steel&tube
STRONGER TOGETHER

2023 HALF YEAR REPORT

STEEL & TUBE HOLDINGS LIMITED

INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2022

Contents

These interim financial statements do not include all the notes and information normally included in the annual financial statements. Accordingly, they should be read in conjunction with the annual financial statements for the year ended 30 June 2022.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31 December 2022

	Notes	Unaudited December 2022 $000	Unaudited December 2021 $000
Sales revenue	3	**315,326**	282,187
Other operating income		**238**	1,112
Cost of sales	2	**(246,941)**	(217,756)
Operating expenses	2	**(47,162)**	(42,083)
Software as a Service (SaaS) upfront expenditure		**(1,068)**	(1,140)
Earnings before interest, tax and other gains and losses		**20,393**	22,320
Other (losses) / gains		**(49)**	317
Earnings before interest and tax		**20,344**	22,637
Interest income		**144**	43
Interest expense		**(4,009)**	(2,671)
Profit before tax		**16,479**	20,009
Tax expense		**(4,644)**	(5,672)
Profit for the period attributable to owners of the Company		**11,835**	14,337
Items that may subsequently be reclassified to profit or loss			
Other comprehensive loss - hedging reserve		**(783)**	(295)
Total comprehensive income		**11,052**	14,042
Basic earnings per share (cents)		**7.1**	8.7
Diluted earnings per share (cents)		**7.0**	8.6

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2022

	Share capital $000	Retained earnings $000	Hedging reserve $000	Treasury shares $000	Share-based payments $000	Total equity $000
Balance at 1 July 2022	**156,669**	**54,770**	**560**	**(2,896)**	**998**	**210,101**
Comprehensive income						
Profit after tax	**-**	**11,835**	**-**	**-**	**-**	**11,835**
Other comprehensive (loss) / income						
Hedging reserve (net of tax)	**-**	**-**	**(783)**	**-**	**-**	**(783)**
Total comprehensive income	**-**	**11,835**	**(783)**	**-**	**-**	**11,052**
Transactions with owners						
Dividends paid	**-**	**(12,457)**	**-**	**-**	**-**	**(12,457)**
Employee share schemes	**499**	**-**	**-**	**-**	**55**	**554**
Unaudited balance at 31 December 2022	**157,168**	**54,148**	**(223)**	**(2,896)**	**1,053**	**209,250**
Balance as at 1 July 2021	**156,669**	**38,913**	**403**	**(2,896)**	**663**	**193,752**
Comprehensive income						
Profit after tax	**-**	**14,337**	**-**	**-**	**-**	**14,337**
Other comprehensive (loss) / income						
Hedging reserve (net of tax)	-	-	(295)	-	-	(295)
Total comprehensive income	**-**	**14,337**	**(295)**	**-**	**-**	**14,042**
Transactions with owners						
Dividends paid	-	(5,460)	-	-	-	(5,460)
Employee share schemes	-	349	-	-	(146)	203
Unaudited balance at 31 December 2021	**156,669**	**48,139**	**108**	**(2,896)**	**517**	**202,537**

The accompanying notes form part of these financial statements.

BALANCE SHEET

As at 31 December 2022

	Notes	Unaudited December 2022 $000	Audited June 2022 $000
Current assets			
Cash and cash equivalents		**7,536**	8,046
Trade and other receivables		**69,608**	90,971
Contract assets		**9,224**	10,822
Inventories	4	**175,015**	192,460
Derivative assets		**33**	1,491
		261,416	303,790
Non-current assets			
Deferred tax		**7,106**	7,582
Property, plant and equipment		**35,176**	35,925
Intangibles		**13,224**	7,875
Right-of-use assets		**74,336**	78,688
		129,842	130,070
Total assets		**391,258**	433,860
Current liabilities			
Trade and other payables		**44,519**	69,627
Borrowings	5	**40,000**	51,000
Income tax payable		**3,533**	5,014
Provisions		**520**	767
Derivative liabilities		**1,018**	8
Short term lease liabilities		**13,437**	13,555
		103,027	139,971
Non-current liabilities			
Provisions		**1,235**	1,271
Long term lease liabilities		**77,746**	82,517
		78,981	83,788
Equity			
Share capital		**157,168**	156,669
Retained earnings		**54,148**	54,770
Other reserves		**(2,066)**	(1,338)
		209,250	210,101
Total equity and liabilities		**391,258**	433,860

These financial statements and the accompanying notes were authorised by the Board on 14 February 2023.

For the Board:

Susan Paterson Chair

Karen Jordan Director

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

For the six months ended 31 December 2022

	Notes	Unaudited December 2022 $000	Unaudited December 2021 $000
Cash flows from operating activities			
Customer receipts		**337,514**	278,295
Interest receipts		**144**	42
Payments to suppliers and employees		**(287,584)**	(286,376)
Payments for interest on leases		**(2,244)**	(2,361)
Income tax payments		**(5,102)**	-
Interest payments		**(1,646)**	(202)
Wage subsidy received		**58**	988
Net cash inflow/(outflow) from operating activities		**41,140**	(9,614)
Cash flows from investing activities			
Property, plant and equipment disposal proceeds		**92**	37
Property, plant and equipment and intangible asset purchases		**(2,280)**	(2,535)
Payment for new business purchase	6	**(8,909)**	-
Net cash outflow from investing activities		**(11,097)**	(2,498)
Cash flows to financing activities			
Net proceeds (repayment of)/from borrowings		**(11,000)**	2,000
Dividends paid		**(12,457)**	(5,460)
Payment for leases		**(7,096)**	(6,247)
Net cash outflow from financing activities		**(30,553)**	(9,707)
Net decrease in cash and cash equivalents		**(510)**	(21,819)
Cash and cash equivalents at the beginning of the year		**8,046**	25,033
Cash and cash equivalents at the end of the period		**7,536**	3,214
Represented by:			
Cash and cash equivalents		**7,536**	3,214
		7,536	3,214

The accompanying notes form part of these financial statements.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

For the six months ended 31 December 2022

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 7 Bruce Roderick Drive, East Tamaki, Auckland 2013, New Zealand.

These interim financial statements have been reviewed, not audited, and were approved for issue on 14 February 2023.

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

Basis of preparation

The Group is a for-profit entity. The interim financial statements have been prepared in accordance with, and comply with, New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with NZ IAS 34: Interim Financial Reporting, IAS 34: Interim Financial Reporting, and the NZX Main Board Listing Rules (issued 17 June 2022).

These interim 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 2022. Non-GAAP measures shown in the interim financial statements are defined in the 2022 Annual Report.

These interim financial statements have been prepared using the same accounting policies and methods of computation as the financial statements for the year ended 30 June 2022.

The preparation of the interim financial statements requires the exercise of judgements that affect the application of accounting policies, the reported amounts of assets and liabilities, and income and expenses. Where applicable and based on information available at the time of preparing the interim financial statements, the Group has updated its judgements, estimates and assumptions adopted since the audited financial statements of the Group for the year ended 30 June 2022.

These interim financial statements have been prepared on a going concern basis as the Group will be able to discharge its liabilities including the repayment terms of the banking facilities disclosed in Note 5.

The carrying value of all financial instruments approximates fair value. All financial instruments are held at amortised cost, with the exception of derivative instruments which are accounted for at fair value through profit or loss. The derivative instruments comprise forward foreign exchange contracts, the fair value of which are calculated using forward exchange rates that are quoted in an active market. All financial instruments accounted for at fair value through profit or loss are classified as level 2 of the fair value hierarchy. The Group applies hedge accounting and where derivative instruments are designated as hedging instruments in a cash flow hedge, fair value gains/losses are recognised in other comprehensive income and released either to profit or loss or the hedged item when the forecast transaction takes place.

2. EXPENSES

	Unaudited December 2022 $000	Unaudited December 2021 $000
Cost of sales and operating expenses:		
Inventories expensed in cost of sales	**229,686**	200,817
Impairment of trade and other receivables	**278**	236
Depreciation and amortisation	**10,138**	9,298
Directors' fees	**325**	253
Employee benefits	**37,325**	36,343
Defined contributions plans	**974**	841
Information technology expenses	**3,650**	3,270
Foreign exchange gains	**(478)**	(81)
Short term and low value lease costs	**143**	159
Other expenses	**12,062**	8,703
Total cost of sales and operating expenses	**294,103**	259,839

Inventory sold during the period is expensed as cost of sales. Depreciation of $823k (31 December 2021: $753k) related to equipment used to manufacture products is included in cost of sales. Depreciation of right-of-use assets and other depreciation is included in operating expenses.

3. OPERATING SEGMENTS

The Group has identified two reporting segments as at 31 December 2022 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 various operating segments into two distinct divisions, being Distribution and Infrastructure.

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

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

The CEO uses EBIT as a measure to assess the performance of segments. The segment information provided to the CEO for the period ended 31 December 2022 is as follows:

December 2022	**Distribution $000**	**Infrastructure $000**	**Other $000**	**Reconciled to Group $000**
Timing of revenue recognition				
At a point in time	191,643	75,677	14	**267,334**
Over time	-	47,992	-	**47,992**
Revenue from external customers	**191,643**	**123,669**	**14**	**315,326**
Depreciation and amortisation	(5,171)	(3,544)	(1,423)	**(10,138)**
Expenses	(170,353)	(115,900)	1,409	**(284,844)**
Segment EBIT	**16,119**	**4,225**	**-**	**20,344**
Interest on leases	(1,331)	(906)	(7)	**(2,244)**
Interest - others (net)	-	-	-	**(1,621)**
Reconciled to Group Profit Before Tax	-	-	-	**16,479**

December 2021	**Distribution $000**	**Infrastructure $000**	**Other $000**	**Reconciled to Group $000**
Timing of revenue recognition				
At a point in time	181,663	59,562	5	**241,230**
Over time	-	40,957	-	**40,957**
Revenue from external customers	**181,663**	**100,519**	**5**	**282,187**
Depreciation and amortisation	(4,951)	(3,324)	(1,023)	**(9,298)**
Expenses	(157,319)	(93,951)	1,018	**(250,252)**
Segment EBIT	**19,393**	**3,244**	**-**	**22,637**
Interest on leases	(1,388)	(965)	(7)	**(2,360)**
Interest - others (net)				**(268)**
Reconciled to Group Profit Before Tax				**20,009**

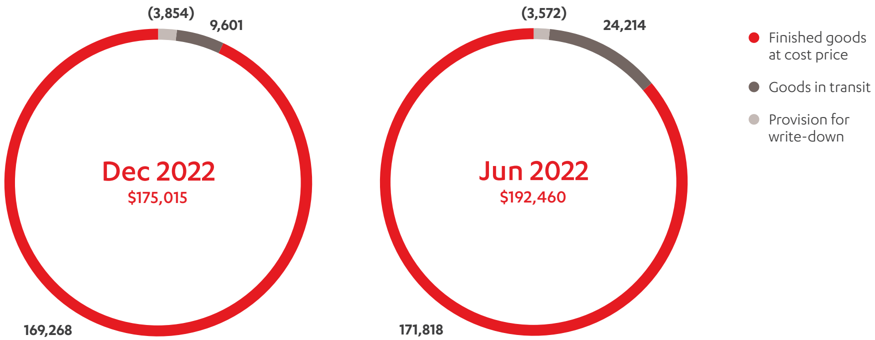
Depreciation and amortisation recognised in the period is inclusive of depreciation recognised under NZ IFRS 16 Leases, which is in line with the financial reports received by the CEO.

Interest recognised under NZ IFRS 16 Leases is shown separately in the financial reports provided to the CEO. Other interest income and expense are not allocated to segments as these are driven by the central treasury function, which manages the cash position of the Group.

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

4. INVENTORY

The Group holds inventories valued at $175.0 million (30 June 2022: $192.5 million).



5. BORROWINGS

The Group has in place committed bank borrowing facilities of $100m, comprising a three year $80m Revolving Cash Advance Facility with an expiry date of 15 February 2024 and a $20m Trade Loan facility with an expiry date of 15 February 2024. Borrowing facilities arranged with the Group's banking partner can be drawn at any time, subject to meeting the terms of the Group's Facility Agreement (31 December 2022: $40.0m drawn and 30 June 2022: $51.0m drawn).

As at 31 December 2022, the Group is compliant with all financial covenants.

6. BUSINESS COMBINATION

The Group accounts for business combinations when it obtains control of either an entity, or a group of assets and liabilities which constitute a business. The Group controls an entity when it 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 over the entity.

Acquisition of Kiwi Pipe and Fittings

On 1 August 2022, the Group acquired 100% control of the operations of Kiwi Pipe and Fittings Limited, a well established specialist and successful provider of fire and reticulation products. The acquisition is part of the Group's strategy to selectively invest in high value products, services and sectors. While the Group already offers a range of fire protection products to its customers, bringing Kiwi Pipe into the fold makes it one of the larger suppliers in this market.

For the five months ended 31 December 2022, Kiwi Pipe contributed revenue of $2.6m and earnings before interest and tax (EBIT) of $0.4m. If the acquisition had occurred on 1 July 2022, Management estimates that Kiwi Pipe would have contributed revenue of $3.1m and EBIT of $0.5m. In determining these amounts, Management has assumed that the fair value adjustments that arose on date of acquisition would have been the same if the acquisition had occurred on 1 July 2022.

Consideration transferred

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The total consideration transferred for the acquisition of the Kiwi Pipe business comprised of cash paid of $8.9m. No other form of consideration was transferred.

Identifiable assets acquired and liabilities assumed

The following table summarises the fair values of assets acquired and liabilities assumed at the date of acquisition:

	$000
Inventories	3,180
Property, plant and equipment	134
Trade and other payables	(28)
Customer relationships	862
Total identifiable net assets acquired	**4,148**

Goodwill recognised

Goodwill arising from the acquisition has been recognised as follows:

	$000
Consideration paid	8,909
Fair value of identifiable net assets acquired	4,148
Goodwill recognised	**4,761**

The goodwill is mainly attributable to the skills and experience of Kiwi Pipe's workforce and the synergies expected to be achieved when combined into the Group's business. None of the goodwill recognised is expected to be deductible for tax purposes.

KEY JUDGEMENT - IDENTIFICATION AND VALUATION OF IDENTIFIABLE ASSETS AND LIABILITIES

The Group has identified the assets acquired and liabilities assumed at acquisition date, and measured these at their acquisition date fair values.

Management has applied judgement in relation to both identifying and valuing these assets and liabilities; specifically in respect to the identification and measurement of customer relationships. The fair value of customer relationships was measured using the multi-period excess earnings method. This method considers the present value of net cash flows expected to be generated by the customer relationships, by excluding any cash flows related to contributory assets.

7. IMPAIRMENT TESTING

NZ IAS 36 Impairment of Assets ("NZ IAS 36") requires the Group to assess for any indicators of impairment at the end of each reporting period and also to test the recoverable amount of the Group's assets against its carrying value to assess whether there is any indication that an asset may be impaired. The recoverable amount is the higher of an asset's fair value less costs of disposal and value-in use.

For the purpose of assessing impairment, assets are grouped in the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash generating unit or CGU), which as at 31 December 2022 were identified as being Distribution, Reinforcing/CFDL and Rollforming.

As at 31 December 2022, the Group has not identified any indicators of impairment over the assets held at the CGUs. The Group's market capitalisation is above net assets at period end and accordingly provides evidence that the Group's net assets value is supported.

The Group has therefore concluded that no impairment is required as at 31 December 2022. The Group has also concluded that no reversal of the previous impairment of intangible assets should be made following an assessment that previous assumptions applied remains consistent in the current half-year.

8. 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 2022.

9. SUBSEQUENT EVENTS

On 14 February 2023, the Board declared an interim dividend of 4.0 cents per share (2022: 5.5 cents) totalling $6.7m (2022: $9.1m). The dividends will be fully imputed and will be paid to shareholders on 6 April 2023.

Independent Review Report

To the shareholders of Steel & Tube Holdings Limited

Report on the interim consolidated financial statements of Steel & Tube Holdings Limited (the 'Company') and its subsidiaries (together the 'Group')

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim consolidated financial statements on pages 2 to 11 do not:

i. present fairly in all material respects the Group's financial position as at 31 December 2022 and its financial performance and cash flows for the 6 month period ended on that date; and

ii. comply with NZ IAS 34 Interim Financial Reporting.

We have completed a review of the accompanying interim consolidated financial statements which comprise:

- the balance sheet as at 31 December 2022;
- the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the 6 month period then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.

Basis for conclusion

A review of interim consolidated financial statements in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* ("NZ SRE 2410") is a limited assurance engagement. The auditor performs procedures, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

As the auditor of Steel & Tube Holdings Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

Other than in our capacity as auditor we have no relationship with, or interests in, the Group.

Use of this Independent Review Report

This report is made solely to the shareholders as a body. Our review work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the Independent 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 work, this report, or any of the opinions we have formed.

Responsibilities of the Directors for the interim consolidated financial statements

The Directors, on behalf of the Group, are responsible for:

- the preparation and fair presentation of the interim consolidated financial statements in accordance with NZ IAS 34 Interim Financial Reporting;
- implementing necessary internal control to enable the preparation of interim consolidated financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations or have no realistic alternative but to do so.

Auditor's Responsibilities for the review of the interim consolidated financial statements

Our responsibility is to express a conclusion on the interim financial statements based on our review. We conducted our review in accordance with 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 are not prepared, in all material respects, in accordance with NZ IAS 34 Interim Financial Reporting.

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

This description forms part of our Independent Review Report.

KPMG

KPMG
Auckland

14 February 2023

REGISTERED OFFICE

7 Bruce Roderick Drive, East Tamaki, Auckland 2013, New Zealand.
PO Box 58880, Botany, Auckland 2163, New Zealand
Ph: +64 4 570 5000 **Fax:** +64 4 569 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

AUDITORS

KPMG