steel&tube

Half Year Report 2019

Steel & Tube is...

One of New Zealand's leading providers of steel solutions, and a proud New Zealand company, with over 65 years of trading history

We offer New Zealand's most comprehensive range of steel products, services and solutions

Our stable of best-in-class businesses are some of this country's leading steel suppliers

58,000 PRODUCT LINES

A nationwide footprint with **40 SITES** from Whangarei to Invercargill

SOLUTIONS DRIVEN organisation with more than 65 years of industry experience

Working with more than **15,000 ACTIVE CUSTOMERS** every year

~$500 MILLION in annualised sales

~1,000 PEOPLE in the Steel & Tube team

On behalf of the Board and management of Steel & Tube Holdings Limited, we are pleased to present the FY19 Interim Report for the six months to 31 December 2018.

Susan Paterson
Chair

Mark Malpass
Chief Executive Officer

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HALF YEAR KEY EVENTS

- Continued to implement **'Project Strive'** business transformation initiatives with benefits now being seen
- Completed **$80.9m capital raising** resulting in significant reduction in debt, with further reductions post the capital raise
- AX **ERP system** now settled in and providing key insights into the business and supporting customer service
- **Refinanced** banking facilities
- Responded to non-binding **indicative offer from Fletcher Building** to acquire the company
- **Court decision received** on steel mesh case which is currently being appealed by both Steel & Tube and the Commerce Commission
- **Strengthened the Leadership team** with appointment of new GM People & Culture, GM Strategy and Chief Digital Officer
- Group-wide update to **ISO 9001:2015 quality certification** and initiation of independent third-party steel mill audits
- Continuing improvement in **health and safety** (TRIFR* down 40% on 1H18)
- Ongoing **exit from S&T Plastics**

* TRIFR: Total Recordable Injury Frequency Rate is a key metric for Steel & Tube and is the number of fatalities, lost time injuries, substitute work, and other injuries requiring treatment by a medical professional per million hours worked.

HALF YEAR FINANCIAL SNAPSHOT

REVENUE

$258.2m

EARNINGS BEFORE INTEREST AND TAX (EBIT)

$9.8m

NORMALISED EBIT

$9.7m

NET PROFIT AFTER TAX (NPAT)

$5.6m

NET DEBT

$16.0m

NET OPERATING CASHFLOW

$11.1m

INTERIM DIVIDEND

3.5cps

HALF YEAR FINANCIAL SUMMARY

$millions	FY18 1H18	FY18 2H18	**FY19 1H19**
Revenue	267.9	227.9	**258.2**
Normalised Revenue[1]	249.3	224.2	**258.2**
EBIT[1]	7.5	(43.7)	**9.8**
Normalised EBIT[2]	13.4	4.5	**9.7**
NPAT	3.8	(35.9)	**5.6**
Assets	363.9	345.5	**329.9**
Net Debt	95.6	104.4	**16.0**
Net Operating Cashflow	17.7	(16.4)	**11.1**

- 1H19 EBIT in line with previous earnings guidance of ~40% of full year earnings target
- Significant improvement over the preceding six-month period (2H18) primarily driven by sales and volume improvement as well as reduced operating expenditure
- Reflects building momentum with benefits from Project Strive business transformation initiatives being realised
- Profit up 47% on comparative first half year (1H18) to $5.6m and a significant improvement on 2H18 which included non-trading costs and impairments
- Net debt reduced significantly to $16.0m due to capital raise, improved operating cashflows and prudent capital expenditure
- Solid improvement in operating cashflows to $11.1m enabling a return to dividend payments with the Board declaring an interim dividend of 3.5 cents per share
- Company has reaffirmed FY19 EBIT guidance of $25m

1 S&T announced it was exiting S&T Plastics in May 2018. S&T Plastics contributed revenue: 1H18 $18.6m, 2H18 $3.7m. EBIT 1H18 $1.2m, 2H18 $(12.4m).

2 EBIT is Earnings Before Interest and Tax. Normalised EBIT excludes non-trading adjustments including write downs, impairments, business rationalisation and restructuring costs and a gain on sale of property, as well as contributions from S&T Plastics which the company has exited. Details are reported in Steel & Tube's 1H19 results presentation and in the Non GAAP Reconciliation in the Notes to the Interim Financial Statements.

CHAIR AND CEO REVIEW

SUSAN PATERSON, CHAIR

MARK MALPASS, CHIEF EXECUTIVE OFFICER

Steel & Tube has reported a result in line with expectations, with a substantial improvement over the preceding six-month period (2H18) following the capital restructure and as benefits from business transformation initiatives are realised. The company has reaffirmed its FY19 guidance of approximately $25m in earnings before interest and tax (EBIT).

We are pleased to report on the positive progress we have been making as we continue with the business turn-around commenced in mid-2018.

Customer needs, improved product availability and delivery performance have been a big focus and we have improved sales, volumes and market share.
A combination of competitive pressures and product mix has impacted gross margins. We are now seeing a turnaround in our business performance.

Multiple initiatives have been implemented as part of our Strive business transformation programme, and these have yielded approximately $5m EBIT improvement in 1H19.

A focus on cost management has seen a pleasing reduction in a number of areas and, excluding S&T Plastics, has led to a 3% decrease in operating expenses as a function of sales compared to 2H18. The

CHAIR AND CEO REVIEW (CONTINUED)

cost savings achieved have enabled the business to absorb inflationary and wage and salary cost increases and execute transformation initiatives whilst supporting increased sales activities, without increasing overall operating expenditure.

We now have a strong financial platform to progress with our strategy, with a significant reduction in debt and refinanced banking facilities. We have a strong leadership team, with several new appointments made in recent months, and we continue to put in place best-practice quality initiatives such as the independent audit of our steel suppliers and a group-wide update to ISO 9001: 2015 quality certification.

Health & safety remains a core focus for all our businesses and, while there is always room to improve, our injury rates continue to reduce as we target a goal of zero-harm.

While it has been a difficult period, we now have a strong foundation with the right strategy, people and systems in place to drive the business forward and deliver earnings growth. We have a clear focus on growth and shareholder value and it is pleasing to see the business is now benefitting from the significant work undertaken in 1H19 to transform and turnaround the organisation.

SIGNIFICANT HALF YEAR UPLIFT IN FINANCIAL RESULTS

For the six months to 31 December 2018, Steel & Tube reported revenue of $258.2m, EBIT of $9.8m and a net profit after tax (NPAT) of $5.6m.

Excluding S&T Plastics which the Company announced it was exiting in 2H18, and non-trading adjustments, Normalised EBIT of $9.7m was up 116% on 2H18 Normalised EBIT of $4.5m, reflecting the positive turn around in ongoing business performance. As expected, Normalised EBIT was $3.7m lower compared to 1H18 ($13.4m) as the business continues its recovery from trading issues caused by the new ERP system implementation which went live in October 2017.

The execution of business transformation initiatives is having a positive impact. Sales and volumes have continued the upwards trajectory seen in the last twelve months, on the back of a strong focus on customer needs, improved product availability and delivery performance.

The market remains very competitive, keeping pressure on gross margins which have also been dampened by a shift in sales mix in some businesses.

The half year period also included further work to leverage value from the investment into the ERP IT platform, the capital restructure, further organisational restructuring and strengthening of the Leadership Team.

Net debt was $16.0m as at 31 December 2018, due to the repayment of $78.9m of debt following the capital raising concluded in September 2018, repayments from improved operating cashflows, working capital improvements and prudent capital expenditure. Steel & Tube's debt facilities were successfully refinanced in December 2018, ensuring the company has sufficient liquidity to drive the business forward.

Operating cashflow improved to $11.1m. The Directors remain confident in the company's turn-around strategy and, in line with Steel & Tube's capital policy and improving performance, have declared a fully imputed interim dividend of 3.5 cents per share.

The economic outlook for the various key market segments in which we operate remains positive and product pricing remains firm. The Strive turnaround programme is gaining momentum, morale is strong, sales are up, we are becoming more efficient and are better at utilising shareholder funds. There remains work to be done but we are confident we are on the right track.

We thank shareholders for their continued support.

Susan Paterson
Chair

Mark Malpass
CEO

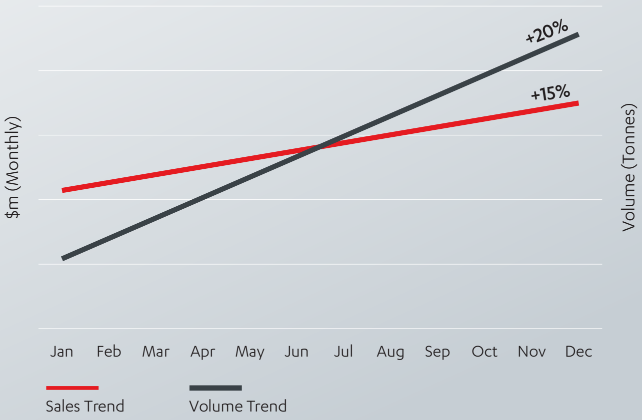
MEASURING OUR PERFORMANCE

Continuing improvement in health and safety	TRIFR down 40% on 1HFY18
Turn around in volumes and sales with upward trend continuing	Sales +15% and volumes +20% vs 2HFY18[1] Sales +3% and volumes +11% vs 1HFY18[1]
Reduction in operating expenses as a percentage of sales	Down 3% vs 2HFY18[2] Down 1% vs 1HFY18[2]
Reduction in labour expenses as a percentage of sales	Benefits from FY18 restructuring and ERP system
Continuing optimisation of Steel & Tube's national network, retaining presence whilst improving efficiency	48 properties down to 40
Financial benefits from Strive initiatives	Approx. $5m EBIT improvement in 1HFY19

1 Excludes S&T Plastics

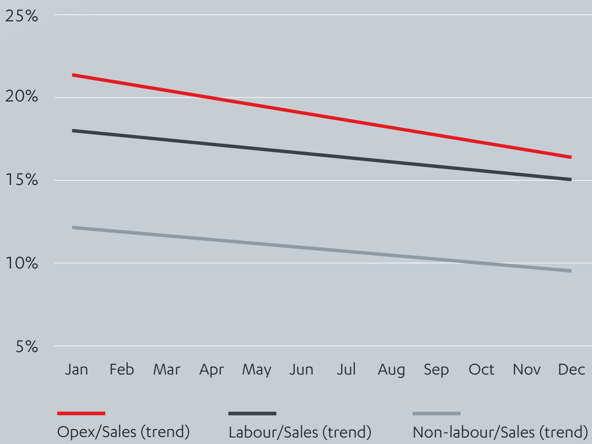
2 Operating expenses excluding Depreciation, Amortisation and Normalisation adjustments as outlined in the Results Presentation.

2018 MONTHLY SALES PERFORMANCE TREND LINE



The positive sales trajectory seen in last 12 months is continuing as the company benefits from the focus on customer experience, improving stock availability and delivery performance

2018 OPEX/SALES PERFORMANCE TREND LINE



Focus on cost management as well as improving sales has seen a pleasing improvement in operating costs as a percentage of sales

(All figures presented are Normalised and exclude S&T Plastics)

INTERIM FINANCIAL STATEMENTS

Statement Of Profit Or Loss And Other Comprehensive Income

FOR THE PERIOD ENDED 31 DECEMBER 2018

	Unaudited December 2018 $000	Unaudited December 2017 $000
Sales revenue	258,234	267,852
Other operating income	799	76
Cost of sales	(200,719)	(206,563)
Operating expenses	(48,889)	(54,321)
Operating earnings before other gains and financing costs	9,425	7,044
Other gains	394	413
Earnings before interest and tax	9,819	7,457
Interest income	72	6
Interest expense	(2,036)	(2,190)
Profit before tax	7,855	5,273
Tax expense	(2,254)	(1,507)
Profit for the period attributable to owners of the Company	5,601	3,766
Items that may subsequently be reclassified to profit or loss		
Other comprehensive (loss) / income - hedging reserve	(753)	1,175
Items that may not subsequently be reclassified to profit or loss		
Other comprehensive income - deferred tax on revaluation reserve	-	1,878
Total comprehensive income	4,848	6,819
Basic earnings per share (cents)	4.0	4.2
Diluted earnings per share (cents)	4.0	4.2

The accompanying notes form part of these financial statements.

Statement Of Changes In Equity

FOR THE PERIOD ENDED 31 DECEMBER 2018

	Notes	Share capital $000	Retained earnings $000	Hedging reserve $000	Reval-uation Reserve $000	Treasury shares $000	Share-based payments Reserve $000	Total equity $000
Balance at 1 July 2018		77,845	90,018	943	6,509	(2,896)	193	172,612
Impact of adoption of new accounting standard (net of tax)	10	-	(617)	-	-	-	-	(617)
Restated total equity at the beginning of the financial year		77,845	89,401	943	6,509	(2,896)	193	171,995
Comprehensive income								
Profit after tax		-	5,601	-	-	-	-	5,601
Other comprehensive income								
Hedging reserve (net of tax)		-	-	(753)	-	-	-	(753)
Total comprehensive income		-	5,601	(753)	-	-	-	4,848
Transactions with owners								
Issue of share capital (net of issue costs)	3	78,866	-	-	-	-	-	78,866
Options vested during the period		-	-	-	-	-	70	70
Unaudited balance at 31 December 2018		**156,711**	**95,002**	**190**	**6,509**	**(2,896)**	**263**	**255,779**
Balance at 1 July 2017		77,804	105,552	(1,193)	32,805	(3,431)	593	212,130
Comprehensive income								
Profit after tax		-	3,766	-	-	-	-	3,766
Other comprehensive income								
Hedging reserve (net of tax)		-	-	1,175	-	-	-	1,175
Deferred tax on asset sale		-	-	-	1,878	-	-	1,878
Total comprehensive income		-	3,766	1,175	1,878	-	-	6,819
Transfer on sale of property		-	21,689	-	(21,689)	-	-	-
Transactions with owners								
Dividends paid		-	(6,331)	-	-	-	-	(6,331)
Proceeds from partly paid shares		41	-	-	-	-	-	41
Options vested during the period		-	-	-	-	-	235	235
Unaudited balance at 31 December 2017		77,845	124,676	(18)	12,994	(3,431)	828	212,894

The accompanying notes form part of these financial statements.

Balance Sheet

AS AT 31 DECEMBER 2018

	Notes	Unaudited December 2018 $000	Audited June 2018 $000
Current assets			
Cash and cash equivalents		**7,994**	5,584
Trade and other receivables		**84,070**	99,181
Inventories		**123,806**	116,047
Income tax refund		**-**	5,165
Derivative financial instruments		**408**	1,271
Assets held for sale	5	**874**	1,639
		217,152	228,887
Non-current assets			
Property, plant and equipment		**52,671**	52,739
Intangibles	6	**55,729**	57,423
Deferred tax		**4,328**	6,488
		112,728	116,650
Total assets		**329,880**	345,537
Current liabilities			
Trade and other payables		**42,820**	49,867
Provisions		**3,401**	9,215
Derivative financial instruments		**199**	17
		46,420	59,099
Non-current liabilities			
Trade and other payables		**2,051**	2,108
Borrowings	4	**24,000**	109,935
Provisions		**1,630**	1,783
		27,681	113,826
Equity			
Share capital	3	**156,711**	77,845
Retained earnings		**95,002**	90,018
Other reserves		**4,066**	4,749
		255,779	172,612
Total equity and liabilities		**329,880**	345,537

These financial statements and the accompanying notes were authorised by the Board on 15 February 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 PERIOD ENDED 31 DECEMBER 2018

	Unaudited December 2018 $000	Unaudited December 2017 $000
Cash flows from operating activities		
Customer receipts	**274,579**	272,794
Interest receipts	**72**	6
Payments to suppliers and employees	**(266,728)**	(249,741)
Income tax refunds / (payments)	**5,603**	(3,120)
Interest payments	**(2,436)**	(2,190)
Net cash inflow from operating activities	**11,090**	17,749
Cash flows from investing activities		
Property, plant and equipment disposals	**1,275**	31,460
Property, plant and equipment and intangible asset purchases	**(2,886)**	(11,608)
Net cash (outflow) / inflow from investing activities	**(1,611)**	19,852
Cash flows from financing activities		
Issue of share capital (net of issue costs)	**78,866**	-
Proceeds from partly paid shares	**-**	41
Borrowings	**(85,935)**	(36,681)
Dividends paid	**-**	(6,331)
Net cash outflow from financing activities	**(7,069)**	(42,971)
Net increase / (decrease) in cash and cash equivalents	**2,410**	(5,370)
Cash and cash equivalents at beginning of the period	**5,584**	6,517
Cash and cash equivalents at end of the period	**7,994**	1,147
Represented by:		
Cash and cash equivalents	**7,994**	1,147

The accompanying notes form part of these financial statements.

Notes To The Interim Financial Statements

FOR THE PERIOD ENDED 31 DECEMBER 2018

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

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

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

These financial statements have been reviewed, not audited, and were approved for issue on 15 February 2019.

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

Basis of preparation

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

These financial statements do not include all the information required for an annual financial report and consequently should be read in conjunction with the audited financial statements of the Group for the year ended 30 June 2018.

These financial statements have been prepared using the same accounting policies and methods of computation as the financial statements for the year ended 30 June 2018, with the exception of the adoption of NZ IFRS 15 Revenue from Contracts with Customers (NZ IFRS 15) and NZ IFRS 9 Financial Instruments (NZ IFRS 9).

The changes to the Group's accounting policies resulting from the adoption of NZ IFRS 15 and NZ IFRS 9 are outlined in note 10.

Prior Period Comparatives

The prior period balances have been reclassified to align with the presentation at 30 June 2018, as outlined in the audited financial statements for the year ended 30 June 2018.

2. OPERATING SEGMENTS

The Group has reclassified the S&T Plastics business from the Infrastructure segment to 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. The segment information provided to the CODM (the Group's Chief Operating Decision Maker) for the period ended 31 December 2018 is as follows:

December 2018	Distribution $000	Infrastructure $000	Other/ Elimination $000	**Reconciled to Group $000**
Timing of revenue recognition				
At a point in time	149,838	57,686	1,047	**208,571**
Over time	-	49,663	-	**49,663**
Total revenue from external customers	149,838	107,349	1,047	**258,234**
Depreciation and amortisation	(844)	(1,192)	(1,635)	**(3,671)**
Segment EBIT	1,957	7,109	753	**9,819**
Interest (net)				**(1,964)**
Reconciled to Group Profit Before Tax				**7,855**
Total assets	166,148	104,850	58,882	**329,880**
Total liabilities	20,376	19,167	34,558	**74,101**

December 2017	Distribution $000	Infrastructure $000	Other/ Elimination $000	**Reconciled to Group $000**
Revenue from external customers	155,852	93,432	18,568	**267,852**
Depreciation and amortisation	(991)	(1,386)	(2,067)	**(4,444)**
Segment EBIT*	(527)	7,805	179	**7,457**
Interest (net)				**(2,184)**
Reconciled to Group Profit Before Tax				**5,273**
Total assets	179,499	102,925	81,492	**363,916**
Total liabilities	14,401	26,189	110,432	**151,022**

* The results for the half year ended 31 December 2017 include a total of $7.7m non-trading adjustments for impairment of inventory, rationalisation and restructuring costs and a gain on sale of property.

3. ISSUE OF SHARE CAPITAL

The Group concluded a placement and pro rata rights offer capital raise in August 2018, issuing an additional 75,364,514 shares, with net proceeds of $78.9m 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 $2.0m were incurred and have been netted off against the proceeds of the capital raising.

4. BORROWINGS

The Group successfully refinanced its banking facilities in December 2018 on terms and conditions commercially acceptable to the Group. The Group now has syndicated committed bank borrowing facilities of $70m, comprising a $25m Working Capital facility with a maturity date of 30 November 2019 (31 December 2018: $nil drawn), and a $45m Revolving Facility with a maturity date of 30 November 2021 (31 December 2018: $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.

5. ASSETS HELD FOR SALE

As at 31 December 2018, the S&T Plastics business and/or its assets continue to be marketed for sale. The property, plant and equipment related to S&T Plastics has a residual fair value less costs to sell of $0.9m as at 31 December 2018 and is presented as held for sale. For the period ended 31 December 2017, S&T Plastics contributed Sales revenue of $18.6m, less Cost of sales of $14.9m and Operating expenses of $2.5m, resulting in EBIT contribution of $1.2m.

6. IMPAIRMENT TESTING AND INTANGIBLES

Included in Intangibles is $37.1m of Goodwill. NZ IAS 36 *Impairment of Assets* requires the Group to regularly assess for any indicators of impairment and test the recoverable amount of goodwill against its carrying value at least annually. As at 31 December 2018 the Group identified an indicator of impairment and, as part of preparing these interim financial statements, undertook an internal valuation to assess the carrying value of the Group's assets including Goodwill. Based on the calculations completed, there is no impairment at a Group level as at 31 December 2018.

As at 31 December 2018 the recoverable amount of the Group's cash generating units (CGU's) exceeded their carrying values and there is no impairment of Goodwill. The forecast cash flows used to assess for impairment were based on the latest Group forecast.

7. RELATED PARTIES

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

There have been no material changes in the nature or amount of related party transactions for the Group since 30 June 2018.

8. LITIGATION

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

In October 2018 the Auckland District Court imposed a fine of $1.885m. Both Steel & Tube and the Commission have appealed the decision. A date for the appeal has been set for March 2019.

A provision for fines, penalties, costs and expected recoveries in relation to this prosecution has been provided for in the Group's financial statements at 31 December 2018.

9. SUBSEQUENT EVENTS

On 15 February 2019 the Board declared a fully-imputed dividend of 3.5 cents per share ($5.8m) and a supplementary dividend to non-resident shareholders of 0.62 cents per share. The dividends will be paid to shareholders on 29 March 2019.

10. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

NZ IFRS 9 Financial Instruments – impact of adoption

Changes in accounting policies

The group has adopted NZ IFRS 9 from 1 July 2018 which has resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements.

The Group has applied NZ IFRS 9 retrospectively, but has elected not to restate comparative information.

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 continues to apply NZ IAS 39 in respect to cash flow hedge accounting for forward exchange contracts.

Impairment

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. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

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 detailed below.

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.
Sector	The Group has considered the credit risk related to the market sector that its customers operate in and has made an adjustment to the ECL allowance based 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 $000	Within 1 Month $000	1 - 2 Months $000	Beyond 2 Months $000	Total $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**

Over the period the baseline/aging characteristic of the Trade receivables balance has improved, resulting in a reduction in the expected credit loss allowance of $0.8m for the half year ended 31 December 2018. This amount was recognised during the period within the Statement of Profit and Loss and Other Comprehensive Income.

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

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.

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 outlined in NZ IFRS 15 was applied to assess the impact on revenue recognition.

The Group concluded that the implementation of NZ IFRS 15 has no material impact on revenue recognition.

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	*Over time* Revenue relating to the supply performance obligation follows the same recognition process as for the 'Supply Only Sales' contract portfolio. 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 when the installation is completed, or on a stage of completion basis based on the input of labour costs.
Supply Only Sales	Any contracts/ sales agreements that include 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	*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 construction contract.

NZ IFRS 16 Leases

NZ IFRS 16 *Leases* (NZ IFRS 16) requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under NZ IAS 17. NZ IFRS 16 will require lessees to recognise a lease liability reflecting future lease payments and a "right-of-use asset" for virtually all lease contracts within the balance sheet. 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 and the removal of the current 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 significant lease obligations so adoption of NZ IFRS 16 will have a material impact on the Balance Sheet and 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 to 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 amount of the asset and liability that the Group will recognise upon adoption of NZ IFRS 16 will be determined by the lease commitments that exceed 12 months' duration at the time of adoption.

The Group is currently undertaking an assessment to determine the impact of the new standard on the Group's financial statements.

The above has no impact on the cash flows of the Group and the change is for financial reporting purposes only.

NON-GAAP FINANCIAL INFORMATION

The Group uses several non-GAAP measures when discussing financial performance. Management believes that these measures provide useful information on the underlying performance of the Group. 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.

The Group's unaudited reconciliation of non-GAAP measures to GAAP measures for the half year ended 31 December 2018 is detailed below.

Reconciliation of GAAP to Non GAAP Measures	Unaudited December 2018 $000	Unaudited December 2017 $000
GAAP: Earnings before interest and Tax (EBIT)	**9,819**	7,457
Add back Normalisation adjustments:		
Excluding S&T Plastics EBIT (no longer contributing to trading EBIT and held for sale)*	**(144)**	(1,214)
Gain on Property Sale	-	(413)
Impairment of inventory (excluding S&T Plastics)*	-	4,983
Rationalisation and restructuring costs	-	2,605
Normalised EBIT – Non GAAP	**9,675**	13,418

* S&T Plastics EBIT for the period ended 31 December 2017 included impairment of inventory of $0.5m.

Definitions:

- EBIT: This means earnings before the deduction of interest and tax and is calculated as profit for the period before net interest costs and tax.
- 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.

Independent review report

To the shareholders of Steel & Tube Holdings Limited

Report on the interim financial statements

We have reviewed the accompanying interim financial statements of Steel & Tube Holdings Limited ("the Company") and its controlled entities ("the Group") on pages 11 to 21 which comprise the balance sheet as at 31 December 2018, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the six month period ended on that date and selected explanatory notes.

Directors' responsibility for the interim financial statements

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

Our responsibility

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

A review of interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. Accordingly, we do not express an audit opinion on these interim financial statements.

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these interim financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 31 December 2018, and of its financial performance and cash flows for the six month period then ended, in accordance with IAS 34 and NZ IAS 34.

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Who we report to

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

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
15 February 2019

Wellington

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AUDITORS

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steel&tube

STRONGER IN EVERYWAY