



# Annual Report 2019



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4WD & SUV

**TYRES WORTH OWNING**



# Chairman's Letter



Dear Shareholder

Over the past few years, your Company has been pursuing strategies to diversify into new tyre and wheel segments and to build scale that will deliver operating synergies. Being a larger, more diversified business enhances our ability to build brands as well as deliver outstanding experiences and value to our customers.

During the 2019 financial year, and in pursuit of these objectives, the Company:

- Introduced upgraded and new products;
- Advanced the development of further products for release in the 2020 financial year;
- Expanded its wheel distribution into New Zealand and South Africa;
- Leased new premises in Melbourne, blending logistics for Exclusive Tyre Distributors and Dynamic Wheel Company in Victoria;
- Moved customer service operations to Brisbane, investing in people and technology to enhance the value of those services; and
- Launched the Dynamix customer loyalty program in South Africa.

Unfortunately, the positive impact of these initiatives was offset by adverse trading conditions. In particular:

- Import prices rose because of higher raw material costs and a falling AUD:USD exchange rate;
- Gross profit margins fell with competitor responses to higher import prices being unusually erratic and supplier assistance to competitiveness concerns being less than we expected;
- Consumer sentiment deteriorated, reducing demand for tyres generally and for premium products in particular; and
- The South African business was adversely impacted when the production of a key product suddenly ceased during the year.

During the 2019 financial year, the Company generated annual revenue of \$168.4 million from its business base covering tyre and wheel importing and original equipment supplying, with a sectoral focus on 4WD, SUV and cars. The Company converted this activity to an EBITDA of \$12.8 million.

The Company's balance sheet is strong with net cash at 30 June 2019 of \$6.2 million and a debt to equity ratio of 19%.

Directors declared a final dividend of 2.05 cents per share and a special dividend of 1.5 cents per share (both fully franked) which were paid to shareholders on 13 September 2019, bringing the full year dividend to 4.8 cents (fully franked). The full year dividend (including the special dividend) represents a payout ratio of 62% of net profit after tax but before amortisation (NPATA), which is slightly higher than the Company's policy of paying out 40% - 60% of NPATA.

The Company now employs more than 180 people in three countries (Australia, New Zealand and South Africa), operates 11 distribution centres and utilises another seven third-party distribution facilities. The business now sells more than 1,000,000 tyres and wheels annually to over 2,000 customers.

The difficult trading environment encountered in the 2019 financial year is likely to continue. The Company remains committed to delivering diversity and scale. Rather than changing course, the 2019 financial year result has brought about an acceleration of existing plans to return the Company to a growth trajectory. These initiatives include:

- increasing the scope of our new product development program to have more affordable offerings in all our target segments;
- continuing to shift the source of the product mix to match the source of competing products;
- accelerating the rate at which these new products are released;
- more refined promotional activity in the SUV category;
- accessing new distribution channels;
- driving synergies within the different business units;
- increased investment in technology; and
- increasing the range and sophistication of value adding services offered to customers, especially as they relate to contemporary consumer purchase pathways.

“

The Company remains committed to delivering diversity and scale

”





The Company expects the 2020 financial year to deliver profits similar to the 2019 financial year with the strategic initiatives forecast to provide a foundation for a return to growth in the 2021 financial year.

While the Company continues to engage with potential acquisition targets, given current market conditions and the Company's share price, potential acquisitions would have to pass a very rigorous risk assessment and be capable of execution without distracting management's attention from completing essential organic growth projects.

I would like to welcome Mr. Colin Skead who joined Exclusive Tyre Distributors Australia as Chief Operating Officer in April 2019. Staff and management have worked diligently and constructively during a difficult period and that effort is appreciated.

I would also like to thank our customers, suppliers and shareholders, as well as my co-directors, for the support they have delivered over the past year.

Yours faithfully  
**Murray Boyte**  
*Chairman*

# Managing Director's Report



## Introduction

FY19 was the Company's first full year as an Australian listed public company (ASX Code NTD). The Company completed an initial public offering (IPO) and was first listed on the ASX in December 2017.

## Operations - Overview

The Company carries on the business of importing and wholesaling tyres and wheels in Australia, New Zealand and South Africa. We employ over 180 people and sell to over 2,000 customers. The Company did not change the nature of its business during the 2019 financial year.

Figure A (below) describes our distribution footprint.

During the year, we leased premises in Melbourne to combine the warehouse operations of Dynamic Wheel Company and Exclusive Tyre Distributors in Victoria.

The Group is engaged in the following businesses:

- premium 4WD, SUV and passenger tyre importing and wholesaling (Exclusive Tyre Distributors in Australia and New Zealand, as well as TyreLife Solutions in South Africa, which is referred to as Top Draw Tyres in the accompanying financial report);

- wheel importing and wholesaling (Dynamic Wheel Company);
- supplying tyres and wheels as original equipment to caravan manufacturers (MPC); and
- broad based and budget tyre importing and wholesaling (Statewide).

Figure B (right) illustrates these entities, the brands they sell and some logos used in connection with promotions:

The Company focuses on addressing the needs of the following segments within the broad tyre and wheel industry:

- premium 4WD, SUV and passenger tyres;
- steel and alloy wheels for 4WD vehicles;
- original equipment wheels and tyres for caravans and trailers; and
- lower priced tyres.

The Company is dedicated to being a value adding, trusted supplier to its customers.

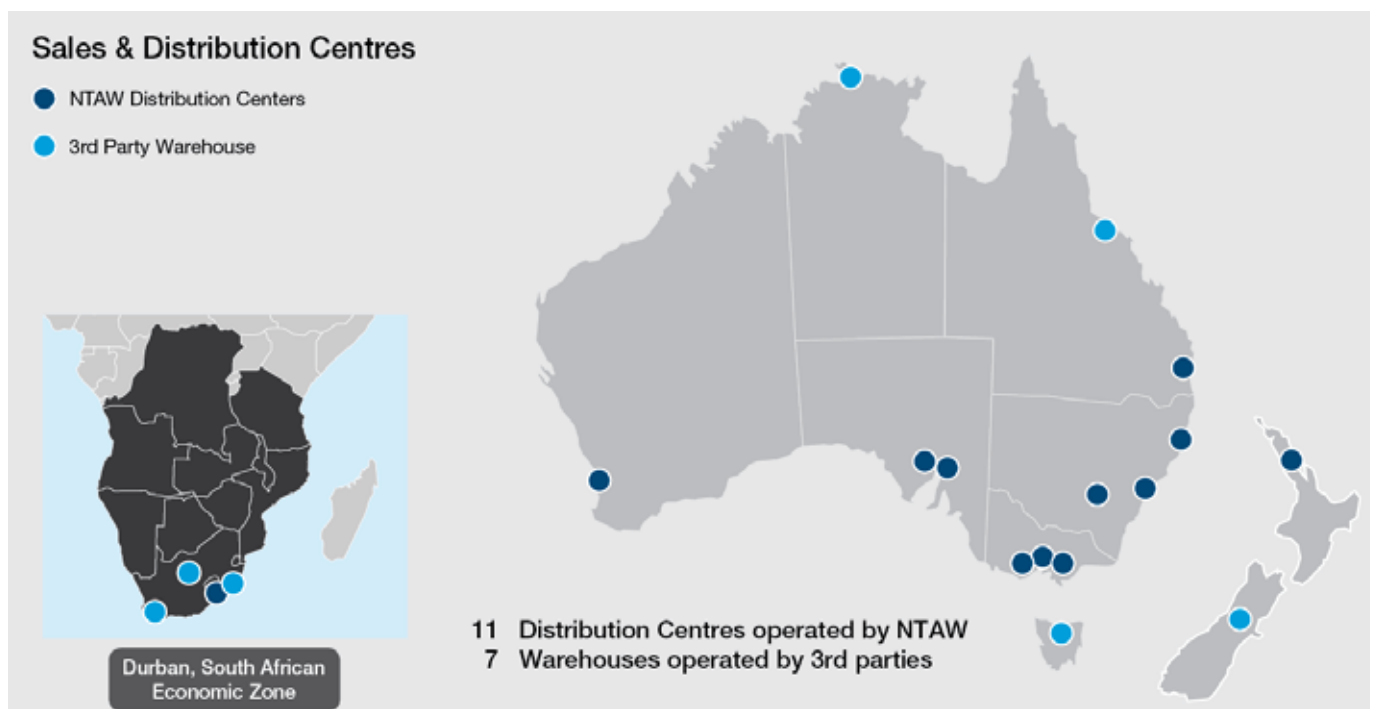


Figure A



## A diversified tyre and wheel wholesaler



Figure B

### Operations – 2019 Financial Year

The Group has been executing various projects to respond to changes in our operating environment (e.g. the rise of SUV vehicles, the growing number of 4WD tyre choices, changes to consumer purchase pathways, surplus capacity in the industry and the emergence of retailers challenging incumbent tyre specialty stores).

During FY19, the Group:

- released an upgraded version of the popular Cooper AT3 all-terrain 4WD tyre;
- launched the new Cooper ATT SUV tyre;
- continued the development of more new products to be released in FY20;
- launched the new “Trilogy” and “Dirty Life” wheels;
- commenced selling wheels in South Africa and expanded the range of wheels sold in New Zealand;
- consolidated customer service activities (e.g. call centres) in Brisbane, recruited experienced call centre personnel and invested in relevant new technology;
- re-organised some sales team structures with some related cost savings;
- launched Dynamix, a new customer loyalty program in South Africa;
- completed a consumer segmentation project to better inform promotional choices, especially in the SUV category;

- grew membership of existing customer loyalty programs, including the movement of many customers to higher levels within those programs;
- grew our overall customer base; and
- increased the volume of cross sold products.

The benefits that might have otherwise flowed from the completion of these tasks in the FY19 result were diminished by the following changes to our operating environment:

- Import prices rose with AUD falling = 10% against the USD and factory prices rising with the increased cost of some raw materials (especially carbon black);
- US sourced products became more expensive relative to products sourced from Asian manufacturers as those near sourced producers elected to absorb more of the higher raw material costs;
- Inventory building throughout the industry in calendar 2018 maintained pressure on wholesale prices, despite the falling AUD;
- Negative consumer sentiment in Australia and South Africa, with sales of premium products particularly affected;
- Changing consumer preferences – demand for premium mud tyres shifting to all terrain and rugged terrain tyres, with challenges exacerbated by the wide array of 4WD tyres now available with various price/quality levels; and
- The discontinuation of a key product in South Africa (due to a factory closure).



# Managing Director's Report cont...

## FY19 Results

This FY19 Annual Report contains some comparison of the FY19 results to the FY18 pro forma results published last year. The FY18 pro forma results were prepared to provide a normalised basis for comparing that year's results to financial information included in the IPO prospectus.

The Company acquired Statewide Tyre Distribution (Statewide) in May 2018 and the FY19 results include a full year's trading from that business that was not included in the FY18 pro forma results. Apart from the inclusion of the Statewide business, the FY19 financial statements do not include any business that was not included in the FY18 pro forma financial statements.

## Results summary:

	FY18 Pro forma	FY19 Actual
<b>Tyre Units</b>	776,123	982,696
<b>\$'000</b>		
<b>Revenue</b>	153,402	168,376
<b>Gross Profit</b>	50,078	48,418
<b>Gross Profit (%)</b>	32.6%	28.8%
<b>Operating Costs as % of total revenue</b>	21.8%	21.2%
<b>EBITDA</b>	16,940	12,821
<b>EBITDA Margin</b>	11.0%	7.6%
<b>NPAT</b>	9,741	6,676
<b>NPATA attributable to shareholders</b>	10,740	7,967







The key financial outcomes in FY19 were:

- Volumes and revenue (excluding Statewide) were both lower than the FY18 pro forma due to falls in premium product sales, weakness in truck and budget products and issues arising from a key product being discontinued in South Africa.
- Total revenue for FY19 was \$168.4 million.
- Gross Profit (excluding Statewide) fell with higher import prices, falling volumes and despite price increases. Concerns about competitiveness meant the Group had to absorb higher cost of sales, with gross margin falling to 28.8% compared to 32.6% in the FY18 pro forma.
- Expenses in FY19 (allowing for Statewide) were approximately the same as the FY18 pro forma.
- FY19 EBITDA was \$12.8 million compared to a FY18 pro forma EBITDA of \$16.9 million.
- FY19 NPATA was \$7.97 million compared to FY18 pro forma NPATA of \$10.7 million.
- At 30 June 2019, the Group had:
  - Net assets of \$70.7 million;
  - Net tangible assets of \$50.4 million; and
  - Cash of \$19.5 million and net cash of \$6.2 million.
- The Company has paid a final dividend of 2.05 cents per share and a special dividend of 1.5 cents per share (both fully franked) to shareholders on 13 September 2019, bringing the full year dividend to 4.8 cents (fully franked).

## Outlook

The following activities represent the Group's response to the operating environment that emerged in FY19:

- With the use of pricing levers for premium products apparently diminished by other market forces, the Group will accelerate the reconfiguration of the product mix to more affordable alternatives in all segments;
- Changing the product mix will include a focus on near sourced manufacturing, with supplies coming from the same countries as our competitors;
- Enhanced value adding services for our customers to encourage the adoption of new products and to attract new customers;

- Continuing investment in IT platforms as part of offering additional services and to tap into new consumer purchase pathways;
- Focussing more on brand building promotional activity to build consumer awareness and consideration;
- Increasing revenue from cross selling within the group and identifying cost synergies.

The Group is not expecting profit growth in FY20 because:

- Market conditions are not likely to improve. In particular, pressure on the supply side (surplus capacity, import pricing from Asia and USA import prices decoupling from Asia together with continued discounting by competitors) as well as sluggish consumer demand (impacting premium products) will continue to affect volume and margins;
- The Group's solutions (new products, near source procurement, operating improvements and accessing new distribution channels) will take time to implement;
- Customer gains and losses are expected as the Group seeks customers willing to distribute an expanded array of products, with the full benefit of the expanded distribution footprint likely to contribute more in FY21; and
- Additional costs associated with the accelerated execution of various projects will be incurred in FY20 but will not generate returns until Q4 of FY20 and into FY21.

The Group is therefore treating FY20 as a year of transition to a broader product and customer base substantially reducing dependency on premium products and positioning all businesses for more robust and sustainable growth after FY20.



The Company has paid a final dividend of 2.05 cents per share and a special dividend of 1.5 cents per share (both fully franked) to shareholders on 13 September 2019, bringing the full year dividend to 4.8 cents (fully franked).





## Acknowledgements

FY19 was a disappointing year. While the Group has been executing various strategies in response to a changing operating environment, the headwinds experienced in FY19 negated the expected growth from those measures.

Our people, suppliers and customers continued to support the Group in FY19 and we remain grateful for those contributions.

**Peter Ludemann**  
Managing Director

“

During FY19, the Group consolidated customer service activities (e.g. call centres) in Brisbane, recruited experienced call centre personnel and invested in relevant new technology

”

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**SUV TYRES?**

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# Financial Report 2019





# Directors' Report

30 June 2019

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of National Tyre & Wheel Limited (referred to hereafter as the 'Company', 'NTAW' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2019.

## Directors

The following persons were directors of National Tyre & Wheel Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Murray Boyte	Non-Executive Chairman
(John) Peter Ludemann	Chief Executive Officer and Managing Director
Terence (Terry) Smith	Executive Director
William (Bill) Cook	Non-Executive Director
Robert Kent	Non-Executive Director

## Principal activities

The principal activity of the Group during the financial year ended 30 June 2019 was the distribution and marketing of motor vehicle tyres, wheels, tubes and related products in Australia, New Zealand and South Africa.

NTAW is the holding company for the following operating subsidiaries:

- Exclusive Tyre Distributors Pty Ltd ("ETD");
- Exclusive Tyre Distributors (NZ) Limited ("ETDNZ");
- Dynamic Wheel Co Pty Ltd ("Dynamic");
- M.P.C. Mags and Tyres Pty Ltd ("MPC");
- Statewide Tyre Distribution Pty Ltd ("Statewide"); and
- Top Draw Tyres Proprietary Limited ("Top Draw Tyres")

The tyre and wheel industries are large with retail revenue in Australia estimated to exceed \$5bn. NTAW segments the tyre and wheel market by vehicle type, geography and consumer behaviour. The subsidiary entities seek to operate in segments with products and business models that offer competitive advantages.

ETD and ETDNZ are the exclusive importers and wholesale distributors of Cooper, Mickey Thompson, Starfire and Mastercraft branded 4WD, SUV and passenger tyres in Australia and New Zealand. They also import Federal branded tyres in Australia (excluding Queensland) and New Zealand. Cooper and Mickey Thompson products are well known to consumers for their reliability and performance. ETD and ETDNZ offer value adding services to retail customers and these services underpin strong retail support for the promotion of their products.

Dynamic has a leading position in Australia for the importation and wholesale distribution of steel wheels, including the proprietary Dynamic brand.

MPC specialises in supplying wheel and tyre packages for caravan and trailer manufacturers in Australia including the proprietary MPC brand.

Statewide Tyre Distributors has a leading position in South Australia for the importation and wholesale distribution of tyres and wheels, supplying less expensive products than the Group's other wholesale businesses and operating in the truck and bus tyre segment.

Top Draw Tyres is the exclusive importer and wholesale distributor for Cooper and Mickey Thompson branded 4WD, SUV and passenger tyres in South Africa and neighbouring countries.

In addition to the results from the operation of these well established businesses, the Group is executing growth strategies described below under the heading "Review of Operations".

NTAW management believes there have been no significant changes in the nature of the Group's activities during this period.

# Directors' Report

30 June 2019



## Dividends

Dividends paid during the financial year were as follows:

	Consolidated	
	2019	2018
	\$'000	\$'000
Final dividend for the year ended 30 June 2018 of 2.30 cents per ordinary share	2,353	-
Interim dividend for the year ended 30 June 2019 of 1.25 cents per ordinary share	1,283	-
Final dividend for the year ended 30 June 2017 (declared and paid prior to the IPO)	-	15,000
Interim dividend for the year ended 30 June 2018 of 1.00 cents per ordinary share	-	1,011
Dividends to non-controlling interests	-	656
	<u>3,636</u>	<u>16,667</u>

At the date of signing these financial statements, the Company has declared a fully franked final dividend of 2.05 cents per share and a fully franked special dividend of 1.50 cents per share with a record date of 3 September 2019 and a payment date of 13 September 2019. The total dividends payable are \$2.1 million and \$1.5 million. The financial effect of these dividends have not been brought to account in the financial statements for the year ended 30 June 2019 and will be recognised in subsequent financial reports.

## Review of operations

NTAW's Board and management are pleased to report that the result for the financial year is ahead of the FY2019 trading update issued to the market on 2 May 2019.

## Results highlights

### Statutory results

NTAW has reported total revenue of \$168.4 million (2018: \$146.3 million) for the financial year, an increase of \$22.1 million (15.1%) on the prior year resulting from the acquisition of several entities during the prior period.

NTAW's statutory profit for the Group after providing for income tax and non-controlling interest amounted to \$6.4 million (30 June 2018: \$4.5 million).

The FY2019 year results are representative of a full reporting period for the Group in its current operating structure. The result for the previous year was impacted by the one-off costs associated with the initial public offer ("IPO") of NTAW, pre-IPO acquisition expenses, recognition of share-based payment expenses relating to the former option plan and other items as described in the FY2018 accounts.

NTAW has a strong balance sheet with net assets of \$70.7 million (2018: \$66.7m). The shareholders' funds to total assets is 59.8% (2018: 54.8%) and net cash of \$6.2 million (2018: \$5.2 million).

### Pro forma results

In addition to the statutory results, pro forma financial information for the prior year is presented below to enable the result for the year to be compared to the financial information contained in NTAW's Prospectus and prior year result. The pro forma information is provided on an unaudited basis and Table 3 provides a reconciliation between the statutory and pro forma performance information.

NTAW's result for the year was a profit after providing for income tax and non-controlling interests and excluding amortisation ('NPATA') of \$8.0 million compared with an actual pro forma NPATA for the prior year of \$10.7 million.

Pro forma adjustments were made in the prior year to reflect the inclusion of the acquired interests in Cotton and Top Draw Tyres with effect from 1 July 2017, and to reflect the cost structure of the Group as a listed entity. Statewide's results are included in the statutory results for the year but have been excluded from the prior year pro forma results in each of the following tables as it was not acquired until 31 May 2018.

### Overall performance

The results have been adversely affected by sluggish consumer demand, import price rises and increased price competition which has had a consequential effect on gross margins.

# Directors' Report

30 June 2019

NTAW management has proactively responded to changing market conditions and introduced a number of new initiatives and growth strategies that are expected to have a positive impact in the future. These include:

- New products to both replace existing models and target new segments (based on vehicle type, consumer characteristics and/or price (value) position);
- NTAW is accelerating the pace at which new products are released. Examples include Cooper's AT3, ATT and Evolution MT tyres, the Dick Cepek EXP, Dirty Life Alloy wheels, Dynamic's Liberty wheel and the Momo tyre brand in South Africa;
- Promoting a new range of SUV and passenger tyres launched in Australia in 2016 targeting an increase in the Group's share of these markets from a low base;
- Customer loyalty programs to support value adding relationships with existing customers and provide a platform for developing new customers;
- A communication plan and a distribution model compatible with contemporary consumer purchase pathways;
- Introducing new wheel products from the Dynamic stable of products to New Zealand and South Africa;
- Expanding the business presently only operated by Statewide in South Australia and the NT;
- Various business improvement initiatives, including:
  - Upgrading customer contact centres with new technology and the recruitment of people who specialise in customer contact services;
  - Having field sales teams concentrate more on key accounts and business development;
  - Harmonising financial reporting and enterprise management throughout the Group;
  - Accelerating the movement of inventory; and
  - Increasing the range and depth of value adding services supplied by each business.
- Seeking access to near source manufacture from our suppliers;
- Achieving synergies within the group from cross selling and shared services;
- Continuing to seek diversity and scale by building a pipeline of other tyre and/or wheel importers NTAW could potentially acquire.

NTAW's core business is very sound and well positioned to capitalise on market opportunities. Management is working on a number of strategic initiatives covering supply chain management and new product development (especially in the SUV segment) that will enhance the future development of NTAW's core business.

## Key operating metrics of NTAW

Table 1 below shows some of the key operating metrics and ratios for NTAW for the financial year.

NTAW sold 982,696 tyre units in the financial year compared with 776,123 in the 2018 financial year. While the Group achieved year on year growth, 4WD tyre unit sales growth in Australia was below expectations due to sluggish consumer demand and intense price competition. FY2019 volumes include units that were not included for a full year in the FY2018 accounts because Statewide was not a subsidiary for all of FY2018.

The Group has reported a full year gross profit margin of 28.8% (2018: 32.6% pro-forma) and an EBITDA margin of 7.6% (2018: 11.0% pro-forma). The gross profit margin reduction was driven by higher than expected USD import prices, less favourable than expected exchange rates between the AUD and USD and price discounting by competitors. The Group's operating costs as a percentage of sales were 21.2%, down from 21.8% in the prior year.

	<b>Pro forma Actual FY2018</b>	<b>Statutory Actual FY2018</b>	<b>Statutory Actual FY2019</b>
Number of tyres sold	776,123	-	982,696
Gross profit margin	32.6%	32.6%	28.8%
Operating costs as % of total revenue	21.8%	24.8%	21.2%
EBITDA margin	11.0%	7.8%	7.6%





## Pro forma Historical Income Statements, Pro forma Forecast and Statutory Forecast Income Statements

Table 2 below compares the result for the year with the Pro forma Actual FY2018 result.

NTAW has reported full year sales revenue of \$168.4 million (FY2018 pro forma actual \$153.4 million) and gross profit on sales of \$48.4 million (FY2018 pro forma actual \$50.1 million). The Group has reported a full year EBITDA of \$12.8 million (FY2018 pro forma actual \$16.9 million).

The result for FY2019 contains an unrealised foreign exchange gain on foreign exchange contracts and foreign currency denominated suppliers of \$0.1 million, a share-based payment expense for shares gifted to employees by key management personnel of \$0.13 million (refer to note 36) and one off due diligence costs of \$0.15 million resulting in an underlying EBITDA for the year of \$13.0 million.

<b>Table 2</b>	<b>Pro forma Actual FY2018</b>	<b>Statutory Actual FY2018</b>	<b>Statutory Actual FY2019</b>
<b>\$'000</b>			
Sales revenue <sup>1</sup>	153,402	146,158	168,376
Cost of sales	(103,324)	(98,507)	(119,958)
<b>Gross profit</b>	<b>50,078</b>	<b>47,651</b>	<b>48,418</b>
Other revenue	227	11	43
Employee benefits expense	(16,826)	(18,357)	(18,088)
Advertising & promotions	(5,761)	(5,094)	(5,813)
Occupancy expense	(3,749)	(3,657)	(4,410)
Other expenses	(7,029)	(9,166)	(7,329)
<b>EBITDA</b>	<b>16,940</b>	<b>11,388</b>	<b>12,821</b>
Depreciation	(707)	(696)	(774)
Amortisation of intangibles	(1,639)	(1,431)	(1,854)
<b>EBIT</b>	<b>14,594</b>	<b>9,261</b>	<b>10,193</b>
Share of net profit of associate	-	133	-
Interest (net)	(357)	(339)	(542)
<b>Profit before tax</b>	<b>14,237</b>	<b>9,055</b>	<b>9,651</b>
Income tax expense	(4,496)	(3,700)	(2,975)
<b>NPAT</b>	<b>9,741</b>	<b>5,355</b>	<b>6,676</b>
Non-controlling interests	(427)	(878)	(286)
<b>NPAT attributable to NTAW</b>	<b>9,314</b>	<b>4,477</b>	<b>6,390</b>
Amortisation [addback]	1,426	1,280	1,577
<b>NPATA attributable to NTAW</b>	<b>10,740</b>	<b>5,757</b>	<b>7,967</b>

Notes to Table 2:

<sup>1</sup> Revenue from sale of goods only, excluding interest income, share in associates and other revenue.

# Directors' Report

30 June 2019

Table 3 provides a reconciliation between the prior year statutory and pro forma performance information.

<b>Table 3</b>		<b>FY2018</b>	<b>FY2018</b>
<b>\$'000</b>	<b>Notes</b>	<b>Actual</b>	<b>Actual</b>
		<b>Revenue</b>	<b>NPAT</b>
Pro forma amount		153,402	9,741
Acquired businesses			
- Cotton	1	(3,193)	(140)
- Top Draw Tyres	1	(8,804)	(414)
- Statewide	1	1,968	-
Inter-company eliminations	2	2,785	-
Equity accounting Top Draw Tyres	3	-	133
Unrealised FX Translation	4	-	(628)
Offer costs	5	-	(1,455)
Public company costs	6	-	28
Share based payments	7	-	(2,057)
Other pro forma adjustments	8	-	(44)
Net interest	9	-	18
Taxation adjustment	10	-	172
Statutory amount		<u>146,158</u>	<u>5,354</u>

## Notes to Table 3:

- Revenue and NPAT relating to acquired businesses - reflects the trading of the Group from 1 July 2017 to the dates on which they became controlled (to the extent such trading was not already included in the FY2018 statutory financials for NTAW).
- Inter-company eliminations – reflects transactions by NTAW with the acquired businesses from 1 July 2017 to the dates on which they became controlled which are required to be eliminated (to the extent such trading was not already included in the FY2018 statutory financials for NTAW)
- Equity accounting Top Draw Tyres - reflects the equity accounted share of Top Draw Tyres' profit for the period from 1 November 2017 until the date of control 13 December 2017.
- Unrealised FX translations – reflects the non-cash accounting for foreign exchange translations at 30 June 2018 in accordance with AASB 121.
- Offer costs – reflects the amounts expensed in FY2018 in relation to the IPO. \$1.475 million of the offer costs were tax effected and netted off against issued capital.
- Public company costs – reflects the increase in corporate costs expected as a consequence of the Company becoming ASX listed.
- Share based payments – reflects a share based payments remuneration expense based upon the LTI scheme operating prior to the IPO.
- Other pro forma adjustments – includes one-off costs that are considered to be non-recurring as well as Group elimination entries.
- Interest (net) – Interest (net) reflects the expense on the corporate debt facility and finance leases at completion of the IPO, offset by interest income on cash.
- Taxation adjustment – Net taxation effect of other residual items between forecast pro forma taxation expense (including recurring non-deductible items) and taxation statutory expense.

## Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Group during the financial year.

## Financial position

Key financial information in relation to the Group's financial position at year end is shown below:

	<b>30 Jun 2019</b>	<b>30 Jun 2018</b>
Total Assets (\$'000)	118,205	121,588
Net Assets (\$'000)	70,744	66,663
Cash and cash equivalents (\$'000)	19,554	19,608
Debt (\$'000)	13,335	14,435
Shares on issue ('000)	102,891	102,321
Dividends per security (cents) – post IPO only, including final dividend declared	4.8	3.3

Significant balance sheet movements during the financial year were as follows:

- Total assets decreased by \$3.3 million, driven by the amortisation of intangibles in the period of \$1.85 million and a decrease in trade and other receivables of \$1.1 million.
- Total liabilities decreased by \$7.4 million driven by a reduction in trade creditors of \$5.6 million and a decrease in net borrowings of \$1.1 million.
- Issued capital increased by \$0.5 million which included the issue of new shares under the DRP.



## **Matters subsequent to the end of the financial year**

Apart from the dividend declared as disclosed above and the lapsing of 1.63 million options as noted in the Remuneration Report and note 36, no other matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

## **Likely developments and expected results of operations**

The Group will continue to pursue growth in revenue in the next financial year as it seeks to further diversify its business and build the scale of its operations in the importation and wholesale distribution of tyres and wheels in Australia, New Zealand and South Africa. Focus areas will include organic growth in the markets within which it operates, including capitalising on the opportunities for revenue and cost synergies associated from the businesses already acquired, and considering further acquisition growth over time. The Group is not expecting profit to grow in FY2020 because it will be investing in new products and other operational improvements that are expected to deliver returns that will grow profits after FY2020.

## **Material business risks**

The Board is committed to monitoring and mitigating business risks faced by the Group, including the following key risks that have the potential to materially impact its financial prospects:

- **Supplier risk** - the Group is reliant on long-term formal distribution and licence agreements with key suppliers, including Cooper Tire and Mickey Thompson for the supply of many products it wholesales. The Group owns customer relationships and controls the marketing of brands, but it relies on rights under formal long-term agreements granted by Cooper Tire and other suppliers to access those brands. The Group proactively engages in maximising its key relationships to mitigate such risks.
- **Foreign exchange risk** - a significant proportion of the Group's costs and expenses are transacted in foreign currencies. Adverse movements between the Australian dollar, New Zealand dollar and South African Rand against the US dollar may increase the price at which the Group acquires its trading stock and result in volatility in profitability to the extent that the Group may or may not be able to pass on price changes to its customers (after allowing for the impact inventory cycles have on the time it takes for exchange rate movements to impact on cost of goods sold and the behaviour of competitors). The Company also seeks to use foreign exchange contracts to mitigate its foreign exchange exposures. The effect of foreign currency translation on operating results from offshore operations remains inherent in the Group's business.
- **Business integration risk** – the Group has acquired interests in several businesses during the FY2018 year. Successfully integrating and extracting synergies from acquisitions and managing growth is critical to the Group's continued performance and earnings from the acquisitions. The Group's Board and management is experienced in acquiring and integrating businesses, conducts comprehensive due diligence and ensures an integration plan is followed.
- **Retention of key personnel** - the Group's future success is significantly dependent on the expertise and experience of its key personnel and management. The loss of services of key members of management, and any delay in their replacement, or the failure to attract additional key managers to new roles could have a material adverse effect on NTAW's financial performance and ability to deliver on its growth strategies.
- **Customer risk** – the Group is dependent on its ability to retain its existing customers and attract new customers. Although customer concentration is low, sales revenue would be adversely affected if all members of a chain or group decided not to purchase products from the Group. The Group proactively manages its customer relationships and has established value adding customer loyalty programs.
- **Risk of competition** - the tyre and wheel wholesale market is highly competitive. Competition is based on factors including price, service, quality, performance standards, range and the ability to provide customers with an appropriate range of quality products in a timely manner. A failure by the Group to effectively compete with its competitors may adversely affect the Group's future financial performance and position.

## **Environmental regulation**

The Group is not subject to any significant environmental regulation under Australian Commonwealth or State law.



# Directors' Report

30 June 2019

## Information on directors

**Name:** Murray Boyte  
**Title:** Independent, Non-Executive Chairman  
**Experience and expertise:** Mr Boyte has over 35 years' experience in merchant banking and finance, undertaking company reconstructions, mergers and acquisitions in Australia, New Zealand, North America and Hong Kong. In addition, he has held executive positions and Directorships in the transport, horticultural, financial services, investment, health services and property industries.  
**Other current directorships:** Abano Healthcare Group Limited (NZX); Eureka Group Holdings Limited (ASX: EGH); Hillgrove Resources Limited (ASX: HGO)  
**Former directorships (last 3 years):** Unity Pacific Group (ASX: UPG)  
**Special responsibilities:** Member of Audit and Risk Committee; Member of Remuneration and Nominations Committee  
**Interests in shares:** 156,237 ordinary shares  
**Interests in options:** Nil

**Name:** John (Peter) Ludemann  
**Title:** Chief Executive Officer ('CEO') and Managing Director  
**Qualifications:** Degrees in Law and Commerce (Marketing) from University of New South Wales ('UNSW')  
**Experience and expertise:** Mr Ludemann joined the Group as a director in 2012 and become full time CEO of NTAW in July 2013. He has worked as a commercial lawyer, a director of numerous private companies, the Managing Director of a Life Science Investment firm and as a Private Equity Investment Manager at AMP Capital. He has been the driving force behind the evolution of NTAW from a closely held family trust carrying on a niche 4WD tyre wholesale business to a more widely held entity operating in the car, SUV and 4WD tyre segments. He has managed the acquisition and integration of Dynamic, MPC, National Tyre Wholesalers, Statewide and Top Draw. Mr Ludemann has been responsible for the execution of a succession plan for NTAW founders that has included the distribution of retained earnings, the creation of a public company corporate structure, the IPO and listing of NTAW as well as generational change within the Group.  
**Other current directorships:** Nil  
**Former directorships (last 3 years):** Nil  
**Special responsibilities:** Nil  
**Interests in shares:** 2,759,928 ordinary shares  
**Interests in options:** Nil

**Name:** Terence (Terry) Smith  
**Title:** Executive Director  
**Experience and expertise:** Mr Smith has over 40 years' experience in tyre importing, wholesaling and retailing. Terry's career is one of successful entrepreneurship, as he and wife Susanne, were responsible for taking Exclusive Tyre Distributors ('ETD') from a start-up business to one of the largest independent national tyre wholesalers in Australia.  
**Other current directorships:** Nil  
**Former directorships (last 3 years):** Nil  
**Special responsibilities:** Member of Remuneration and Nominations Committee  
**Interests in shares:** 27,255,297 ordinary shares  
**Interests in options:** Nil

# Directors' Report

30 June 2019



Name: William (Bill) Cook  
Title: Independent, Non-Executive Director  
Experience and expertise: Mr Cook is an Independent Non-Executive Director of NTAW. Mr Cook commenced his career at Ford Motor Company in finance. He worked for Consolidated Press Holdings with the late Kerry Packer from 1983 to 1996 as Head of M&A and worldwide reporting. After two years as General Manager of Qantas Flight Catering's Sydney business he undertook Private Equity investment consulting roles, and subsequently joined AMP Capital as an investment manager in the Private Equity team. Since leaving AMP, Mr Cook has served as non-executive director for a number of companies, including NTAW since 2013.  
Other current directorships: Nil  
Former directorships (last 3 years): Nil  
Special responsibilities: Chair of Audit and Risk Committee; Member of Remuneration and Nominations Committee  
Interests in shares: 303,132 ordinary shares  
Interests in options: Nil

Name: Robert (Rob) Kent  
Title: Independent, Non-Executive Director  
Qualifications: Bachelor of Business degree (Marketing) from the Queensland University of Technology and is a Graduate of the Australian Institute of Company Directors.  
Experience and expertise: Mr Kent was the Managing Director of Publicis Mojo (Queensland), part of a global advertising firm, from 2000 to 2017. He was also a member of the Publicis National Board of Management. Rob is an experienced marketing executive who has managed many campaigns involving sales, promotion and brand building. He was also Managing Director of Personalised Plates Queensland from 2013 to 2017. Under his management, sales grew by 34% over 4 years with internet traffic providing 75% of revenue. Mr Kent was a Director of ACT for Kids (a charity) from 2001 to 2013 and member of the Board of South Bank Business Association in Brisbane from 2002 to 2009.  
Other current directorships: Nil  
Former directorships (last 3 years): Nil  
Special responsibilities: Chair of Remuneration and Nominations Committee; Member of Audit and Risk Committee  
Interests in shares: 204,901 ordinary shares  
Interests in options: Nil

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

## Company secretaries

### *Jason Lamb*

Mr Lamb is the Chief Financial Officer and joint Company Secretary. Mr Lamb has nearly 20 years' accountancy experience. He is a Certified Practising Accountant with a Bachelor of Commerce (Accounting) and a Bachelor of Economics from the University of Queensland. Mr Lamb was responsible for setting up the financial accounting systems for NTAW. He has also been responsible for all financial due diligence work relating to business acquisitions and the establishment of financial reporting systems for those operating entities. He participates in all Board meetings for NTAW and each operating entity as well as overseeing the production of financial reports for all entities.

### *Laura Fanning*

Mrs Fanning is the joint Company Secretary and was appointed on 8 February 2018. Mrs Fanning is a Chartered Accountant and Chartered Secretary with more than 20 years' financial, governance and commercial experience. She has held Company Secretary and senior finance position positions in several listed and unlisted companies.

# Directors' Report

30 June 2019

## Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2019, and the number of meetings attended by each director were:

	<i>Full Board</i>		<i>Remuneration and Nominations Committee</i>		<i>Audit and Risk Committee</i>	
	<i>Attended</i>	<i>Held</i>	<i>Attended</i>	<i>Held</i>	<i>Attended</i>	<i>Held</i>
Murray Boyte	15	15	1	2	4	4
John Peter Ludemann	15	15	1*	1*	1*	1*
Terence Smith	15	15	2	2	3*	3*
William Cook	14	15	2	2	4	4
Robert Kent	14	15	2	2	4	4

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

\* Attended by invitation only

## Remuneration report (audited)

The Board is pleased to present the Company's remuneration report.

The remuneration report details the key management personnel remuneration arrangements for the Group, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

The remuneration report is set out under the following main headings:

- (a) Principles used to determine the nature and amount of remuneration
- (b) Details of remuneration
- (c) Relationship between remuneration and Company performance
- (d) Service agreements
- (e) Share-based compensation
- (f) Equity instruments held by key management personnel
- (g) Other transactions with key management personnel

### **(a) Principles used to determine the nature and amount of remuneration**

The objective of the Group's executive remuneration framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive remuneration with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform with accepted market practice for remuneration and reward. The Board of Directors ('the Board') ensures that executive remuneration satisfies the following key criteria for good remuneration governance practices:

- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage / alignment of executive compensation; and
- transparency.

The Remuneration and Nominations Committee is responsible for reviewing remuneration arrangements for its directors and executives and making recommendations to the Board for consideration and approval. The performance of the Group depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

The Remuneration and Nominations Committee has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the Group, as determined by the Board.



The reward framework is designed to align executive reward to shareholders' interests. The Board considers that it should seek to enhance shareholders' interests by:

- having economic profit as a core component of plan design;
- focusing on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value; and
- attracting and retaining high calibre executives.

Additionally, the reward framework should seek to enhance executives' interests by:

- rewarding capability and experience;
- reflecting competitive reward for contribution to growth in shareholder wealth; and
- providing a clear structure for earning rewards.

Since the Group's listing on the ASX, in accordance with best practice corporate governance, the structure of non-executive director and executive director remuneration is separate.

### *Non-executive directors' remuneration*

Fees and payments to non-executive directors reflect the demands and responsibilities of their role. Non-executive directors' fees and payments are reviewed annually by the Remuneration and Nominations Committee. The chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market. The chairman is not present at any discussions relating to the determination of his own remuneration. Since the Group's IPO, non-executive directors do not receive share options or other incentives.

Under NTAW's constitution, the directors decide the total amount paid to all directors as remuneration for their services. However, under the ASX listing rules, the aggregate non-executive directors' remuneration (ie excluding the Managing Director and executive directors, if any) for a financial year must not exceed the amount fixed by the Company in general meeting. This amount has been fixed at \$750,000 per annum. Any changes to the aggregate remuneration will be put to a general meeting where the shareholders will be asked to approve a maximum annual aggregate remuneration.

The annual base non-executive director fees paid by the Company are \$90,000 per annum for the chairman and \$70,000 per annum for other non-executive Directors. From 1 July 2018, an additional fee of \$10,000 per annum has been paid to the chairman of each Board committee. Directors may also be reimbursed for all travelling and other expenses incurred in connection with their Company duties.

### *Executive director remuneration*

Fees and payments to executive directors reflect the demands and responsibilities of their role. Executive directors' fees and payments are reviewed annually by the Remuneration and Nominations Committee. Details of executive director remuneration are contained in section (d) Service Agreements.

### *Executive remuneration*

The Group aims to reward executives based on their position and responsibilities, with a level and mix of remuneration which has both fixed and variable components.

The Board adopted a new executive remuneration framework, including new short term incentive (STI) and long term incentive (LTI) programs with effect from and including the financial year ending 30 June 2019. The new framework includes the following components:

- Fixed remuneration – comprising base salary, superannuation contributions and other benefits, having regard to comparable market benchmarks. Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the Group and provides additional value to the executive;
- STI program – an 'at risk' component of remuneration where, if individual, business unit and Group performance measures are met, senior executives will be awarded cash bonuses equal to a percentage of their fixed remuneration. Performance measures will include a financial gateway hurdle and non-financial KPIs. The percentage of fixed remuneration received as an STI will be capped, but may vary, between individuals and depending on the level of performance achieved; and
- LTI program – an 'at risk' component of remuneration where senior executives are awarded options which are subject to an earnings per share (EPS) performance condition and a service condition. The number of options to be awarded will be determined by the Board having regard to the overall amount of executive remuneration and the annual profit impact of the options awarded.



# Directors' Report

30 June 2019

The combination of these comprises the executive's total remuneration. The Board believes that this remuneration framework ensures that remuneration outcomes link to Company performance and the long-term interests of Shareholders.

## 2019 STI Program

During FY2019, senior executives' entitlement to an STI was based on achievement of agreed performance objectives including:

- Financial performance
- Operational performance
- Strategy and innovative initiatives
- Workplace health and safety
- Stakeholder satisfaction.

Actual performance criteria varied between executives, having regard to their roles and responsibilities.

No STIs were awarded to key management personnel during the year pursuant to this program as the financial gateway hurdle was not satisfied. Two discretionary bonuses were awarded for specific business unit achievements.

## 2019 LTI Program

Options may be granted under the Employee Share Option Plan which was adopted on 6 November 2017. Each option entitles the participant to subscribe for one ordinary share in the Company. The specific terms relevant to the grant of options are set out in an offer from the Company to the Eligible Person which contains details of the application price (if any) (which must not be for more than nominal consideration), the expiry date, the exercise price, the vesting date, any applicable performance conditions and other specific terms relevant to those options.

During FY2019, 1.63 million options were granted to senior executives, including certain members of the key management personnel, pursuant to the ESOP on the specific key terms:

- The Vesting Date of the options was 30 September 2021 or three years from the Grant Date, whichever is earlier, subject to meeting the Performance Conditions.
- The Performance Period for the Performance Conditions is the period from the Grant Date until the Vesting Date (inclusive of each of those dates).
- The performance conditions were as follows:

- 1) Earnings per share condition – the Company's earnings per share (EPS) for the year ended 30 June 2019 was to be at least 10% higher than its EPS for the year ended 30 June 2018.

Calculation of the EPS growth rate is based upon the EPS results reported in NTAW's audited financial statements for the above years. The Basic EPS reported may be adjusted for items which the Board, in its discretion, considers should be included in, or excluded from, the result.

The Board determined that the FY2018 base EPS for the Options would be 11.5 cents per share. This was based upon the Company's pro forma NPATA attributable to NTAW shareholders, adjusted for the pro forma impact of the impact of Statewide.

- 2) Service condition – continuous employment of the employee with NTAW or one of its subsidiaries from the Grant Date until the Vesting Date.

- The Expiry Date of the options was 30 September 2023 which is two years after the Vesting Date, if not lapsed earlier.
- If the Performance Conditions are not met before the end of the Performance Period, the options will lapse.

The options granted in FY2019 have now lapsed because the EPS condition was not met. As at the date of this report, there were no options outstanding (2018: nil).

It is the Board's intention to grant options to senior executives for the FY2020 LTI. The specific terms of the grant are expected to be finalised in September 2019, and, in the case of the Managing Director, will be subject to shareholder approval.

# Directors' Report

30 June 2019



## (b) Details of remuneration

The key management personnel of the Group in FY2019 consisted of the following directors of National Tyre & Wheel Limited:

- Murray Boyte - Chairman
- John Peter Ludemann - Chief Executive Officer and Managing Director
- Terence Smith - Executive Director
- William Cook - Non Executive Director
- Robert Kent - Non Executive Director

And the following persons:

- Jason Lamb - Chief Financial Officer and Joint Company Secretary
- Chris Hummer - Managing Director, Dynamic
- Georg Schramm - Managing Director, Top Draw Tyres (South Africa)
- Trevor Wren - Managing Director, Statewide
- Roshan Chelvaratnam - Managing Director, MPC

## Amounts of remuneration

Details of the remuneration of key management personnel of the Group are set out in the following tables.

	Cash salary and fees <sup>4</sup> \$	Short-term benefits		Non- monetary \$	Post- employment benefits	Long-term benefits	Share- based payments	Total \$
		Cash bonus FY19 <sup>3</sup> \$	Cash bonus FY18 <sup>1</sup> \$		Super- annuation \$	Long service leave \$	Equity- settled <sup>2</sup> \$	
<b>2019</b>								
<i>Non-Executive Directors:</i>								
M Boyte	82,192	-	-	-	7,808	-	-	90,000
W Cook	73,060	-	-	-	6,940	-	-	80,000
R Kent	55,000	-	-	-	25,000	-	-	80,000
<i>Executive Directors:</i>								
T Smith	83,014	-	-	-	8,192	-	-	91,206
J Ludemann	464,215	-	138,806	7,059	25,000	16,522	-	651,602
<i>Other Key Management Personnel:</i>								
J Lamb	278,627	-	65,506	-	25,000	13,673	-	382,806
C Hummer	151,502	-	-	-	15,502	10,614	-	177,618
G Schramm	364,054	20,488	-	20,119	-	-	-	404,661
T Wren	165,312	20,000	-	-	16,594	16,755	-	218,661
R Chelvaratnam	157,944	-	-	-	16,461	3,998	-	178,403
	<u>1,874,920</u>	<u>40,488</u>	<u>204,312</u>	<u>27,178</u>	<u>146,497</u>	<u>61,562</u>	<u>-</u>	<u>2,354,957</u>

1 Bonuses accrued in FY2018 and paid in FY2019. The 2018 STIs were determined by the Board, having regard to the Company's strategy and ability to achieve the pro forma net profit targets contained in the Prospectus.

2 All options issued during the year and outstanding as at 30 June 2019 lapse as at the date of this report as the performance conditions were not met (therefore no expense was recorded).

3 Discretionary cash bonus resulting from specific business unit achievements which were accrued in FY2019.

4 Including movement in annual leave provisions.

# Directors' Report

30 June 2019

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total
	Cash salary and fees	Cash bonus	Non-monetary	Super-annuation	Long service leave	Equity-settled <sup>4</sup>	
2018	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
M Boyte <sup>1</sup>	55,953	-	-	5,316	-	-	61,269
W Cook	68,650	-	-	6,522	-	98,000	173,172
R Kent <sup>1</sup>	48,191	-	-	2,910	-	-	51,101
<i>Executive Directors:</i>							
T Smith	125,965	-	15,417	11,764	(38,946)	-	114,200
J Ludemann	366,613	227,858	12,329	25,000	7,612	1,331,839	1,971,251
S Smith <sup>2</sup>	50,068	-	-	4,659	913	-	55,640
<i>Other Key Management Personnel:</i>							
J Lamb	235,490	104,678	12,830	32,283	7,929	179,498	572,708
C Hummer	174,268	-	-	14,897	3,276	-	192,441
G Schramm <sup>3</sup>	199,449	-	-	179	-	-	199,628
R Chelvaratnam	181,147	50,790	-	22,894	4,411	-	259,242
	<u>1,505,794</u>	<u>383,326</u>	<u>40,576</u>	<u>126,424</u>	<u>(14,805)</u>	<u>1,609,337</u>	<u>3,650,652</u>

1 Remuneration is from date of appointment to 30 June 2018

2 Remuneration is from 1 July 2017 to date of resignation

3 Remuneration is from 31 December 2017 (date of Top Draw Tyres consolidation) to 30 June 2018

4 Equity settled share based payments comprise the options that vested and were exercised prior to the IPO

The proportion of remuneration linked to performance and the fixed proportion (at target performance levels) are as follows:

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2019	2018	2019	2018	2019 <sup>3</sup>	2018
<i>Non-Executive Directors:</i>						
M Boyte	100%	100%	-	-	-	-
W Cook <sup>1/2</sup>	100%	43%	-	-	-	57%
R Kent	100%	100%	-	-	-	-
<i>Executive Directors:</i>						
T Smith	100%	100%	-	-	-	-
J Ludemann <sup>1</sup>	77%	21%	23%	11%	-	68%
S Smith	-	100%	-	-	-	-
<i>Other Key Management Personnel:</i>						
J Lamb <sup>1</sup>	80%	51%	20%	18%	-	31%
C Hummer	80%	100%	20%	-	-	-
G Schramm	100%	100%	-	-	-	-
T Wren	87%	-	13%	-	-	-
R Chelvaratnam	82%	80%	18%	20%	-	-

1 2018 LTI comprises the options that vested and were exercised prior to the IPO, and does not reflect the current LTI program.

2 Fixed remuneration comprised 100% of amounts received from the date of listing to 30 June 2018.

3 2019 LTI have no expensed value as the performance conditions have not been met.

# Directors' Report

30 June 2019



The proportion of the cash bonus paid/payable or forfeited is as follows:

Name	Cash bonus paid/payable		Cash bonus forfeited	
	2019	2018	2019 <sup>1</sup>	2018
<b>Executive Directors:</b>				
P Ludemann	-	100%	100%	-
<b>Other Key Management Personnel:</b>				
J Lamb	-	100%	100%	-
C Hummer	-	-	100%	-
G Schramm	100%	-	-	-
T Wren	78%	-	22%	-
R Chelvaratnam	-	100%	100%	-

1 Forfeited 2019 cash bonuses are not accrued in the FY2019 result.

## (c) Relationship between remuneration and Company performance

The table below summarises the Group's performance and correlates it to the total key management personnel remuneration for the financial year:

Metric	30 June 2019	30 June 2018
Sales revenue (\$)	168,376,000	153,402,000 <sup>1</sup>
Statutory net profit after tax attributable to shareholders (\$)	6,390,000	4,477,000
Pro forma net profit after tax attributable to shareholders (\$)	6,390,000	9,314,000 <sup>1</sup>
Change in share price (%) <sup>2</sup>	(70)	23
Earnings per share (cents)	6.22	5.25
Total dividends paid (\$)	3,636,561	1,011,121
Key management personnel remuneration (\$)	2,354,957	3,650,652 <sup>3</sup>

1 Pro forma results are as presented on page 5 of the Directors' Report.

2 NTAW listed on the ASX on 15 December 2017 with a share price of \$1.00. Closing price as at 29 June 2018 was \$1.23. Closing price as at 28 June 2019 was \$0.37.

3 Including the cost of options granted and exercised prior to the IPO (\$1,609,337).

## (d) Service agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements with no fixed tenure requirements. Details of these agreements for the FY2019 year are as follows:

Name:	John Peter Ludemann
Title:	Chief Executive Officer and Managing Director
Details:	Mr Ludemann has an annual total fixed remuneration (TFR) of \$503,700 consisting of base salary, superannuation and other benefits. Under the terms of his employment contract, he is eligible to receive short term incentives (STI) with a maximum opportunity of 50% of TFR per annum (at maximum performance levels). The STI will be in the form of an annual cash bonus, subject to the achievement of key performance indicators as determined by the Board. Subject to shareholder approval, Mr Ludemann will also be awarded long term incentives (LTI) under NTAW's Employee Share Option Plan. He has statutory leave entitlements and is entitled to 5 weeks annual leave per year. Either party may terminate the contract on 6 months' notice. In the case of termination by NTAW, NTAW may provide payment in lieu of notice. Mr Ludemann's employment contract does not contain any express redundancy provisions. Mr Ludemann's contract contains a 5 year non-compete restraint within Australia and New Zealand and a 12 month non-solicitation of employees, contractors and clients who deal with NTAW.



# Directors' Report

30 June 2019

Name: Terry Smith  
Title: Executive Director  
Details: Mr Smith's fixed remuneration package is \$70,000 inclusive of statutory superannuation contribution and a car allowance of \$22,300. He has statutory leave entitlements. Mr Smith is employed on a part time basis. Either party may terminate the contract on 6 months' notice. In the case of termination by NTAW, NTAW may provide payment in lieu of notice. Mr Smith is entitled to redundancy pay in accordance with the NTAW's legal obligations. Mr Smith's contract contains a 6 month non-compete restraint within Australia and a 6 month non-solicitation of employees, contacts and clients with whom he has contact with, or influence over.

Name: Jason Lamb  
Title: Chief Financial Officer and joint Company Secretary  
Details: Mr Lamb has an annual total fixed remuneration (TFR) of \$303,644 consisting of base salary, superannuation and other benefits. Under the terms of his employment contract, he is eligible to receive short term incentives (STI) with a maximum opportunity of 40% of TFR per annum (at maximum performance levels). The STI will be in the form of an annual cash bonus, subject to the achievement of key performance indicators as determined by the Board. Mr Lamb will also be awarded long term incentives (LTI) under NTAW's Employee Share Option Plan. He is eligible for short term incentives as determined by the Board. Mr Lamb has statutory leave entitlements. Either party may terminate the contract on 6 months' notice. In the case of termination by NTAW, NTAW may provide payment in lieu of notice. He is entitled to redundancy pay in accordance with NTAW's legal obligations. Mr Lamb's contract contains a 6 month non-compete restraint within Australia and a 6 month non-solicitation of employees, contacts and clients with whom he has contact with, or influence over.

Name: Chris Hummer  
Title: Managing Director, Dynamic  
Details: Mr Hummer has an annual total fixed remuneration (TFR) of \$181,770 consisting of base salary, superannuation and other benefits. Under the terms of his employment contract, he is eligible to receive short term incentives (STI) with a maximum opportunity of 40% of TFR per annum (at maximum performance levels). The STI will be in the form of an annual cash bonus, subject to the achievement of key performance indicators as determined by the Board. Mr Hummer will also be awarded long term incentives (LTI) under NTAW's Employee Share Option Plan. He has statutory leave entitlements. Either party may terminate the contract on 3 months' notice. In the case of termination by Dynamic, Dynamic may provide payment in lieu of notice. Mr Hummer is entitled to redundancy pay in accordance with the Company's legal obligations. Mr Hummer's contract contains a 12 month non-compete restraint within as specified geographical area and a 12 month non-solicitation of employees, contacts and clients with whom he has contact with, or influence over.

Name: Georg Schramm  
Title: Managing Director, Top Draw (South Africa)  
Details: Mr Schramm's employment contract is governed by South African law. His fixed remuneration package is R278,000 per month and he is entitled to car and mobile phone allowances totalling R22,300 per month. Either party may terminate the contract on 6 months' notice. Where Mr Schramm is terminated due to operational requirements, the termination will be governed by Top Draw (South Africa) policies or practices or, if no policy or practice exists, in accordance with the law.

# Directors' Report

30 June 2019



**Name:** Trevor Wren  
**Title:** Managing Director, Statewide  
**Details:** Mr Wren has an annual total fixed remuneration (TFR) of \$171,915 consisting of base salary, superannuation and other benefits. Under the terms of his employment contract, he is eligible to receive short term incentives (STI) with a maximum opportunity of 20% of TFR per annum (at maximum performance levels). The STI will be in the form of an annual cash bonus, subject to the achievement of key performance indicators as determined by the Board. Mr Wren will also be awarded long term incentives (LTI) under NTAW's Employee Share Option Plan. He has statutory leave entitlements. Either party may terminate the contract on 3 months' notice. In the case of termination by Statewide, Statewide may provide payment in lieu of notice. Mr Wren is entitled to redundancy pay in accordance with the Company's legal obligations. Mr Wren's contract contains a 6 month non-compete restraint within as specified geographical area and a 6 month non-solicitation of employees, contacts and clients with whom he has contact with, or influence over.

**Name:** Roshan Chelvaratnam  
**Title:** Managing Director, MPC  
**Details:** Mr Chelvaratnam has an annual total fixed remuneration (TFR) of \$181,770 consisting of base salary, superannuation and other benefits. Under the terms of his employment contract, he is eligible to receive short term incentives (STI) with a maximum opportunity of 25% of TFR per annum (at maximum performance levels). The STI will be in the form of an annual cash bonus, subject to the achievement of key performance indicators as determined by the Board. Mr Chelvaratnam will also be awarded long term incentives (LTI) under NTAW's Employee Share Option Plan. He has statutory leave entitlements. Either party may terminate the contract on 6 months' notice after the expiry of the initial term of 3 years (from 1 April 2017). In the case of termination by MPC, MPC may provide payment in lieu of notice. He may not terminate within the first 3 years of his employment. Mr Chelvaratnam is entitled to redundancy pay in accordance with the Company's legal obligations. Mr Chelvaratnam's contract contains a 6 month non-compete restraint within Australia and a 12 month non-solicitation of employees, contacts and clients with whom he has contact with, or influence over.

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

All key management personnel are required to keep information obtained during their employment confidential, both during their employment and after their employment ends. Employment contracts contains an assignment of intellectual property created during the course of their employment.

# Directors' Report

30 June 2019

## (e) Share-based compensation

### Issue of shares

There were no shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2019.

### Options

The terms and conditions of each grant of options over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

Name	Number of options granted	Grant date	Vesting date and exercise date	Expiry date	Exercise price <sup>1</sup>	Fair value per option at grant date
J Ludemann	180,000	7 Dec 18	30 Sep 21	30 Sep 23	\$1.1724	\$0.081
J Lamb	160,000	7 Dec 18	30 Sep 21	30 Sep 23	\$1.1724	\$0.081
C Hummer	140,000	7 Dec 18	30 Sep 21	30 Sep 23	\$1.1724	\$0.081
R Chelvaratnam	110,000	7 Dec 18	30 Sep 21	30 Sep 23	\$1.1724	\$0.081
T Wren	100,000	7 Dec 18	30 Sep 21	30 Sep 23	\$1.1724	\$0.081

<sup>1</sup> All options outstanding at 30 June 2019 have lapsed as at the date of this report as the performance conditions have not been met.

## (f) Equity instruments held by key management personnel

### Shareholding

The number of shares in the Company held during the financial year by each director and other members of key management personnel of the Group, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals	Balance at the end of the year
Ordinary shares					
Murray Boyte	112,500	-	53,737	(10,000)	156,237
John Peter Ludemann	2,589,928	-	170,000	-	2,759,928
Terence Smith	27,032,371	-	505,000	(282,074) <sup>1</sup>	27,255,297
William Cook	203,132	-	100,000	-	303,132
Robert Kent	100,000	-	104,901	-	204,901
Jason Lamb	358,602	-	5,120	-	363,722
Chris Hummer	4,261,714	-	428,400	(37,592) <sup>1</sup>	4,652,522
Roshan Chelvaratnam	3,929,250	-	-	-	3,929,250
Trevor Wren	655,737	-	-	-	655,737
	<u>39,243,234</u>	<u>-</u>	<u>1,367,158</u>	<u>(329,666)</u>	<u>40,280,726</u>

<sup>1</sup> Personally owned shares gifted to employees during the year

## (g) Other transactions with key management personnel

### Related party leases

During the financial year, a Group entity leased business premises owned by a closely related party of Chris Hummer on commercial terms. The lease expired on 30 April 2017 and the parties are 'holding over' until new premises are available. Rent payments for the financial year totalled \$126,421 (2018: \$123,598), with \$nil outstanding at 30 June 2019 (2018: \$nil).

During the financial year, a Group entity leased business premises owned by a closely related party of Trevor Wren on commercial terms. The lease expired on 30 May 2023 and has two by 5-year renewal options. Rent payments for the financial year totalled \$203,497 (2018: \$14,167), with \$nil outstanding at 30 June 2019 (2018: \$nil).



During the year, Terry and Susanne Smith (co-founders of Exclusive Tyre Distributors Australia Pty Ltd) and Chris and Christine Hummer (co-founders of Dynamic Wheel Co Pty Ltd), transferred a total of 319,666 of their personally owned National Tyre & Wheel Limited (NTD) shares to a number of employees of the Group. The gifts were made as a gesture of thanks and appreciation for the employees' efforts and support for the business, prior to NTD's listing on the ASX in December 2017. The transfers occurred following the release of the shares from voluntary escrow during the year and were valued at 45 cents per share at that time.

#### *Loans to key management personnel*

There were no loans to key management personnel and their related parties during the financial year.

***This concludes the remuneration report, which has been audited.***

#### **Shares under option**

There were no unissued ordinary shares of National Tyre & Wheel Limited under option outstanding at the date of this report. 1.63 million options over unissued ordinary shares that were outstanding at 30 June 2019 have now lapsed.

#### **Shares issued on the exercise of options**

There were no ordinary shares of National Tyre & Wheel Limited issued on the exercise of options during the year ended 30 June 2019 and up to the date of this report.

#### **Indemnity and insurance of officers**

The Company has indemnified the directors and executives of the Company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the directors and executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

#### **Indemnity and insurance of auditor**

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

#### **Proceedings on behalf of the Company**

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

#### **Non-audit services**

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 25 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 25 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

#### **Officers of the Company who are former partners of Pitcher Partners**

There are no officers of the Company who are former partners of Pitcher Partners.



# Directors' Report

30 June 2019



## **Rounding of amounts**

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

## **Auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

## **Auditor**

Pitcher Partners continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

A handwritten signature in black ink, appearing to read 'Murray Boyte', is written over a horizontal line.

Murray Boyte  
Chairman

23 August 2019  
Brisbane

Level 38, 345 Queen Street  
Brisbane, QLD 4000

Postal address  
GPO Box 1144  
Brisbane, QLD 4001

p. +61 7 3222 8444

The Directors  
National Tyre & Wheel Limited  
30 Gow Street  
MOOROOKA QLD 4105

### **Auditor's Independence Declaration**

As lead auditor for the audit of National Tyre & Wheel Limited for the year ended 30 June 2019, I declare that, to the best of my knowledge and belief, there have been:

- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of *APES 110 Code of Ethics for Professional Accountants*.

This declaration is in respect of National Tyre & Wheel Limited and entities it controlled during the year.

**PITCHER PARTNERS**



**Warwick Face**  
Partner

Brisbane, Queensland  
23 August 2019

**Brisbane Sydney Newcastle Melbourne Adelaide Perth**

**Pitcher Partners is an association of independent firms.**

An Independent Queensland Partnership ABN 84 797 724 539. Liability limited by a scheme approved under Professional Standards Legislation.

Pitcher Partners is a member of the global network of Baker Tilly International Limited, the members of which are separate and independent legal entities.



**bakertilly**  
NETWORK MEMBER

[pitcher.com.au](http://pitcher.com.au)

# Statement of profit or loss and other comprehensive income

For the year ended 30 June 2019

	Note	Consolidated 2019 \$'000	2018 \$'000
<b>Revenue from contracts with customers</b>	5	168,462	146,300
Interest revenue calculated using the effective interest method		123	120
<b>Expenses</b>			
Cost of goods sold	6	(119,846)	(98,595)
Employee benefits and other related costs		(18,088)	(18,357)
Depreciation and amortisation	6	(2,628)	(2,127)
Legal and professional fees		(791)	(807)
Marketing		(5,813)	(5,094)
Occupancy		(4,479)	(3,699)
Insurance		(797)	(540)
Listing		-	(2,078)
Other		(5,827)	(5,609)
Finance	6	(665)	(459)
<b>Profit before income tax expense</b>		9,651	9,055
Income tax expense	7	(2,975)	(3,700)
<b>Profit after income tax expense for the year</b>		6,676	5,355
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		400	(446)
Other comprehensive income for the year, net of tax		400	(446)
<b>Total comprehensive income for the year</b>		<u>7,076</u>	<u>4,909</u>
Profit for the year is attributable to:			
Non-controlling interest		286	878
Owners of National Tyre & Wheel Limited		6,390	4,477
		<u>6,676</u>	<u>5,355</u>
Total comprehensive income for the year is attributable to:			
Non-controlling interest		286	878
Owners of National Tyre & Wheel Limited		6,790	4,031
		<u>7,076</u>	<u>4,909</u>
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	35	6.22	5.25
Diluted earnings per share	35	6.22	5.05

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

# Statement of financial position

As at 30 June 2019



	Note	Consolidated 2019 \$'000	2018 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	8	19,554	19,608
Trade and other receivables	9	24,679	25,900
Inventories	10	48,563	47,750
Derivative financial instruments	11	24	463
Income tax refund due	7	212	-
Other	12	1,281	1,779
<b>Total current assets</b>		<u>94,313</u>	<u>95,500</u>
<b>Non-current assets</b>			
Property, plant and equipment	13	3,579	3,917
Intangibles	14	20,313	22,167
Deferred tax	7	-	4
<b>Total non-current assets</b>		<u>23,892</u>	<u>26,088</u>
<b>Total assets</b>		<u>118,205</u>	<u>121,588</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	15	29,425	35,014
Borrowings	16	2,040	1,615
Income tax payable	7	-	1,069
Provisions	17	3,192	3,107
<b>Total current liabilities</b>		<u>34,657</u>	<u>40,805</u>
<b>Non-current liabilities</b>			
Borrowings	18	11,295	12,820
Deferred tax	7	152	-
Provisions	19	1,357	1,300
<b>Total non-current liabilities</b>		<u>12,804</u>	<u>14,120</u>
<b>Total liabilities</b>		<u>47,461</u>	<u>54,925</u>
<b>Net assets</b>		<u>70,744</u>	<u>66,663</u>
<b>Equity</b>			
Issued capital	20	65,271	64,761
Reserves	21	185	(215)
Retained profits/(accumulated losses)		1,911	(974)
Equity attributable to the owners of National Tyre & Wheel Limited		<u>67,367</u>	<u>63,572</u>
Non-controlling interest		3,377	3,091
<b>Total equity</b>		<u>70,744</u>	<u>66,663</u>

The above statement of financial position should be read in conjunction with the accompanying notes

# Statement of changes in equity

For the year ended 30 June 2019

<b>Consolidated</b>	<b>Issued capital \$'000</b>	<b>Foreign currency translation reserve \$'000</b>	<b>Share-based payments reserve \$'000</b>	<b>Other reserves \$'000</b>	<b>Accumulated losses \$'000</b>	<b>Non-controlling interest \$'000</b>	<b>Total equity \$'000</b>
Balance at 1 July 2017	18,942	231	2,092	(356)	16,025	6,439	43,373
Profit after income tax expense for the year	-	-	-	-	4,477	878	5,355
Other comprehensive income for the year, net of tax	-	(446)	-	-	-	-	(446)
Total comprehensive income for the year	-	(446)	-	-	4,477	878	4,909
<i>Transactions with owners in their capacity as owners:</i>							
Contributions of equity, net of transaction costs (note 20)	39,907	-	-	-	-	-	39,907
Options issued	-	-	2,657	-	-	-	2,657
Options exercised	5,912	-	(4,601)	-	-	-	1,311
Reversal of option forfeiture	-	-	400	-	-	-	400
Non-controlling interest on acquisition of subsidiary	-	-	-	-	-	2,828	2,828
Acquisition of non-controlling interest of existing subsidiaries	-	-	-	-	(5,657)	(6,398)	(12,055)
Transfers	-	-	(548)	356	192	-	-
Dividends paid (note 22)	-	-	-	-	(16,011)	(656)	(16,667)
Balance at 30 June 2018	<u>64,761</u>	<u>(215)</u>	<u>-</u>	<u>-</u>	<u>(974)</u>	<u>3,091</u>	<u>66,663</u>
<b>Consolidated</b>	<b>Issued capital \$'000</b>	<b>Foreign currency translation reserve \$'000</b>	<b>Share-based payments reserve \$'000</b>	<b>Other reserves \$'000</b>	<b>Retained profits \$'000</b>	<b>Non-controlling interest \$'000</b>	<b>Total equity \$'000</b>
Balance at 1 July 2018	64,761	(215)	-	-	(974)	3,091	66,663
Profit after income tax expense for the year	-	-	-	-	6,390	286	6,676
Other comprehensive income for the year, net of tax	-	400	-	-	-	-	400
Total comprehensive income for the year	-	400	-	-	6,390	286	7,076
<i>Transactions with owners in their capacity as owners:</i>							
Share-based payments (note 36)	-	-	132	-	-	-	132
Transfers	-	-	(132)	-	132	-	-
Dividends reinvested	510	-	-	-	-	-	510
Dividends paid (note 22)	-	-	-	-	(3,637)	-	(3,637)
Balance at 30 June 2019	<u>65,271</u>	<u>185</u>	<u>-</u>	<u>-</u>	<u>1,911</u>	<u>3,377</u>	<u>70,744</u>

The above statement of changes in equity should be read in conjunction with the accompanying notes



# Statement of cash flows

For the year ended 30 June 2019



	Note	Consolidated	
		2019 \$'000	2018 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		186,025	162,009
Payments to suppliers and employees		(177,306)	(148,475)
		8,719	13,534
Interest received		123	120
Interest and other finance costs paid		(665)	(291)
Income taxes paid		(4,100)	(4,461)
Net cash from operating activities	34	4,077	8,902
<b>Cash flows from investing activities</b>			
Payment for purchase of business, net of cash acquired	31	-	(13,355)
Final payments for prior year business acquisition		-	(2,051)
Payments for property, plant and equipment		(721)	(845)
Proceeds from disposal of property, plant and equipment		329	228
Transfers from term deposits		600	-
Net cash from/(used in) investing activities		208	(16,023)
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		-	26,234
Listing costs		-	(3,552)
Proceeds from borrowings		-	7,471
Repayment of borrowings		(1,577)	(1,583)
Dividends paid	22	(3,127)	(16,667)
Net cash from/(used in) financing activities		(4,704)	11,903
Net increase/(decrease) in cash and cash equivalents		(419)	4,782
Cash and cash equivalents at the beginning of the financial year		19,608	14,765
Effects of exchange rate changes on cash and cash equivalents		(112)	61
Cash and cash equivalents at the end of the financial year	8	19,077	19,608

The above statement of cash flows should be read in conjunction with the accompanying notes

# Notes to the financial statements

30 June 2019

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# Notes to the financial statements

30 June 2019



## **Note 1. General information**

The financial statements cover National Tyre & Wheel Limited as a Group consisting of National Tyre & Wheel Limited ('Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ('Group' or "NTAW"). The financial statements are presented in Australian dollars, which is National Tyre & Wheel Limited's functional and presentation currency.

National Tyre & Wheel Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

30 Gow Street  
Moorooka QLD 4105

A description of the nature of the Group's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 23 August 2019. The directors have the power to amend and reissue the financial statements.

## **Note 2. Significant accounting policies**

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### **Basis of preparation**

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

### *Historical cost convention*

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of available-for-sale financial assets and derivative financial instruments.

### *Critical accounting estimates*

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

### **New or amended Accounting Standards and Interpretations adopted**

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

# Notes to the financial statements

30 June 2019

## Note 2. Significant accounting policies (continued)

The following Accounting Standards and Interpretations are most relevant to the Group:

### AASB 9 Financial Instruments

The Group has adopted AASB 9 from 1 July 2018. The standard introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognised in a business combination) in other comprehensive income ('OCI'). Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

### AASB 15 Revenue from Contracts with Customers

The Group has adopted AASB 15 from 1 July 2018. The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. This is described further in the accounting policies below. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period.

### Impact of adoption

AASB 9 and AASB 15 were adopted using the retrospective approach and as such comparatives have been restated. There was no impact of the adoption on opening retained earnings as at 1 July 2018.

The impact of the new Accounting Standards compared with the previous Accounting Standards on the current reporting period is as follows:

	<i>Current standards (as reported) \$'000</i>	<i>Previous standards \$'000</i>	<i>Change \$'000</i>
<b>Statement of profit or loss (extract)</b>			
Revenue	168,462	168,585	(123)
Interest revenue calculated using the effective interest method	123	-	123
Profit before income tax expense	9,651	9,651	-
Income tax expense	(2,975)	(2,975)	-
Profit for the year	<u>6,676</u>	<u>6,676</u>	-

Changes to the significant accounting policies as a result of the new standards adopted are detailed below.



## **Note 2. Significant accounting policies (continued)**

### **Parent entity information**

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 30.

### **Principles of consolidation**

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of National Tyre & Wheel Limited as at 30 June 2019 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities over which the Group has control. 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 fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the Group. Losses incurred by the Group are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the Group loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Group recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

### **Operating segments**

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

### **Foreign currency translation**

#### *Foreign currency transactions*

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

#### *Foreign operations*

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.



# Notes to the financial statements

30 June 2019

## Note 2. Significant accounting policies (continued)

### Revenue recognition

The Group recognises revenue as follows:

#### *Revenue from contracts with customers*

Revenue is recognised at an amount that reflects the consideration to which the Group is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the Group: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are recognised as a refund liability.

#### *Sale of goods*

Revenue from the sale of goods is recognised at the point in time when the customer obtains control of the goods, which is generally at the time of delivery.

#### *Interest*

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

#### *Other revenue*

Other revenue is recognised when it is received or when the right to receive payment is established.

### Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.



## **Note 2. Significant accounting policies (continued)**

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

National Tyre & Wheel Limited (the 'head entity') and its wholly-owned Australian subsidiaries (Exclusive Tyre Distributors Pty Ltd, MPC Mags & Tyres Pty Ltd, Dynamic Wheel Co Pty Limited and Statewide Tyre Distribution Pty Ltd), have formed an income tax consolidated group under the tax consolidation regime. The head entity and subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

### **Current and non-current classification**

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

### **Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original 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. For the statement of cash flows presentation purposes, cash and cash equivalents also includes bank overdrafts, which are shown within borrowings in current liabilities on the statement of financial position.

### **Trade and other receivables**

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

### **Inventories**

Finished goods are stated at the lower of cost and net realisable value on a 'first in first out' basis. Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

Stock in transit is stated at the lower of cost and net realisable value. Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

# Notes to the financial statements

30 June 2019

## Note 2. Significant accounting policies (continued)

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

### Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group has not satisfied the documentation, designation and effectiveness tests required by Australian Accounting Standards, as such they do not qualify for hedge accounting and gains or losses arising from changes in fair value are recognised immediately in profit or loss.

Derivatives are classified as current or non-current depending on the expected period of realisation.

### Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless, an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

#### *Impairment of financial assets (excluding trade and other receivables)*

The Group recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the Group's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

### Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a diminishing value basis to write off the net cost of each item of property, plant and equipment over their expected useful lives as follows:

Leasehold improvements	2.5% to 15%
Plant and equipment	5% to 60%
Motor vehicles	13.5% to 25%
Capital work in progress	0% until in use

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.



## **Note 2. Significant accounting policies (continued)**

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

### **Leases**

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

### **Intangible assets**

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

#### *Goodwill*

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

#### *Brand name*

Brand names are assessed as having an indefinite useful life on the basis of brand strength, ongoing expected profitability and continuing support. Brand names are not amortised, but are instead tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired.

#### *Customer relationships*

Customer relationships acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being their finite useful life of 7 to 10 years.

#### *Importation rights*

Importation rights are amortised on a straight line basis over the term of the distribution agreement, being between 7 to 10 years. Importation rights are tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired.

# Notes to the financial statements

30 June 2019

## Note 2. Significant accounting policies (continued)

### Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

### Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

### Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

### Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

### Provisions

Provisions are recognised when the Group has a present (legal or constructive) obligation as a result of a past event, it is probable the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

### Employee benefits

#### *Short-term employee benefits*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

#### *Other long-term employee benefits*

The liability for annual leave and long service leave not expected to be settled wholly within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on high-quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

#### *Defined contribution superannuation expense*

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

#### *Share-based payments*

Equity-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services.





## **Note 2. Significant accounting policies (continued)**

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

### **Fair value measurement**

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

### **Issued capital**

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

# Notes to the financial statements

30 June 2019

## Note 2. Significant accounting policies (continued)

### Dividends

Dividends are recognised when declared during the financial year and no longer at the discretion of the Company.

### Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the Group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the Group remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

### Earnings per share

#### *Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to the owners of National Tyre & Wheel Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

#### *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

### Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

# Notes to the financial statements

30 June 2019



## Note 2. Significant accounting policies (continued)

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

### Comparative information

Comparatives have been reclassified, where applicable, to align with current year presentation. There was no impact on the results or financial position of the Group.

### Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

### New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2019. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

<i>Accounting Standard</i>	<i>Nature of change</i>	<i>Impact on the financial statements</i>
AASB 16 'Leases' (effective for the accounting period starting 1 July 2019)	AASB 16 requires recognition of a right-of-use asset along with the associated lease liability where the entity is a lessee. An interest expense will be recognised in the profit or loss using the effective interest rate method, and the right-of use asset will be depreciated. Lessor accounting will largely remain unchanged.	On adoption, AASB 16 will have the following impact from 1 July 2019, specifically: <ul style="list-style-type: none"><li>- Right-of-use assets and lease liabilities on the balance sheet will increase on 1 July 2019 by approximately \$7.6m and \$8.2m, respectively; and</li><li>- Retained earnings will reduce on 1 July 2019 by approximately \$0.6m because the carrying value of the assets reduce more quickly than the carrying amount of the lease liabilities.</li></ul>

### New Conceptual Framework for Financial Reporting

A revised Conceptual Framework for Financial Reporting has been issued by the AASB and is applicable for annual reporting periods beginning on or after 1 January 2020. This release impacts for-profit private sector entities that have public accountability that are required by legislation to comply with Australian Accounting Standards and other for-profit entities that voluntarily elect to apply the Conceptual Framework. Phase 2 of the framework is yet to be released which will impact for-profit private sector entities. The application of new definition and recognition criteria as well as new guidance on measurement will result in amendments to several accounting standards. The issue of AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework, also applicable from 1 January 2020, includes such amendments. Where the Group has relied on the conceptual framework in determining its accounting policies for transactions, events or conditions that are not otherwise dealt with under Australian Accounting Standards, the Group may need to revisit such policies. The Group will apply the revised conceptual framework from 1 July 2020 and is yet to assess its impact.

# Notes to the financial statements

30 June 2019

## **Note 3. Critical accounting judgements, estimates and assumptions**

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

### *Business combinations*

As discussed in note 2, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the Group taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

### *Recognition of identifiable intangible assets on acquisition*

Brand names, importation rights and customer relationships have been recognised on the acquisition of subsidiaries. The valuation of these assets is based on the present value of expected future cash flows associated with the brand and the recurring current customers covering a period of 5 to 12 years. These cash flows have been calculated using sales growth rates of between 3.8%-6.9% (2018: 3%-6.3%) and a pre-tax discount rate of between 16.3%-18.6% (2018:17%-20%).

### *Goodwill and other indefinite life intangible assets*

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

### *Impairment of non-financial assets other than goodwill and other indefinite life intangible assets*

The Group assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

### *Share-based payment transactions*

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Binomial model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Share-based payments expense under the employee share option plan has been recognised over the expected vesting period of the options. The share-based payment expense incurred is equal to the value of the options and management have assessed the fair value of the options using a Binomial model with the following key criteria: pre-determined exercise price, share price at grant date based on estimated enterprise value of the company, risk-free rate of 2% (2018: 1.5%), volatility of share price of 65% (2018: 60%) and assumed vesting period from grant date.

### *Income tax*

The Group is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on the Group's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

# Notes to the financial statements

30 June 2019



## Note 3. Critical accounting judgements, estimates and assumptions (continued)

### *Warranty provision*

In determining the level of provision required for warranties the Group has made judgements in respect of the expected performance of the products, the number of customers who will actually claim under the warranty and how often, and the costs of fulfilling the conditions of the warranty.

## Note 4. Operating segments

### *Identification of reportable operating segments*

The Group's operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources.

The Directors are of the opinion that there is one reportable segment in the Group as the CODM reviews results, assesses performance and allocates resources at a Group level.

As the information reported to the CODM is the consolidated results of the Group, the segment results are shown throughout these financial statements and are not duplicated here.

### *Major customers*

During the year ended 30 June 2019, none of the Group's external revenue was derived from sales of greater than 10% to any customer (2018: none).

## Note 5. Revenue from contracts with customers

	Consolidated	
	2019	2018
	\$'000	\$'000
<i>Revenue from contracts with customers</i>		
Sale of goods	168,376	146,158
<i>Other revenue</i>		
Other revenue	86	142
Revenue from contracts with customers	<u>168,462</u>	<u>146,300</u>

### *Disaggregation of revenue*

The disaggregation of revenue from contracts with customers is as follows:

	Consolidated	
	2019	2018
	\$'000	\$'000
<i>Geographical regions</i>		
Australia	136,726	123,193
New Zealand	16,417	14,704
South Africa	15,233	8,261
	<u>168,376</u>	<u>146,158</u>
<i>Timing of revenue recognition</i>		
Goods transferred at a point in time	<u>168,376</u>	<u>146,158</u>



# Notes to the financial statements

30 June 2019

## Note 6. Expenses

	Consolidated	
	2019	2018
	\$'000	\$'000
Profit before income tax includes the following specific expenses:		
<i>Cost of sales</i>		
Cost of sales	119,958	98,507
<i>Depreciation</i>		
Leasehold improvements	4	6
Plant and equipment	377	361
Motor vehicles	393	329
Total depreciation	774	696
<i>Amortisation</i>		
Customer relationships	644	361
Importation rights	1,204	1,067
Other intangibles	6	3
Total amortisation	1,854	1,431
Total depreciation and amortisation	2,628	2,127
<i>Finance costs</i>		
Interest and finance charges paid/payable	623	437
Finance lease charges	42	22
Finance costs expensed	665	459
<i>Net foreign exchange loss</i>		
Net foreign exchange loss	51	657
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	4,196	3,398
<i>Superannuation expense</i>		
Defined contribution superannuation expense	1,126	1,026
<i>Share-based payments expense</i>		
Share-based payments expense	132	2,657
<i>Bad debts</i>		
Bad debts expense	160	42





# Notes to the financial statements

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## Note 9. Current assets - trade and other receivables

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$'000</b>	<b>\$'000</b>
Trade receivables	24,714	26,026
Less: Allowance for expected credit losses	(35)	(127)
	<u>24,679</u>	<u>25,899</u>
Receivable from employees	-	1
	<u>24,679</u>	<u>25,900</u>

### *Allowance for expected credit losses*

The Group has recognised a net loss of \$160,000 (2018: net loss of \$42,000) in 'other' expenses for the current year for specific debtors for which such evidence exists. Trade receivables past due but not impaired amount to \$4,535,000 (2018: \$6,356,000).

At 30 June 2019 an ageing analysis of those trade receivables are as follows:

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$'000</b>	<b>\$'000</b>
Not overdue	20,144	19,543
1 to 30 days overdue	4,038	5,096
31 to 60 days overdue	315	813
61 plus days overdue	182	447
	<u>24,679</u>	<u>25,899</u>

Refer to note 23 for further information on financial instruments.

## Note 10. Current assets - inventories

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$'000</b>	<b>\$'000</b>
Finished goods - at cost	37,252	32,652
Less: Provision for impairment	(22)	(150)
	<u>37,230</u>	<u>32,502</u>
Stock in transit - at cost	11,333	15,248
	<u>48,563</u>	<u>47,750</u>

## Note 11. Current assets - derivative financial instruments

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$'000</b>	<b>\$'000</b>
Forward foreign exchange contracts	24	463

Refer to note 24 for further information on fair value measurement.

# Notes to the financial statements

30 June 2019

## Note 12. Current assets - other

	Consolidated	
	2019 \$'000	2018 \$'000
Prepayments	1,268	1,135
Other deposits	-	600
Other current assets	13	44
	1,281	1,779
	1,281	1,779

## Note 13. Non-current assets - property, plant and equipment

	Consolidated	
	2019 \$'000	2018 \$'000
Leasehold improvements - at cost	321	321
Less: Accumulated depreciation	(266)	(262)
	55	59
Plant and equipment - at cost	4,826	4,625
Less: Accumulated depreciation	(3,067)	(2,761)
	1,759	1,864
Motor vehicles - at cost	3,104	3,308
Less: Accumulated depreciation	(1,395)	(1,314)
	1,709	1,994
Capital works in progress - at cost	56	-
	56	-
	3,579	3,917

### Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Leasehold improvements \$'000	Plant and equipment \$'000	Motor vehicles \$'000	Capital works in progress \$'000	Total \$'000
Balance at 1 July 2017	65	1,717	1,463	-	3,245
Additions	-	315	738	-	1,053
Additions through business combinations (note 31)	-	221	344	-	565
Disposals	-	(16)	(210)	-	(226)
Exchange differences	-	(12)	(12)	-	(24)
Depreciation expense	(6)	(361)	(329)	-	(696)
	59	1,864	1,994	-	3,917
Balance at 30 June 2018	59	1,864	1,994	-	3,917
Additions	-	268	397	56	721
Disposals	-	(8)	(303)	-	(311)
Exchange differences	-	12	14	-	26
Depreciation expense	(4)	(377)	(393)	-	(774)
	55	1,759	1,709	56	3,579
Balance at 30 June 2019	55	1,759	1,709	56	3,579



# Notes to the financial statements

30 June 2019



## Note 13. Non-current assets - property, plant and equipment (continued)

*Property, plant and equipment secured under finance leases*

Refer to note 27 for further information on property, plant and equipment secured under finance leases.

## Note 14. Non-current assets - intangibles

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$'000</b>	<b>\$'000</b>
Goodwill - at cost	8,878	8,878
Brand name - at cost	2,393	2,393
Customer relationships - at cost	4,798	4,798
Less: Accumulated amortisation	(1,062)	(418)
	<u>3,736</u>	<u>4,380</u>
Importation rights - at cost	12,106	12,106
Less: Accumulated amortisation	(6,800)	(5,596)
	<u>5,306</u>	<u>6,510</u>
Other intangibles - at cost	14	14
Less: Accumulated amortisation	(14)	(8)
	<u>-</u>	<u>6</u>
	<u>20,313</u>	<u>22,167</u>

### *Reconciliations*

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

<b>Consolidated</b>	<i>Goodwill</i> \$'000	<i>Brand name</i> \$'000	<i>Customer relation- ships</i> \$'000	<i>Importation rights</i> \$'000	<i>Other intangibles</i> \$'000	<i>Total</i> \$'000
Balance at 1 July 2017	3,094	2,393	2,894	6,201	9	14,591
Additions through business combinations (note 31)	5,784	-	1,847	1,376	-	9,007
Amortisation expense	-	-	(361)	(1,067)	(3)	(1,431)
	<u>8,878</u>	<u>2,393</u>	<u>4,380</u>	<u>6,510</u>	<u>6</u>	<u>22,167</u>
Balance at 30 June 2018	8,878	2,393	4,380	6,510	6	22,167
Amortisation expense	-	-	(644)	(1,204)	(6)	(1,854)
	<u>8,878</u>	<u>2,393</u>	<u>3,736</u>	<u>5,306</u>	<u>-</u>	<u>20,313</u>

# Notes to the financial statements

30 June 2019

## Note 14. Non-current assets - intangibles (continued)

### Impairment testing

For the purpose of impairment testing, goodwill and brand names are allocated to the respective operating entity's cash generating unit ('CGU'):

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Goodwill</b>		
CGU:		
- Tyres and wheels	5,228	5,228
- M.P.C Mags and Tyres Pty Ltd	2,339	2,339
- Top Draw Tyres Pty Ltd	1,311	1,311
	<b>8,878</b>	<b>8,878</b>
	<b>8,878</b>	<b>8,878</b>
<b>Brand names</b>		
CGU:		
- M.P.C Mags and Tyres Pty Ltd	2,393	2,393
	<b>2,393</b>	<b>2,393</b>
	<b>2,393</b>	<b>2,393</b>

The Group tests whether goodwill and brand names have suffered any impairment on an annual basis. For the 2019 and 2018 reporting period, the recoverable amount of the CGUs was determined based on value-in-use calculations which require the use of assumptions. The calculations are conducted using a discount cash flow (DCF) methodology based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. These growth rates are consistent with forecasts included in industry reports specific to the industry in which each CGU operates.

The following table sets out the key assumptions for those CGUs that have significant goodwill and brand names allocated to them:

2019	<i>Tyres and wheels</i> %	<i>MPC</i> %	<i>Top Draw Tyres</i> %
Sales growth (%)	3.80%	1.90%	6.90%
Terminal growth rate (%)	1.50%	1.50%	2.00%
Pre-tax discount rate (%)	16.30%	16.80%	18.60%

Management has determined the value assigned to each of the above key assumptions as follows:

<b>Assumption</b>	<b>Approach used to determine values</b>
Sales growth	Average annual growth rate over the five-year forecast period; based on past performance and management's expectations of market development.
Terminal growth rate	The growth rate used to extrapolate cash flows beyond the 5 year forecasted period based off management's expectations of long-term growth.
Pre-tax discount rate	Reflect specific risks relating to the relevant segments and the countries in which they operate based off management's expectations for the future.

### Impact of possible changes in key assumptions

A sensitivity analysis was performed on key assumptions, which included increasing the discount rate by 2% and reducing sales growth. Both scenarios did not result in an impairment.

# Notes to the financial statements

30 June 2019



## Note 15. Current liabilities - trade and other payables

	Consolidated	
	2019	2018
	\$'000	\$'000
Trade payables	27,383	32,536
GST payable	197	133
Other payables and accruals	1,845	2,345
	<u>29,425</u>	<u>35,014</u>

Refer to note 23 for further information on financial instruments.

## Note 16. Current liabilities - borrowings

	Consolidated	
	2019	2018
	\$'000	\$'000
Bank overdraft	477	-
Bank loans	1,438	1,436
Bank loan - equipment	17	-
Lease liability	108	179
	<u>2,040</u>	<u>1,615</u>

Refer to note 18 for further information on assets pledged as security and financing arrangements.

Refer to note 23 for further information on financial instruments.

## Note 17. Current liabilities - provisions

	Consolidated	
	2019	2018
	\$'000	\$'000
Employee benefits	2,305	2,343
Warranties	887	764
	<u>3,192</u>	<u>3,107</u>

### *Warranties*

The provision represents the estimated warranty claims in respect of products sold which are still under warranty at the reporting date. The provision is estimated based on historical warranty claim information, sales levels and any recent trends that may suggest future claims could differ from historical amounts.

### *Amounts not expected to be settled within the next 12 months*

The current provision for employee benefits includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the Group does not have an unconditional right to defer settlement. Based on past experience, the Group expects all employees to take the full amount of accrued leave or require payment within the next 12 months.

# Notes to the financial statements

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## Note 18. Non-current liabilities - borrowings

	Consolidated	
	2019	2018
	\$'000	\$'000
Bank loans	11,145	12,585
Bank loan - equipment	47	-
Lease liability	103	235
	<u>11,295</u>	<u>12,820</u>

Refer to note 23 for further information on financial instruments.

### *Total secured liabilities*

The total secured liabilities (current and non-current) are as follows:

	Consolidated	
	2019	2018
	\$'000	\$'000
Bank overdraft	477	-
Bank loans	12,583	14,021
Bank loan - equipment	64	-
Lease liability	211	414
	<u>13,335</u>	<u>14,435</u>

The bank loan facility has an expiry date of 21 May 2021.

### *Assets pledged as security*

The bank loans are secured over the assets of National Tyre & Wheel Limited and the following subsidiaries - Exclusive Tyre Distributors Pty Ltd, Exclusive Tyre Distributors (NZ) Ltd, MPC Mags & Tyres Pty Ltd, Statewide Tyre Distribution Pty Ltd and Dynamic Wheel Co Pty Limited.

The lease liabilities are effectively secured as the rights to the leased assets, recognised in the statement of financial position, revert to the lessor in the event of default.

# Notes to the financial statements

30 June 2019



## Note 18. Non-current liabilities - borrowings (continued)

### Financing arrangements

Unrestricted access was available at the reporting date to the following lines of credit:

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$'000</b>	<b>\$'000</b>
Total facilities		
Bank overdraft	477	-
Bank loans	12,583	14,021
Bank loan - equipment	64	-
Bank guarantee	4,157	4,157
	<u>17,281</u>	<u>18,178</u>
Used at the reporting date		
Bank overdraft	477	-
Bank loans	12,583	14,021
Bank loan - equipment	64	-
Bank guarantee	2,892	2,466
	<u>16,016</u>	<u>16,487</u>
Unused at the reporting date		
Bank overdraft	-	-
Bank loans	-	-
Bank loan - equipment	-	-
Bank guarantee	1,265	1,691
	<u>1,265</u>	<u>1,691</u>

## Note 19. Non-current liabilities - provisions

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$'000</b>	<b>\$'000</b>
Employee benefits	272	291
Warranties	1,085	1,009
	<u>1,357</u>	<u>1,300</u>

### Warranties

The provision represents the estimated warranty claims in respect of products sold which are still under warranty at the reporting date. The provision is estimated based on historical warranty claim information, sales levels and any recent trends that may suggest future claims could differ from historical amounts.

### Total warranty provision

The total warranty provision (current and non-current) are as follows:

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$'000</b>	<b>\$'000</b>
Warranties	<u>1,972</u>	<u>1,773</u>



# Notes to the financial statements

30 June 2019

## Note 19. Non-current liabilities - provisions (continued)

### Movements in provisions

Movements in each class of provision (current and non-current) during the current financial year, other than employee benefits, are set out below:

<b>Consolidated - 2019</b>	<i>Warranties \$'000</i>
Carrying amount at the start of the year	1,773
Additional provisions recognised	1,012
Amounts used	<u>(813)</u>
Carrying amount at the end of the year	<u><u>1,972</u></u>

## Note 20. Equity - issued capital

	<b>2019 Shares</b>	<b>Consolidated 2018 Shares</b>	<b>2019 \$'000</b>	<b>2018 \$'000</b>
Ordinary shares - fully paid	<u>102,891,313</u>	<u>102,321,143</u>	<u>65,271</u>	<u>64,761</u>

### Movements in ordinary share capital

<b>Details</b>	<b>Date</b>	<b>Shares</b>	<b>Issue price</b>	<b>\$'000</b>
Balance	1 July 2017	68,000,002		18,942
Consolidation of existing shares (pre-IPO)	21 November 2017	(14,768,755)	\$0.0000	-
Split of existing shares (pre-IPO)	21 November 2017	833,495	\$0.0000	-
Issue of shares on IPO capital raising	14 December 2017	24,922,767	\$1.0000	24,923
Issue of shares on acquisition of business	14 December 2017	14,541,654	\$1.0000	14,542
Issue of shares per Employee Option Plan	14 December 2017	7,582,964	\$0.7800	5,912
Issue of shares for acquisition of Statewide Tyre Distribution Pty Ltd	31 May 2018	553,279	\$1.2200	675
Issue of shares for acquisition of Statewide Tyre Distribution Pty Ltd	18 June 2018	655,737	\$1.2200	800
Share issue transaction costs, net of tax		<u>-</u>	\$0.0000	<u>(1,033)</u>
Balance	30 June 2018	102,321,143		64,761
Issue of shares per Dividend Reinvestment Plan	8 October 2018	332,809	\$1.1700	389
Issue of shares per Dividend Reinvestment Plan	4 April 2019	<u>237,361</u>	\$0.5100	<u>121</u>
Balance	30 June 2019	<u><u>102,891,313</u></u>		<u><u>65,271</u></u>

### Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

### Share buy-back

There is no current on-market share buy-back.

# Notes to the financial statements

30 June 2019



## Note 20. Equity - issued capital (continued)

### Capital risk management

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current Company's share price at the time of the investment. The Group is actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

The capital risk management policy remains unchanged from the 30 June 2018 Annual Report.

## Note 21. Equity - reserves

	Consolidated	
	2019	2018
	\$'000	\$'000
Foreign currency reserve	185	(215)

### Foreign currency reserve

The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

## Note 22. Equity - dividends

### Dividends

Dividends paid during the financial year were as follows:

	Consolidated	
	2019	2018
	\$'000	\$'000
Final dividend for the year ended 30 June 2018 of 2.30 cents per ordinary share	2,353	-
Interim dividend for the year ended 30 June 2019 of 1.25 cents per ordinary share	1,283	-
Final dividend for the year ended 30 June 2017 (declared and paid prior to the IPO)	-	15,000
Interim dividend for the year ended 30 June 2018 of 1.00 cents per ordinary share	-	1,011
Dividends to non-controlling interests	-	656
	3,636	16,667

Refer to note 20 for details of shares issued pursuant to the Company's Dividend Reinvestment Plan.

At the date of signing these financial statements, the Company has declared a fully franked final dividend of 2.05 cents per share and a fully franked special dividend of 1.50 cents per share with a record date of 3 September 2019 and a payment date of 13 September 2019. The total dividends payable are \$2.1 million and \$1.5 million. The financial effect of these dividend have not been brought to account in the financial statements for the year ended 30 June 2019 and will be recognised in subsequent financial reports.

# Notes to the financial statements

30 June 2019

## Note 22. Equity - dividends (continued)

### Franking credits

	Consolidated	
	2019	2018
	\$'000	\$'000
Franking credits available for subsequent financial years based on a tax rate of 30%	15,350	14,831

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for franking credits or debits that will arise from the payment or refund of the amount of the provision for income tax or income tax refundable at the reporting date.

## Note 23. Financial instruments

### Financial risk management objectives

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as forward foreign exchange contracts to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and ageing analysis for credit risk.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the Group and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the Group's operating units. Finance reports to the Board on a monthly basis.

### Market risk

#### Foreign currency risk

The Group undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

In order to protect against exchange rate movements, the Group has entered into forward foreign exchange contracts. These contracts are hedging highly probable forecasted cash flows for the ensuing financial year. Most of the Group's transactions are carried out in \$AUD. Exposures to currency exchange rates arise from the Group's overseas purchases, which are primarily denominated in \$US-Dollars (\$USD). To mitigate the Group's exposure to foreign currency risk, non-\$AUD cash flows are monitored, and forward exchange contracts are entered into in accordance with the Group's risk management policies. The usual length of forward contracts entered into are short term and cover known \$USD exposures. Where the amounts to be paid and received in a specific currency are expected to largely offset one another, no further hedging activity is undertaken.

At 30 June 2019, the Group had forward foreign exchange contracts to acquire \$15,900,000 of USD (2018: \$15,355,000). These are due to mature within 3 months of balance date. The fixed exchange rates on these contracts ranged from 0.6675 to 0.7154 (2018: 0.7335 to 0.8046).

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in AUD, was as follows:

# Notes to the financial statements

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## Note 23. Financial instruments (continued)

	Consolidated	
	2019 \$'000	2018 \$'000
Cash	-	1
Trade payables	(20,094)	(29,984)
Buy foreign currency (held for trading)	24	463
	<u>(20,070)</u>	<u>(29,520)</u>

Based on this exposure, had the Australian dollar weakened or strengthened against these foreign currencies with all other variables held constant, the Group's profit before tax for the year would have been affected as follows:

Consolidated - 2019	% change	AUD strengthened Effect on profit before tax		% change	AUD weakened Effect on profit before tax	
		Effect on equity	Effect on equity			
USD	10%	1,825	1,277	10%	(2,230)	(1,561)

Consolidated - 2018	% change	AUD strengthened Effect on profit before tax		% change	AUD weakened Effect on profit before tax	
		Effect on equity	Effect on equity			
USD	10%	2,681	1,877	(10%)	(3,277)	(2,294)

The percentage change is the expected overall volatility of the significant currencies, which is based on management's assessment of reasonable possible fluctuations. The actual foreign exchange loss for the year ended 30 June 2019 was \$51,000 (2018: loss of \$657,000).

### Price risk

The Group is not exposed to any significant price risk.

### Interest rate risk

The Group's main interest rate risk arises from long-term borrowings. Borrowings obtained at variable rates expose the Group to interest rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk.

As at the reporting date, the Group had the following variable rate borrowings outstanding:

Consolidated	2019 Balance \$'000	2018 Balance \$'000
Bank overdraft	477	-
Borrowings	12,647	14,021
Net exposure to cash flow interest rate risk	13,124	14,021

An analysis by remaining contractual maturities is shown in 'liquidity and interest rate risk management' below.

The weighted average interest rate on borrowings during the year ended 30 June 2019 was 1.30% (2018: 2.20%).

# Notes to the financial statements

30 June 2019

## Note 23. Financial instruments (continued)

For the Group the bank loans outstanding, totalling \$12,647,000 (2018: \$14,021,000), are principal and interest payment loans. An official increase/decrease in interest rates of 50 (2018: 50) basis points would have an adverse/favourable effect on profit before tax of \$63,000 (2018: \$70,000) per annum. The percentage change is based on the expected volatility of interest rates using market data and analysts forecasts. In addition, minimum principal repayments of \$1,438,000 (2018: \$1,438,000) are due during the subsequent 12 month period.

### **Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The Group obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The Group does not hold any collateral.

The Group has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the Group based on recent sales experience, historical collection rates and forward-looking information that is available.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

### **Liquidity risk**

Vigilant liquidity risk management requires the Group to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The Group manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

### **Financing arrangements**

Unused borrowing facilities at the reporting date:

	Consolidated	
	2019	2018
	\$'000	\$'000
Bank guarantee	1,265	1,691

The bank guarantee facilities may be drawn at any time and have an average maturity of 2.21 years (2018: 2.75 years).

# Notes to the financial statements

30 June 2019



## Note 23. Financial instruments (continued)

### Remaining contractual maturities

The following tables detail the Group's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both principal cash flows disclosed as remaining contractual maturities.

	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
<b>Consolidated - 2019</b>					
<b>Non-derivatives</b>					
<i>Non-interest bearing</i>					
Trade payables	27,383	-	-	-	27,383
Other payables	608	-	-	-	608
<i>Interest-bearing - variable</i>					
Bank overdraft	477	-	-	-	477
Bank loans	1,460	1,460	9,727	-	12,647
<i>Interest-bearing - fixed rate</i>					
Lease liability	108	78	25	-	211
Total non-derivatives	30,036	1,538	9,752	-	41,326
<b>Derivatives</b>					
Forward foreign exchange contracts net settled	24	-	-	-	24
Total derivatives	24	-	-	-	24
<b>Consolidated - 2018</b>					
<b>Non-derivatives</b>					
<i>Non-interest bearing</i>					
Trade payables	32,536	-	-	-	32,536
Other payables	1,299	-	-	-	1,299
<i>Interest-bearing - variable</i>					
Bank loans	1,438	1,438	11,145	-	14,021
<i>Interest-bearing - fixed rate</i>					
Lease liability	179	68	167	-	414
Total non-derivatives	35,452	1,506	11,312	-	48,270

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.



# Notes to the financial statements

30 June 2019

## Note 24. Fair value measurement

### *Fair value hierarchy*

The following tables detail the Group's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

<b>Consolidated - 2019</b>	<i>Level 1</i> \$'000	<i>Level 2</i> \$'000	<i>Level 3</i> \$'000	<i>Total</i> \$'000
<b>Assets</b>				
Forward foreign exchange contracts - derivatives	-	24	-	24
Total assets	-	24	-	24
<b>Consolidated - 2018</b>	<i>Level 1</i> \$'000	<i>Level 2</i> \$'000	<i>Level 3</i> \$'000	<i>Total</i> \$'000
<b>Assets</b>				
Forward foreign exchange contracts - derivatives	-	463	-	463
Total assets	-	463	-	463

There were no transfers between levels during the financial year.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

### *Valuation techniques for fair value measurements categorised within level 2 and level 3*

Derivative financial instruments have been valued using quoted market rates, adjusted as appropriate. This valuation technique maximises the use of observable market data where it is available and relies as little as possible on entity specific estimates.

# Notes to the financial statements

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## Note 25. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Pitcher Partners, the auditor of the Company, and its network firms:

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
<i>Audit services - Pitcher Partners</i>		
Audit or review of the financial statements	200,000	200,000
<i>Other services - Pitcher Partners</i>		
Investigating Accountant's Report	-	276,236
Transaction services	145,451	248,486
Tax compliance services	128,612	113,000
	274,063	637,722
	<u>474,063</u>	<u>837,722</u>
<i>Audit services - network firms</i>		
Audit or review of the financial statements	18,882	-
<i>Other services - network firms</i>		
Other assurance services	592	-
	<u>19,474</u>	<u>-</u>

## Note 26. Contingent liabilities

The Group has given bank guarantees as at 30 June 2019 of \$2,892,000 (2018: \$2,466,000) to various landlords and suppliers for standby letters of credit.

# Notes to the financial statements

30 June 2019

## Note 27. Commitments

	Consolidated	
	2019	2018
	\$'000	\$'000
<i>Capital commitments</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Property, plant and equipment	283	-
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	2,279	3,178
One to five years	2,874	4,196
	5,153	7,374
<i>Lease commitments - finance</i>		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	116	194
One to five years	109	253
Total commitment	225	447
Less: Future finance charges	(14)	(33)
Net commitment recognised as liabilities	211	414
Representing:		
Lease liability - current (note 16)	108	179
Lease liability - non-current (note 18)	103	235
	211	414

Operating lease commitments includes contracted amounts for various warehouses and offices under non-cancellable operating leases expiring within three years (2018: four years) with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

Finance lease commitments includes contracted amounts for various motor vehicles with a written down value of \$197,000 (2018: \$617,000) under finance leases expiring within one to two years (2018: one to three years). Under the terms of the leases, the Group has the option to acquire the leased assets for predetermined residual values on the expiry of the leases.

## Note 28. Key management personnel disclosures

### Compensation

The aggregate compensation made to directors and other members of key management personnel of the Group is set out below:

	Consolidated	
	2019	2018
	\$	\$
Short-term employee benefits	2,146,898	1,929,696
Post-employment benefits	146,497	126,424
Long-term benefits	61,562	(14,805)
Share-based payments	-	1,609,337
	2,354,957	3,650,652

# Notes to the financial statements

30 June 2019



## Note 29. Related party transactions

### *Parent entity*

National Tyre & Wheel Limited is the parent entity.

### *Subsidiaries*

Interests in subsidiaries are set out in note 32.

### *Key management personnel*

Disclosures relating to key management personnel are set out in note 28 and the remuneration report included in the directors' report.

### *Transactions with related parties*

During the financial year, a Group entity leased business premises owned by a closely related party of Chris Hummer on commercial terms. The lease expired on 30 April 2017 and the parties are 'holding over' until new premises are available. Rent payments for the financial year totalled \$126,421 (2018: \$123,598), with \$nil outstanding at 30 June 2019 (2018: \$nil).

During the financial year, a Group entity leased business premises owned by a closely related party of Trevor Wren on commercial terms. The lease expires on 30 May 2023 and has two 5 year renewal options. Rent payments for the financial year totalled \$203,479 (2018: \$14,167), with \$nil outstanding at 30 June 2019 (2018: \$nil).

### *Receivable from and payable to related parties*

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

### *Loans to/from related parties*

There were no loans to or from related parties at the current and previous reporting date.

### *Terms and conditions*

All transactions were made on normal commercial terms and conditions and at market rates.

## Note 30. Parent entity information

Set out below is the supplementary information about the parent entity.

### *Statement of profit or loss and other comprehensive income*

	Parent	
	2019 \$'000	2018 \$'000
Loss after income tax	(524)	(2,203)
Total comprehensive income	(524)	(2,203)

# Notes to the financial statements

30 June 2019

## Note 30. Parent entity information (continued)

### Statement of financial position

	Parent	
	2019 \$'000	2018 \$'000
Total current assets	1,230	3,141
Total assets	56,136	62,814
Total current liabilities	5,197	6,960
Total liabilities	16,408	19,567
Equity		
Issued capital	65,271	64,761
Accumulated losses	(25,543)	(21,514)
Total equity	39,728	43,247

### Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity had a deed of cross guarantee in place in relation to certain subsidiaries at 30 June 2019 and 30 June 2018.

### Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2019 and 30 June 2018.

### Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2019 and 30 June 2018.

### Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Investments in associates are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

## Note 31. Business combinations

### 2018

#### Top Draw Tyres Proprietary Limited ('Top Draw Tyres')

On 30 September 2017, the Group acquired 34% of the ordinary shares in Top Draw Tyres, the importer and distributor of tyres in South Africa. The Group subsequently acquired a further 16% on 13 December 2017. The Group now owns 50% of Top Draw Tyres and the remaining shares are held by the Top Draw Tyres vendors. Total consideration for the acquisition was \$4,006,000 in cash. The acquired business has contributed revenue of \$8,260,000 and profit before tax of \$735,000 to the Group from the date of acquisition to 30 June 2018. If the acquisition occurred on 1 July 2017, the full year contributions would have been revenues of \$17,060,000 and profit before tax of \$1,190,000. NTAW recognised \$133,000 as previously equity accounted profits for the period up until control was obtained.

#### S.N Tyre Wholesaler Pty Ltd ('Cotton')

On 31 October 2017, the Group acquired 100% of the business assets from Cotton, a distributor of tyres in South Australia and Northern Territory. Total consideration for the acquisition was \$6,220,000, including \$3,732,000 in cash consideration and \$2,488,000 in Company shares, issued on 14 December 2017. The acquired business assets have been incorporated in Exclusive Tyre Distributors. The acquired business assets have contributed revenue of \$5,780,000 and profit before tax of \$920,000 to the Group from the date of acquisition to 30 June 2018. If the acquisition occurred on 1 July 2017, the full year contributions would have been revenues of \$8,980,000 and profit before tax of \$1,170,000.

# Notes to the financial statements

30 June 2019



## Note 31. Business combinations (continued)

### Statewide Tyre Distribution Pty Ltd ('Statewide')

On 31 May 2018, the Group acquired 100% of the ordinary shares in Statewide, the importer and distributor of tyres in South Australia, New South Wales and the Northern Territory. Total consideration for the acquisition was \$8,542,000, including \$7,067,000 in cash consideration and \$1,475,000 in Company shares, issued on 31 May 2018 and 18 June 2018. The acquired business has contributed revenue of \$1,970,000 and profit before tax of \$170,000 to the Group from the date of acquisition to 30 June 2018. Due to Statewide not maintaining accounting records in accordance with Australian Accounting Standards prior to the acquisition, it is impracticable to disclose the impact to revenue and profit and loss of the Group for the 2018 financial year if the acquisition had been at 1 July 2017.

The goodwill on the above acquisitions comprise the value of the workforce, future revenues from those customers which are not current and expected and future synergies to be realised as part of the Group.

Details of the acquisitions are as follows:

	<i>Pre-IPO Top Draw Tyres Fair value \$'000</i>	<i>Pre-IPO Cotton Fair value \$'000</i>	<i>Post-IPO Statewide Fair value \$'000</i>	<i>Total Fair value \$'000</i>
Cash and cash equivalents	1,246	-	204	1,450
Trade and other receivables	1,812	1,415	2,819	6,046
Inventories	6,266	2,181	4,300	12,747
Plant and equipment	35	106	80	221
Motor vehicles	44	102	198	344
Customer relationships	327	1,109	411	1,847
Importation rights	1,376	-	-	1,376
Deferred tax asset	55	-	206	261
Trade payables	(3,669)	(945)	(485)	(5,099)
Deferred tax liability	(511)	(333)	(123)	(967)
Provisions	(1,109)	(150)	(688)	(1,947)
Other liabilities	(216)	-	(118)	(334)
<b>Net assets acquired</b>	<b>5,656</b>	<b>3,485</b>	<b>6,804</b>	<b>15,945</b>
Goodwill	1,311	2,735	1,738	5,784
<b>Acquisition-date fair value of the total consideration transferred</b>	<b>6,967</b>	<b>6,220</b>	<b>8,542</b>	<b>21,729</b>
Representing:				
Cash paid or payable to vendor	4,006	3,732	7,067	14,805
National Tyre & Wheel Limited shares issued to vendor	-	2,488	1,475	3,963
Non-controlling interest	2,828	-	-	2,828
Share of previous equity accounted profit	133	-	-	133
	<b>6,967</b>	<b>6,220</b>	<b>8,542</b>	<b>21,729</b>
Cash used to acquire business, net of cash acquired:				
Acquisition-date fair value of the total consideration transferred	6,967	6,220	8,542	21,729
Less: cash and cash equivalents	(1,246)	-	(204)	(1,450)
Less: share of equity accounted profit from previous periods	(133)	-	-	(133)
Less: shares issued by Company as part of consideration	-	(2,488)	(1,475)	(3,963)
Less: non-controlling interest	(2,828)	-	-	(2,828)
<b>Net cash used</b>	<b>2,760</b>	<b>3,732</b>	<b>6,863</b>	<b>13,355</b>



# Notes to the financial statements

30 June 2019

## Note 31. Business combinations (continued)

### *Other*

On 14 December 2017, the Group acquired the remaining 45.6% of the shares in Dynamic Wheel Co Pty Ltd, a previously recognised controlled entity. Total consideration for the acquisition was \$4,196,000 in Company shares.

On 14 December 2017, the Group acquired the remaining 50% of the shares in M.P.C Mags and Tyres Pty Ltd, a previously recognised controlled entity. Total consideration for the acquisition of the remaining shares was \$7,858,000 in Company shares.

## Note 32. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2019 %	2018 %
Exclusive Tyres Distributors Pty Ltd	Australia	100.00%	100.00%
Exclusive Tyres Distributors (NZ) Ltd	New Zealand	100.00%	100.00%
Dynamic Wheel Co Pty Ltd	Australia	100.00%	100.00%
M.P.C Mags and Tyres Pty Ltd	Australia	100.00%	100.00%
Top Draw Tyres Proprietary Limited	South Africa	50.00%	50.00%
Statewide Tyre Distribution Pty Ltd	Australia	100.00%	100.00%

## Note 33. Deed of cross guarantee

The following entities are party to a deed of cross guarantee under which each company guarantees the debts of the others:

National Tyre & Wheel Limited  
Exclusive Tyres Distributors Pty Ltd  
Exclusive Tyres Distributors (NZ) Ltd

By entering into the deed, the Australian wholly-owned entities have been relieved from the requirement to prepare financial statements and directors' report under Corporations Instrument 2016/785 issued by the Australian Securities and Investments Commission.

The above companies represent a 'Closed Group' for the purposes of the Corporations Instrument, and as there are no other parties to the deed of cross guarantee that are controlled by National Tyre & Wheel Limited, they also represent the 'Extended Closed Group'.

# Notes to the financial statements

30 June 2019



## Note 33. Deed of cross guarantee (continued)

Set out below is a consolidated statement of profit or loss and other comprehensive income and statement of financial position of the 'Closed Group'.

	2019 \$'000	2018 \$'000
<b>Statement of profit or loss and other comprehensive income</b>		
Revenue	110,442	113,283
Interest revenue calculated using the effective interest method	107	183
Cost of goods sold	(78,409)	(73,151)
Employee benefits and other related costs	(11,647)	(14,079)
Depreciation and amortisation	(1,625)	(1,588)
Legal and professional fees	(698)	(719)
Marketing	(5,176)	(4,719)
Occupancy	(3,335)	(3,121)
Insurance	(512)	(392)
Listing	-	(2,078)
Other	(3,465)	(8,372)
Finance	(641)	(485)
<b>Profit before income tax expense</b>	5,041	4,762
Income tax expense	(2,576)	(1,516)
<b>Profit after income tax expense</b>	2,465	3,246
<b>Other comprehensive income</b>		
Foreign currency translation	132	(133)
Other comprehensive income for the year, net of tax	132	(133)
<b>Total comprehensive income for the year</b>	<u>2,597</u>	<u>3,113</u>
	<b>2019</b>	<b>2018</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Equity - retained profits</b>		
Retained profits at the beginning of the financial year	2,374	14,947
Profit after income tax expense	2,465	3,246
Dividends paid	(3,637)	(16,011)
Transfer from share-based payments reserve	-	548
Transfer from other reserves	-	(356)
Retained profits at the end of the financial year	<u>1,202</u>	<u>2,374</u>

# Notes to the financial statements

30 June 2019

## Note 33. Deed of cross guarantee (continued)

Statement of financial position	2019 \$'000	2018 \$'000
<b>Current assets</b>		
Cash and cash equivalents	14,747	15,896
Trade and other receivables	16,883	20,691
Inventories	26,299	26,710
Derivative financial instruments	19	557
Income tax refund due	225	-
Other	543	420
	<u>58,716</u>	<u>64,274</u>
<b>Non-current assets</b>		
Other financial assets	33,567	33,567
Property, plant and equipment	2,575	2,897
Intangibles	7,922	9,010
Deferred tax	1,363	1,764
	<u>45,427</u>	<u>47,238</u>
<b>Total assets</b>	<u>104,143</u>	<u>111,512</u>
<b>Current liabilities</b>		
Trade and other payables	21,631	25,755
Borrowings	1,458	1,529
Income tax payable	-	1,289
Provisions	2,077	1,990
	<u>25,166</u>	<u>30,563</u>
<b>Non-current liabilities</b>		
Borrowings	11,213	12,716
Provisions	1,291	1,230
	<u>12,504</u>	<u>13,946</u>
<b>Total liabilities</b>	<u>37,670</u>	<u>44,509</u>
<b>Net assets</b>	<u>66,473</u>	<u>67,003</u>
<b>Equity</b>		
Issued capital	65,271	64,761
Reserves	-	(132)
Retained profits	1,202	2,374
	<u>66,473</u>	<u>67,003</u>
<b>Total equity</b>	<u>66,473</u>	<u>67,003</u>

# Notes to the financial statements

30 June 2019



## Note 34. Cash flow information

### Reconciliation of profit after income tax to net cash from operating activities

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit after income tax expense for the year	6,676	5,355
Adjustments for:		
Depreciation and amortisation	2,628	2,129
Net loss/(gain) on disposal of property, plant and equipment	(44)	2
Share-based payments	132	2,657
Listing costs recognised in profit after income tax	-	2,078
Profit recognised for equity accounted investments	-	(132)
Amortisation of capitalised borrowing costs	-	167
Impairment of receivables	156	42
Foreign exchange differences	951	(2,166)
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	1,062	(546)
Increase in inventories	(813)	(3,572)
Increase in income tax refund due	(212)	-
Decrease/(increase) in deferred tax assets	4	(902)
Increase in other operating assets	(102)	(884)
Increase/(decrease) in trade and other payables	(5,586)	5,473
Increase/(decrease) in provision for income tax	(1,069)	141
Increase in deferred tax liabilities	152	-
Increase/(decrease) in other provisions	142	(892)
Decrease in other operating liabilities	-	(48)
Net cash from operating activities	<u>4,077</u>	<u>8,902</u>

### Non-cash investing and financing activities

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$'000</b>	<b>\$'000</b>
Acquisition of plant and equipment by means of finance leases	<u>-</u>	<u>211</u>

## Note 35. Earnings per share

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit after income tax	6,676	5,355
Non-controlling interest	(286)	(878)
Profit after income tax attributable to the owners of National Tyre & Wheel Limited	<u>6,390</u>	<u>4,477</u>

# Notes to the financial statements

30 June 2019

## Note 35. Earnings per share (continued)

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	102,676,530	85,245,148
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	-	3,402,889
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>102,676,530</u>	<u>88,648,037</u>
	Cents	Cents
Basic earnings per share	6.22	5.25
Diluted earnings per share	6.22	5.05

## Note 36. Share-based payments

### **NTAW Senior Executive Option Plan ('SEOP')**

The SEOP was used prior to the Company's listing on the ASX to recognise senior executives contribution to the Group and to allow them to share in the growth in value of the Group.

Under the terms of the SEOP, participants are granted options over ordinary shares of the Company which vest only if certain events occur.

This plan has been discontinued following the IPO.

### **Employee Share Option Plan ('ESOP')**

The Company adopted a new employee share option plan on 6 November 2017. The details of the ESOP are summarised as follows:

Options may be granted under the ESOP to any person who is, or is proposed to be, a full-time or part-time employee, a non-executive director, a contractor (40% full-time equivalent ('FTE')) or a casual employee (40% FTE) of the Company or any of its associated bodies corporate, and whom the Board determines to be an eligible person for the purposes of participation in the ESOP (referred to as an 'Eligible Person').

An option may not be granted under the ESOP if, immediately following its grant, the shares to be received on exercise of the option, when aggregated with the number of shares which would be issued if each unvested option granted under the ESOP or any other employee incentive scheme of the Company were to vest and be exercised and the number of shares issued in the previous 3 years under the ESOP or any other employee incentive scheme of the Company, exceeds 5% of the total number of issued shares at the time of grant (or any varied limit if permitted under the Corporations Act 2001, ASX Listing Rules and ASIC instruments). Certain offers of options may be excluded from calculation as permitted under Class Order 14/1000, including excluded offers under section 708 of the Corporations Act 2001 and offers under a disclosure document.

Each option entitles the participant to subscribe for one ordinary share in the Company.

The specific terms relevant to the grant of options are set out in an offer from the Company to the Eligible Person which contains details of the application price (if any) (which must not be for more than nominal consideration), the expiry date, the exercise price, the vesting date, any applicable performance conditions and other specific terms relevant to those options.

Unless otherwise specified in the offer of an option, if a "Change of Control Event" occurs before the vesting date of an option, that option immediately vests and ceases to be subject to any performance condition to which it was subject. A Change of Control Event means the occurrence of one or more of the following events:

- a person who has offered to acquire all shares in the Company acquires Control (as defined in section 50AA of the Corporations Act 2001) of the Company;
- any other event occurs which causes a change in Control of the Company;
- unless the Board determines otherwise, a takeover bid is recommended by the Board or a scheme of arrangement which would have a similar effect to a full takeover bid is announced by the Company; and
- any other event which the Board reasonably considers should be regarded as a Change of Control Event.



## Note 36. Share-based payments (continued)

Options may only be transferred:

- to a legal personal representative on the death of the participant or to the participant's trustee in bankruptcy on the bankruptcy of the participant; or
- pursuant to an off-market takeover bid, in various compulsory acquisition scenarios under Chapter 6A of the Corporations Act 2001, under a creditor's scheme of arrangement under section 411 of the Corporations Act 2001 or if approved by the Board.

An option does not confer any rights to participate in a new issue of shares by the Company.

If the Company conducts a rights issue, the exercise price of options will be adjusted in accordance with the adjustment formula for pro rata issues set out in the Listing Rules.

If the Company makes a bonus issue of securities to holders of shares, the rights of a holder in respect of an unexercised option will be modified such that the participant will receive, upon exercise of an option, one Share plus such additional securities which the participant would have received had the participant exercised the option immediately before the record date for that bonus issue and participated in the bonus issue as the holder of the share.

If the Company's issued capital is reorganised (including consolidation, subdivision, reduction, or return), then the number of options, the exercise price or both or any other terms will be reorganised in a manner determined by the Board which complies with the Listing Rules.

Any shares issued under the ESOP rank equally in all respects with the Shares of the same class on issue, subject to the restrictions on the transfer of shares.

Shares issued on exercise of options are not transferable for the period (if any) specified in the offer from the Company to the Eligible Person.

An unvested option lapses upon the first to occur of the following:

- its expiry date;
- any applicable performance condition not being satisfied prior to the end of any prescribed performance period;
- a transfer or purported transfer of the option in breach of the rules;
- 30 days following the day the participant ceases to be employed or engaged by the Company or an associated body corporate by resigning voluntarily and not recommencing employment with the Company or an associated body corporate before the expiration of that 30 days;
- 30 days following the day the participant ceases to be employed or engaged by the Company or an associated body corporate by reason of his or her death, disability, bona fide redundancy, or any other reason with the approval of the Board and the participant has not recommenced employment with the Company or an associated body corporate before the expiration of those 30 days, however the Board has a discretion to deem all or any of the options to have vested; or
- termination of the participant's employment or engagement with the Company or an associated body corporate on the basis the participant acted fraudulently, dishonestly, in breach of the participant's obligations or otherwise for cause.

A vested but unexercised option lapses upon the first to occur of the following:

- its expiry date;
- a transfer or purported transfer of the option in breach of the rules; or
- termination of the participant's employment or engagement with the Company or an associated body corporate on the basis the participant acted fraudulently, dishonestly, in breach of the participant's obligations or otherwise for cause.

Subject to the ASX Listing Rules and the law, the Board may at any time by resolution amend or add to the rules of the ESOP. However, the consent of a participant is required for any change to the rules or option terms which prejudicially affects the rights of the participant in relation to the option (except for certain changes, including changes to benefit the administration of the Plan or to comply with laws, ASX Listing Rules or regulations).



# Notes to the financial statements

30 June 2019

## Note 36. Share-based payments (continued)

### Employee Gifted Shares

During the year, Terry and Susanne Smith (co-founders of Exclusive Tyre Distributors Australia Pty Ltd) and Chris and Christine Hummer (co-founders of Dynamic Wheel Co Pty Ltd), transferred a total of 319,666 of their personally owned National Tyre & Wheel Limited (NTD) shares to a number of employees of the Group. The gifts were made as a gesture of thanks and appreciation for the employees' efforts and support for the business, prior to NTD's listing on the ASX in December 2017. The transfers occurred following the release of the shares from voluntary escrow during the year and were valued at 45 cents per share at that time.

Set out below are summaries of options granted under the plans:

#### 2019

Grant date	Expiry date	Exercise price	Balance at start of year	Granted	Option split	Exercised	Balance at end of year <sup>1</sup>
07/12/2018	30/09/2023	\$1.1724	-	1,630,000	-	-	1,630,000

<sup>1</sup> All options outstanding at 30 June 2019 have lapsed as at the date of this report as the performance conditions have not been met.

#### 2018

Grant date	Expiry date	Exercise price	Balance at start of year	Granted	Option split	Exercised <sup>3</sup>	Balance at end of year
01/07/2012	01/07/2022	\$0.0000	1,487,945	-	23,298	(1,511,243)	-
01/04/2014	01/07/2022	\$0.0000	77,305	-	1,210	(78,515)	-
01/07/2016	01/07/2022	\$0.5022 <sup>2</sup>	220,000	-	3,445	(223,445)	-
01/07/2016	01/07/2022	\$0.5022 <sup>2</sup>	2,150,000	-	33,665	(2,183,665)	-
01/07/2016	01/07/2022	\$0.0000	1,324,339	-	20,737	(1,345,076)	-
30/06/2017	01/07/2022	\$0.0000	1,000,000	-	15,658	(1,015,658)	-
01/07/2017	01/07/2022	\$0.0000	-	1,006,470	15,760	(1,022,230)	-
01/07/2017	01/07/2022	\$0.5022 <sup>2</sup>	-	200,000	3,132	(203,132)	-
			6,259,589	1,206,470	116,905	(7,582,964)	-

<sup>2</sup> The Exercise price was adjusted during the financial year as a result of the share consolidation and share split that occurred prior to the IPO.

<sup>3</sup> All options were exercised just prior to the Group listing on the ASX. The weighted average share price on the exercise date is therefore considered to be \$1.00.

The weighted average remaining contractual life of options outstanding at the end of the financial year was nil years (2018: nil years).

### Valuation model inputs

For the options granted during the current financial year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
07/12/2018	30/09/2023	\$0.4900	\$1.1724	65.00%	8.70%	2.00%	\$0.081

# Notes to the financial statements

30 June 2019



## Note 36. Share-based payments (continued)

### *Expenses recognised from share-based payment transactions*

The expense recognised in relation to the share-based payment transactions was recognised within employee benefit expense within the statement of profit or loss as follows:

	Consolidated	
	2019	2018
	\$'000	\$'000
Options issued under the NTAW Employee Share Option Plan	-	-
Options issued under the NTAW Senior Executive Option plan	-	2,657
Employee gifted shares	132	-
	<hr/>	<hr/>
Total expense recognised from share-based payment transactions in employee benefits expense	132	2,657
	<hr/> <hr/>	<hr/> <hr/>

## Note 37. Events after the reporting period

Apart from the dividend declared as disclosed in note 22 and the lapsing of 1.63 million options as noted in the Remuneration Report and note 36, no other matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

# Directors' Declaration

30 June 2019



In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2019 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 33 to the financial statements.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors

A handwritten signature in black ink, appearing to read 'Murray Boyte', is written over a horizontal line.

Murray Boyte  
Chairman

23 August 2019  
Brisbane



Level 38, 345 Queen Street  
Brisbane, QLD 4000

Postal address  
GPO Box 1144  
Brisbane, QLD 4001

p. +61 7 3222 8444

## Independent Auditor's Report To the Shareholders of National Tyre & Wheel Limited

### Report on the Audit of the Financial Report

#### *Opinion*

We have audited the financial report of National Tyre & Wheel Limited and controlled entities ("the Group"), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### *Basis for Opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* "the Code" that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's report.

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

#### *Key Audit Matters*

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

Brisbane Sydney Newcastle Melbourne Adelaide Perth

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KEN OGDEN  
NIGEL FISCHER

MARK NICHOLSON  
PETER CAMENZULI

JASON EVANS  
IAN JONES

KYLIE LAMPRECHT  
NORMAN THURECHT

BRETT HEADRICK  
WARWICK FACE

NIGEL BATTERS  
COLE WILKINSON

SIMON CHUN  
JEREMY JONES

TOM SPLATT  
JAMES FIELD

DANIEL COLWELL  
ROBYN COOPER

FELICITY CRIMSTON

Key audit matter	How our audit addressed the matter
<b>Impairment of goodwill and separately identifiable intangible assets</b>	
<i>Refer to Note 14: Intangibles</i>	
<p>As part of business combinations completed during prior years, the Group recognised goodwill and other intangible assets valued at \$8,878,000 and \$11,435,000, respectively.</p> <p>These intangible assets relate to the acquisition of various subsidiaries of National Tyre &amp; Wheel Ltd, with these subsidiaries being the basis of management’s determination of Cash-Generating Units (“CGU”) in the Group.</p> <p>The carrying amount of Goodwill and the intangible assets is supported by value-in-use calculations prepared by management which are based on budgeted future cash flows and key estimates such as growth rate and discount rate.</p> <p>This is a key area of audit focus as the value of the intangible assets is material and the evaluation of the recoverable amount of these assets requires significant judgement in determining the key estimates supporting the expected future cash flows of the CGUs and the utilisation of the relevant assets.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>• Assessing management’s determination of the Group’s CGUs based on our understanding of the nature of the Group’s business and the identifiable groups of cash generating assets;</li> <li>• Comparing the cash flow forecasts used in the value-in-use calculations to Board approved budgets for the 2020 financial year and the Group’s historic actual performance;</li> <li>• Assessing the significant judgements and key estimates used for the impairment assessment, in particular, those judgements relating to the discount rate and cash flow forecasts;</li> <li>• Checking the mathematical accuracy of the impairment testing model and agreed relevant data to the latest budgets;</li> <li>• Performing sensitivity analysis by varying significant judgements and key estimates, including the discount rate and growth rate inputs, for the CGUs to which goodwill relates; and</li> <li>• Assessing the adequacy of the Group’s disclosures in respect of impairment testing of goodwill and indefinite useful life intangible assets.</li> </ul>

### *Other Information*

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### *Responsibilities of the Directors for the Financial Report*

The directors of the Group are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

### *Auditor's Responsibilities for the Audit of the Financial Report*

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

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of



our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## **Report on the Remuneration Report**

### *Opinion on the Remuneration Report*

We have audited the Remuneration Report included in pages 2 to 20 of the directors' report for the year ended 30 June 2019. In our opinion, the Remuneration Report of National Tyre & Wheel Limited, for the year ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.

### *Responsibilities*

The directors of the Group are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



**PITCHER PARTNERS**



**Warwick Face**  
Partner

Brisbane, Queensland  
23 August 2019

# Shareholder information

30 June 2019



The shareholder information set out below was applicable as at 20 August 2019.

## Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

	Number of holders of ordinary shares
1 to 1,000	35
1,001 to 5,000	329
5,001 to 10,000	281
10,001 to 100,000	461
100,001 and over	55
	<hr/>
	1,161
	<hr/>
Holding less than a marketable parcel	56
	<hr/>

## Equity security holders

### *Twenty largest quoted equity security holders*

The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary shares % of total shares issued
	Number held
ST Corso Pty Ltd	26,750,297
HSBC Custody Nominees (Australia) Limited	12,351,757
National Nominees Limited	7,505,244
J P Morgan Nominees Australia Pty Limited	7,473,924
Roshan Charles Chelvaratnam	3,929,250
BNP Paribas Nominees Pty Ltd (IB AU Noms Retailclient DRP)	3,036,056
Mr John Peter Ludemann	2,589,928
S.N. Tyre Wholesalers Pty Ltd	2,487,440
BNP Paribas Noms Pty Ltd (DRP)	2,193,000
Seymour Group Pty Ltd	2,000,000
BNP Paribas Nominees Pty Ltd (IOOF INSMT Mgmt Ltd DRP)	1,200,000
Mrs Christine Lorraine Hummer	1,048,929
Mrs Christine Lorraine Hummer	1,048,928
Mr Christopher John Hmmer	1,048,928
Mr Christopher John Hummer	1,011,337
Mr Craig Graeme Chapman (NAMPAC Discretionary A/Cc)	750,000
CS Third Nominees Pty Limited (HSBC Cust Nom AU Ltd 13 A/C)	660,300
Trevor John Wren	655,737
Mr John William Weeks	553,279
Mr Bradley Joseph Smith	387,484
	<hr/>
	78,681,818
	<hr/>
	76.47

### *Unquoted equity securities*

There are no unquoted equity securities at the date of this report.

# Shareholder information

30 June 2019

## Substantial holders

Substantial holders in the Company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
ST Corso Pty Ltd atf the Smith Trading Trust, Terence Smith & Susanne Smith (together Smith Group)	31,949,729	31.05
Pendal Group Limited (Pendal Fund Services Limited)	5,545,551	5.39
Forager Funds Management Pty Ltd	5,295,000	5.15

## Voting rights

The voting rights attached to ordinary shares are set out below:

### Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities on issue at the date of this report.

## Securities subject to voluntary escrow

Class	Expiry date	Number of shares
Ordinary shares	Earlier of five business days after the Company releases to the ASX its final results for the year ended 30 June 2019 and 7 November 2019	4,257,274
Ordinary shares	31 May 2020	218,579
Ordinary shares	31 May 2021	218,579
		<u>4,694,432</u>

# Corporate directory

30 June 2019



Directors	Murray Boyte - Chairman John Peter Ludemann - Chief Executive Officer and Managing Director Terence Smith William Cook Robert Kent
Company secretaries	Jason Lamb Laura Fanning
Registered office and principal place of business	30 Gow Street Moorooka QLD 4105 Telephone: (07) 3212 0950 Facsimile: (07) 3212 0951
Share register	Computershare Investor Services Pty Limited Level 4 60 Carrington Street Sydney NSW 2000 Telephone: 1300 787 272
Auditor	Pitcher Partners Level 38 345 Queen Street Brisbane QLD 4000
Solicitors	Dentons 77 Castlereagh Street Sydney NSW 2000
Bankers	Commonwealth Bank of Australia Ground Floor Tower 1 201 Sussex Street Sydney NSW 2000
Stock exchange listing	National Tyre & Wheel Limited shares are listed on the Australian Securities Exchange (ASX code: NTD)
Website	<a href="http://www.ntaw.com.au">www.ntaw.com.au</a>
Business objectives	National Tyre & Wheel Limited has used cash and cash equivalents held at the time of listing, in a way consistent with its stated business objectives.
Corporate Governance Statement	<p>The Company's directors and management are committed to conducting the Group's business in an ethical manner and in accordance with the highest standards of corporate governance. The Company has adopted and substantially complies with the ASX Corporate Governance Principles and Recommendations (3rd Edition) ('Recommendations') to the extent appropriate to the size and nature of the Group's operations.</p> <p>The Company has prepared a Corporate Governance Statement which sets out the corporate governance practices that were in operation since listing, identifies any Recommendations that have not been followed, and provides reasons for not following such Recommendations.</p> <p>The Company's Corporate Governance Statement and policies, which is approved at the same time as the Annual Report, can be found on its website: <a href="http://www.ntaw.com.au/Corporate-Governance/Corporate-Governance-Statement.pdf">http://www.ntaw.com.au/Corporate-Governance/Corporate-Governance-Statement.pdf</a></p>

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