METAIR

INVESTMENTS LIMITED

automotive | industrial | retail

METAIR INVESTMENTS LIMITED
(Incorporated in the Republic of South Africa)
("Metair" or "the group" or "the company")

(Reg No. 1948/031013/06)
Share code: MTA • ISIN code: ZAE000090692

CONDENSED AUDITED CONSOLIDATED RESULTS

FOR THE YEAR ENDED 31 DECEMBER 2022 AND NOTICE OF ANNUAL GENERAL MEETING

CONSOLIDATED GROUP ASSESSED at **B-BBEE Level 1** and South African subsidiaries at level 4 or better

Turnover increased 10% to	R14 bn
Normalised HEPS*	243 cps
Normalised EBITDA*	R1.48 bn

* Normalisation adjustments exclude the non-cash impact of hyperinflation on Mutlu Akü's results and once-off items.

75 years strong

CONDENSED AUDITED CONSOLIDATED INCOME STATEMENT	31 December 2022 R'000	31 December 2021 R'000
Revenue	13 905 467	12 621 070
Cost of sales	(12 667 166)	(10 421 551)
Gross profit	1 238 301	2 199 519
Other operating income	537 323	204 463
Distribution, administrative and other operating expenses	(1 322 916)	(1 244 943)
Operating profit	452 708	1 159 039
Interest income	33 981	32 425
Interest expense	(410 747)	(177 464)
Net monetary gain arising from hyperinflation in Türkiye	398 066	
Share of results and impairment of associates	(239 403)	(51 878)
Profit before taxation	234 605	962 122
Taxation	(238 517)	(269 324)
(Loss)/profit for the year	(3 912)	692 798
Attributable to:		
Equity holders of the company	(40 385)	674 791
Non-controlling interests	36 473	18 007
	(3 912)	692 798
Included in operating expenses above are:		
Depreciation and amortisation	372 951	301 996
Rentals on short term and low value assets	29 579	22 828
Impairment loss on financial assets	5 724	23 221
Disaggregation of revenue from contracts with customers		
Primary geographical markets		
South Africa	7 299 507	7 022 371
Türkiye and UK	4 913 635	3 934 430
Romania	1 692 325	1 664 269
	13 905 467	12 621 070
Major product and service lines		
Automotive batteries	8 020 828	7 019 984
Automotive components and parts	4 953 420	4 761 451
Automotive customer tooling	319 669	298 970
Industrial and non-automotive products	611 550	540 665
	13 905 467	12 621 070
Timing of revenue recognition		
Products transferred at a point in time	8 846 805	7 757 053
Products and services transferred over time	5 058 662	4 864 017
	13 905 467	12 621 070
Earnings per share		
Basic (loss)/earnings per share (cents)	(21)	350
Headline (loss)/earnings per share (cents)	(17)	354
Diluted earnings per share		
Diluted (loss)/earnings per share (cents)	(21)	346
Diluted headline (loss)/earnings per share (cents)	(17)	350
Number of shares in issue ('000)	198 986	198 986
Number of shares in issue excluding treasury shares ('000)	193 770	193 108
Weighted average number of shares in issue ('000)	193 483	192 715
Adjustment for dilutive shares ('000)	3 678	2 174
Number of shares used for diluted earnings calculation ('000)	197 161	194 889
Calculation of headline earnings		
Net (loss)/profit attributable to ordinary shareholders	(40 385)	674 791
Loss/(profit) on disposal of property, plant and equipment – net	722	(144)
(Reversal of impairment)/impairment of property, plant and equipment	(3 057)	7 850
Impairment of associate	10 440	
Headline (loss)/earnings	(32 280)	682 497

CONDENSED AUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	31 December 2022 R'000	31 December 2021 R'000
(Loss)/profit for the year	(3 912)	692 798
Other comprehensive income/(loss):		
– Actuarial losses recognised – net	(21 630)	(3 810)
– Foreign exchange translation movements including the effect of hyperinflation	1 520 538	(897 191)
Net other comprehensive income/(loss)	1 498 908	(901 001)
Total comprehensive income/(loss) for the year	1 494 996	(208 203)
Attributable to:		
Equity holders of the company	1 457 937	(225 992)
Non-controlling interests	37 059	17 789
	1 494 996	(208 203)

CONDENSED AUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	31 December 2022 R'000	31 December 2021 R'000
Balance at beginning of the year	3 874 354	4 214 838
Net (loss)/profit for the year	(3 912)	692 798
Other comprehensive income/(loss) for the year	1 498 908	(901 001)
Total comprehensive income/(loss) for the year	1 494 996	(208 203)
Employee share option scheme	22 971	24 377
Vesting of share-based payment obligation:		
– Estimated taxation effects of utilisation of treasury shares	(1 667)	(1 298)
Dividend*	(192 096)	(155 360)
Foreign currency translation, including the effect of hyperinflation	(1 063)	
Balance at end of the year	5 197 495	3 874 354

** An ordinary dividend of R0.90 per share was declared in 2022 in respect of the year ended 31 December 2021. No ordinary dividend is being declared for the year ended 31 December 2022.*
** An ordinary dividend of R0.75 per share was declared in 2021 in respect of the year ended 31 December 2020.*

CONDENSED AUDITED CONSOLIDATED BALANCE SHEET	31 December 2022 R'000	31 December 2021 R'000
ASSETS		
Non-current assets		
Property, plant and equipment	3 770 774	2 636 978
Intangible assets	1 039 850	283 793
Investment in associates	301 060	613 056
Loan to associate	192 574	
Deferred taxation	36 599	5 374
	5 340 857	3 539 201
Current assets		
Inventory	2 688 876	1 959 253
Trade and other receivables	2 874 995	1 978 447
Contract assets	620 069	511 199
Taxation	7 437	2 552
Derivative financial assets	1 558	6 693
Cash and cash equivalents	1 298 608	1 078 074
	7 491 543	5 536 218
Total assets	12 832 400	9 075 419
EQUITY AND LIABILITIES		
Capital and reserves		
Stated capital	1 497 931	1 497 931
Treasury shares	(106 974)	(118 153)
Reserves	(1 296 052)	(2 380 436)
Retained earnings	4 972 604	4 759 200
Ordinary shareholders' equity	5 067 509	3 758 542
Non-controlling interests	129 986	115 812
Total equity	5 197 495	3 874 354
Non-current liabilities		
Borrowings	350 180	1 849 263
Post-employment benefits	93 305	73 263
Deferred taxation	333 054	173 614
Deferred grant income	88 991	104 681
Provisions for liabilities and charges	46 793	40 808
	912 323	2 241 629
Current liabilities		
Trade and other payables	2 995 674	2 155 753
Contract liabilities	11 775	49 952
Borrowings	3 234 734	477 642
Taxation	43 754	60 574
Provisions for liabilities and charges	110 297	98 205
Derivative financial liabilities	8 050	1 131
Bank overdrafts	318 298	116 179
	6 722 582	2 959 436
Total liabilities	7 634 905	5 201 065
Total equity and liabilities	12 832 400	9 075 419
Net asset value per share (cents)	2 615	1 946
Capital expenditure	621 510	574 646
Capital commitments:		
– Contracted	143 823	79 946
– Authorised but not contracted	527 095	590 354

CONDENSED AUDITED CONSOLIDATED STATEMENT OF CASH FLOWS	31 December 2022 R'000	31 December 2021 R'000
Operating activities		
Operating profit	452 708	1 159 039
Depreciation and amortisation	372 951	301 996
Equity earnings, before impairment	(239 403)	(51 878)
Net monetary gain arising from hyperinflation in Türkiye	(398 066)	
Net movement in provisions and similar items	19 858	(15 997)
Other items	604 374	126 790
Working capital changes	(661 227)	(871 020)
Cash generated from operations	151 195	648 930
Interest paid	(391 297)	(183 389)
Taxation paid	(269 100)	(251 357)
Dividends paid	(192 096)	(155 360)
Dividend income from associates	61 551	6 724
Net cash (outflow)/inflow from operating activities	(639 747)	65 548
Investing activities		
Interest received	33 981	32 425
Acquisition of property, plant and equipment	(424 715)	(439 685)
Loan to related party	(197 674)	
Net cash utilised in other investing activities	(11 767)	(8 357)
Net cash outflow from investing activities	(600 175)	(415 617)
Financing activities		
Borrowings raised – net	1 356 701	34 075
Net cash utilised in other financing activities	(36 702)	(44 394)
Net cash inflow/(outflow) from financing activities	1 319 999	(10 319)
Net increase/(decrease) in cash and cash equivalents	80 077	(360 388)
Cash and cash equivalents at beginning of the year	961 895	1 565 123
Exchange loss and hyperinflation impact on cash and cash equivalents	(61 662)	(242 840)
Cash and cash equivalents at end of the year	980 310	961 895

CONDENSED AUDITED CONSOLIDATED SEGMENT REVIEW	Revenue		Profit before interest and taxation	
	31 December 2022 R'000	31 December 2021 R'000	31 December 2022 R'000	31 December 2021 R'000
Energy storage				
Automotive	8 020 828	7 019 984	231 153	933 358
Local	5 221 134	4 701 913	133 368	593 487
Direct export	2 799 694	2 318 071	97 785	339 871
Industrial	598 252	530 403	(36 456)	(46 295)
Local	592 277	511 021	(37 151)	(44 150)
Direct export	5 975	19 382	695	(2 145)
Total energy storage	8 619 080	7 550 387	194 697	887 063
Automotive components				
Local	7 006 218	6 655 198	34 744	249 897
Original equipment	6 401 488	6 174 325	(43 242)	183 971
Aftermarket	591 432	470 610	79 245	66 284
Non-auto	13 298	10 263	(1 259)	(358)
Direct exports	50 843	57 212	9 827	7 500
Original Equipment	2 141	3 203	1 279	1 133
Aftermarket	48 702	54 009	8 548	6 367
Total automotive components	7 057 061	6 712 410	44 571	257 397
Total segment results	15 676 141	14 262 797	239 268	1 144 460
Managed associates*	(1 770 674)	(1 641 727)	348 623	95 277
Amortisation and depreciation arising from business combinations acquired			(36 904)	(17 084)
Other reconciling items**			(98 279)	(63 614)
Total group results	13 905 467	12 621 070	452 708	1 159 039
Share of results and impairment of associates			(239 403)	(51 878)
Net finance costs			(376 766)	(145 039)
Net monetary gain arising from hyperinflation in Türkiye			398 066	
Profit before taxation			234 605	962 122

** The results of Hesto Harnesses Pty (Ltd) ("Hesto") have been included in the segment review at 100%. Metair has a 74.9% equity interest but is responsible for the operational management and treated as a group company.*
*** Other reconciling items relate to Metair head office and corporate costs.*

NOTES TO THE CONDENSED AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Basis of preparation
The condensed audited consolidated results for the year ended 31 December 2022 have been prepared in accordance with the JSE Limited Listings Requirements ("Listings Requirements") for abridged reports and the requirements of the Companies Act, 71 of 2008 ("Companies Act"), applicable to summary financial statements. The Listings Requirements require abridged reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("IFRS"), IAS 34 Interim Financial Reporting, as well as the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council. The results do not include all the notes of the type normally included in an annual financial report prepared in accordance with International Financial Reporting Standards. Accordingly, this report is to be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2022, which have been prepared in accordance with IFRS and comply with the Listings Requirements and the requirements of the Companies Act applicable to summary financial statements.

Accounting policies
The accounting policies applied are in terms of IFRS and are consistent with the previous consolidated annual financial statements except for the first-time application of IAS 29 – financial reporting in hyperinflationary economies. Türkiye is a hyperinflationary economy and the financial statements of Mutlu Akü group ("Mutlu") are required to be stated in terms of the measuring unit current. Therefore, Mutlu's results, and balance sheet position have been restated to reporting date purchasing power before being included in the group's consolidated financial statements. Comparative amounts are not restated as they were previously presented in Metair's presentation currency (i.e., ZAR), which is a stable currency. The group has elected to present the initial and subsequent impact of IAS 29 as a combined effect that encompasses the restatement in accordance with IAS 29 and translation in accordance with IAS 21 as a net change through the foreign currency translation reserve presented under other comprehensive income.

Contingencies
There has been no other material change in the group's contingent liabilities since year-end.

Borrowings
During the year the group repaid borrowings of R936 million (2021: R442 million) and raised borrowings of R2 293 million (2021: R476 million).

Post-balance sheet events
The shareholders of Hesto have resolved to provide further financial guarantees, on behalf of lenders, for further loans granted to Hesto. The group's proportionate share is R75 million. The group has also obtained waivers from funders for the covenants breached at 31 December 2022.

With regards to the earthquake in Türkiye, none of our facilities were directly affected and there were no injuries to our staff. Some of Mutlu's aftermarket dealers were affected however, the impact is not significant when compared to total battery volumes. Other than events disclosed within the annual financial report, there were no other significant post-balance sheet events. There has been no material change since year-end.

Changes to the board of directors ("board") and committees of Metair
With effect from 15 February 2023: (i) Mr Flemming resigned as the chairperson of the board and as an independent non-executive director, for personal reasons, and consequently stepped down as the chairperson of the nominations committee and as a member of the social and ethics committee; (ii) Ms Mgoduso was appointed as the new chairperson of the board (subject to shareholder confirmation at the upcoming annual general meeting ("AGM") in May 2023) as well as the chairperson of the nominations committee and consequently stepped down as the lead independent non-executive director and as the chairperson of the remuneration committee (but remained a member of this committee); (iii) Mr Mawasha was appointed as the lead independent non-executive director; and (iv) Ms Mkhondo was appointed as the chairperson of the remuneration committee.

Mr Haffejee resigned as CEO and executive director of Metair with effect from 31 March 2023 and consequently stepped down as a member of the social and ethics committee with effect from the same date. With effect from 22 March 2023 (i) Mr Douwenga, Metair's CFO, was appointed as interim CEO and a member of the social and ethics committee; and (ii) Mr Jogia, Metair's financial executive, was appointed as interim CFO and interim executive director of Metair.

Auditors' report
This condensed report is extracted from audited information, but is not itself audited. The annual financial statements were audited by Ernst and Young Inc., who expressed an unmodified opinion thereon. The audited annual financial statements and auditors' report thereon are available for inspection at the company's registered office. The directors take full responsibility for the preparation of the condensed audited consolidated results and that the financial information has been correctly extracted from the underlying annual financial statements. Any reference to future financial performance has not been reviewed or reported on by the auditors.

Declaration of Ordinary Dividends No 72
No final dividend has been declared for the year (2021: 90 cents per share).

Annual general meeting
The annual report, incorporating the consolidated annual financial statements and notice of AGM will be mailed to shareholders along with the notice of annual general meeting tomorrow, 31 March 2023. The AGM will be held remotely through an electronic interactive platform hosted by The Meeting Specialist (Pty) Ltd (TMS) on Thursday, 4 May 2023 at 14h00, subject to any cancellation, postponement or adjournment in terms of section 63(2) of the Companies Act. The record date for purposes of determining which shareholders are entitled to receive the notice of AGM is Friday, 24 March 2023. The record date for purposes of determining which shareholders must be registered as such in the company's securities register in order to attend and vote at the AGM is Friday, 21 April 2023. The last day to trade in order to be entitled to vote at the AGM will therefore be Tuesday, 18 April 2023.

Integrated report
The group's sustainability reporting included in the annual report for 2022 will be available on the company's website (www.metair.co.za).

Registrars
Computershare Investor Services (Pty) Limited
Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196

Sponsor
One Capital

Investor relations
Instinctif Partners

Signed on behalf of the board in Johannesburg on 29 March 2023.

TN Mgoduso – Chairperson

R Haffejee – Chief Executive Officer

The condensed audited consolidated results were produced under the supervision of Mr S Douwenga (CFO) BCom (Hons), CA(SA).

CONDENSED AUDITED CONSOLIDATED RESULTS COMMENTARY

Introduction
Despite volatility, uncertainty and complexity in regions and economies remaining high and the various challenges faced in FY22, Metair's core operational performance was strong with both business Verticals performing well relative to their challenging operating environments.

Key projects remain on track in the Automotive Components Vertical despite the impact of floods, global supply chain disruptions, semi-conductor shortages and shipping constraints. The Energy Storage Vertical continued to deliver strong automotive battery volumes and revenues despite the Turkish and Romanian operations navigating through short term inflationary cost pressures and instability resulting from the ongoing war in Ukraine.

At the start of FY22, Original Equipment Manufacturer ("OEM") production volumes were impacted by raw material shortages and supply chain delays however the most significant disruption for Q2 and Q3 was the flooding in KwaZulu-Natal ("KZN") in April which caused significant damage and disruption to the group's major customer, Toyota South Africa Manufacturing ("Toyota SA"). This forced Toyota SA to halt vehicle production at its Prospecton plant for several months to restore its facilities. Although Metair group companies were largely unaffected by flood damage, most of the Metair Automotive Component companies were severely impacted by the loss of sales to this major customer, as well as significant production start-up related inefficiencies and fluctuating volumes post resumption of production in Q3.

The group worked with Toyota to support its recovery based on a responsible ramp up plan and a return to normal production volumes was largely achieved within Q4. The group's ongoing cash flow and liquidity needs were closely managed over this time and business interruption insurance claims have been finalised for the loss of turnover.

Metair subsidiaries in South Africa also prepared for new model launches, incurring significant investment in capital expenditure, working capital and project costs ahead of the new major Ford model which launched at the end of FY22. All projects progressed well, and after finalising the pre-production and prototype manufacturing phase, all are mostly in full production phase. Interventions to curb the impact of short-term operational instability within the Automotive Components business remains a major focus and the ongoing investments are expected to deliver returns in line with Metair's targets over the life of the contracts.

Inflation rates increased across all Metair international territories, mainly due to higher energy cost driven by the conflict in Ukraine. Inflation in Türkiye rose dramatically during the first half and peaked at c.90% during Q4 before settling at 64% for the year. Türkiye meets the requirements to be designated as a hyperinflationary economy and Mutlu Akü's ("Mutlu") results therefore include the requirements and consequences of adopting IAS 29 'Financial Reporting in Hyperinflationary Economies'.

Mutlu remains a significant operation within the Energy Storage Vertical and management has put in place a strategy to respond to the longer-term impact of hyperinflation. Operations remain unchanged and the business continues to experience healthy levels of local and global demand, there is no restricted access to hard currency or limitations on the remittance of dividends to shareholders. A substantial portion of commodity input costs and sales are hard currency denominated and not directly subject to Turkish inflation.

Group results
Group revenue for the period increased by 10% to R13.91 billion (FY21: R12.62 billion), reflecting overall higher OEM market volume production and strong export sales from Türkiye. Growth in battery unit prices and increased cost content in components contributed to higher sales prices.

The group's operating profit ("EBIT") however, decreased by R706 million to R453 million (FY21: R1.16 billion) at an operating margin of 3.3% (FY21: 9.2%). Group earnings before interest, tax, depreciation and amortisation ("EBITDA") declined to R826 million (FY21: R1.5 Billion) and the EBITDA margin (including equity earnings and impairments) declined to 4.2% (FY21: 11.2%).

The result was significantly impacted by hyperinflation accounting applied to Mutlu's earnings, planned project costs incurred for the new Ford Ranger project, higher logistics costs, mainly premium air freight due to global supply chain disruptions, the knock-on effects of the impact of flooding on the group's major customer, overall OEM production volumes and efficiencies for the year, and increased interest charges as a result of high net debt levels to support new projects and mitigate supply chain disruptions. These factors combined with higher energy costs required active management to stabilise operations.

The group is in the process of finalising an intensive capital expansion phase, with R1.16 billion in capital expenditure spent in FY22, and R750 million planned for FY23. Liquidity management remains a key focus, especially given the short-term instability experienced. Group net debt increased to R2.6 billion (FY21: R1.3 billion) and net finance expenses increased to R377 million (FY21: R145 million) due to increased interest rates in all geographies and higher debt levels.

Headline earnings per share ("HEPS") decreased by 371 cents per share or 105% to a loss of 17 cents per share (FY21: 354 cents per share). Group unadjusted return on invested capital (ROIC) was 4.5% (normalised: 14.0%) (FY21: 11.7%) on a last twelve-month basis.

On a normalised "core" basis, which management and the board believe to be a more meaningful reflection of underlying performance, EBITDA of R1.48 billion was generated and HEPS of 243 cents achieved. Normalisation excludes hyperinflation impacts, project costs associated with the Ford model launch and transaction (advisory) costs associated with the value unlock exercise.

Segmental review

Automotive Components Vertical
The South African operations were significantly impacted by the temporary suspension of production at Toyota SA's Prospecton plant which stabilised at pre-flood levels in Q4, a huge accomplishment by Toyota SA.

Production of the group's major new model investment, the next-generation Ford Ranger, commenced mid-November 2022, with targeted production levels expected to be reached from April 2023 and thereafter cash flow break-even position expected in FY22 H2. The Vertical expensed pre-production and engineering (project) cash costs of R420 million related to the new model in FY22. Hesto incurred premium air freight costs of R126 million in delivering on customer ramp-up requirements amid supply chain instability.

Together with other new model and facelift launches, these investments are expected to drive meaningful growth over the medium to long term, supporting incremental revenue for the group of an estimated R60 billion over the life of the models.

This Vertical contributed R7.1 billion (FY21 R6.7 billion) in revenue, with OEM production volumes showing an increase of 7% (Metair's main customers were largely flat) for the year. Margins were diluted by production ramp-up effects, premium logistics costs as well as planned project costs associated with new model launches. This was however offset by the proceeds from the business interruption claim. The operating profit margin declined to 0.6% (FY21: 3.8%) and operating profit of R45 million (FY21: R257 million) was generated.

On a normalised "core" basis, EBIT was R465 million, at a margin of 7% after adding back the impact of project costs and premium air freight.

Energy Storage Vertical
This Vertical generally experienced strong demand and performed resiliently under tough operating conditions, including high inflation fuelled by unprecedented energy and labour cost increases across both Türkiye and Romania. Although these costs have typically been recovered from customers following a slight time lag, margins have been negatively impacted in the short term. Market demand has remained strong and international demand for lead acid batteries across all sales channels, but especially Türkiye, remains resilient. Hard currency export sales provide a natural hedge to limit the impact of foreign exchange volatility and inflationary pressures.

Q4 is the most volume sensitive time for the business and final annual volumes reached c. 8.9 million units. Mutlu export volumes increased 17% from FY21 to FY22 while Rombat's export volumes were c. 20% lower, mainly due to dampened consumer confidence owing to the conflict in Ukraine. With efforts to improve competitiveness and market share progressing as planned, sales volumes for First National Battery ("FNB") in South Africa were on par with FY21.

Turnover increased by 14.2% to R8.6 billion (FY21: R7.6 billion), mainly due to improved volumes, the impact of hyperinflation and higher average lead prices. The Vertical delivered an operating profit of R195 million (R746 million on a pre-hyperinflation basis) (FY21: R887 million). Operating margins decreased from 11.7% to 2.3% due to hyperinflation accounting and in particular restating and inflating cost of goods sold by Mutlu, from the date of production, which therefore increases by a greater extent when compared to sales. Operating profit margins would have been 9% before applying hyperinflation accounting.

Organically, Mutlu's EBIT in local currency was c.44% higher than in FY21, at an EBIT margin of 11.7% (FY21: 16.5%). The further devaluation of the Turkish Lira against the Rand (an average decline of 42% from FY21) finally resulted in a ZAR EBIT of R530 million pre-hyperinflation (FY21: R643 million). FNB's margins improved slightly to 8.8% (FY21: 8%) and its operating profit increased to R177 million from R156 million. Rombat's operating profit decreased by 54% to R39 million at an operating margin of 2.2% (FY21: 4.8%), mainly due to the lag in energy cost recovery from customers and lower aftermarket volumes.

Industrial segment turnover increased to R598 million (FY21: R530 million), as FNB's industrial trade business migration slowly took shape.

Financial position
Group net asset value per share increased to 2 615 cents (FY21: 1 946 cents). Much of this increase is related to the impact of hyperinflation on Mutlu's balance sheet with the strong non-monetary asset base protection against inflation and resulting in a positive gain from a net asset point of view. Net working capital increased by R933 million to R3.2 billion (FY21: R2.24 billion) due to the impact of supply chain disruptions and increased lead times and safety stock levels for imported components resulting in a build-up of inventory. Higher lead usage and FNB's industrial trad model temporarily contributed to the increase in inventory. Cash generated from operations amounted to R151 million (FY21:R649 million). Cash and cash equivalents increased to R980 million from R962 million, while net debt increased to R2.6 billion (FY21: R1.3 billion). The group's net debt to equity ratio increased to 51% (FY21: 35%), and net debt to EBITDA increased to 4.4 times (FY21: 0.9 times). The group's gearing rose significantly due to the operational challenges described above as well as planned funding taken up for new projects, additional funding of R188 million advanced to Hesto Harnesses, increased working capital investments and the impact of hyperinflation on Mutlu's results. On a normalised basis, group net debt to EBITDA amounted to 1.6 times.

Going concern, cash and debt covenants
On a covenant testing basis, calculated on a trailing 12 months adjusted EBITDA, priority debt cover gearing and interest cover were breached at balance sheet date. The group's preference shares and RCF funding have therefore been classified as current debt. Discussions with the group's funders regarding the debt position have been positive and there are no indications to recall group borrowings and facilities or to levy penalties at present. The group's funders have waived the current covenant breaches post year end and efforts are underway to correct the position, including amendment of the EBITDA definition to exclude hyperinflation and adjusting ratios. RCF 2 for R525 million has been extended for a further year until 23 April 2024.

Management continues to closely monitor the group's financial position and remains focused on effective cash management, especially in the areas of working capital, cost control and capital expenditures, considering customer requirements and planned investments in new or upcoming customer models and facelifts. Considering the future cash requirements of the business, management has determined that there is no material uncertainty or significant doubt upon the group's ability to continue as a going concern and sufficient facilities are available for ongoing operational requirements.

Capital expenditure ("Capex")
Total Capex was R1.16 billion, reflecting the capital expansion phase to increase capacity ahead of new model launches and facelifts. R158 million has been allocated to maintenance, R958 million to expansion capex (mainly facilities, tooling and machinery) and R39 million to health and safety, improving the group's competitive position and efficiency.

Insurance claims
As a result of consequential loss of a major customer's volumes, Metair initiated an insurance claim for loss of profits due to business interruption. The claim was fully concluded and R500 million was received.

Hyperinflation in Türkiye
The impact of IAS 29 on Mutlu's pre-hyperinflationary results and consequently on Metair's consolidated results are as follows:

- Operating profit decline of c. R576 million
- Profit after tax decline of c. R208 million, arising from the restatement of net non-monetary assets of R185 million and retained income of R393 million through profit and loss
- A net monetary gain amounting to c. R398 million (financial gain) and essentially generated from Mutlu's net monetary liability position used to invest in hard assets (non-monetary) such as property, plant and equipment, intangible assets and inventory. Other impacts on the net monetary position in the income statement would be driven by revenue and other expenses indexation
- Uplift in assets of R1.8 billion and R1.9 billion uplift in equity relating to foreign currency translation gains within other comprehensive income

Outlook and prospects
Metair's priority is to achieve successful launches of new models and facelifts during FY23. As such, effective project management, improved operating efficiencies and cost and working capital control will be focus areas as OEM production volumes grow.

The Automotive Components Vertical business will commence the full manufacturing phase for new projects. The outlook for the year is therefore dependant on the successful launch of new projects, production normalisation of continuing models and the successful ramp-up to full volume production. The investment in future growth could still bring about short-term margin pressure as volumes ramp-up to normal/planned levels but should migrate towards the Metair market guidance of EBIT between 7% and 9% once production stabilises. The Automotive Components Vertical continues to benefit from strong underlying operational performance with growth in OEM volumes.

Within the Energy Storage Vertical, volumes remain above pre-Covid-19 levels driven by strong OEM demand. The Energy Storage Vertical will continue to focus on improving volumes in hard currency export markets and expanding its traded industrial portfolio in South Africa. A major focus for Rombat will be managing the current trend in energy cost in the European region, and recovery of these costs associated with the energy crisis. Inflationary pressures across Europe may impact overall consumer demand. FNB in South Africa continues with efforts to improve competitiveness and market share.

None of Metair's facilities were affected by the earthquakes in Türkiye in February 2023 and there were thankfully no injuries to staff, however, some dealers have been affected and the potential impact to the aftermarket business is currently being assessed.

The consideration of strategic options to unlock short term value within the Energy Storage Vertical has been suspended, largely due to the geopolitical climate within Eastern Europe and global financial instability. Metair continues to actively work towards value creation opportunities within both business Verticals.