITED*	3,499,901	2.11%
JPMORGAN CHASE BANK NA NZ BRANCH-SEGREGATED CLIENTS ACCT*	2,631,375	1.59%
NATIONAL NOMINEES NEW ZEALAND LIMITED*	2,417,724	1.46%
HPI AVONDALE LIMITED	2,103,786	1.27%
PUBLIC TRUST CLASS 10 NOMINEES LIMITED*	1,694,220	1.02%
NEIL DOUGLAS WAITES	1,672,115	1.01%
CHESTER PERRY NOMINEES LIMITED	1,530,516	0.92%
CUSTODIAL SERVICES LIMITED <A/C 4>	1,097,815	0.66%
CUSTODIAL SERVICES LIMITED <A/C 3>	1,050,244	0.63%
PHILIP GEORGE LENNON	1,000,000	0.60%
JOHN FRANCIS MANAGH & DAVID ROBERT PERCY	999,454	0.60%
DEUTSCHE SECURITIES AUSTRALIA LIMITED	974,272	0.59%
PT (BOOSTER INVESTMENTS) NOMINEES LIMITED	971,763	0.59%
CUSTODIAL SERVICES LIMITED <A/C 2>	712,069	0.43%
ASB NOMINEES LIMITED <129244 ML A/C>	650,000	0.39%
ASB NOMINEES LIMITED <208747 ML - A/C>	645,645	0.39%
	6,6511,421	**40.07%**

* Shares held in New Zealand Central Securities Depository (NZCSD)

STEEL & TUBE HOLDINGS LIMITED (STU) SPREAD OF SHAREHOLDERS

AS AT 8 JULY 2019

Size of holdings	Number of holders	Number of shares	% of issued shares
1 – 999	1,550	662,321	**0.40**
1,000 – 4,999	3,029	7,487,173	**4.51**
5,000 – 9,999	1,425	9,760,559	**5.88**
10,000 – 49,999	1,928	38,764,287	**23.36**
50,000 +	386	109,298,200	**65.85**
	8,318	165,972,540	**100.00**

SUBSTANTIAL SECURITY HOLDER

The company received the following Substantial Security Holders notices during the year:

– Milford Funds Limited advised on 13 August 2018 that it was a substantial security holder.

– Harbour Asset Management Limited advised on 7 September 2018 that it was a substantial security holder. Subsequently on 21 September 2018 Harbour Asset Management Limited advised that it ceased to be a substantial security holder.

– New Zealand Steel Limited advised on 17 October 2018 that it was now a substantial security holder.

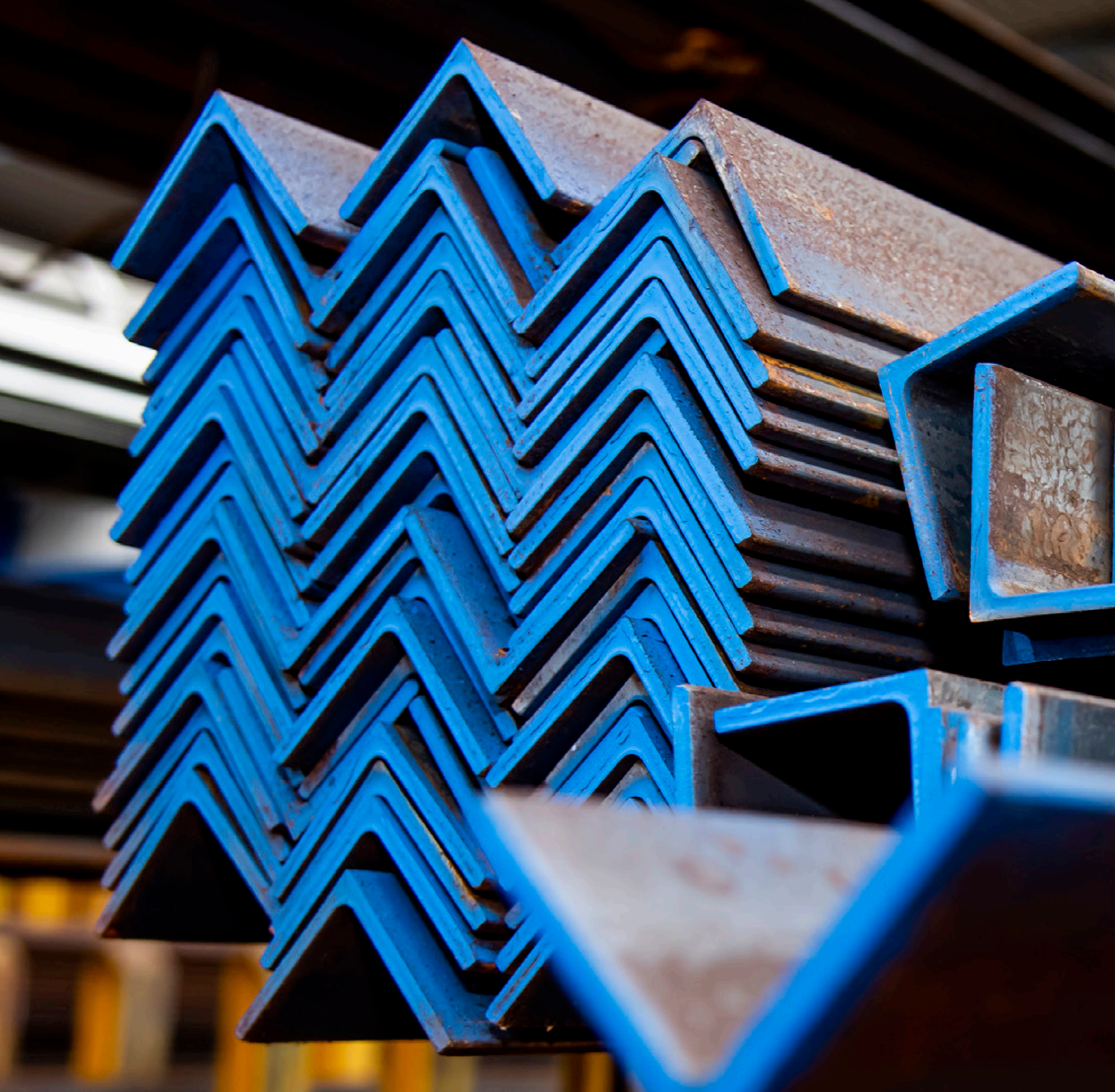
– Milford Asset Management Limited advised on 17 October 2018 that it ceased to be a substantial security holder.

– First NZ Capital Group Limited advised on 26 November 2018 that it ceased to be a substantial security holder.

Issued shares in the company at 30 June 2019 comprise:	
Ordinary shares fully paid	**165,972,540**
Ordinary shares partly paid (no voting rights)^	**25,000**
	165,997,540

^ Shares issued in the Senior Executives Share Scheme 1993

GENERAL INFORMATION



DIRECTORY

REGISTERED OFFICE

Level 7, 25 Victoria Street, Petone,
Lower Hutt 5012, New Zealand

PO Box 30543, Lower Hutt 5040,
New Zealand

Ph: +64 4 570 5000 **Fax:** +64 4 570 2453

Email: info@steelandtube.co.nz

Website: www.steelandtube.co.nz

SHARE REGISTRY

Computershare Investor Services Limited

Private Bag 92119, Auckland 1142,
New Zealand

Ph: +64 9 488 8777 **Fax:** +64 9 488 8787

Email: enquiry@computershare.co.nz

Website: www.computershare.co.nz

STRONGER IN EVERYWAY

steel&tube

steelandtube.co.nz