VULCAN STEEL LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

VULCAN

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2021

	Notes	2021 $000	2020 $000
Operating revenue	4	731,546	640,450
Cost of sales		(461,154)	(426,120)
Gross profit		**270,392**	**214,330**
Other income	4	3,067	-
Selling and distribution expenses	5	(16,993)	(16,911)
General and administrative expenses	5	(152,878)	(143,773)
Total operating expenses		**(169,871)**	**(160,684)**
Operating profit before financing costs		**103,588**	**53,646**
Financing income	6	13	29
Financing expenses	6	(13,699)	(15,410)
Net financing costs		**(13,686)**	**(15,381)**
Profit before tax		**89,902**	**38,265**
Tax expense	7	(25,070)	(9,578)
Profit after tax		**64,832**	**28,687**
Other comprehensive Income			
Items that will be reclassified to profit or loss when specific conditions are met			
Exchange differences on translation of foreign operations		295	2,453
Net fair value gain (loss) on cash flow hedges		1,894	(965)
Other comprehensive income, net of tax		**2,189**	**1,488**
Total comprehensive income		**67,021**	**30,175**
Attributable to:			
Owners of Vulcan Steel Limited		67,021	30,175
Basic earnings per share (cents per share)	16	$0.49	$0.22
Diluted earnings per share (cents per share)	16	$0.49	$0.22

CONSOLIDATED BALANCE SHEET

As at 30 June 2021

	Notes	2021 $000	2020 $000
ASSETS			
Current Assets			
Cash and cash equivalents		10,163	14,196
Trade and other receivables	8	128,141	95,764
Inventories	9	191,532	189,180
Derivative financial instruments	19	1,227	-
Total current assets		**331,063**	**299,140**
Non-Current Assets			
Property, plant and equipment	10	51,831	61,458
Right-of-use assets	11	179,002	176,210
Intangible assets	12	13,302	14,124
Deferred tax assets	7	7,255	4,631
Shareholder loan accounts	24	-	753
Total non-current assets		**251,390**	**257,176**
TOTAL ASSETS		**582,453**	**556,316**
LIABILITIES			
Current Liabilities			
Trade and other payables	13	139,894	108,611
Lease liabilities	11	13,078	12,674
Tax payable		13,761	3,707
Derivative financial instruments	19	-	1,442
Total current liabilities		**166,733**	**126,434**
Non-current Liabilities			
Lease liabilities	11	181,603	170,575
Interest-bearing liabilities	14	80,000	124,337
Total non-current liabilities		**261,603**	**294,912**
TOTAL LIABILITIES		**428,336**	**421,346**
EQUITY			
Share capital	15	11,988	11,862
Retained earnings		137,383	120,551
Reserves	18	4,746	2,557
TOTAL EQUITY		**154,117**	**134,970**
TOTAL LIABILITIES AND EQUITY		**582,453**	**556,316**

On behalf of the Board
13 August 2021

Peter Wells
Director

Rhys Jones
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2021

	Notes	Share capital $000	Retained earnings $000	Reserves $000	Attributable to owners of Vulcan Steel Ltd $000	Non-controlling interest $000	Group $000
Balance as at 1 July 2019		11,588	121,320	1,069	133,977	6,603	140,580
Comprehensive income							
Profit after tax		-	28,687	-	28,687	-	28,687
Other comprehensive (loss) income							
Foreign currency translation reserve		-	-	2,453	2,453	-	2,453
Cash flow hedge reserve		-	-	(965)	(965)	-	(965)
Total comprehensive income		-	28,687	1,488	30,175	-	30,175
Transactions with owners							
Issue of shares	15	274	-	-	274	-	274
Purchase of remaining interest in Global Metals Pty Ltd		-	(9,456)	-	(9,456)	(6,603)	(16,059)
Dividends paid	18	-	(20,000)	-	(20,000)	-	(20,000)
Balance as at 30 June 2020		11,862	120,551	2,557	134,970	-	134,970
Balance as at 1 July 2020		11,862	120,551	2,557	134,970	-	134,970
Comprehensive income							
Profit after tax		-	64,832	-	64,832	-	64,832
Other comprehensive (loss) income							
Foreign currency translation reserve		-	-	295	295	-	295
Cash flow hedge reserve		-	-	1,894	1,894	-	1,894
Total comprehensive income		-	64,832	2,189	67,021	-	67,021
Transactions with owners							
Issue of shares	15	126	-	-	126	-	126
Dividends paid	18	-	(48,000)	-	(48,000)	-	(48,000)
Balance as at 30 June 2021		11,988	137,383	4,746	154,117	-	154,117

The accompanying notes form part of these financial statements

Deloitte. for Identification

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2021

	Notes	2021 $000	2020 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		786,325	725,960
Interest received		-	28
Payments to suppliers and employees		(648,785)	(623,183)
Tax paid		(18,398)	(12,222)
Interest paid		(2,296)	(3,454)
Lease interest paid		(11,392)	(10,829)
Net cash flows from operating activities		**105,454**	**76,300**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for business acquisition	23	(5,371)	(27,692)
Sale of property, plant and equipment and intangibles		10,210	453
Purchase of property, plant and equipment and intangibles		(5,661)	(4,968)
Net cash flows from investing activities		**(822)**	**(32,207)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Issue of share capital		126	274
Lease liability payments		(12,153)	(11,875)
Repayment of borrowings		(44,430)	(8,162)
Repayment of shareholder advance		754	-
Dividends paid	18	(53,000)	(15,000)
Net cash flows from financing activities		**(108,703)**	**(34,763)**
Net (decrease) increase in cash		(4,071)	9,330
Effect of foreign exchange rates		38	204
Opening cash		14,196	4,662
Closing cash		**10,163**	**14,196**
RECONCILATION OF CLOSING CASH			
Cash and cash equivalents		10,163	14,196
Closing cash		**10,163**	**14,196**
CASH FLOW RECONCILIATION			
Profit after tax		**64,832**	**28,687**
Add (deduct) non cash items:			
Amortisation of right of use assets		18,573	18,827
Depreciation, amortisation and impairment of other assets		11,285	12,489
Net loss (gain) on disposal of assets		(3,058)	113
Bad debts		82	868
Other non-cash items		(615)	(159)
		26,267	**32,138**
Net working capital movements:			
Trade and other receivables		(32,377)	10,707
Inventories		(2,352)	15,736
Trade and other payables		41,654	(7,618)
Taxation payable		10,054	881
Deferred tax asset		(2,624)	(4,231)
		14,355	**15,475**
Net Cash flows from Operating Activities		**105,454**	**76,300**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2021

1 REPORTING ENTITY

Vulcan Steel Limited (the "Company") together with its subsidiaries (the "Group") is primarily involved in the sale and distribution of steel and metal products, with operations in New Zealand and Australia.

The Company is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is 29 Neales Road, East Tamaki, Auckland.

2 BASIS OF PREPARATION AND PRINCIPLES OF CONSOLIDATION

Statement of compliance

The Company is registered under the Companies Act 1993 and the financial statements comply with this Act.

These consolidated financial statements for the year ended 30 June 2021 have been prepared in accordance with New Zealand generally accepted accounting practice (NZ GAAP) as appropriate for Tier 1 for-profit entities. They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS). The consolidated financial statements also comply with International Financial Reporting Standards (IFRS). The Group is a for-profit entity for the purposes of complying with NZ GAAP. In prior years the Group complied with the New Zealand equivalents to the International Financial Reporting Standard Reduced Disclosure Regime (NZ IFRS RDR).

Basis of measurement

The consolidated financial statements have been prepared on the basis of historical cost with the exception of the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss and other comprehensive income.

The Statement of Profit or Loss and Other Comprehensive Income has been prepared so that all components are stated exclusive of GST. All items in the Balance Sheet are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

Functional currency

The consolidated financial statements are presented in NZD which is the Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise stated.

Foreign currency transactions and balances

Foreign currency transactions are translated into the relevant functional currency at exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to New Zealand dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to New Zealand dollars at exchange rates at the dates of the transactions. Foreign currency differences are recognised in the foreign currency translation reserve (FCTR) in equity. When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss.

Key accounting estimates and judgements

The Group's management is required to make judgements, estimates, and apply assumptions that affect the amounts reported in the consolidated financial statements. They have based these on historical experience and other factors they believe to be reasonable. Actual results may differ from these estimates.

ESTIMATE	The estimates and assumptions that have had areas of judgement applied in preparing these financial statements are highlighted throughout the report in boxes shaded in blue. The key estimates relate to income tax, goodwill, expected credit losses, property plant and equipment and incremental borrowing rates.

Significant accounting policies

KEY POLICY	Key accounting policies are disclosed in each of the applicable notes to the financial statements in boxes shaded in grey.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 30 June 2021

BASIS OF PREPARATION AND PRINCIPLES OF CONSOLIDATION (CONTINUED)

Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Group as at balance date and the results of all subsidiaries for the year then ended. All subsidiaries are 100% owned within the Group.

The Group applies the acquisition method to account for business combinations.

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.

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 intercompany balances and transactions, including unrealised profits on transactions between group companies have been eliminated.

Changes to accounting policies

There are no new standards or amendments to standards applicable to the Group for the year ended 30 June 2021 that have materially impacted the financial statements. The Group has early adopted the amendments to NZ IAS 1 Presentation of Financial Statements - Classification of Liabilities as Current and Non-Current. No other changes to accounting policies have been made during the year and policies have been consistently applied to all years presented.

Management has assessed the following standards that are not yet effective and assessed that there will be no material impact on the financial statements once they are effective:

- Amendments to NZ IFRS 9, NZ IAS 39, NZ IFRS 7, NZ IFRS 4 and NZ IFRS 16 - Interest Rate Benchmark Reform;
- Amendments to NZ IAS 16 - Property, Plant and Equipment - Proceeds Before Intended Use;
- Amendments to NZ IAS 12 - Deferred Tax related to assets and liabilities arising from a single transaction.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2021

3 OPERATING SEGMENTS

Vulcan comprises the following operating segments based on internal reports that are reviewed and used by the Chief Operating Decision Maker (CODM - comprising the CEO and Managing Director, supported by members of the Board of Directors) in assessing performance and in determining the allocation of resources:

Steel business across Australia and New Zealand
Steel distribution - the sale of hollows, merchant products including bars, beams, angles, channels, unprocessed coil and plate;
Plate processing – cutting, drilling, tapping, countersinking and folding of plates to customer requirements;
Coil processing – sheeting & slitting to customer specifications.

Metals business across Australia and New Zealand
Stainless steel – the sale of stainless steel products including hollows, bars, fittings and sheets, and processing services including cutting, drilling, tapping, countersinking and folding of plates to customer requirements, as well as sheeting & slitting of stainless coil;
Engineering Steel - the sale of high-performance steel and metal products, and cutting service to specification.

Reporting is received on at least a monthly basis, and performance is measured based on underlying segment earnings before interest, tax, depreciation and amortisation (EBITDA). EBITDA is used to measure performance as the CODM believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within this industry.

The Group has a diverse range of customers from various industries, with no single customer contributing more than 10% of the Group's revenue.

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

Assets and liabilities are provided to the CODM on a Group basis, and are separately reported with respect to the individual operating segments.

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

The following is an analysis of the Group's results by reportable segment:

	2021 $000				2020 $000			
	Steel	Metals	Corporate	Total	Steel	Metals	Corporate	Total
Total operating revenue	450,232	281,314	-	731,546	375,656	264,794	-	640,450
EBITDA (post IFRS16)	94,498	59,945	(20,997)	133,446	61,718	45,157	(13,868)	93,007
Depreciation & amortisation				(29,858)				(31,432)
EBIT before significant items				103,588				61,575
Significant items				-				(7,929)
EBIT after significant items				103,588				53,646
Finance costs				(13,686)				(15,381)
Profit before tax				89,902				38,265
Tax expense				(25,070)				(9,578)
Reported NPAT attributable to shareholders				64,832				28,687
Depreciation & amortisation of PPE & intangibles				(11,285)				(12,605)
Amortisation of right of use assets				(18,573)				(18,827)
Total depreciation & amortisation				(29,858)				(31,432)
Finance income				13				29
Finance charges - interest, line fees & other				(2,307)				(4,581)
Finance charges on lease liabilities				(11,392)				(10,829)
Finance charges				(13,686)				(15,381)
Principal lease payments	(13,199)	(10,346)	-	(23,545)	(12,732)	(9,972)	-	(22,704)
Underlying EBITDA (pre-IFRS16)	81,299	49,599	(20,997)	109,901	48,986	35,186	(13,868)	70,303
Significant items [1]								
Horan acquisition adjustment	-	-	-	-	-	-	(7,929)	(7,929)
TOTAL ASSETS	315,436	231,401	35,616	582,453	293,614	220,556	42,147	556,316
TOTAL LIABILITIES	195,186	124,973	108,177	428,336	174,808	97,206	149,332	421,346

Geographical Information	NZ	Australia	Corporate	Total	NZ	Australia	Corporate	Total
TOTAL OPERATING REVENUE	280,407	451,139	-	731,546	219,133	421,317	-	640,450
EBITDA (post-IFRS16)	70,632	83,811	(20,997)	133,446	55,474	51,401	(13,868)	93,007
TOTAL NON CURRENT ASSETS	60,541	164,581	26,268	251,390	60,946	166,182	30,048	257,176

1 Significant Item means any income or expense of such size, nature or incidence that is relevant to the user's understanding of the performance of the entity and is disclosed as a "Significant Item" in the Accounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2021

4 REVENUE

	2021 $000	2020 $000
Total operating revenue	731,546	640,450
Other income	3,067	-

Other income relates to a gain on sale of property.

KEY POLICY	*Revenue from contracts with customers* The Group derives revenue from the processing and distribution of steel and metal products. Revenue is recognised as, or when, goods are transferred to the customer at a point in time and is measured at an amount that reflects the consideration to which the Group expects to be entitled in exchange for the goods.

5 EXPENSES

	2021 $000	2020 $000
Profit before tax includes the following expenses:		
Employee benefit expenses*	84,522	75,209
Defined contribution plans	6,161	6,448
Depreciation and amortisation	29,859	31,432
Selling and distribution	16,993	16,911
Occupancy costs	6,661	4,672
Other expenses	25,675	26,012
Total selling, general and administrative expenses	**169,871**	**160,684**

*Includes New Zealand Government Covid-19 wage subsidy in 2021 nil (2020: $2.538 million).

	2021 $000	2020 $000
Fees paid to auditors:		
Audit of financial statements - Deloitte	347	275
Other services	16	-

KEY POLICY	*Employee benefit expenses* Employee benefit expenses include wages and salaries, annual leave, long service leave and bonuses.

6 FINANCE INCOME AND EXPENSES

	2021 $000	2020 $000
Financing income		
Interest income	13	29
Financing expenses		
Bank facility fees	(1,137)	(1,125)
Interest paid and payable	(1,170)	(3,456)
Interest expense on lease liabilities	(11,392)	(10,829)
	(13,699)	(15,410)
Net financing costs	**(13,686)**	**(15,381)**

KEY POLICY	Finance income comprises interest income on funds invested, dividend income, changes in the fair value of financial assets at fair value through profit or loss and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues, using the effective interest method. Finance expenses comprise interest expense on borrowings, interest on leases and bank facility fees. All borrowing costs are recognised in profit or loss using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2021

7 INCOME TAX

Income tax expense	2021 $000	2020 $000
Profit before tax	**89,902**	**38,265**
Tax at the New Zealand rate of 28% (2020: 28%)	25,173	10,714
Tax adjustments:		
Non-assessable (income) loss	(715)	280
Non-deductible expenses	24	(1,599)
Foreign rates other than 28%	588	183
Tax expense	**25,070**	**9,578**
This is represented by:		
Current tax	28,460	13,783
Deferred tax	(3,390)	(4,205)
Tax expense	**25,070**	**9,578**

Imputation credits

There are $117,219 imputation credits available for use in NZ as at 30 June 2021 (2020: $9,207,412) and $50,051,778 franking credits available for use in Australia as at 30 June 2021 (2020: $42,625,108).

ESTIMATE	Preparation of the annual financial statements requires management to make estimates as to the amount of tax that will ultimately be payable, the availability of losses to be carried forward, if any, and the amount of foreign tax credits it will receive. Actual results may differ from these estimates as a result of reassessment by management or taxation authorities. Tax returns for the Group and the detailed calculations that are required for filing tax returns are not prepared until after the financial statements are prepared. Estimates of these calculations are made for the purpose of calculating income tax expense, current tax and deferred tax balances. As well as this, an assessment of the result of tax audit issues is also made. Any difference between the final tax outcomes and the estimations made in previous years will affect current year balances.

Deferred tax	2021 $000	2020 $000
Deferred tax assets		
The balance comprises:		
Employee benefits	2,284	2,047
Leased assets and liabilities	4,618	2,088
Cash flow hedge	-	400
Accruals and provisions	1,189	394
Depreciation and amortisation	-	32
Provision for obsolescence	392	444
Provision for make-good	-	32
Other	4	5
	8,487	5,442
Deferred tax liabilities		
The balance comprises:		
Customer book acquired at fair value	377	501
Plant and equipment	444	259
Cash flow hedge	374	-
Accruals and provisions	37	51
	1,232	811
Net deferred tax	**7,255**	**4,631**

	Property, plant and equipment $000	Leased assets and liabilities $000	Cash flow hedge $000	Provisions and accruals $000	Stock $000	Intangibles $000	Total $000
Year ended 30 June 2020							
Opening balance	90	-	(1)	2,558	(2,360)	(247)	40
Credited (charged) to the profit or loss	(317)	2,088	-	313	2,360	(239)	4,205
Credited (charged) to equity	-	-	405	-	-	-	405
Foreign exchange movements	-	-	(4)	-	-	(15)	(19)
	(227)	**2,088**	**400**	**2,871**	**-**	**(501)**	**4,631**
Year ended 30 June 2021							
Opening balance	(227)	2,088	400	2,871	-	(501)	4,631
Credited (charged) to the profit or loss	(217)	2,530	-	961	-	116	3,390
Credited (charged) to equity	-	-	(774)	-	-	-	(774)
Foreign exchange movements	-	-	-	-	-	8	8
	(444)	**4,618**	**(374)**	**3,832**	**-**	**(377)**	**7,255**

Deferred tax assets and liabilities are offset within the Balance Sheet where they relate to income taxes levied by the same taxation authority.

INCOME TAX (CONTINUED)

KEY POLICY	
	Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax arises due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and those for tax purposes. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by balance date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

8 TRADE AND OTHER RECEIVABLES

	2021 $000	2020 $000
Trade receivables	130,174	97,766
Allowances for credit losses	(2,044)	(2,042)
Prepayments	11	40
	128,141	95,764
Movement in allowance for credit losses		
Opening balance	2,042	1,159
Credit losses recognised on receivables	2	883
Balance at the end of the year	2,044	2,042

The Group has recognised a loss of $81,442 (2020: $176,369) in respect of bad debts written off. The loss has been included in general and administrative expenses in the Statement of Profit or Loss. A credit loss allowance has been applied against trade receivables of $2,044,468 for the year ended 30 June 2021 for the Group (2020: $2,042,398).

ESTIMATE	
	Calculation of Loss Allowance When measuring Expected Credit Losses ("ECL") the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the Group would expect to receive, taking into account cash flows from collateral and integral credit enhancements. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of debtors and an analysis of debtors' current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The Group has assessed relevant economic data for determining the factors that are specific to the debtors, the general economic conditions of the industry in which the debtors operate and the forecast direction of conditions at the reporting date. The Group hasn't significantly increased the expected loss rates for trade receivables from the prior year based on its judgement of the impact of current economic conditions and the forecast direction of travel at the reporting date. There has been no change in the estimation technique during the current reporting period. The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier. None of the trade receivables that have been written off is subject to enforcement activities.

KEY POLICY	
	Trade and other receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. A receivable from a contract with a customer represents the Group's unconditional right to consideration arising from the transfer of goods or services to the customer (i.e., only the passage of time is required before payment of the consideration is due). Subsequent to initial recognition, receivables from contracts with customers are measured at amortised cost and are tested for impairment. An allowance for doubtful debts is made using the expected credit loss model. The amount of the provision is recognised in profit or loss. Bad debts are written off when identified.

Trade receivables credit risk

As at balance date 87% of trade receivables were current (2020: 85%). As the economic effects of COVID-19 remain uncertain over the present recovery due to the ongoing lockdowns that continue to disrupt Australasia, the total loss allowance for doubtful trade receivables represents an estimate of expected credit losses in respect of trade receivables.

The following table details the risk profile of trade receivables based on the Group's provision matrix. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished between the Group's different customer segments.

	Not past due	0 - 30 days past due $000	30 - 60 days past due $000	60 - 90 days past due $000	90+ days past due $000	Total $000
2020						
Trade receivables	83,115	12,715	1,853	34	49	97,766
2021						
Trade receivables	112,960	16,982	232	-	-	130,174

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2021

TRADE AND OTHER RECEIVABLES (CONTINUED)

Customer and receivable concentration

	2021	2020
Five largest customers' proportion of the Group's:		
Operating revenue	6%	5%
Trade receivables	9%	10%

9 INVENTORIES

	2021 $000	2020 $000
Consumables	319	239
Work in progress	765	621
Finished goods	173,489	179,481
Goods in transit	16,960	8,839
	191,532	189,180

KEY POLICY	Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on a weighted average cost basis, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

10 PROPERTY, PLANT AND EQUIPMENT

	Plant, machinery and vehicles $000	Furniture fittings & equipment $000	Land & buildings $000	Capital Work in Progress $000	Total $000
Cost					
Balance 1 July 2019	100,973	19,061	6,936	3,053	130,023
Acquisitions integration adjustment	(3,307)	(233)	-	-	(3,540)
Additions & reclassifications	4,984	2,545	369	(2,924)	4,974
Disposals	(2,803)	(1,193)	-	-	(3,996)
Exchange movement	1,350	255	40	16	1,661
Balance 30 June 2020	101,197	20,435	7,345	145	129,122
Balance 1 July 2020	101,197	20,435	7,345	145	129,122
Additions & reclassifications	3,595	1,171	-	894	5,660
Disposals	(2,276)	(3,747)	(3,189)	-	(9,212)
Exchange movement	186	36	6	-	228
Balance 30 June 2021	102,702	17,894	4,162	1,039	125,798
Accumulated depreciation & impairment losses					
Balance 1 July 2019	54,876	7,026	173	-	62,075
Acquisitions integration adjustment	(3,307)	(234)	-	-	(3,541)
Depreciation	8,606	2,841	38	-	11,485
Impairment loss	(39)	-	-	-	(39)
Disposals	(2,071)	(1,082)	-	-	(3,153)
Exchange movement	729	104	4	-	837
Balance 30 June 2020	58,794	8,655	215	-	67,664
Balance 1 July 2020	58,794	8,655	215	-	67,664
Depreciation	7,495	2,383	38	-	9,915
Disposals	(1,796)	(1,934)	-	-	(3,730)
Exchange movement	102	15	1	-	118
Balance 30 June 2021	64,595	9,119	253	-	73,967
Carrying amounts					
As at 30 June 2019	46,097	12,035	6,763	3,053	67,948
As at 30 June 2020	42,403	11,780	7,130	145	61,458
As at 30 June 2021	38,107	8,775	3,909	1,039	51,831

PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Security

At 30 June 2021, the fixed assets of the Group are subject to a first debenture to secure bank loans (see note 14).

ESTIMATE	The determination of the appropriate useful life for a particular asset requires management to make judgements about, among other factors, the expected period of service potential of the asset, the likelihood of the asset becoming obsolete as a result of technological advances, and the likelihood of the Group ceasing to use the asset in its business operations. Assessing whether an asset is impaired may involve estimating the future cash flows the asset is expected to generate. This will in turn involve a number of assumptions, including rates of expected revenue growth or decline, expected future margins and the selection of an appropriate discount rate for valuing future cash flows. Assets that are subject to depreciation or amortisation are reviewed for impairment at least annually or when changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount is the higher of an asset's fair value less costs of disposal, 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).

KEY POLICY

Recognition and Measurement

Items of property, plant and equipment, other than land, are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Subsequent Costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is recognised in profit or loss. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The depreciation rates of the Group for the current and comparative periods are as follows:

Plant, machinery and vehicles	8% to 75%	Diminishing value
Furniture, fittings and equipment	2.5% to 80.4%	Diminishing value and straight line
Buildings	2.5%	Straight line

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11 RIGHT-OF-USE ASSETS

	Motor Vehicles $000	Buildings $000	Total $000
Cost			
Balance 30 June 2019	-	-	-
Adjustment on adoption of NZ IFRS 16	3,506	191,747	195,253
Balance 1 July 2019	**3,506**	**191,747**	**195,253**
Additions	-	-	-
Exchange movement	-	-	-
Balance 30 June 2020	**3,506**	**191,747**	**195,253**
Balance 1 July 2020	3,506	191,747	195,253
Additions	991	19,944	20,935
Exchange movement	6	468	474
Balance 30 June 2021	**4,503**	**212,159**	**216,662**
Accumulated amortisation			
Balance 30 July 2019	-	-	-
Adjustment on adoption of NZ IFRS 16	1,336	17,491	18,827
Balance 1 July 2019	**1,336**	**17,491**	**18,827**
Exchange movement	12	204	216
Balance 30 June 2020	**1,348**	**17,695**	**19,043**
Balance 1 July 2020	1,348	17,695	19,043
Amortisation for the year	1,239	17,334	18,573
Exchange movement	2	41	44
Balance 30 June 2021	**2,590**	**35,070**	**37,660**
Carrying amounts			
As at 30 June 2020	2,158	174,052	176,210
As at 30 June 2021	**1,914**	**177,088**	**179,002**

	2021 $000	2020 $000
Lease liabilities included in the Balance Sheet		
Current	13,078	12,674
Non-current	181,603	170,575
	194,681	**183,249**
Lease expenses included in Profit or Loss		
Interest on leases	11,392	10,829
Right-of-use asset amortisation	18,573	19,043
	29,966	**29,872**
Lease cash flows included in Statement of Cash Flows		
Interest paid on leases (operating activities)	11,392	10,829
Payments for lease liabilities principal (financing activities)	12,153	11,875
Total cash outflows from lease liabilities	**23,545**	**22,704**

ESTIMATE	
	Lease liabilities have been measured at the present value of the remaining lease payments, discounted using a discount rate derived from the incremental borrowing rate for each relevant territory on the transition date of 1 July 2019 when the interest rate implicit in the lease was not readily available. Incremental borrowing rates applied to lease liabilities range between 5.75% – 5.95%, (2020: 5.75% – 5.95%). Leases that commenced after 1 July 2019 use an incremental borrowing rate that was applicable on commencement date of the lease.

The Group has leases for buildings and motor vehicles. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to purchase the underlying leased asset outright at the end of the lease, or to extend the lease for a further term. The leases typically run for a period from 10 to 20 years. Lease payments are increased every one to three years to reflect market rentals. Some leases provide for additional rent payments based on changes in the local price index.

The Group is prohibited from selling or pledging the underlying leased assets as security. Each lease generally imposes a restriction that, unless there is a contractual right for the Group to sublet the asset to another party, the right-of-use asset can only be used by the Group.

KEY POLICY	
	At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist. At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the Group's incremental borrowing rate. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2021

12 INTANGIBLE ASSETS

	Goodwill $000	Computer Software $000	Customer Book $000	Total $000
Cost				
Balance 1 July 2019	12,703	14,301	2,038	29,042
Additions	-	327	-	327
Disposals	-	(29)	-	(29)
Exchange movement	104	6	48	158
Balance 30 June 2020	**12,807**	**14,605**	**2,086**	**29,498**
Balance 1 July 2020	12,807	14,605	2,086	29,498
Additions	-	-	-	-
Disposals	-	(724)	-	(724)
Exchange movement	15	1	7	23
Balance 30 June 2021	**12,822**	**13,882**	**2,093**	**28,797**
Amortisation & impairment Losses				
Balance 1 July 2019	1,196	13,203	-	14,399
Amortisation for the Year	-	593	411	1,004
Disposals	-	(28)	-	(28)
Impairment losses	-	(11)	-	(11)
Exchange movement	-	4	6	10
Balance 30 June 2020	**1,196**	**13,761**	**417**	**15,374**
Balance 1 July 2020	1,196	13,761	417	15,374
Amortisation for the Year	-	416	419	835
Disposals	-	(716)	-	(716)
Impairment losses	-	-	-	-
Exchange movement	-	1	1	2
Balance 30 June 2021	**1,196**	**13,462**	**837**	**15,495**
Carrying Amounts				
Balance at 30 June 2019	11,507	1,098	2,038	14,643
Balance at 30 June 2020	11,611	844	1,669	14,124
Balance at 30 June 2021	**11,626**	**420**	**1,256**	**13,302**

ESTIMATE	The carrying value of goodwill is assessed at least annually to ensure it is not impaired. Performing this assessment generally requires management to estimate future cash flows to be generated by the investment, which entails making judgements including the expected rate of growth of revenues, margins expected to be achieved, the level of future capital expenditure required to support these outcomes and the appropriate discount rate to apply when valuing future cash flows.

Impairment testing for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill is allocated to the Group's operating divisions which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes. The aggregate carrying amounts of goodwill allocated to each unit are as follows:

	2021 $000	2020 $000
Steel - New Zealand	7,126	7,126
Steel - Australia	4,500	4,485
	11,626	**11,611**

The recoverable amount of the cash generating unit ("CGU") was calculated on the basis of value in use using a discounted cash flow model. Future cash flows were projected out five years, based on a conservative 2% terminal growth rate based on Board approved business plans for the year ended 30 June 2021, with key assumptions being EBITDA and capital expenditure for the CGU. A post-tax discount rate of 8.5% was utilised for all the CGU's (2020: 8.5%). The values assigned to the key assumptions represent management's assessment of future trends in the steel industry and are based on both external sources and internal sources (historical data). The cash flows beyond the five year period have been extrapolated on a similar basis.

INTANGIBLE ASSETS (CONTINUED)

KEY POLICY

Goodwill - Recognition and Measurement

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired business at the date of acquisition.

Goodwill on acquisition of businesses is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually and more frequently, if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Impairment

Impairment is determined by the CGU (group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU (group of CGUs) is less than the carrying amount, an impairment loss is recognised firstly in relation to the goodwill and then pro rata to the other assets. Any impairment loss is recognised immediately in profit and loss and if it relates to goodwill is not reversed in a subsequent period.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss when incurred.

Computer Software

Computer software has been predominantly internally developed and have a finite useful life. Computer software costs are capitalised and written off on a straight line basis over the useful economic life of 2 to 5 years. Costs associated with maintaining computer software programs are recognised as an expense as incurred. Costs directly associated with the production of identifiable and unique software products controlled by the Group and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Customer Book

The customer book relates to the Horan Steel Holdings Pty Limited acquisition. It was recognised at the fair value at the date of acquisition and subsequently amortised on a straight-line based on the timing of projected cash flows of the contracts over their estimated useful lives (being 5 years).

13 TRADE AND OTHER PAYABLES

	2021 $000	2020 $000
Trade payables	124,002	95,192
Employee benefits	12,759	11,039
Other taxes (GST)	3,133	2,380
	139,894	**108,611**

Payables denominated in currencies other than the functional currency comprise 65% of trade payables (2020: 66%).

KEY POLICY

Trade and other payables

Creditors are recognised at amounts to be paid in the future for goods and services already received, whether or not billed to the Group. They are non-interest bearing and are normally settled on 30-90 day terms.

Trade and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial period that are unpaid and arise when the Group becomes obliged to make future payment in respect of the purchase of these goods and services.

Employee benefits

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2021

14 INTEREST-BEARING LIABILITIES

	2021 $000	2020 $000
Secured bank loans - current	-	-
Secured bank loans - non current	80,000	124,337
	80,000	124,337

The loans under the Bank of New Zealand, National Australia Bank Ltd, Westpac New Zealand Ltd and MUFG Bank Ltd facility have a final repayment date of 3 July 2025. Loans are drawn down on a rolling basis as necessary.

Security

The bank loans are secured by first debenture over the assets of the group. The loans have been advanced at interest rates of between 1.150% and 1.710%.

The loans are under a Bank of New Zealand, National Australia Bank Ltd, Westpac New Zealand Ltd and MUFG Bank Ltd facility agreement which was negotiated on 28 June 2018 and amended on 30 June 2021.

The Group is not subject to any externally imposed capital requirements, other than those imposed by the bank for financing. The group will not create a charge over secured property other than created by the General Security and Common Terms Deed with Bank of New Zealand restated on 22 September 2014, which is secured by a first debenture over the assets of the wider Vulcan Group. The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

There have been no breaches of debt covenants for the current or prior period.

	2021 $000	2020 $000
Unused lines of credit		
Bank overdraft facilities	4,148	4,141
Borrowing facility	111,318	47,438
	115,466	51,579

15 SHARE CAPITAL

Fully Paid Ordinary Shares	2021 Number of Shares	2021 Share Capital $000	2020 Number of Shares	2020 Share Capital $000
Opening Balance	131,383,572	11,862	131,308,572	11,588
Issue of Shares	25,000	126	75,000	274
Closing Balance	131,408,572	11,988	131,383,572	11,862

All shares are fully paid. All ordinary shares carry one vote per share, carry a right to dividends and a pro rata share of net assets on a wind up.

KEY POLICY	Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary share are recognised as a deduction from equity, net of any tax effects.

16 EARNINGS PER SHARE

	2021 $000	2020 $000
Profit after tax	64,832	28,687
Ordinary shares outstanding (number of shares)	131,408,572	131,383,572
Basic earnings per share (cents per share)	$0.49	$0.22
Diluted earnings per share (cents per share)	$0.49	$0.22

KEY POLICY	Basic earnings per share is calculated by dividing the profit after tax of the Group by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2021

17 EMPLOYEE SHARE SCHEME

The Vulcan Steel Limited Share Scheme was introduced with an effective date of 1 April 2016 for selected directors. Under this restricted share scheme, ordinary shares in the Company were issued to Vesta Trustee Limited on behalf of the participants via funds lent by the Company. If the individual is still employed by the Group at the end of the vesting period (annually over a five year period), then the employee is provided a cash bonus which must be used to repay the loan and the shares are then transferred to the individual.

The fair value of share rights is independently determined using a discounted dividend approach.

Movements in the number of share rights outstanding and their exercise prices are as follows:

	Number of Shares 2021 000's	Number of Shares 2020 000's
Number outstanding		
As at beginning of the year	515	660
Granted during the year	-	75
Vested during the year	(515)	(220)
Lapsed during the year	-	-
As at end of the year	**-**	**515**

In addition, the Group paid a number of employees a bonus in shares, based on past performance. The total number of shares was 900,000, which totalled to $5,711,440 (2020: $nil).

18 RESERVES AND DIVIDENDS

	2021 $000	2020 $000
Capital reserve	8,548	8,548
Cash flow hedge reserve	875	(1,019)
Foreign currency translation reserve	(4,677)	(4,972)
	4,746	2,557

Nature and purpose of reserves

Capital reserve

The capital reserve relates to capital gains and losses transferred from retained earnings. These reserves can be distributed tax free on the eventual wind-up of the company.

Cash flow hedge reserve

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the hedging reserve.

Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Dividends

All dividends are recognised as distributions to shareholders.

Dividends of $48,000,000 (2020: $20,000,000) were declared and paid by the Group to qualifying shareholders for the year ended 30 June 2021. A dividend of $5,000,000 declared 8 June 2020 was paid 30 August 2020.

19 DERIVATIVE FINANCIAL INSTRUMENTS

	2021		2020	
	Assets $000	Liabilities $000	Assets $000	Liabilities $000
Current				
Foreign currency forward exchange contracts - cash flow hedges	1,227	-	-	1,442

KEY POLICY

Derivatives

The Group uses derivative financial instruments to hedge its exposure to foreign exchange using foreign currency forward exchange contracts. Derivatives are recognised initially at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and deemed effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. Derivatives are not offset in the financial statements unless the Group has both legal right and intention to offset.

Cash flow hedges

The Group designates certain derivatives as hedging instruments in respect of cash flow hedges. At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

(i) there is an economic relationship between the hedged item and the hedging instrument;

(ii) the effect of credit risk does not dominate the value changes that result from that economic relationship; and

(iii) the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gains or losses in the cash flow hedge reserve are reclassified or recognised in the profit or loss in the same period as the hedged item affects profit or loss in the same line as the hedged item. If the hedged item is a non financial item, the amount accumulated in the cash flow hedge reserve is removed from equity and included in the initial carrying amount of the hedged item.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria. This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. Any gain or loss recognised in other comprehensive income and accumulated in cash flow hedge reserve at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in the cash flow hedge reserve is reclassified immediately to profit or loss.

20 FINANCIAL INSTRUMENTS

KEY POLICY

Financial assets and financial liabilities are recognised in the Group's Balance Sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial Assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of Financial Assets

Shareholder loan accounts, cash and cash equivalents and trade receivables are measured subsequently at amortised cost. Derivatives are measured subsequently at fair value through profit or loss (FVTPL).

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship (see derivatives and hedge accounting policy).

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term liquid investments with maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank accounts.

Financial Liabilities

The Group's financial liabilities include trade and other payables and lease liabilities.

All financial liabilities other than derivatives are measured at amortised cost. They are measured at fair value (minus transaction costs directly attributable) on initial recognition and then subsequently measured at amortised cost.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all transaction costs and other premiums or discounts), through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. The amortised cost of a financial liability is the amount at which the financial liability is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount.

Fair Value Estimation

NZ IFRS 13 for financial assets and liabilities measured at fair value requires disclosure of the fair value measurements by level from the fair value hierachy, described as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities; or

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices); or

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All the Group's financial instruments held at fair value have been measured at the fair value measurement hierarchy of level 2 (2020: level 2).

The carrying value of the Group's financial assets and liabilities approximate the fair values.

Financial risk management

The Group's activities expose it to a variety of financial risks - market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

The Board of Directors has approved policies and guidelines for the Group that identify and evaluate risks and authorise financial instruments to manage financial risks. These policies and guidelines are reviewed regularly. Management monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks.

a) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and prices will affect the Group's profit or the value of financial instruments. The Group's activities expose it primarily to the financial risks of changes in foreign exchange rates and interest rates. The Group enters into derivative arrangements in the ordinary course of business to manage foreign currency risks. Market risk exposures are analysed by sensitivity analysis.

FINANCIAL INSTRUMENTS (CONTINUED)

(i) Foreign exchange risk

The Group is exposed to foreign currency risk on purchases and borrowings that are denominated in a currency other than the Company's functional currency, New Zealand dollars ($), which is the presentation currency of the Group. The currencies in which transactions are primarily denominated are Australian dollars (AUD) and US dollars (USD). At any point in time the Group hedges at least 95 percent of its estimated foreign currency exposure in respect of purchases over the following 9 months. The Group uses forward exchange contracts to hedge its foreign currency risk. All of the forward exchange contracts have maturities of less than one year at the balance sheet date.

The carrying amounts of significant non derivative financial assets and liabilities are denominated in the following foreign currencies:

	NZD NZ $000s	AUD NZ $000s	Total NZ $000s
2020			
Cash	2,334	11,862	14,196
Trade receivables	34,285	61,479	95,764
Trade and other payables	(30,543)	(64,649)	(95,192)
Borrowings	(96,500)	(27,837)	(124,337)
	(90,424)	**(19,145)**	**(109,569)**
2021			
Cash	4,833	5,330	10,163
Trade receivables	49,972	78,169	128,141
Trade and other payables	(41,630)	(82,372)	(124,002)
Borrowings	(80,000)	-	(80,000)
	(66,825)	**1,128**	**(65,698)**

The following table summaries the sensitivity of the Group's financial assets and financial liabilities to foreign exchange risk. A sensitivity of +/-10% has been selected. The Group believes that this is reasonably possible given the exchange rate volatility observed on a historical basis. All variables other than the applicable exchange rates are held constant:

	2021 $000		2020 $000	
Foreign exchange rate change	**-10%**	**+10%**	**-10%**	**+10%**
Impact on profit after tax	2,283	(1,868)	863	(706)
Impact on hedging reserves (within equity)	(87)	87	102	(102)
	2,196	**(1,781)**	**965**	**(808)**

(ii) Interest rate risk

Interest rate risk is the risk that the value of the Company and Group's assets and liabilities will fluctuate due to changes in market interest rates. Both the Company and the Group are exposed to interest rate risk primarily through its cash balances and interest-bearing liabilities.

The Group has a policy of managing its interest rate risk by fixing borrowings for up to 180 days. The Group does not use derivatives to manage interest rate risk.

At 30 June 2021 the Group had the following mix of financial assets and liabilities exposed to variable interest rate risk:

	2021 $000	2020 $000
Financial Assets		
Cash and cash equivalents	10,163	14,196
Related party loans	-	753
Total financial assets exposed to interest rate risk	10,163	14,949
Financial Liabilities		
Interest-bearing liabilities	80,000	124,337
Total financial liabilities exposed to interest rate risk	80,000	124,337
Net exposure	**(69,837)**	**(109,388)**

The following table summaries the sensitivity of the Group's financial assets and financial liabilities to interest rate risk. A 0.25% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. All variables other than the applicable interest rates are held constant:

	2021 $000		2020 $000	
Interest rate change	**-0.25%**	**+0.25%**	**-0.25%**	**+0.25%**
Impact on profit after tax	178	(178)	220	(220)
Impact on hedging reserves (within equity)	-	-	-	-
	178	(178)	220	(220)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2021

FINANCIAL INSTRUMENTS (CONTINUED)

b) Credit risk

Credit risk is the risk that the counter party to a transaction with the Group will fail to discharge its obligations, causing the Group to incur a financial loss. The Group is exposed to credit risk through trade receivables, financial instruments, and cash and cash equivalents in the normal course of business. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the Balance Sheet.

Management has a credit policy in place under which each new customer is individually analysed for credit worthiness and assigned a purchase limit before the standard payment and delivery terms and conditions are offered. Where available the Group reviews external ratings. In other instances bankers' references are obtained. Purchase limits are reviewed on a regular basis.

The Group may require collateral in respect of trade and other receivables.

Vulcan Australia operations are indemnified by Euler Hermes for any loss sustained, to permitted limits, as a result of the insolvency or protracted default of customers, provided the delivery of goods or services occurs within the policy period.

The Group's exposure to credit risk from cash, bank accounts, deposits and derivatives is limited due to the credit rating of the financial institutions concerned.

c) Liquidity Risk

Liquidity risk represents the Group's ability to meet its contractual obligations. The Group evaluates its liquidity requirements on an ongoing basis. In general, the Group generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities and has credit lines in place to cover potential shortfalls.

The analysis below has been determined based on contractual maturity dates and circumstances existing at 30 June 2021. The expected timing of actual cash flows from these financial instruments may differ.

	Payable < 1 year	Payable 1-2 years	Payable 2-5 years	Payable > 5 years	Total contractual cashflows
	$000	$000	$000	$000	$000
2020					
Non derivative financial liabilities					
Trade payables	95,192	-	-	-	95,192
Lease liabilities	12,674	13,144	36,093	121,338	183,249
Interest bearing liabilities	-	-	124,337	-	124,337
Derivative financial liabilities					
Forward exchange contracts	14,416	-	-	-	14,416
Group contractual cashflows	**122,282**	**13,144**	**160,430**	**121,338**	**417,195**
2021					
Non derivative financial liabilities					
Trade payables	124,002	-	-	-	124,002
Lease liabilities	13,078	13,314	43,802	124,487	194,681
Interest bearing liabilities	-	-	80,000	-	80,000
Derivative financial liabilities					
Forward exchange contracts	17,170	-	-	-	17,170
Group contractual cashflows	**154,249**	**13,314**	**123,802**	**124,487**	**415,853**

Capital Management

The Group's capital consists of debt and leases, cash and cash equivalents, and equity, including share capital, reserves and retained earnings as shown in the Balance Sheet. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders, and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the required capital structure the Group may issue new shares, sell assets to reduce debt and/or adjust amounts paid to investors.

The Group is not subject to any externally imposed capital requirements, other than those imposed by the bank for financing. The Group will not create a charge over secured property other than created by the general security agreement with BNZ/Westpac/MUFG dated 22 September 2014. The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors. There have been no material changes in the Group's management of capital during the period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2021

21 CAPITAL COMMITMENTS

Total capital expenditure contracted as at balance date but not provided for in the accounts was $5,199,658 (2020: $296,892).

22 CONTINGENT LIABILITIES

There is a bank guarantee with National Australia Bank Ltd of $8.7m (2020: $8.2m) over property leases in Australia.

23 BUSINESS COMBINATIONS

On 19 June 2020, Vulcan Steel Pty Ltd acquired a further 25% shareholding in Global Metals Pty Ltd (bringing its total shareholding to 100%).

24 RELATED PARTIES

The Group has related party relationships with its controlled entities and with key management personnel.

The subsidiaries in the Group are:

Subsidiaries	Principal Activity	Place of Incorporation	2021 Holding	2020 Holding
Vesta Trustee Limited	Trustee	New Zealand	100%	100%
Vulcan Steel Pty Limited	Steel Distribution	Australia	100%	100%
Global Metals Pty Limited (non-trading)	Steel Distribution	Australia	100%	100%
Interlloy Pty Limited (non-trading)	Steel Distribution	Australia	100%	100%
Horan Steel Holdings Pty Limited (non-trading)	Steel Distribution	Australia	100%	100%

Transactions with key management personnel	2021 $000	2020 $000
Salaries paid	1,445	2,596
Bonuses paid	2,028	914
Total remuneration	**3,473**	**3,510**

Key management includes the Chief Executive Officer, the Chief Financial Officer and the Chief Operating Officer. In addition Directors' fees of $639,041 (2020: $146,530) were paid.

Shareholder loan accounts - management personnel	2021 $000	2020 $000
Secured related party loans	-	753
	-	753

As at 30 June 2021 there were no shareholder loans.

Building leases

The following table shows the lease principals paid to Vulcan's landlords during the year, together with the outstanding lease liabilities payable. Some Vulcan shareholders have interests in these entities.

	2021		2020	
	Principal Lease Payment $000	Lease Liability Outstanding $000	Principal Lease Payment $000	Lease Liability Outstanding $000
Tri-Nation Investments Pty Ltd	2,886	24,389	2,723	25,345
South Dandenong Holdings Pty Ltd	1,993	35,978	1,881	35,235
Pounamu Investments Ltd	1,265	10,354	1,265	11,004
Palmerston North Investments Ltd	613	4,568	593	4,908
Texas Properties Ltd	527	3,998	488	4,286
Plasma Investments Ltd	361	2,256	357	2,480
Angitu Limited Partnership	319	3,995	-	-
	7,964	**85,538**	**7,307**	**83,258**

An arms length transaction was completed during the year for a sale and lease back of a property to Angitu Limited Partnership. The sale price was $10 milllion.

25 EVENTS OCCURRING AFTER BALANCE DATE

On 13 August 2021, the Directors approved a final dividend of 13.7 cents per share totalling $18 million. The dividend record date is 13 August 2021 and payment will occur on 18 August 2021. No other matters or circumstances have arisen since the end of the financial year which significantly affect the company, the results of those operations, or the state of affairs of the company in future financial years.

Corporate Directory

Board of Directors
Peter Wells
Wayne Boyd
Rhys Jones
Barthold De Haan
Philippa Greenwood
Russell Chenu (appointed 18 June 2021)

Executive Team
Rhys Jones
Chief Executive Officer

Kar Yue Yeo
Chief Financial Officer

Adrian Casey
Chief Operating Officer

Registered Office
29 Neales Road
East Tamaki
Auckland
Web: www.vulcan.co

Auditors
Deloitte Limited

Company Numbers
NZ Incorporation: 681317
Vulcan Steel Limited NZBN: 9429038466052
Vulcan Steel Pty Limited ABN: 61 100 061 283

ANNUAL REPORT

For the year ended 30 June 2021

The directors present their annual report including consolidated financial statements of the Group for the year ended 30 June 2021 and the auditor's report thereon.

The directors are responsible for the preparation of consolidated financial statements that comply with generally accepted accounting practice in New Zealand, and that presents fairly the financial position of the group as at 30 June 2021, and of their financial performance and cash flows for the year ended on that date.

The shareholders of the group have exercised their rights under Section 211(3) of the Companies Act 1993 and unanimously agreed that this annual report need not comply with any of the Sections (a) and (e) to (j) of Section 211(1) of the Act.

On behalf of the Board
13 August 2021

Peter Wells
Director

Rhys Jones
Director